

Flash Note

Wednesday, 20 April 2016

Cements

CHCC: PKR 2.08/share earnings in 3QFY16

- Profitability increased by +23%YoY to PKR 367mn (EPS: PKR2.08) in 3QFY16, taking 9MFY16 profitability to PKR 1bn (EPS: PKR 5.91) rising by +11%YoY.
- Revenue increased by +22%YoY to PKR 1.7bn in 3QFY16, likely on the back of +20%YoY growth anticipated in total dispatches (+22%YoY local, 11%YoY exports).
- Gross Margin improved by a massive 1066bpsYoY to 39% in 3QFY16 as compared to 28% in same period last year. We believe, this improvement is on the back of increased local sales growth, lower 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 9MFY16 clocked in at 36% as compared to 29% last year.

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 P/E of 13.1x and offers +25% 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	3QFY16	3QFY15	YoY	9MFY16	9MFY15	YoY
Revenue	1,732	1,415	22%	5,222	4,726	10%
Gross Profit	678	403	68%	1,874	1,368	37%
Selling and Admin	107	90	19%	314	217	45%
EBT	534	368	45%	1,460	1,158	26%
Tax	167	70	139%	417	220	90%
Net profit	367	298	23%	1,043	938	11%
EPS	2.08	1.69		5.91	5.31	
Key Ratios						
Gross Margin	39%	28%		36%	29%	
Net Margin	21%	21%		20%	20%	
Effective Tax Rate	31%	19%		29%	19%	

Source: IGI Research, Company Financials

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Analyst Certification

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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[^] 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)

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