

CHCC-FY19E Result Preview

- The board meeting of Cherat Cement (CHCC) is scheduled on Wednesday 7th Aug'19 to announce its financial result for FY19.
- We anticipate company to post a PAT of Rs1.79bn (EPS: Rs10.18) in FY19, versus PAT of Rs2.1bn (EPS: Rs12.07), down by 16% YoY. Along with the result, we expect company to announce a cash dividend of Rs 4/share.
- The top line of the company is expected to grow by 6% YoY to Rs15.2bn during FY19 against Rs14.38bn in the same period last year owing to higher volumetric sales on account of increased market share and better retention price, in our view.
- Gross margins likely to settle at 18.5% YoY in FY19 against 21.8% in SPLY. The contraction is attributable to rising input costs due to currency depreciation and power tariffs.
- Finance cost to escalate by 211% in FY19 against FY18 due to loans taken for expansion.
- However, for 4QFY19 company is likely to post a loss of 2.55/share on the back of (i) lower retention prices amid lower demand (ii) higher production cost (ii) uptick in finance cost as company opt debt for a new line and (iv) 50% tax reversal from previously booked tax benefit on account of budgetary changes.

Outlook

We have a "Neutral" stance at current trading levels.

<i>Income Statement (Rs in mn)</i>	4QFY19E	4QFY18A	YoY	FY19E	FY18A	YoY
Net sales	4,088	3,240	26%	15,249	14,388	6%
Cost of sales	(3,386)	(2,670)	27%	(12,430)	(11,249)	10%
Gross Profit	702	570	23%	2,819	3,139	-10%
Distribution expense	(102)	(88)	15%	(394)	(337)	17%
Administrative expense	(74)	(64)	15%	(294)	(245)	20%
Other operating expense	(42)	(27)	55%	(107)	(134)	-20%
Other income	30	26	18%	131	81	62%
Finance cost	(513)	(90)	470%	(1,109)	(357)	211%
Profit before taxation	1	326	-100%	1,048	2,147	-51%
Taxation	(452)	11	N/A	751	(15)	N/A
Profit after taxation	(451.0)	336.8	N/A	1,799	2,132	-16%
EPS	(2.55)	1.91		10.18	12.07	
DPS				4.00	5.00	
Gross Margins	17%	18%		18.5%	21.8%	

Source: Co.Financials, Darson Research

Important disclosures

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Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices.

Rating System:

If;

- **Expected return >15%** - Buy Call
- **Expected Return is in between 0% to 15%** - Neutral/Hold Call
- **Expected Return <0%** - Sell Call

Valuation Methodology

To arrive at our period end target prices, DSL uses different valuation methodologies including:

- Discounted cash flow (DCF, DDM)
- Justified price to book (JPB)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)

SECP JamaPunji Portal link: www.JamaPunji.pk

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