



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ CHCC: First Mover Advantage

In the backdrop of the recent correction, where the scrip lost 11%CYTD, we reiterate our liking for CHCC with our rolled forward Jun'18 TP of PkR198/sh (upside: 28%). Our recommendation is underpinned on the company's accelerated dispatches growth (up 70%YoY in Feb-May'17) along with improved market share (+55bps to 3.60%) post successful commissioning of its 1.3mn tpa expansion (achieved COD in Jan'17). Being the first plant to come online in the current expansion cycle, CHCC has a significant competitive edge over other manufacturers that are majorly operating above 90% utilization while the next capacity additions (LUCK & ACPL) are not expected to come online before end-CY17. In this regard, we estimate CHCC's incremental production (new capacity's FY17F/FY18F utilization assumption: 48%/60%) to result in 40%YoY/37%YoY growth in revenues to PkR9.88bn/PkR13.58bn in FY17F/FY18F. Likewise its market share is expected to reach 3.6%/4.2% in FY17F/FY18F from 2.7% in FY16. Consequently, we expect FY17F/FY18F EPS to rise by 54%YoY/26%YoY to PkR12.24/PkR15.45. Having lost 11%CYTD, CHCC currently trades at a relatively cheap FY18F/FY19F PE of 10.0x/8.7x (vs. AKD Cement Universe PE of 10.2x/9.1x) considering strong operational dynamics and potential re-rating on expansion led earnings growth going forward.

KSE100 - Index

Current 43,792.19
Previous 44,120.58
Chg. -0.74%

Mkt Cap. (PkRbn/US\$bn)

Current 9,035 / 85.79
Previous 9,056 / 85.99
Chg. -0.23%

Daily Turnover (mn)

Current 215.17
Previous 185.17
Chg. 16.2%

Value Traded (PkRmn/US\$m)

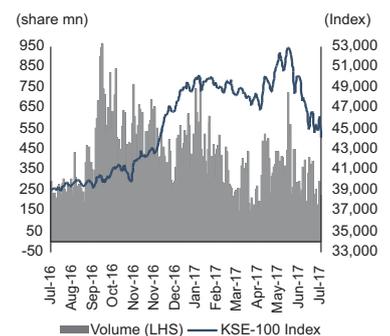
Current 12,604 / 119.67
Previous 9,898 / 93.98
Chg. 27.3%

AKD Daily

Thursday, Jul 13, 2017

News and Views

- Terming the JIT report self-contradictory, the ruling party PML N has decided that neither the prime minister would resign nor would the assemblies be dissolved.
- In its monthly report, OPEC has said that its oil production jumped in Jun'17 and it forecast world demand for its crude will decline next year as rivals pump more, pointing to a market surplus in 2018 despite an OPEC-led output cut. Oil prices dipped early on Thursday, where Brent and WTI crude futures were at \$47.64/bbl (-0.2%) and US\$45.37/bbl (-0.3%), respectively.
- The GoP has asked four investors intending to invest around US\$3bn in setting up auto assembling plants in the country, to furnish all the necessary documents in order to finalize the agreements by next week. Earlier in Jun'17, Mol&P allowed United Motors Private Limited, Kia-Lucky Motors Pakistan Limited, Regal Automobiles Industries Ltd, and Nishat Group to set up units for assembly and manufacturing of vehicles under the Greenfield investment category.



Wasqas Imdad Ali

waqas.imdad@akdsecurities.net

111-253-111 Ext: 637

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CHCC: First Mover Advantage

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Expansion showing its colours: CHCC's 1.3mn tpa cement Brownfield plant achieved COD in Jan'17, a month later its planned COD of Dec'16. Resolving its capacity constraints issue (utilization peaked 112% in 6MFY17), CHCC witnessed accelerated growth in dispatches (up 70%YoY in Feb-May'17) along with considerable improvement in market share (+55bps to 3.60%), post successful commissioning of its 1.3mn tpa expansion. Being the first of expansions in the current cycle, we believe that CHCC would reap the benefits of early expansion in the form of capturing market share as other major manufacturers are operating above 90% utilization while the next capacity (LUCK & ACPL) is not expected to be streamed online before end-CY17. Given CHCC's small size relative to that of industry, we expect it to easily be able to further ramp up its output. As a result, we anticipate revenues to rise by 40%YoY/37%YoY to PkR9.88bn/PkR13.58bn based on new plant's utilization assumption of 48%/60% in FY17F/FY18F taking CHCC's market share to 3.6%/4.2% from 2.7% in FY16. Consequently, we expect EPS to rise by 54%YoY/26%YoY to PkR12.24/PkR15.45 in FY17F/FY18F.

Continuous investment in enery efficient measures: Alongside the expansion, CHCC has also installed a new Waste Heat Recovery (WHR) plant at the current facility, taking CHCC's total WHR capacity to 13MW. This is estimated to fulfill ~42% of company's power requirement from

CHCC: EPS Forecast

Period	EPS(PkR)	Growth (YoY)
FY17E	12.24	53.8%
FY18F	15.45	26.2%
FY19F	17.78	15.1%
FY20F	20.64	16.0%

Source: Co. Reports & AKD Research

CHCC: Dispatches Growth

Period	Growth (YoY)
FY16	6.7%
1HFY17	22.0%
4MFY17 (Feb-May'17)	69.5%

Source: APCMA & AKD Research

CHCC: Capacity Utilization

Period	Capacity (mn tons)	Utilization
FY16	1.10	95%
1HFY17	1.10	110%
FY17F	2.43	61%
FY18F	2.43	78%
FY19F	2.43	83%
FY20F	2.43	89%

Source: APCMA & AKD Research



FY18F assuming 70% utilization helping the company maintain its gross margins at an average 36% in the next 3 yrs (vs. 33% in the previous 3yrs).

Another expansion on its way: In a bid to utilize the upcoming high growth period on account of CPEC led investments, the company has decided to install a third cement production line of 7,100 tpd (2.24mn tons) at its existing site in KPK. In this regard, the company has established LCs for the imported equipment and will be awarding contracts for local work soon. The project will be financed through a mix of debt-equity with the company expecting COD by Jun'19. While we have not accounted for CHCC's 2.24mn tpa line-III expansion in our estimates due to lack of project details and awaited financial close, this remains a key upside trigger.

Investment perspective: In the backdrop of the recent correction, where the scrip lost 11%CYTD, CHCC currently trades at relatively cheap FY18F/FY19F PE of 10.0x/8.7x vs. (vs. AKD Cement Universe PE of 10.2x/9.1x). Fundamentals also remain strong (3yr forward NPAT CAGR of 19%) based on strong operational dynamics where first-in-line capacity addition places it well to capture demand arising out of CPEC related infrastructure push. Our TP of PKR198/sh offers 28% upside. BUY!



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Neutral	≤ 5% to ≥ -5% potential
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Sell	≤ -20% downside potential



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