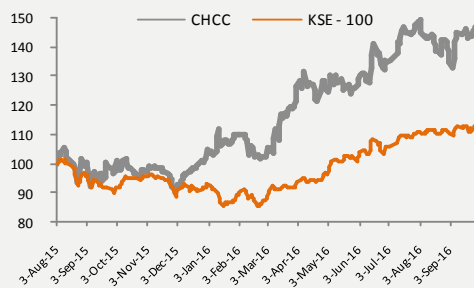


**CHERAT CEMENT COMPANY LTD.**
**Oct 31<sup>st</sup>, 2016**
**BUY**
**Price Target : PKR 175.7/share**
**CURRENT MARKET DATA**

|                         |           |
|-------------------------|-----------|
| Current Price           | 127.6     |
| Market Cap (PKR mn)     | 22,552.37 |
| 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 settled at PKR 2.29/sh, little above our expectation of PKR 2.08/sh**

- Cherat Cement Company Ltd. (CHCC) announced its 1QFY17A financial result on October 28<sup>th</sup>, 2016. The company posted earnings of PKR 405mn (EPS: 2.29) in comparison to PKR 268mn (EPS: 1.52) of 1QFY16A inclining significantly by 51%YoY.
- Top line of the company grew by 14%YoY owing to volumetric growth in total dispatches by ~18%YoY primarily stemming from domestic off take and moderate share in exports.
- Operational cost 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 and 4) Subsequently lower HSFO prices.
- On the back of the above mentioned reasons the gross profit of the firm depicted noteworthy growth of 50%YoY clocking in at PKR 697mn.
- Owing to cost efficiencies achieved, the gross margins surged to ~39% from 30% of 1QFY16A.
- On sequential basis, bottom line of the company also witnessed a reasonable increment of 12%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 38% upside potential from the last closing price of PKR 127.6/sh.

**FINANCIAL HIGHLIGHTS 1QFY17A**

| PKR 'mn'                 | 1QFY17A | 1QFY16A | YoY  | 1QFY17A | 4QFY16A | QoQ  |
|--------------------------|---------|---------|------|---------|---------|------|
| Net Sales                | 1,771   | 1,560   | 14%  | 1,771   | 1,858   | -5%  |
| Cost of sales            | 1,075   | 1,096   | -2%  | 1,075   | 1,098   | -2%  |
| Gross Profit             | 697     | 464     | 50%  | 697     | 760     | -8%  |
| Admin Expenses           | 50      | 45      | 11%  | 50      | 52      | -4%  |
| Distribution Expenses    | 63      | 53      | 20%  | 63      | 60      | 5%   |
| Operating Profit         | 584     | 366     | 59%  | 584     | 648     | -10% |
| Other operating expenses | 43      | 26      | 66%  | 43      | 46      | -7%  |
| Other operating income   | 19      | 11      | 65%  | 19      | 4       | 401% |
| EBIT                     | 560     | 352     | 59%  | 560     | 605     | -8%  |
| Financial Charges        | 6       | 8       | -29% | 6       | 14      | -60% |
| Profit before taxation   | 554     | 344     | 61%  | 554     | 591     | -6%  |
| Taxation                 | 149     | 76      | 97%  | 149     | 229     | -35% |
| Profit after Tax         | 405     | 268     | 51%  | 405     | 362     | 12%  |
| EPS                      | 2.29    | 1.52    | 51%  | 2.29    | 2.05    | 12%  |

*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.