Day Break

Tuesday, 16 October 2018

IGI Securities

Company Update

Exhibit: CHCC's 1QFY19 total dispatches have declined by 21%YoY as against comparitive period.

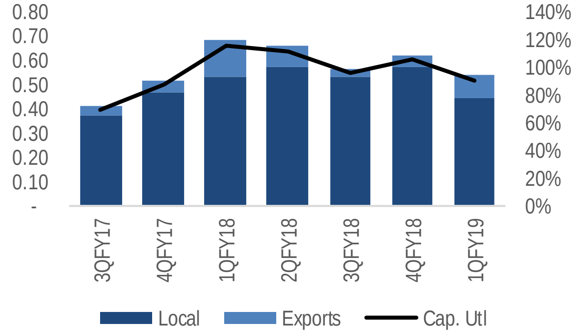


Exhibit: Coal prices have risen sharply over the comparitive period, increasing cost of production thereby

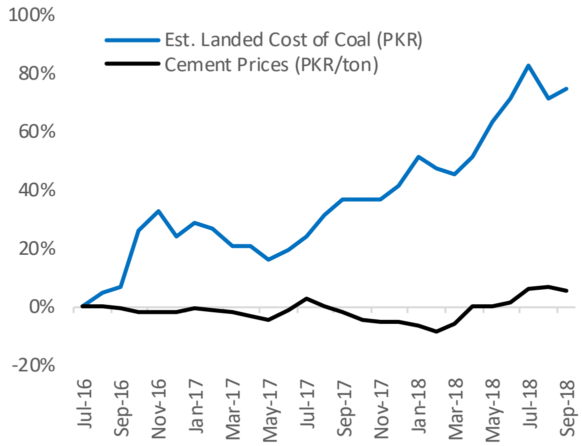
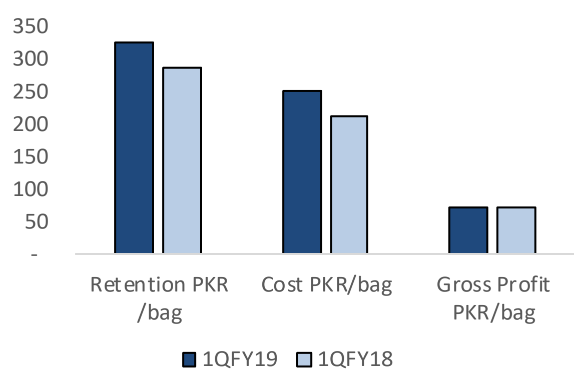


Exhibit: Falling cements sales price and increased cost of production have reduced gross profits of KOHC



Source: Company Accounts, Bloomberg & IGI Research

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Cements

CHCC 1QFY19 results preview; Earnings fall amid declining sales volumes

- With The Board of Directors meeting of Cherat Cement Company Limited (CHCC) is scheduled to take place on 16th Oct-18 to consider and approve financial results for 1QFY19. We expect the Company to report earnings of PKR 416mn (EPS: PKR 2.35) in the quarter under review as against PKR 606mn (EPS: PKR 3.43) in the corresponding period last year; down by 31%YoY
- The sharp decline in earnings is primarily owed to 21%YoY decline in total dispatches of the Company
- CHCC' production line III is expected to commence commercial operations from Jan-19 and is expected to provide an earnings accretion of PKR 7.00/share
- We maintain a 'BUY' call on the scrip with a Dec-18 based target price of PKR 95/share. The scrip currently trades at FY19 P/E of 2.7x and offers a dividend yield of 7.5%.

CHCC: 1QFY19 earnings expected at PKR 2.35/share, down by 31%YoY

The Board of Directors meeting of Cherat Cement Company Limited (CHCC) is scheduled to take place on 16th Oct-18 to consider and approve financial results for 1QFY19. We expect the Company to report earnings of PKR 416mn (EPS: PKR 2.35) in the quarter under review as against PKR 606mn (EPS: PKR 3.43) in the same period last year, marking a sharp decline of 31%YoY. We expect the Company to declare nil dividend along with the result.

The sharp decline in earnings is primarily owed to 21%YoY decline in total dispatches of the Company, which in turn is a consequence of hangover of demand in the North region largely due to development projects put to halt by the caretaker government during the period.

Though average retention prices of the Company have increased by +14%YoY, this only commensurate the hike in coal and FO prices internationally (up by +19%YoY and +48%YoY respectively), weakening of PKR against the greenback (loss of 17%YoY) and rise in FED by the Federal Government (up by +20%YoY).

Exhibit:

CHCC Result Highlights

Period end (JUN) - PKRmn	1QFY19	1QFY18	YoY	4QFY18	QoQ
Net Sales	3,486	3,891	-10%	3,240	8%
Gross Profit	783	989	-21%	570	37%
Sell. / Dist. & Admin	146	138	6%	152	-4%
Non-Operating Income	20	20	5.62x	26	3.62x
EBIT	622	831	-25%	416	49%
Financial Charges	108	95	11.62x	90	21%
Pre-tax Profits	513	735	-30%	326	57%
Taxation	98	129	-25%	(11)	n/m
Post-tax Profits	416	606	-31%	337	23%
EPS	2.35	3.43		1.91	
DPS	-	-		4.00	
Key Ratios					
Gross Margin (%)	22.5	25.4		17.6	
Net Margin (%)	11.9	15.6		10.4	
Effective Tax Rate (%)	19.0	17.6		(3.3)	

Source: Company Accounts, IGI Research *No. of Shares : 177mn*

Production Line III expected to come online by Jan-19; CHCC to continue its volumetric growth spree in FY19

The management of the Company, in its FY18 annual report has disclosed that production from line III was initially expected to commence from May-19, however due to commendable work done from its workforce, the management now expects to commence production from the new line way ahead of its scheduled time. While the management has abstained from specifying the revised time frame, our industry sources confirm that this is due to occur in Jan-19, providing CHCC a complete half year of extended capacity.

This is expected to enhance CHCC's market share to around 7% in comparison to FY18's share of 5.32%. Accordingly, we expect CHCC's total dispatches to grow by +29%YoY to 3.25mn tons as against 2.52mn tons made during FY18.

Production line III to provide tax credit of PKR 1.2bn (PKR 7.0/share)…

In addition of the sizeable volumetric growth, the commencement of production line III is estimated to bring in a tax credit of PKR 1.2bn (PKR 7.00/share) for CHCC. This is expected to bring FY19 EPS to PKR 21, up by +74%YoY from its FY18 actual earnings.

To recall, 5Yr tax holiday would not be available to the plant as was the case for its production line II, since it had elapsed on 30-Jun-2018 and had not been extended further by the federal government via Finance Act 2018-19.

Recommendation

We maintain a **'BUY'** call on the scrip with a Dec-18 based target price of PKR 95/share. The scrip currently trades at FY19 P/E of 2.7x and offers a dividend yield of 7.5%.

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Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

Time Horizon: Dec – 2018

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(Discounted Cash Flow)

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