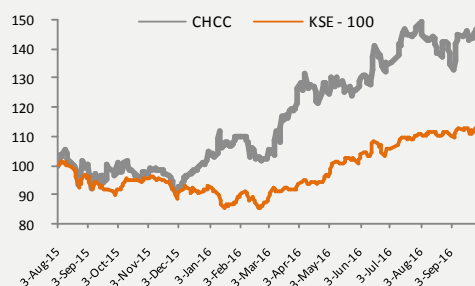


CHERAT CEMENT COMPANY LTD.
Oct 27, 2016
BUY
Price Target : PKR 175.7/share
CURRENT MARKET DATA

Current Price	130
Market Cap (PKR mn)	22,961.9
52 wk Hi	145.03
52 wk low	80.3
Outstanding shares (mn)	176.63
Free Float (%)	60%

Sources: PSX
RELATIVE TO KSE—100

Source: PSX
FINANCIAL HIGHLIGHTS FY17E

PKR 'mn'	FY16A	FY17E	FY18E	FY19E
Sales	7,079	10,194	13,596	13,457
COGS	4,445	6,819	9,030	9,082
GP	2,634	3,376	4,566	4,376
EBIT	2,095	2,720	3,696	3,472
PBT	2,051	2,409	3,099	2,876
NP	1,405	2,001	2,732	2,543
EPS	7.96	11.33	15.47	14.40

Source: Nael Research, Company accounts
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CHCC: Earnings likely to settle at PKR 2.08/sh in 1QFY17E

- Cherat Cement Company Ltd. (CHCC) is scheduled to announce its 1QFY17E financial results on October 28th, 2016 where we expect the company to post EPS of PKR 2.08, up by 37%YoY.
- Earnings for 1QFY17E are estimated to clock in at PKR 367mn (EPS: PKR 2.08) as compared to PKR 268mn (EPS: PKR 1.52) in 1QFY16A, depicting impressive growth of 37%YoY.
- Top line of the company is estimated to grow by 18%YoY owing to volumetric growth in total dispatches by 18.2%YoY primarily stemming from domestic off take and moderate share in exports.
- Operational cost is estimated to remain suppressed resulting from 1) greater reliance on in-house CPP (FO & Diesel based) 2) Cost savings from WHR plant & 3) Almost no reliance on the grid. Based on these underlying factors, we anticipate gross margins to surge to ~34% from 29% of 1QFY16A.
- On sequential basis, bottom line of the company is expected to witness a meager increment of 1%QoQ.

Investment Perspective: We maintain our stance of “BUY” rating for CHCC on account of 1) Higher volumetric growth post expansion of 1.3mn tons, 2) Cost efficiencies achieved through 7MW WHRP with our June’17 PT of PKR 175.7/sh implying 35% upside from last closing price of PKR 130/sh.

FINANCIAL HIGHLIGHTS 1QFY17E

PKR 'mn'	1QFY17E	1QFY16A	YoY	1QFY17E	4QFY16A	QoQ
Net Sales	1,843	1,560	18%	1,843	1,858	-1%
Cost of sales	1,219	1,096	11%	1,219	1,098	11%
Gross Profit	625	464	35%	625	760	-18%
Admin Expenses	50	45	10%	50	52	-4%
Distribution Expenses	61	53	15%	61	60	1%
Operating Profit	514	366	40%	514	648	-21%
Other operating expenses	37	26	44%	37	46	-19%
Other operating income	26	11	132%	26	4	604%
EBIT	503	352	43%	503	605	-17%
Financial Charges	8	8	0%	8	14	-44%
Profit before taxation	495	344	44%	495	591	-16%
Taxation	129	76	70%	129	229	-44%
Profit after Tax	367	268	37%	367	362	1%
EPS	2.08	1.52	37%	2.08	2.05	1%

Source: Nael Research, Company accounts

Key risks to our investments thesis are 1) Price war, 2) Decline in PSDP, 3) Volatility in international coal/oil prices and 4) Increase in discount rate.