

Day Break

Monday, 27 April 2020

COMPANY UPDATE

Cherat Cement Company Limited

Cement

Recommendation	SELL
Target Price: Dec/20	53.9
Last Closing: 26-Apr-20	86.0
Upside:	- 37.3
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 8M

Market Data

Bloomberg Tkr.	CHCC PA		
Shares (mn)	194.3		
Free Float Shares (mn)	106.9		
Free Float Shares (%)	55.0%		
Market Cap (PKRbn USDmn)	16.7		108.3
Exchange	KSE 100		
Price Info.	90D	06M	12M
Abs. Return	52.5	178.1	91.1
Lo	45.5	30.9	24.6
Hi	95.9	95.9	95.9

Key Company Financials

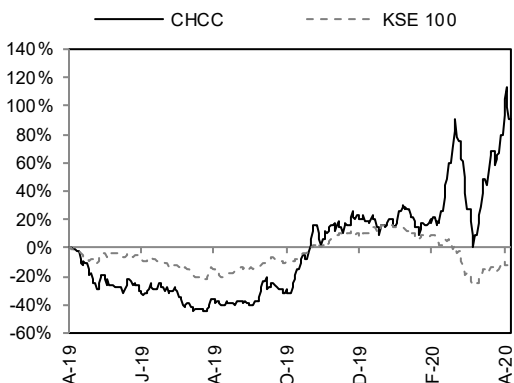
Period End: Jun

PKRbn	2020e	2021f	2022f	2023f
Total Revenue	15.5	14.7	19.3	21.9
Net Income	(2.2)	(2.0)	(1.1)	(0.3)
EPS (PKR)	(11.1)	(10.3)	(5.5)	(1.5)
DPS (PKR)	-	-	-	-
Total Assets	32.4	29.9	29.2	28.3
Total Equity	9.6	7.6	6.5	6.2

Key Financial Ratios

ROE (%)	18.3	15.4	(20.2)	(23.2)
P/E (x)	- 7.8	- 8.4	- 15.6	- 59.3
P/B (x)	1.5	1.4	1.7	2.2
DY (%)	-	-	-	-

Relative Price Performance



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Cements

CHCC: Losses to continue in 3QFY20E with LPS of PKR (4.22), 9MFY20 comes to PKR (7.10)

- ✓ CHCC's board meeting is scheduled on 28th Apr-20 to announce financial result for 3QFY20, wherein we expect the company to post a net loss of PKR (4.22)/share, compared to a net profit of PKR 6.29/share in the same period last year.
- ✓ Net sales of the Company during 3QFY20E are expected to grow by +3%YoY despite a +34%YoY increase in overall dispatches, ascribed to substantial drop in retention prices.
- ✓ The massive decline in retentions is not expected to cover production costs, despite a comparatively better cost structure and resultantly we expect CHCC to present a gross loss of PKR 245mn

CHCC: losses to continue; 3QFY20E LPS: PKR (4.22)

Cherat Cement Company Limited's (CHCC) board meeting is scheduled on 28th Apr-20 to announce financial result for 3QFY20, wherein we expect the company to post a net loss of PKR 820mn (LPS: PKR 4.22), down by almost -0.7xYoY, compared to a net profit of PKR 1.22bn (EPS: PKR 6.29) in the same period last year. This will accumulate 9MFY20E loss to PKR 1.38bn (LPS: PKR 7.10), down by -0.6xYoY, as against profit of PKR 2.25bn (EPS: PKR 11.58) reported in the similar period of the preceding year.

Net sales of the Company during 3QFY20E are expected to grow by a mere +3%YoY, despite a +34%YoY increase in overall dispatches, ascribed to substantial drop in retention prices amid intense competition in the domestic market. This massive decline in retentions is not expected to cover production costs, despite a comparatively better cost structure and resultantly we expect CHCC to present a gross loss of PKR 245mn as against profit of PKR 850mn in the same period last year. Further injury is to occur on account of substantial rise in finance costs largely due from expansion plant (3QFY19: Partial expense due to time apportionment of plant inauguration) and high benchmark interest rates during the current quarter as against comparatively.

Exhibit: CHCC Result Highlights

Period end (JUN) - PKRmn	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	3,984	4,128	-3%	13,496	11,161	21%
Gross Profit	(245)	850	-0.3x	412	2,117	-81%
Sell. / Dist. & Admin	164	173	-5%	492	511	-4%
Non-Operating Income	15	30	-50%	64	101	-37%
EBIT	(400)	687	-0.6x	(30)	1,643	-102%
Financial Charges	710	368	93%	1,962	596	3.3x
Pre-tax Profits	(1,110)	319	-3.5x	(1,992)	1,047	-1.9x
Taxation	(290)	(904)	-68%	(612)	(1,204)	-49%
Post-tax Profits	(820)	1,223	-0.7x	(1,380)	2,250	-0.6x
EPS	(4.22)	6.29		(7.10)	11.58	
Key Ratios						
Gross Margin (%)	(6.2)	20.6		3.1	19.0	
Net Margin (%)	(20.6)	29.6		(10.2)	20.2	
Effective Tax Rate (%)	26.1	(283.7)		30.7	(115.0)	

Source: Company Accounts, IGI Research

No. of Shares : 194mn

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Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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Time Horizon: Dec – 2020

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

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