

**CHERAT CEMENT COMPANY LTD (CHCC) October 7th, 2016**
**BUY**

Price Target : PKR 170.72/share

Closing Price : PKR 138.49/share

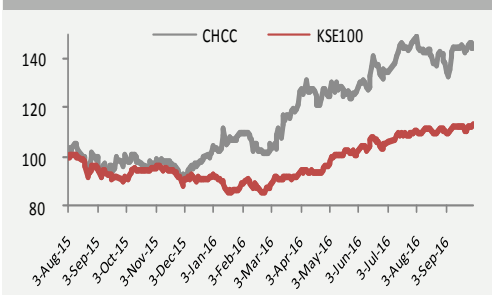
**COMPANY DATA**

52-week Price Range (PKR)	134.55—80.3
No. of Shares Outstanding (mn)	176.63
Market Cap (PKR mn)	23,693.41
Market Cap (USD mn)	226.76
Free Float (%)	60%
Year End	Jun
KATS Code	CHCC

Source: PSX

Key Ratios (x/%)	FY16A	FY17E	FY18E	FY19E
P/E (x)	17.41	12.56	9.10	9.39
P/B (x)	2.63	2.25	1.92	1.71
EBITDA Margin %	35%	31%	31%	30%

Source: Company Accounts, Nael Research

**RELATIVE TO KSE—100**


Source: PSX

**Taha Rehman \*\***

taha@naelcapital.com

(+92-21) 32461812-13 (Ext.) 150

- **We revise our estimates on CHCC with 'Buy' rating:** We have updated our investment case on account of 1) higher volumetric growth post expansion of 1.3mn tons, 2) cost efficiencies achieved through 7MW WHRP and 3) change in the 10yr PIB rates, with 'Buy' rating and a PT of PKR 170/sh, implying 23% upside potential from its closing price of Oct 6<sup>th</sup>, 2016.
- **Ideal geodynamics to take advantage from...** The market share (installed capacity based) of CHCC is expected to increase from 2.2% in FY16 to 4.9% post expansion of 1.3mn tpa in FY17E. Further change in Cherat's market share is expected once other expansions get online.
- **Noteworthy earnings potential post expansion:** Earnings of CHCC is anticipated to surge massively post expansion from mere PKR 7.96/sh in FY16 to PKR 15.22/sh in FY18. This upsurge primarily stems from
  - New plant at line II (1.3mn tons)—outpacing to cater domestic growth
- **Cost efficiencies via. 7MW WHRP alongside new expansion of 1.3mn tpa:** We expect this new plant to reduce fuel & power cost by ~5.67% having an additional impact of ~ PKR 1.05/sh in the earnings of FY17E.
- **Investment Risk:** Key risks to our investments thesis are 1) Price war, 2) Decline in PSDP, 3) Volatility in international oil prices and 4) Increase in discount rate.

**Ideal geodynamics to take advantage from..** Cherat cement limited enjoys benefit of its ideal geodynamics residing a few kilometers away from KPK near Pak– Afghan border in the upper north. The firm is taking direct advantage from the surging demand in north. We expect the market share of CHCC to surge to 4.9% once the expansion of 1.3mn tons is online in FY17E.

**Estimates revised on healthier growth prospects & change in PIB rates...** We revise our estimates on CHCC giving June'17 DCF based price target of PKR 170.72/sh, an upside of 23% from the LDCP of PKR 138.49/sh. Our revised investment case incorporates the impact of 1) higher volumetric growth post expansion of 1.3mn tons, 2) cost efficiencies achieved through 7MW WHRP and 3) change in the 10yr PIB rates.

**Noteworthy earnings potential post expansion..** Earnings of CHCC are anticipated to surge massively post expansion of the new line of 1.3mn tpa from mere PKR 7.96/sh in FY16A to PKR 15.22/sh in FY18E an upside of 91%. This upsurge is primarily projected due to key demand triggers i.e. Higher PSDP allocation, positive outlook in CPEC's continuation, better economic playfield and incorporation of the new plant of 1.3mn tons at line II. The management of the company is of the view that this expansion will commence operations before December, 2016 however we have kept our estimates from 3QFY17 being a bit conservative.

**Cost efficiencies via. 7MW WHRP alongside new expansion of 1.3mn tons/annum**  
The company has declared to get it's newly procured WHR of 7MW to commence operations alongside the new line by 3QFY17. We expect this new plant to reduce fuel & power cost by ~5.67% having an additional impact of ~PKR 1.05/sh in the earnings of FY17E.

## Investment Case

We revise our investment case on Cherat Cement (CHCC) with 'Buy' rating and a PT of PKR 170.72/sh, implying 23% upside potential from its closing price of Oct 6<sup>th</sup>, 2016. We have used discounted cash flow (Free Cash Flow to Firm) methodology to derive the intrinsic value of CHCC at PKR 170.72/sh. The stock offers a dividend yield of 2.3%. Following assumptions have been used to arrive at our price target:

- Terminal growth rate of 4%
- Risk free rate of 7.72% (PIB 10yr)
- Adjusted Beta of 1.18 (using 5yr)
- Market Risk Premium of 6%

FINANCIAL HIGHLIGHTS						
PKR MN	FY16A	FY17E	FY18E	FY19E	FY20E	FY21E
Sales	7,079	10,117	13,983	14,131	14,605	15,100
COGS	4,445	6,804	9,447	9,645	10,312	10,919
GP	2,634	3,313	4,536	4,486	4,292	4,181
EBIT	2,095	2,632	3,646	3,543	3,285	3,254
PBT	2,051	2,321	3,050	2,948	2,748	2,818
NP	1,405	1,947	2,689	2,606	2,416	2,473
EPS	7.96	11.02	15.22	14.75	13.68	14.00

Source: Company Accounts, Nael Research

**Chief Executive Officer**

<b>Ashraf Bava, CFA</b>	(92-21) 32461812-13	abava@naelcapital.com
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**Equity Sales**

<b>Muhammad Shakeel, Director Equity Sales</b>	(92-21) 32461819-22	shakeel@naelcapital.com
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<b>Nasir Muqet, Institutional Sales</b>	(92-21) 32461819-22	nmuqet@naelcapital.com
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<b>Irshad UI Haq Khan, Institutional Sales</b>	(92-21) 32461819-22	irshad@naelcapital.com
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**Research**

<b>Jawad Ameer Ali, Research Analyst</b>	(92-21) 32461812-13	jawad@naelcapital.com
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<b>Taha Rehman, Research Associate</b>	(92-21) 32461812-13	taha@naelcapital.com
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**Disclosure Related to Author**

\*\* The analyst mentioned on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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<b>Stock Recommendation</b>	<b>Return</b>
BUY	> 15%
HOLD	> -15% to < 15%
SELL	< -15%