

Cherat Cement Company Limited
Result Review

PSX: CHCC Bloomberg: CHCC: PA Reuters: CHRC: KA

Pakistan Research

2QFY19 EPS clocks in at PKR 3.38, down 20% YoY

- CHCC announced its 2QFY19 financial result where the company declared earnings of PKR 3.38, down 20% YoY. The result was above the street consensus due to tax credit booked by the company during the period.
- CHCC 2QFY19 topline remained flat YoY as the 17% YoY increase in North cement prices was balanced out by 24% YoY decline in total dispatches for the quarter.
- Gross margins for 2QFY19 contracted by 4.2pps YoY to 19.4% as compared to 23.6% in 2QFY18. The decline in margins can be attributed to increase in cost of production on account of currency devaluation and higher fuel and power costs as compared to the same period last year.
- The company booked tax credit during the quarter resulting in tax reversals, which cushioned the decline in profitability as PBT during the period declined 31% YoY, while the PAT declined 20% YoY.
- We maintain 'BUY' recommendation on CHCC. Our price target (PT) of PKR 90/share provides an upside of 25% along with a dividend yield of 6.2%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	90
Current Price (PKR)	77
Upside/(Downside) (%)	+ 25%
Dividend Yield (%)	6%
Total Return (%)	+ 31%
12-month High (PKR)	143
12-month Low (PKR)	56
Outstanding Shares (mn)	176.63
Market Cap (PKR mn)	13,424
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY18	2QFY19	YoY	1HFY18	1HFY19	YoY
Net Sales	3,695	3,692	0%	7,586	7,033	-7%
Cost of Sales	2,823	2,978	5%	5,725	5,766	1%
Gross Profit	872	714	-18%	1,861	1,267	-32%
Selling & Admin. Exp	147	182	24%	285	338	19%
Other Income	17	46	174%	37	71	90%
Other Charges	41	26	-37%	82	44	-46%
Finance cost	87	130	50%	182	228	25%
Profit before tax	614	423	-31%	1,349	728	-46%
Taxation	(129)	(174)	N/A	(0)	(300)	N/A
Net Income	743	596	-20%	1,957	1,027	-47%
EPS	4.21	3.38	-20%	7.64	5.82	-24%
DPS	1.00	-	N/A	1.00	-	N/A

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
EPS	7.96	11.08	12.07	11.01	13.68	15.12
EPS Growth	-1%	39%	9%	-9%	24%	11%
DPS	3.25	4.50	5.00	4.50	5.75	6.25
PER	7.1	5.1	4.7	6.5	5.3	4.8
Dividend Yield	5.7%	7.9%	8.8%	6.2%	8.0%	8.7%
EV/EBITDA	5.7	4.8	7.1	5.6	3.8	3.5
P/B	1.1	1.0	0.9	1.0	0.9	0.8
ROE	15.4%	18.7%	19.1%	15.7%	17.1%	16.9%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Cherat Cement Company Limited (CHCC) has been computed using Free cash flow to equity (FCFE) method. We have used a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our PT of 90/share. Our price target provides an upside of 25% along with a dividend yield of 6.2%. Our investment case on CHCC is based on (1) dispatches growth from line-II already in operation (2) installation of 29MW tri-fuel (Coal / gas / FO) power plant (3) tax relief on line-II augmenting bottom-line and (4) volumetric growth from line-III.

Risks

Key downside risks to our investments thesis are: (1) higher than anticipated increase in input cost (Coal, FO, Gas), (2) lower than anticipated growth in cement demand (3) and reduction in cement prices from current levels.

Company Description

Cherat Cement Company Limited manufactures, markets, and sells Portland cement and clinker in Pakistan. The company sells its products under the Cherat brand name. Cherat Cement Company Limited also exports its products to Afghanistan and India. The company was incorporated in 1981 and is headquartered in Karachi, Pakistan.

Financial Highlights - CHCC

Income Statement (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Net sales	7,079	9,645	14,388	18,865	24,485	25,468
Cost of sales	4,445	6,432	11,249	15,094	19,286	20,181
Gross Profit	2,634	3,213	3,139	3,771	5,199	5,287
SG & A	427	505	582	657	708	759
Operating Profit	2,208	2,708	2,557	3,114	4,491	4,528
Other income	43	133	81	139	218	210
Other charges	156	143	134	139	176	191
Finance cost	44	188	357	882	1,604	1,328
Profit before tax	2,051	2,510	2,147	2,232	2,930	3,219
Taxation	646	553	15	287	514	548
Profit after tax	1,405	1,957	2,132	1,945	2,416	2,671

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
PPE	12,717	13,633	23,806	25,482	25,077	24,752
Other LT assets	740	605	432	769	803	839
Non-Current Assets	13,457	14,238	24,238	26,251	25,880	25,591
Current assets	2,005	4,569	6,282	8,690	10,671	9,273
Total Assets	15,462	18,807	30,520	34,941	36,551	34,864
Non-Current liabilities	4,511	5,774	15,693	16,599	13,248	9,887
Current liabilities	1,811	2,571	3,653	5,994	9,210	9,189
Total Liabilities	6,322	8,345	19,346	22,594	22,457	19,076
Equity	9,140	10,462	11,174	12,347	14,094	15,788
Total Equity & liabilities	15,462	18,807	30,520	34,941	36,551	34,864

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY16A	FY17A	FY18A	FY19E	FY20F	FY21F
Net Income	1,405	1,957	2,132	1,945	2,416	2,671
Non-cash Charges	280	693	1,090	1,791	1,889	1,786
Operating Cash flows	1,882	96	3,021	5,644	5,095	4,655
FCFF	(4,255)	(1,366)	(7,888)	2,946	4,933	4,296
Net borrowings	3,980	2,170	9,663	761	(1,891)	(3,635)
FCFE	(304)	658	1,421	2,938	1,720	(441)
Net change in cash	5	23	1	2,167	1,050	(1,418)
Closing cash	23	46	47	2,214	3,264	1,846

Source: Company Accounts, Akseer Research

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Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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