

CHCC has announced its 3QFY20 result where it posted loss after tax of Rs1.2bn (LPS: Rs6.11) in 9MFY20 as compared to profit after tax of Rs2.3bn (EPS: Rs11.58) in same period last year, down by 152.8% YoY.

Despite the economic contractionary phase and winter season, the company has posted the revenue of Rs13.5bn against Rs11.2bn in SPLY, recording a growth of 20.6% YoY.

Gross margin has been squeezed to 4.9% in 9MFY20 as compared to 19% in 9MFY19 due to rupee devaluation of around 17% during the period and decrease in retention prices. SG&A expenses have decreased by 4.1% YoY to Rs490mn in 9MFY20 as compared to Rs511mn during SPLY.

Lastly, decline in other income by 41.8% YoY, and increase in finance cost by 221.6% YoY caused the bottom-line to plunge.

Going forward, we expect the sales to remain sluggish during fourth quarter owing to COVID-19 crisis. However, the offtake is expected to improve from next fiscal year. CHCC is currently trading at a FY21E P/B of 1.71x which offers a discount of 3.2% relative to its historical 5-year average of 1.65x. We maintain our **BUY** stance on the script with a DCF based Jun-21 TP of Rs116 which provides an upside potential of 37%.

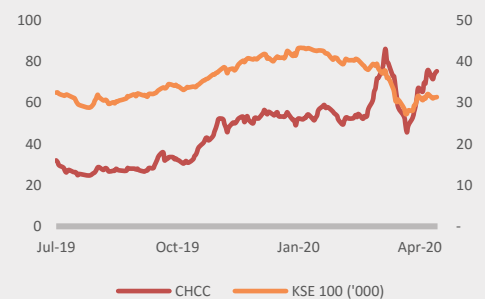
Rupees' millions	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	3,948	4,128	4.4% ▼	13,460	11,161	20.6% ▲
Cost of Sales	-3,941	-3,278	20.2% ▲	-12,796	-9,044	41.5% ▲
Gross Profit	7	850	99.2% ▼	664	2,117	68.6% ▼
SG&A Expenses	-163	-173	5.9% ▲	-490	-511	4.1% ▼
Other Expenses	-5	-20	77.2% ▲	-14	-64	78.1% ▼
Operating Profit	-161	657	124.5% ▼	160	1,542	89.6% ▼
Other Income	10	30	66.1% ▼	59	101	41.8% ▼
Finance Cost	-666	-368	80.7% ▲	-1,917	-596	221.6% ▲
Profit Before Taxation	-816	319	356.2% ▼	-1,699	1,047	262.3% ▼
Taxation	189	904	79.1% ▼	512	1,204	57.5% ▼
Profit After Taxation	-627	1,223	151.3% ▼	-1,187	2,250	152.8% ▼
Earnings Per Share	-3.23	6.29	151.3% ▼	-6.11	11.58	152.8% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	-	-		-	-	
Gross Margin	0.2%	20.6%	20.4% ▼	4.9%	19.0%	14.0% ▼
SG&A Expenses to Sales	-4.1%	-4.2%	0.1% ▼	-3.6%	-4.6%	0.9% ▼
Other Income to Sales	0.3%	0.7%	0.5% ▼	0.4%	0.9%	0.5% ▼
Ex. Gain / (Loss) to Sales	-4.1%	-4.2%	0.1% ▼	-3.6%	-4.6%	0.9% ▼
Effective Taxation	-23.2%	283.7%	260.5% ▼	-30.1%	115.0%	84.9% ▼
Net Margin	-15.9%	29.6%	45.5% ▼	-8.8%	20.2%	29.0% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	CHCC
TP - Jun 21	116.00
LDPC	84.38
Upside (%)	37.47
Free Float ('mn)	107
Market Cap. (Rs.'mn)	16,395

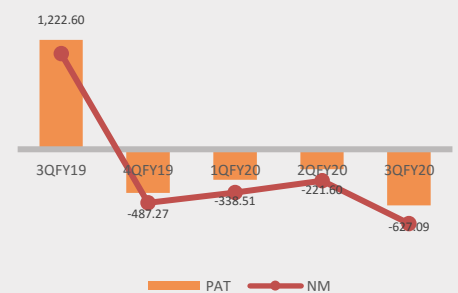
CHCC vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117
Email: fawad@abbasiandcompany.com

Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	6,565	7,079	9,645	14,388	15,863	14,658	16,994	19,444	22,155
Cost of sale	4,582	4,445	6,432	11,249	12,980	13,919	15,166	16,145	17,237
Gross profit	1,984	2,634	3,213	3,139	2,883	739	1,828	3,298	4,918
Selling and promotion expenses	206	234	280	337	396	299	347	397	452
Administration expenses	164	192	225	245	294	293	340	389	443
Other operating expenses	105	156	143	134	109	15	184	167	162
Operating Profit	1,508	2,052	2,565	2,423	2,083	132	958	2,346	3,860
Other operating income	201	43	133	81	107	73	85	97	111
Finance cost	38	44	188	357	1,143	2,079	1,892	1,706	1,483
Profit before taxation	1,671	2,051	2,510	2,147	1,048	- 1,873	- 849	738	2,489
Taxation	383	646	553	15	- 715	- 401	- 179	153	510
Profit after taxation	1,288	1,405	1,957	2,132	1,763	- 1,472	- 671	584	1,979
EPS	6.63	7.23	10.07	10.97	9.07	- 7.58	- 3.45	3.01	10.18

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	1.8%	7.8%	36.2%	49.2%	10.2%	-7.6%	15.9%	14.4%	13.9%
Cost of sale	5.4%	-3.0%	44.7%	74.9%	15.4%	7.2%	9.0%	6.5%	6.8%
Gross profit	-5.7%	32.8%	22.0%	-2.3%	-8.2%	-74.4%	147.4%	80.4%	49.1%
Selling and promotion expenses	9.2%	13.8%	19.5%	20.4%	17.6%	-24.6%	15.9%	14.4%	13.9%
Administration expenses	16.2%	17.0%	17.1%	9.0%	19.8%	-0.3%	15.9%	14.4%	13.9%
Other operating expenses	-20.7%	47.8%	-8.0%	-6.6%	-18.4%	-86.6%	1153.9%	-9.3%	-2.8%
Operating Profit	-8.0%	36.1%	25.0%	-5.5%	-14.0%	-93.7%	625.1%	144.9%	64.6%
Other operating income	162.5%	-78.4%	207.7%	-39.2%	31.7%	-31.4%	15.9%	14.4%	13.9%
Finance cost	31.7%	15.5%	330.6%	89.5%	220.4%	81.9%	-9.0%	-9.9%	-13.1%
Profit before taxation	-1.0%	22.8%	22.3%	-14.4%	-51.2%	-278.8%	54.7%	186.8%	237.4%
Taxation	3.1%	68.7%	-14.4%	-97.2%	-4789.1%	43.9%	55.5%	185.7%	233.0%
Profit after taxation	-2.1%	9.1%	39.2%	9.0%	-17.3%	-183.5%	54.5%	187.1%	238.6%
EPS	-2.1%	9.1%	39.2%	9.0%	-17.3%	-183.5%	54.5%	187.1%	238.6%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	30.21	37.21	33.31	21.82	18.18	5.04	10.76	16.96	22.20
NP Margin	%	19.62	19.85	20.28	14.82	11.11	-10.05	-3.95	3.01	8.93
OP Margin	%	22.97	28.98	26.59	16.84	13.13	0.90	5.64	12.06	17.42
ROE	%	16.05	15.37	18.70	19.08	14.99	-14.32	-6.98	5.73	16.45
ROCE	%	14.91	10.29	12.05	7.94	6.06	-5.18	-2.46	2.19	7.38
ROA	%	13.61	9.09	10.40	6.99	5.00	-10.56	-6.33	8.30	56.64
Cost per ton	'mn	4.81	4.14	4.47	4.42	5.39	5.28	5.48	5.48	5.50
EBITDA per ton	'mn	1.63	2.19	2.10	1.40	1.34	0.52	0.77	1.18	1.57
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	2.74	1.11	1.78	1.72	1.31	-3.31	-3.39	-3.33	-3.40
Acid-test	x	1.21	0.56	0.93	0.83	0.62	-3.55	-3.62	-3.54	-3.61
Cash to current liab.	x	0.02	0.01	0.02	0.01	0.00	-4.73	-4.71	-4.50	-4.52
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Average Inventory	'mn	417	384	574	799	1,011	1,397	1,594	1,716	1,829
Inventory Turnover	x	11	12	11	14	13	10	10	9	9
Inventory Days		33	32	33	26	28	37	38	39	39
Receivables Days		0	0	5	5	7	7	7	7	7
Payables Days		52	119	46	65	52	50	50	50	50
Operating Cycle		-19	-87	-9	-34	-17	-6	-4	-4	-4
Utilization	%	93	99	61	101	55	58	61	65	69
Export Revenue	%	29	21	13	12	14	27	28	29	30
Local Revenue	%	71	79	87	88	86	73	72	71	70
Export Market Share	%	6	6	6	10	14	26	29	32	35
Local Market Share	%	3	3	5	7	7	6	5	5	5
Total Market Share	%	3	3	4	5	5	5	5	5	5
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
EPS		6.63	7.23	10.07	10.97	9.07	-7.58	-3.45	3.01	10.18
DPS		3.00	3.25	4.50	5.00	1.00	0.00	0.00	0.75	3.00
Div. Yield	%	3.56	3.85	5.33	5.93	1.19	0.00	0.00	0.89	3.56
Dividend Cover		2.21	2.23	2.24	2.19	9.07	0.00	0.00	4.01	3.39
BVPS		41.31	47.04	53.84	57.51	60.51	52.93	49.48	52.48	61.92
Payout	%	45.25	44.94	44.69	45.56	11.02	0.00	0.00	24.94	29.46
Retention	%	54.75	55.06	55.31	54.44	88.98	100.00	100.00	75.06	70.54
No. of Shares	'mn	194.29	194.29	194.29	194.29	194.29	194.29	194.29	194.29	194.29
P/E		12.73	11.67	8.38	7.69	9.30	0.00	0.00	28.05	8.29
Sales per share		33.79	36.44	49.64	74.05	81.64	75.44	87.47	100.07	114.03
P/BV		2.04	1.79	1.57	1.47	1.39	1.59	1.71	1.61	1.36
Price to Sales		2.50	2.32	1.70	1.14	1.03	1.12	0.96	0.84	0.74
Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Debt to Equity	x	0.03	0.46	0.61	1.44	1.75	1.81	1.94	1.79	1.42
L.T. Debt to Equity	x	0.02	0.44	0.47	1.35	1.51	1.72	1.84	1.69	1.34
Interest Cover	x	39.84	46.94	13.63	6.79	1.82	0.06	0.51	1.38	2.60

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months.

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication.

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. 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

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com