

# Flash Note

Wednesday, 24 August 2016

## Cements

### CHCC: Earnings marred by Super tax at PKR 7.96/share, DPS PKR 3.25 in FY16

- Cherat Cement Company Limited's profitability increased by +9%YoY to PKR 1.4bn (EPS: PKR 7.96) in FY16, along with a cash dividend of PKR 2.25/share, taking full year payout to PKR 3.25/share. For the 4QFY16, profitability clocked in at PKR 362mn (EPS PKR 2.05), up by meager +3%YoY.
- Revenue went up by paltry +8%YoY to PKR 7.1bn in FY16, likely on the back of +8%YoY growth anticipated in total dispatches (+17%YoY local, -13%YoY exports).
- Gross Margin improved by a massive 700bpsYoY to 37% in FY16 as compared to 30% in same period last year. We believe this improvement is on the back of increased local sales growth resulting in higher retention rate, lower international coal prices and decline in power cost as a result of fuel price adjustments and use of 27.8MW FO captive power plant. Margin for 4QFY16 clocked in at 41% as compared to 33% last year.
- Company's effective tax rate has jumped up to 32% in FY16 on the back of 3% super tax and lower exports.

#### Recommendation

Company is working on expanding its cement mills capacity by 1.3mn tons. We expect plant to come online in 3QFY17, along with WHR as well. The scrip is currently trading at FY16/FY17 P/E of 14.5x/8.4x and offers +13% upside from last close, with our Dec-16 TP of PKR 138/share. Hence, we maintain our '**BUY**' call on the scrip.

#### Exhibit: Financial Highlights

PKR mn	4QFY16	4QFY15	YoY	FY16	FY15	YoY
Revenue	1,858	1,839	1%	7,079	6,565	8%
Gross Profit	760	615	24%	2,634	1,983	33%
Selling and Admin	112	97	16%	427	311	37%
EBT	591	513	15%	2,051	1,671	23%
Tax	229	163	40%	646	383	69%
Net profit	362	350	3%	1,405	1,288	9%
EPS	2.05	1.98		7.96	7.29	
DPS	2.25	3.00		3.25	3.00	
Key Ratios						
Gross Margin	41%	33%		37%	30%	
Net Margin	19%	19%		20%	20%	
Effective Tax Rate	39%	32%		32%	23%	

Source: IGI Research, Company Financials

#### Analyst

Rashmina Lalani

[rashmina.lalani@igi.com.pk](mailto:rashmina.lalani@igi.com.pk)

Tel: (+92-21) 111-234-234 Ext.: 826

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

### Disclaimer

This document has been prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose.

### Rating system

IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

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

### Valuation Methodology

The analyst<sup>^</sup> has used following valuation methodology to arrive at the target price of the said security (ies):

- DCF (Discounted Cash Flow)

#### Time Horizon

- Dec - 2016

#### Risk

- Changes in State Bank of Pakistan Policy Rate
- Changes in country (Pakistan) macro-economic environment
- Changes in Company(ies) operating structure
- Change in Exchange Rate (USDPKR)

## Contact Details

### Research Team

Saad Khan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext.: 810	saad.khan@igi.com.pk
Rashmina Lalani	Senior Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 826	rashmina.lalani@igi.com.pk
Abdullah Farhan	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 912	abdullah.farhan@igi.com.pk
Yawar Saeed	Research Analyst	Tel: (+92-21) 111-234-234 Ext.: 973	yawar.saeed@igi.com.pk
Abdul Sajid	Database	Tel: (+92-21) 111-234-234 Ext.: 974	abdul.sajid@igi.com.pk
Umesh Solanki	Database Assistant	Tel: (+92-21) 111-234-234 Ext.: 966	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Branch Manager (Islamabad)	Tel: (+92-51) 2604861-2	muhammad.naveed@igi.com.pk
Gul Hussain	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	gul.hussain@igi.com.pk
Laiq-Ur-Rehman	Branch Manager (RY Khan)	Tel: (+92-68) 5871653-6	Laiq.queeshi@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of Karachi Stock Exchange Limited and Lahore Stock Exchange Limited | Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780  
Website: www.igisecurities.com.pk

#### Stock Exchange Office

Room # 719, 7th Floor, KSE Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaquat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651