

# Day Break

Tuesday, 11 February 2020

## COMPANY UPDATE

### Cherat Cement Company Limited

Cement

**Recommendation** BUY

Target Price: Dec/20 57.7

Last Closing: 9-Feb-20 51.6

Upside: 11.9

Valuation Methodology: Discounted Cash Flow (DCF)

Time Horizon: 11M

#### 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) 10.0 | 64.9

Exchange KSE 100

**Price Info.** 90D 06M 12M

Abs. Return 23.8 103.3 (28.9)

Lo 41.7 24.6 24.6

Hi 58.9 58.9 76.7

#### Key Company Financials

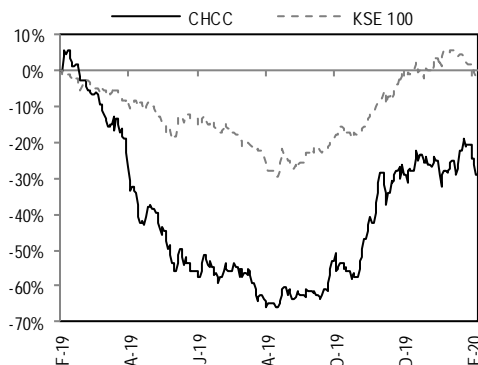
Period End: Jun

PKRbn	FY19a	FY20e	FY21f	FY22f
Total Revenue	15.9	18.9	18.7	21.6
Net Income	1.8	(2.1)	(1.6)	0.2
EPS (PKR)	9.1	(10.9)	(8.2)	1.0
DPS (PKR)	1.0	-	-	0.3
Total Assets	35.3	33.1	30.5	29.3
Total Equity	11.8	9.6	8.0	8.2

#### Key Financial Ratios

ROE (%)	18.3	15.4	(19.8)	(18.0)
P/E (x)	5.7	4.7	6.3	49.8
P/B (x)	0.9	0.9	1.0	1.2
DY (%)	1.9	-	-	0.5

#### Relative Price Performance



Source: Bloomberg, PSX & IGI Research

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## Cements

### CHCC: Losses to continue; 2QFY20E LPS to clock at PKR (3.32), 1HFY20 comes to PKR (5.06)

- ✓ CHCC's financial result for 2QFY20 is scheduled on 12<sup>th</sup> Feb-20, wherein we expect the company to post a net loss of PKR 646mn, compared to a net profit of PKR 596mn in the same period last year.
- ✓ Net sales of the Company during 2QFY20E are expected to improve substantially by 38%YoY, however, gross profits of the Company are expected to recede by almost 100%YoY, owing to significantly reduced domestic retention prices which have fallen off by almost 26%YoY.
- ✓ Further injury expected from massive finance cost worth PKR 697mn, up 5.4xYoY, pertaining to borrowings for newly inaugurated plant.

### Losses to continue for CHCC in 2QFY20E with LPS of PKR 3.32; 1HFY20 loss to accumulate to PKR 5.06/share

Cherat Cement Company Limited's (CHCC) board meeting is scheduled on 12<sup>th</sup> Feb-20 to announce financial result for 2QFY20, wherein we expect the company to post a net loss of PKR 646mn (LPS: PKR 3.32), down by 3.1xYoY, compared to a net profit of PKR 596mn (EPS: PKR 3.07) in the same period last year. This will bring 1HFY20E net loss to PKR 984mn (LPS: PKR 5.06), down by 2xYoY, as against PKR 1.03bn (EPS: PKR 5.29) reported in the similar period of the preceding year.

Net sales of the Company during 2QFY20E are expected to improve substantially by +38%YoY despite material fall in local retention prices, courtesy incremental dispatches made available from new production line. However, gross profits of the Company are expected to recede by almost 100%YoY to a meagre PKR 14mn in spite of controlled cost structure as against comparative period, owing predominantly to significantly reduced domestic retention prices which have fallen off by almost 26%YoY. Resultantly, the Company is expected to display an operating loss with further injury expected from massive finance cost worth PKR 697mn, up 5.4xYoY, pertaining to borrowings for newly inaugurated plant. No dividends are expected along with the result.

#### Exhibit: CHCC Result Highlights

Period end (JUN) - PKRmn	2QFY20	2QFY19	YoY	1HFY20	1HFY19	YoY
Net Sales	5,112	3,692	38%	9,592	7,033	36%
Gross Profit	14	714	-98%	202	1,267	-84%
Sell. / Dist. & Admin	175	182	-4%	338	338	0%
EBIT	(161)	553	-2x	(118)	956	-2x
Financial Charges	697	130	5x	1,291	228	6x
Pre-tax Profits	(858)	423	-4x	(1,409)	728	-4x
Taxation	(212)	(174)	22%	(425)	(300)	42%
Post-tax Profits	(646)	596	-3x	(984)	1,027	2x
EPS	(3.32)	3.07		(5.06)	5.29	
<b>Key Ratios</b>						
Gross Margin (%)	0.3	19.3		2.1	18.0	
Net Margin (%)	(12.6)	16.2		(10.3)	14.6	
Effective Tax Rate (%)	24.7	(41.1)		30.1	(41.2)	

Source: Company Accounts, IGI Research

No. of Shares : 194mn

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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:** Dec – 2019

**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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