

Cherat Cement Company Limited

Result Preview

PSX: CHCC Bloomberg: CHCC: PA Reuters: CHRC.PSX

Pakistan Research

CHCC: 3QFY24 EPS expected to clock in at PKR 7.27, up 11% YoY

- CHCC's board meeting is scheduled on 25th April 2024 to consider its 3QFY24 financial results. The company is expected to report an EPS of PKR 7.27 in 3QFY24 compared to an EPS of PKR 6.55 in 3QFY23, up 11% YoY.
- Increase in profitability can be attributed to higher cement prices along with lower coal prices despite decline in dispatches.
- The net sales are anticipated to decrease by 6% YoY to PKR 8.8bn in 3QFY24, primarily because of lower dispatches.
- Company's overall dispatches are expected to decline by 16.4% YoY mainly due to 20.4% drop in local sales. However, exports are anticipated to increase by 33.5% YoY during the 3QFY24.
- We believe local cement prices increased by 16.4% YoY in the Northern region, while exports prices are expected to improve by 19.7% YoY for the company in Rupee terms.
- Moreover, coal prices declined by 16.7% YoY in 3QFY24 due to ease in Int'l coal prices.
- Subsequently, we expect the gross margin to go up to 33%, exhibiting a 7.6ppt YoY increase.
- Selling & admin expenses are expected to increase by 3% YoY during 3QFY24 on account of higher exports and fuel prices.
- The company's finance cost is expected to surge by 19% YoY, due to high borrowing amid elevated interest rates.
- We have a 'BUY' recommendation on CHCC with a Dec-24 price target (PT) of PKR 215/share providing a potential upside of 30% and a dividend yield of 3%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	215
Current Price (PKR)	164
Upside/(Downside) (%)	+ 30%
Dividend Yield (%)	3%
Total Return (%)	33%
12-month High (PKR)	174
12-month Low (PKR)	111
Outstanding Shares (mn)	194.29
Market Cap (PKR mn)	31,959
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY22	3QFY23E	YoY	9MFY22	9MFY23E	YoY
Net Sales	9,299	8,765	-6%	28,756	29,056	1%
Cost of Sales	6,892	5,831	-15%	20,463	19,515	-5%
Gross Profit	2,407	2,934	22%	8,293	9,540	15%
Selling & Admin. Exp	277	285	3%	760	882	16%
Other Income	236	141	-40%	360	360	0%
Other Charges	105	153	45%	336	429	28%
Finance cost	415	495	19%	1,416	1,306	-8%
Profit before tax	1,846	2,141	16%	6,142	7,283	19%
Taxation	573	729	27%	1,831	2,441	33%
Net Income	1,272	1,412	11%	4,310	4,842	12%
EPS	6.55	7.27	11%	22.19	24.77	12%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY21A	FY22A	FY23A	FY24E	FY25F	FY25F
EPS	16.50	22.93	22.67	30.69	37.91	44.24
EPS Growth	-269%	39%	-1%	35%	24%	17%
DPS	2.25	3.00	4.50	3.50	7.50	9.00
PER	8.2	5.9	6.0	4.4	3.6	3.1
Dividend Yield	1.7%	2.2%	3.3%	2.6%	5.6%	6.7%
EV/EBITDA	5.6	4.2	3.5	2.8	2.2	1.8
P/B	1.9	1.5	1.3	1.0	0.8	0.7
ROE	23.6%	25.7%	21.1%	22.5%	22.7%	21.8%

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Cherat Cement Company Limited (CHCC) has been computed using Free cash flow to equity (FCFF) method. We have used a risk free rate of 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-24 PT of 215/share. Our price target provides an upside of 30% along with a dividend yield of 3%. Our investment case on CHCC is based on (1) ease in coal prices and (2) improved retention prices.

Risks

Key downside risks to our investments thesis are: (1) higher than anticipated increase in input cost (Coal, FO, Gas) (2) lower than anticipated growth in cement demand (3) lower than expected cement prices (4) lower than anticipated decline in interest rates.

Company Description

Cherat Cement Company Limited manufactures, markets, and sells Portland cement and clinker in Pakistan. The company sells its products under the Cherat brand name. Cherat Cement Company Limited also exports its products to Afghanistan. The company was incorporated in 1981 and is headquartered in Karachi, Pakistan.

Financial Highlights - CHCC

Income Statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net sales	25,207	32,085	37,386	39,205	39,841	44,440
Cost of sales	18,479	23,135	27,249	27,129	25,320	28,145
Gross Profit	6,728	8,951	10,137	12,076	14,521	16,295
SG & A	720	878	1,043	1,167	1,373	1,478
Operating Profit	6,008	8,072	9,094	10,909	13,148	14,817
Other income	105	390	454	472	468	466
Other charges	251	275	362	583	535	607
Finance cost	1,524	1,359	1,914	1,801	1,006	585
Profit before tax	4,337	6,829	7,272	8,997	12,075	14,092
Taxation	1,132	2,373	2,868	3,034	4,709	5,496
Profit after tax	3,205	4,456	4,404	5,963	7,366	8,596

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
PPE	25,591	27,568	28,935	30,628	33,710	37,123
Other LT assets	756	571	502	500	497	495
Non-Current Assets	26,347	28,140	29,437	31,127	34,207	37,618
Current assets	7,846	10,465	9,865	12,710	13,556	16,284
Total Assets	34,194	38,885	39,302	43,837	47,763	53,902
Non-Current liabilities	13,331	11,441	10,254	10,959	8,722	6,497
Current liabilities	7,273	9,847	8,169	6,362	6,582	8,063
Total Liabilities	20,604	21,289	18,423	17,320	15,304	14,560
Equity	13,590	17,316	20,879	26,517	32,459	39,342
Total Equity & liabilities	34,193	38,885	39,302	43,837	47,763	53,902

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	3,205	4,456	4,404	5,963	7,366	8,596
Non-cash Charges	1,667	1,617	1,602	1,730	1,918	2,126
Operating Cash flows	4,705	6,246	8,021	5,127	8,771	9,528
FCFF	3,880	3,538	6,212	2,897	4,385	4,345
Net borrowings	(2,982)	(936)	(5,178)	(337)	(1,470)	(838)
FCFE	(228)	1,716	(125)	1,367	2,301	3,150
Net change in cash	103	987	(966)	1,042	878	1,437
Closing cash	140	1,127	160	1,202	2,080	3,517

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Hold	Between -5% and +15%
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