

# Flash Note

Thursday, 08 February 2018

## Cement

### CHCC: Tax reversals drove 2QFY18 earnings up by +20%YoY to PKR 4.21/share

- Cherat Cement Company Limited (CHCC) declared its 2QFY18 financial result with earnings registered at PKR 743mn (EPS: PKR 4.21) up by +20%YoY (up +23%QoQ) as compared to PKR 621mn (EPS: PKR 3.51) in the similar period last year. This has taken 1HFY18 earnings to PKR 1,350 (EPS: PKR 7.64) as against PKR 1,025 (EPS: PKR 5.80) in 1HFY17. The Company also declared dividends of PKR 1.00/share along with the result.
- Sales of the Company during the quarter increased by +60%YoY, largely owing to enhanced capacity at the company's disposal as against same period last year.
- The gross profit margins of the Company were significantly eroded to 24% as against 42% in the corresponding quarter of preceding year due to lower retention prices accredited to a) falling cement prices in the region; b) rising coal prices globally; and c) imposition of enhanced FED through Finance Act 2017-18.
- Major accretion to earnings stems from tax reversal of PKR 129mn as against tax charge of PKR 191mn in the similar quarter of the preceding year.

Exhibit:

#### CHCC Result Highlights

Period end (JUN) - PKRmn	2QFY18	2QFY17	YoY	1HFY18	1HFY17	YoY
Net Sales	3,695	2,311	60%	7,586	4,083	86%
Gross Profit	872	979	-11%	1,861	1,676	11%
Sell. / Dist. & Admin	147	143	3%	285	256	11%
Non-Operating Income	17	42	-59%	37	60	-38%
EBIT	701	819	-14%	1,532	1,378	11%
Financial Charges	87	7	12.73x	182	13	13.68x
Pre-tax Profits	614	812	-24%	1,349	1,365	-1%
Taxation	(129)	191	n/m	(0)	340	n/m
Post-tax Profits	743	621	20%	1,350	1,025	32%
EPS	4.21	3.51	20%	7.64	5.80	32%
DPS	1.00	1.00				
<b>Key Ratios</b>						
Gross Margin (%)	23.6	42.4		24.5	41.1	
Net Margin (%)	20.1	26.9		17.8	25.1	
Effective Tax Rate (%)	(21.1)	23.5		(0.0)	24.9	

Source: Company Accounts, IGI Research

No. of shares: 176.63mn

#### Analyst

Muhammad Saad

[muhammad.saad@igi.com.pk](mailto:muhammad.saad@igi.com.pk)

Tel: (+92-21) 111-234-234 Ext.: 816

## Important Disclaimer and Disclosures

**Research Analyst(s) Certification:** The Research Analyst(s) hereby certify that the views about the company/companies and the security/securities discussed in this report accurately reflect his or her or their personal views 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(s) 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.

**Disclaimer:** The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

**Rating system:** IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
Sell	If target price on aforementioned security(ies) is less than -10%, from its last closing price(s)

**Time Horizon:** Dec – 2018

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

**Risk:** Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, credit risks, political and geopolitical risks. The performance of company(ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security(ies)/company(ies) in the report will be achieved.

**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

**Research Analyst(s)**

Research Identity Number: BRP009

© Copyright 2017 IGI Finex Securities Limited

## Contact Details

### Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Syed Daniyal Adil	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 973	daniyal.adil@igi.com.pk
Suleman Ashraf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	suleman.ashraf@igi.com.pk
Muhammad Saad	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 816	muhammad.saad@igi.com.pk
Tanweer Kabbeer	Research/Fund Select	Tel: (+92-21) 111-234-234 Ext: 966	tanweer.kabbeer@igi.com.pk
Umesh Solanki	Database Manager	Tel: (+92-21) 111-234-234 Ext: 974	umesh.solanki@igi.com.pk

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 35777863-70	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Ejaz Rana	Regional Manager (Faisalabad)	Tel: (+92-41) 2540843-45	ejaz.rana@igi.com.pk
Asif Saleem	Branch Manager (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Branch Manager (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk
Zeeshan Kayani	Branch Manager (Abbottabad)	Tel: (+92-992) 408243-44	zeeshan.kayani@igi.com.pk
Ihsan Mohammad	Branch Manager (Peshawar)	Tel: (92-91) 5253035	ihsan.mohammad@igi.com.pk

### IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of  
Pakistan Stock Exchange Limited |  
Corporate member of Pakistan Mercantile Exchange Limited

#### Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,  
Khayaban-e-Jami Block-09, Clifton, Karachi-75600  
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234  
Fax: (+92-21) 35309169, 35301780

Website: [www.igisecurities.com.pk](http://www.igisecurities.com.pk)

#### Stock Exchange Office

Room # 719, 7th Floor, PSX Building, Stock Exchange Road, Karachi.  
Tel: (+92-21) 32429613-4, 32462651-2, Fax: (+92-21) 32429607

#### Lahore Office

5-F.C.C. Ground Floor, Syed Maratib Ali Road,  
Gulberg II, Lahore  
Tel: (+92-42) 35777863-70, 35876075-76  
Fax: (+92-42) 35763542

#### Faisalabad Office

Room #: 515-516, 5th Floor, State Life  
Building, 2- Liaqat Road, Faisalabad  
Tel: (+92-41) 2540843-45  
Fax: (+92-41) 2540815

#### Multan Office

Mezzanine Floor, Abdali Tower,  
Abdali Road, Multan  
Tel: (92-992) 408243 - 44

#### Peshawar Office

2nd Floor, The Mall Tower,  
35 The Mall Peshawar Cantt.  
Tel: (92-91) 5253035, 5278448

#### Islamabad Office

Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,  
Block- B, Jinnah Avenue, Blue Area, Islamabad  
Tel: (+92-51) 2604861-2, 2604864, 2273439  
Fax: (+92-51) 2273861

#### Rahim Yar Khan Office

Plot # 12, Basement of Khalid Market,  
Model Town, Town Hall Road, Rahim Yar Khan  
Tel: (+92-68) 5871653-6, 5871652  
Fax: (+92-68) 5871651

#### Abbottabad Office

Ground Floor, Al Fatah Shopping Center, Opp. Rad  
Station, Mansehra Road, Abbottabad  
Tel: (+92-99) 2408243 - 44

#### Sialkot Office

Suite No. 10 & 11, 1st Floor, Soni Square,  
Mubarak Pura, Sialkot.  
Tel: (+92-52) 3258437, 3258762