

## Cements

### CHCC: Dividend Payout to the tune of PKR 1.0/share, despite ongoing Capex on New Cement Plant

- Profitability increased by +5%YoY to PKR 408mn (EPS: PKR 2.31) in 2QFY16, taking 1HFY16 profitability to PKR 676mn (EPS: PKR 3.83) rising by +6%YoY. Company has also announced cash dividend of PKR 1.0/share in 2QFY16.
- Revenue increased by +10%YoY to PKR 1.9bn in 2QFY16 on the back of +5%YoY growth anticipated in total dispatches (10%YoY local, -10%YoY exports).
- Gross Margin improved by a massive 651bpsYoY to 38% in 2QFY16 as compared to 31% in same period last year. We believe, this improvement is on the back of increased local sales growth, lower coal and decline in power cost as a result of fuel price adjustments and use of 27.8MW FO captive power plant. Margin for 1HFY16 clocked in at 34% as compared to 33% last year.
- Company also intends to make PKR 100mn investment in shares of Cherat Packaging, likely to result in increased shareholding from current 5.99% (FY15 financial statements).

#### Recommendation

Company is working on expanding its cement mills capacity by 1.3mn tons green field cement plant. We expect plant to come online in 3QFY17, along with WHR as well. The scrip is currently trading at FY16 P/E of 11.2x and offers +45% upside from last close, with our Dec-16 TP of PKR 139/share. Hence, we maintain our 'BUY' call on the scrip.

#### Exhibit: Financial Highlights

PKR'mn	2QFY16	2QFY15	YoY	1HFY16	1HFY15	MoM
Net Sales	1,930	1,758	10%	3,489	3,311	5%
Gross Profit	733	553	32%	1,197	966	24%
Selling and Admin	109	90	21%	207	183	13%
Other Income	11	51	-79%	22	68	-68%
Finance Cost	8	12	-35%	16	21	-26%
PBT	582	483	20%	926	790	17%
Tax	174	95	84%	250	150	67%
Net profit	408	389	5%	676	640	6%
EPS	2.31	2.20		3.83	3.62	
DPS	1.00	-		1.00	-	
Key Ratios						
Gross Margin	38%	31%		34%	29%	
Net Margin	21%	22%		19%	19%	
Effective Tax Rate	30%	20%		27%	19%	

Source: IGI Research, Company Financials

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### Analyst Certification

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### 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

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