

Flash Note

Wednesday, 07 August 2019

Cements

Cherat Cement Company Limited (CHCC)

FY19 closes with EPS of PKR 9.98, down by 17%YoY. Elevated cost structure, incremental depreciation, heavy finance cost and a possibly reduced tax benefit present a loss of 2.76/share in 4QFY19

- Cherat Cement Company Limited (CHCC) announced its financial results for 4QFY19 with a loss reported of PKR 487mn (LPS: PKR 2.76) as compared to PKR 337mn (EPS: PKR 1.91) reported in the same period last year. This brings FY19 EPS to PKR 9.98 as against PKR 12.07 recorded in the comparative period last year.
- The Company declared a cash dividend of PKR 1/share in addition to 10% bonus share along with the result.
- Net Sales of the Company during FY19 grew by +10%YoY, largely owing to improved retention prices as compared to the previous period.
- Gross margins of the Company during FY19 have declined by 364bps to ~18%, primarily owed to elevated cost structure given substantial PKR depreciation and uplifted gas tariff during the period and impact of incremental depreciation stemming from newly inaugurated production line.
- Finance costs of the Company during the year shot up by +3x, largely on account of unwinding of finance cost to income statement post commencement of new plant, enhanced short term borrowings and rise in benchmark interest rates as compared to the previous year.
- Positive tax charge worth PKR 715mn (PKR 4.0/share), as against previous year expense of PKR 15mn, on account of tax credits available on newly inaugurated production line arrested adverse impact to FY19 earnings. While we await publication of annual report for a better analysis, we believe the Company has reduced its overall tax benefit associated with the plant subsequent to reduction of 65B tax benefit to 5% as against 10% previously, post enactment of Finance Act 2019 in 4QFY19.

Exhibit:

CHCC Result Highlights

Period end (JUN) - PKRmn	4QFY19	4QFY18	YoY	FY19	FY18	YoY
Net Sales	4,701	3,240	45%	15,863	14,388	10%
Gross Profit	766	570	34%	2,883	3,139	-8%
Sell. / Dist. & Admin	179	152	17%	690	582	19%
Non-Operating Income	6	26	-78%	107	81	32%
EBIT	548	416	32%	2,190	2,504	-13%
Financial Charges	546	90	6.1x	1,143	357	3.2x
Pre-tax Profits	1	326	n/m	1,048	2,147	-51%
Taxation	489	(11)	n/m	(715)	15	n/m
Post-tax Profits	(487)	337	n/m	1,763	2,132	-17%
EPS	(2.76)	1.91		9.98	12.07	
DPS	1.00	4.00		1.00	4.00	
Key Ratios						
Gross Margin (%)	16.3	17.6		18.2	21.8	
Net Margin (%)	(10.4)	10.4		11.1	14.8	
Effective Tax Rate (%)	n/m	n/m		n/m	n/m	

Source: Company Accounts, IGI Research

No. of Shares : 177mn

Analyst

Muhammad Saad, ACCA

muhhammad.saad@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 816