

Flash Note

Friday, 28 October 2016

Cements

CHCC: Earnings surged by +51%YoY in 1QFY17

- Cherat Cement Company Limited's (CHCC) profitability showed remarkable increase of +51%YoY to PKR 404mn (EPS PKR 2.29) in 1QFY17 as compared to PKR 268mn (EPS PKR 1.52) in the same period last year.
- Revenue went up by impressive +14%YoY to PKR 1.77bn in 1QFY17 which is likely on the back of +12%YoY growth in local dispatches.
- Gross Margin improved by a massive +960bpsYoY to 39% in 1QFY17 as compared to 30% in same period last year. We believe this improvement is on the back of a) increased local sales growth resulting in higher retention rate, b) complete reliance on FO based CPP and WHR for power generation, and c) lower coal prices.
- Company's effective tax rate jumped up to 27% in 1QFY17 compared to 22% in the corresponding period last year.

Recommendation

Company is working on expanding its cement mills capacity by 1.3mn tons. We expect plant to come online in Dec'16 along with WHR power plant of 6MW. The scrip is currently trading at FY17E P/E of 8.3x and offers +13% upside from last close. With our Jun-17 TP of PKR 144/share, we maintain our **'BUY'** call on the scrip.

Exhibit: Financial Highlights

PKR mn	1QFY17	1QFY16	YoY	4QFY16	QoQ
Revenue	1,771	1,560	14%	1,858	-5%
Gross Profit	697	464	50%	760	-8%
Selling and Admin	113	98	16%	60	88%
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	0.00	0.00		2.25	
<i>Key Ratios</i>					
Gross Margin	39%	30%		41%	
Net Margin	23%	17%		19%	
Effective Tax Rate	27%	22%		39%	

Source: IGI Research, Company Financials

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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)

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