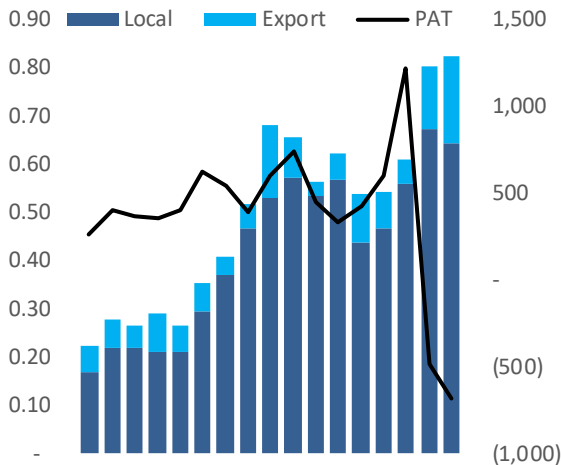


# Day Break

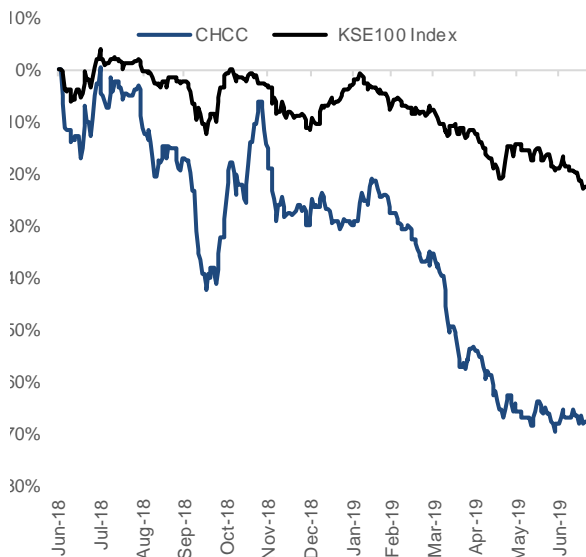
Tuesday, 29 October 2019

## Company Update

**Exhibit:** Overall dispatches of CHCC have increased, however poor retention prices in 1QFY20E and enhanced finance costs are expected to eat away profitability.



**Exhibit:** DGKC's Relative Performance to KSE 100



Source: Bloomberg, PSX & IGI Research

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## Cements

### CHCC: Lower retention prices and rising cost structure to present loss of PKR 3.53/share in 1QFY20E

- Cherat Cement Company Limited's (CHCC) board meeting is scheduled on 30th Oct-19 to announce financial result for 1QFY20E, wherein we expect the company to post a net loss of PKR 687mn (Fully diluted LPS: PKR 3.53)
- The decline in earnings as against the comparative period is primarily driven by a) poor gross margins of the Company led by lower domestic retentions, b) substantial rise in cost structure of the Company and; c) exorbitant rise in finance charge of the Company.
- Gross margins of the Company are expected to decline to -0%YoY as against 17%YoY reported in the similar period of the preceding year
- Retention prices of the Company are expected to recede by almost 11%YoY owing to enhanced FED (up +25%YoY) and greater discounts offered to distributors amid stiff competition faced in the North region, during 1QFY20.
- We expect the cost structure of the Company to improve by 7%YoY to PKR 276/bag on account of PKR devaluation, axle load restrictions and administrative hikes in energy prices.
- Finance charge of the Company is expected to rise 8 folds to PKR 743mn, largely on account of substantial increase in short term borrowing requirements of the Company, rise in benchmark interest rates during 1QFY20 and addition of finance cost related to production line III to the P&L as against being capitalized in the comparative period.

### Lower retention prices and higher costs to present loss of 3.53/share in 1QFY20E

Cherat Cement Company Limited's (CHCC) board meeting is scheduled on 30th Oct-19 to announce financial result for 1QFY20E, wherein we expect the company to post a net loss of PKR 687mn (Fully diluted LPS: PKR 3.53), compared to a net profit of PKR 431mn (Fully diluted EPS: PKR 2.22) in the same period last year.

The decline in earnings as against the comparative period is primarily driven by a) poor gross margins of the Company led by lower domestic retentions, b) substantial rise in cost structure of the Company and; c) exorbitant rise in finance charge of the Company.

### Key highlights

- During 1QFY20E net sales of the Company are expected to grow by +36%YoY, primarily on account of +53%YoY rise in overall dispatches of the Company as against the comparative period.
- Gross margins of the Company are expected to decline to 0%YoY as against 17%YoY reported in the similar period of the preceding year, making a gross loss position of PKR -6mn as against gross profits of PKR 553mn in the same period last year. The decline in margins is primarily expected by substantial fall in retention prices amid intense competition and a rising cost structure.
- Retention prices of the Company are expected to recede by almost 11%YoY owing to enhanced FED (up +25%YoY) and greater discounts offered to distributors amid stiff competition faced in the North region, during 1QFY20.
- We expect the cost structure of the Company to improve by 7%YoY to PKR 276/bag on account of PKR devaluation, axle load restrictions and administrative hikes in energy prices.

- Finance charge of the Company is expected to rise 8 folds to PKR 743mn, largely on account of substantial increase in short term borrowing requirements of the Company, rise in benchmark interest rates during 1QFY20 and addition of finance cost related to production line III to the P&L as against being capitalized in the comparative period.
- We expect a loss before tax of PKR 926mn and loss after tax of PKR 687mn (LPS: PKR 3.53) during 1QFY20 as against profit before tax of 305mn and profit after tax of PKR 431mn (EPS: PKR 2.22) reported in the similar period of the preceding year.
- On a sequential basis, the Company is expected to further its losses by 41%QoQ on account of lower retentions led primarily by non-passing ability of FED by the Company, deteriorated cost structure and enhanced finance cost.

**Exhibit: Cherat Cement Company Limited (CHCC) Financial highlights**

Period end (Dec) - PKRbn	1q'20	2019	4q'19	3q'19	2q'19	1q'19	2018	4q'18	3q'18	2q'18	1q'18	2017
Net Sales	4,550	15,863	4,701	4,128	3,692	3,341	14,388	3,240	3,562	3,695	3,891	9,645
Cost of sales	4,556	12,980	3,936	3,278	2,978	2,788	11,249	2,670	2,854	2,823	2,902	6,432
<b>Gross Profit</b>	(6)	2,883	766	850	714	553	3,139	570	708	872	989	3,213
Sales Growth %	36%	10%	45%	16%	0%	-14%	49%	11%	35%	60%	120%	36%
Gross Margin %	0%	18%	16%	21%	19%	17%	22%	18%	20%	24%	25%	33%
Admin, Selling & Distribution	175	690	179	173	182	156	582	152	145	147	138	505
Other Op. Income	8	107	6	30	46	25	81	26	18	17	20	133
<b>EBIT</b>	(183)	2,190	548	687	553	403	2,504	416	556	701	831	2,698
EBIT Margin %	-4%	14%	12%	17%	15%	12%	17%	13%	16%	19%	21%	28%
Financial Charges	743	1,143	546	368	130	98	357	90	84	87	95	188
Profit Before Taxation	(926)	1,048	1	319	423	305	2,147	326	472	614	735	2,510
Taxation	(239)	(715)	489	(904)	(174)	(126)	15	(11)	26	(129)	129	553
Effective Tax Rate	26%	-68%	39019%	-284%	-41%	-41%	1%	-3%	6%	-21%	18%	22%
Profit After Tax	(687)	1,763	(487)	1,223	596	431	2,132	337	446	743	606	1,957
Net Margin (%)	-15%	11%	-10%	30%	16%	13%	15%	10%	13%	20%	16%	20%
PAT Growth YoY	-259%	-17%	-245%	174%	-20%	-29%	9%	-14%	-18%	20%	50%	39%
<b>EPS</b>	(3.53)	9.07	(2.51)	6.29	3.07	2.22	10.97	1.73	2.29	3.83	3.12	10.07
<b>DPS</b>	-	1.00	1.00	-	-	-	5.00	4.00	-	1.00	-	4.50

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Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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**Time Horizon:** Dec – 2019

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