

Day Break

Tuesday, 15 November 2016

Company Update

Cherat Cement Company Limited

Cement

| Recommendation | HOLD |
|----------------|-------|
| Target Price | 162.0 |
| Last Closing | 149.6 |
| Upside | 8% |

Market Data

| | | | |
|----------------------------|---------|-------|-------|
| Bloomberg Tkr. | CHCC PA | | |
| Shares (mn) | 176.6 | | |
| Market Cap (PKRbn USDmn) | 26.4 | 250.5 | |
| Exchange | KSE 100 | | |
| Price Info. | 90D | 180D | 365D |
| Abs. Return | 16.6 | 34.7 | 71.2 |
| Low | 118.3 | 110.1 | 80.9 |
| High | 150.1 | 150.1 | 150.1 |

Key Company Financials

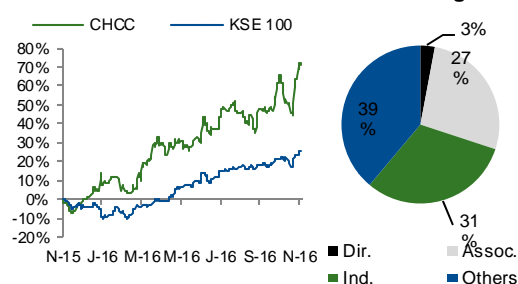
Period End: Jun

| PKRbn | FY16A | FY17E | FY18F | FY19F |
|---------------|-------|-------|-------|-------|
| Total Revenue | 7.1 | 11.5 | 15.9 | 17.7 |
| Net Income | 1.4 | 2.7 | 3.7 | 3.9 |
| EPS (PKR) | 8.0 | 15.3 | 21.2 | 22.2 |
| DPS (PKR) | 3.3 | 6.6 | 9.2 | 11.2 |
| Total Assets | 14.2 | 17.7 | 20.1 | 22.1 |
| Total Equity | 8.9 | 10.4 | 12.5 | 14.5 |

Key Financial Ratios

| | | | | |
|---------|------|-----|-----|-----|
| ROE (%) | 16% | 26% | 30% | 27% |
| P/E (x) | 18.8 | 9.8 | 7.1 | 6.7 |
| P/B (x) | 3.0 | 2.5 | 2.1 | 1.8 |
| DY (%) | 2.2 | 4.4 | 6.2 | 7.5 |

Relative Price Performance & Shareholding



About the Company

Cherat Cement Company Limited was incorporated in Pakistan as a public limited company by shares in the year 1981. Its main business activity is manufacturing, selling and marketing of cement. Company's current rated capacity is 1.1mn ton per annum, with a current market share of ~3%.

Source: Bloomberg, KSE 100 & IGI Research

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Cherat Cement Company Ltd

Capacity expansion and cost efficiencies to provide further impetus to earnings

- Cherat Cement Company Ltd (CHCC) posted earnings of PKR 404mn (EPS PKR 2.29) in 1QFY17 as compared to PKR 268mn (EPS PKR 1.52) in the corresponding period last year, up by 51%YoY.
- Company's new production line of 4,200tpd is expected to be operational from Nov-16 end, enhancing overall capacity to 7,700tpd. Moreover, planned 6MW Waste Heat Recovery (WHR) power plant is expected to be functional from Jan-17.
- The scrip has outperformed the market returning nearly +66% in CY16TD (+31% return by KSE-100). With our Jun-17 TP of PKR 162/share, the stock offers limited upside of +8%. We recommend '**HOLD**' call on the scrip.

1QFY17 Profitability up by an impressive +51%YoY; led by higher domestic sales volume...

Cherat Cement Company Ltd (CHCC) posted earnings of PKR 404mn (EPS PKR 2.29) in 1QFY17 as compared to PKR 268mn (EPS PKR 1.52) in the corresponding period last year, up by +51%YoY. This was primarily on the back of +18%YoY growth in sales volumes to 0.27mnTon, skewed towards local market; (~79% of the total volumes compared to ~73% in the same period last year), leading to better retention price during the period. The capacity utilization during period jumped to 97% versus 82% observed in 1QFY16.

...and improving gross margins

In addition, the company has benefited from lower production cost (the company has in house power generation from 21MW FO based CPP & WHRPP), bringing about healthy gross margins during the period. For the period, gross margins stood at ~39% compared to ~31% same period last year (up by ~960bps).

Exhibit: Financial Highlights

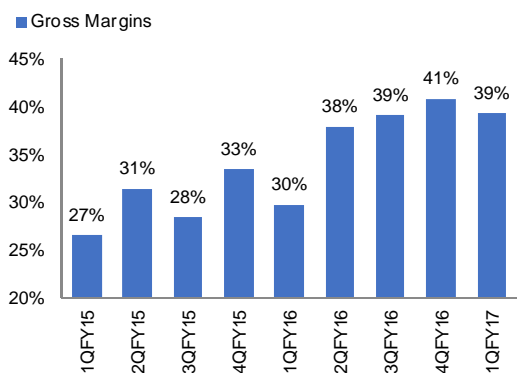
| PKRmn | 1QFY17 | 1QFY16 | YoY | 4QFY16 | QoQ |
|--------------|--------|--------|-----|--------|------|
| Revenue | 1,771 | 1,560 | 14% | 1,858 | -5% |
| Gross Profit | 697 | 464 | 50% | 760 | -8% |
| EBT | 553 | 344 | 61% | 591 | -6% |
| Tax | 149 | 76 | 97% | 229 | -35% |
| Net profit | 404 | 268 | 51% | 362 | 12% |
| EPS | 2.29 | 1.52 | | 2.05 | |
| DPS | - | - | | 2.25 | |

Source: IGI Research, Company Financials

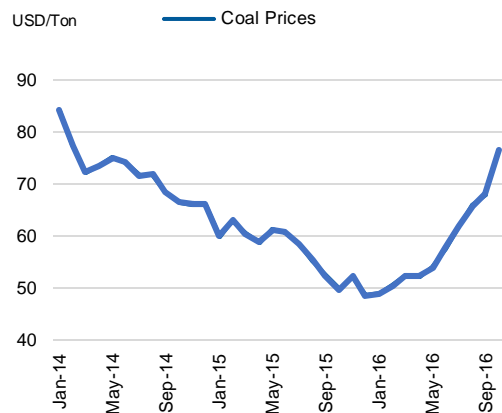
CHCC Quarterly Volumes

| Mn 'tons | 1QFY17 | 1QFY16 | YoY | 4QFY16 | QoQ |
|--------------|-------------|-------------|------------|-------------|------------|
| Local | 0.21 | 0.17 | 25% | 0.22 | -4% |
| Export | 0.06 | 0.06 | -3% | 0.06 | -3% |
| Total | 0.27 | 0.23 | 18% | 0.28 | -4% |

Quarterly Gross Margins



Coal Prices



Capacity expansion and cost efficiencies...

As per the management, company’s new production line of 4,200tpd is expected to be operational from Nov-16 end, enhancing overall capacity to 7,700tpd. Keeping in view the industry utilization level (82% during 4MFY17) and robust domestic demand, CHCC is well poised to reap benefits of first mover advantage until other expansions in north becomes operational by FY19E. In addition to capacity expansion, company’s planned 6MW Waste Heat Recovery (WHR) power plant is expected to be functional from Jan-17 which will bring further cost efficiencies.

...Along with, lower financing;

As per the recent financial report, company has borrowed ~40% (PKR 3.8bn) of the invested capital worth PKR 9.9bn. This syndicated long term loan on new plant carries markup of 6M Kibor +110bps. With limited investment required for expansion i.e. ~PKR 1.0bn, we anticipate total drawdown to remain at approx. ~PKR 4.5bn as against approved loan amount of PKR 9.5bn.

...To provide impetus to earnings

Given the background of robust sales outlook, earlier than anticipated commencement of line-II, better cost efficiencies through upcoming WHR plant and tax benefit, we estimate CHCC’s profitability to almost double in FY17 to PKR 15.3/share (+93%YoY).

Recommendation

The scrip has outperformed the market returning nearly +66% in CY16TD (+31% return by KSE-100). With our Jun-17 TP of PKR 162/share, the stock offers limited upside of +8%. We recommend ‘**HOLD**’ call on the scrip.

Source: Bloomberg, Company Acc.

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| Recommendation | Rating System |
|----------------|--|
| Buy | If target price on aforementioned security(ies) is more than 10%, from its last closing price(s) |
| Hold | If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s) |
| Sell | If target price on aforementioned security(ies) is less than -10%, from its last closing price(s) |

Time Horizon: Jun - 2017

Valuation Methodology: The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

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