

# Day Break

Thursday, 09 June 2016

## Company Update

### Cherat Cement Company Limited

Cement

<b>Recommendation</b>	<b>BUY</b>
Target Price	138.7
Last Closing	116.4
Upside	19%

#### Market Data

Bloomberg Tkr.	CHCC PA
Shares (mn)	176.6
Market Cap (PKRbn   USDmn)	20.6   196.8
Exchange	KSE 100

<b>Price Info.</b>	90D	180D	365D
Abs. Return	20.6	35.6	31.4
Low	96.2	85.2	80.9
High	116.6	116.6	116.6

#### Key Company Financials

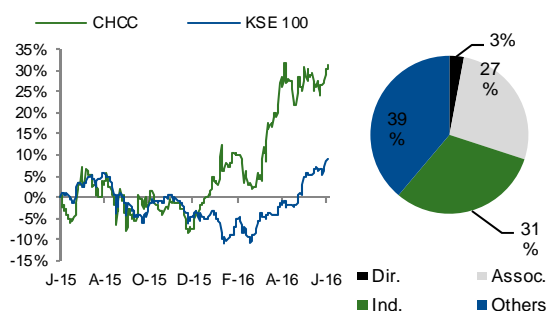
Period End: Jun

PKRbn	FY15A	FY16E	FY17F	FY18F
Total Revenue	6.6	7.2	10.6	16.4
Net Income	1.3	1.5	2.6	3.7
EPS (PKR)	7.3	8.4	14.6	21.0
DPS (PKR)	3.0	3.5	6.1	9.5
Total Assets	9.5	15.5	19.9	21.9
Total Equity	8.0	8.9	10.4	12.4

#### Key Financial Ratios

	FY15A	FY16E	FY17F	FY18F
ROE (%)	16%	17%	25%	30%
P/E (x)	16.0	13.8	8.0	5.5
P/B (x)	2.6	2.3	2.0	1.7
DY (%)	2.6	3.0	5.2	8.2

#### Relative Price Performance & Shareholding



#### About the Company

Cherat Cement Company Limited was incorporated in Pakistan as a public limited company by shares in the year 1981. Its main business activity is manufacturing, selling and marketing of cement. Company's current rated capacity is 1.1mn ton per annum, with a current market share of ~3%.

Source: Bloomberg, KSE 100 & IGI Research

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## Cherat Cement Company

### Expansion: Early bird to catch the Worm!

- Cherat Company Cement Limited (CHCC) being the first player in the industry to enhance its cement capacity, we foresee earnings to eke out by +66% to PKR 14.6/share in FY17.
- CHCC posted profitability of PKR 1.04bn (EPS PKR 5.91) in 9MFY16, going up by +11%YoY. Revenue increased by +10%YoY to PKR 5.2bn largely due to +9%YoY growth in cement dispatches, where local sales have witnessed a jump of +18%YoY to 599k tons and exports nosedived by 16%YoY to 161k tons.
- The scrip is currently trading at FY16/FY17 P/E multiple of 13.8x and 8.0x, respectively. With our Dec-16 TP of PKR 139/share, the stock offers upside of +19%, hence we maintain 'BUY' call on the scrip.

#### Expansion to propel earnings by +66%YoY in FY17

Cherat Company Cement Limited (CHCC) being the first player in the industry to enhance its cement capacity, we foresee earnings to eke out by +66% to PKR 14.6/share in FY17. This exceptional growth in profitability of the company is on account of towering local cement demand led by initiation of projects under CPEC ambit, construction of dams and infrastructure by government and surging private investments in construction business. We have assumed new 1.34mn tons cement plant to come online in Jan-17 and to run at 60%/80% capacity utilization for 2HFY17/FY18.

#### Expansion Update

As per latest financial reports, equipment has arrived at plant site where company is working on the civil, mechanical and electrical aspects of the plant. As of 9MFY16, capital work-in progress for the new cement plants stands at PKR 8.3bn (69% of total project cost of PKR 12bn). Company has so far utilized PKR 2.5bn out of 9.5bn long term debt facility at Kibor plus 1.1%, whereas we believe company to borrow up to PKR 6bn for the expansion.

#### Increased likelihood of new plant operation to start before Jan-17...

We think there is increasing likelihood of Cherat New plant to start operation before Jan-17. As per market talks, Cherat could bring its

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new production online as soon as Sep-16, in which case profitability could jump by +95% to PKR 16.50/share in FY17.

### ...this could benefit from Fauji's plant shutdown

This will also provide company opportunity to capitalize on shutdown by FCCL due to accident in its silo and coal mill. As per our estimates, closure of Fauji's 7200 cement line for 6 months would lead to shortage of 1.1mn ton in the market, which we believe, would benefit the most to CHCC (incase new plant comes online in Sept-16), as MLCF and KOHC are already operating at 91% and 76%, respectively.

### 9MFY16 profitability showed steady +11% growth to PKR 5.9/share

CHCC posted profitability of PKR 1.04bn (EPS PKR 5.91) in 9MFY16, going up by +11%YoY. Revenue increased by +10%YoY to PKR 5.2bn largely due to +9%YoY growth in cement dispatches, where local sales have witnessed a jump of +18%YoY to 599k tons and exports down by 16%YoY to 161k tons. As a result, capacity utilization stands at 92% in 9MFY16 as compared to 85% in same period last year. Gross margins have also expanded by 694bpYoY to 36% backed by low fuel and power cost.

#### 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

### Recommendation

The scrip is currently trading at FY16/FY17 P/E multiple of 13.8x and 8.0x, respectively. With our Dec-16 TP of PKR 139/share, the stock offers upside of +19%, hence we maintain 'BUY' call on the scrip.

### Analyst Certification

The analyst<sup>^</sup> hereby certify that the views about the company/companies and the security/securities discussed in this report are accurately expressed and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

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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<sup>^</sup> 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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