

## 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 25<sup>th</sup> 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)						
	3QFY23	3QFY24E	YoY	9MFY23	9MFY24E	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%
<b>Gross Profit</b>	<b>2,407</b>	<b>2,934</b>	<b>22%</b>	<b>8,293</b>	<b>9,540</b>	<b>15%</b>
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	<b>1,846</b>	<b>2,141</b>	<b>16%</b>	<b>6,142</b>	<b>7,283</b>	<b>19%</b>
Taxation	573	729	27%	1,831	2,441	33%
<b>Net Income</b>	<b>1,272</b>	<b>1,412</b>	<b>11%</b>	<b>4,310</b>	<b>4,842</b>	<b>12%</b>
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
<b>Gross Profit</b>	<b>6,728</b>	<b>8,951</b>	<b>10,137</b>	<b>12,076</b>	<b>14,521</b>	<b>16,295</b>
SG & A	720	878	1,043	1,167	1,373	1,478
<b>Operating Profit</b>	<b>6,008</b>	<b>8,072</b>	<b>9,094</b>	<b>10,909</b>	<b>13,148</b>	<b>14,817</b>
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
<b>Profit before tax</b>	<b>4,337</b>	<b>6,829</b>	<b>7,272</b>	<b>8,997</b>	<b>12,075</b>	<b>14,092</b>
Taxation	1,132	2,373	2,868	3,034	4,709	5,496
<b>Profit after tax</b>	<b>3,205</b>	<b>4,456</b>	<b>4,404</b>	<b>5,963</b>	<b>7,366</b>	<b>8,596</b>

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
<b>Total Assets</b>	<b>34,194</b>	<b>38,885</b>	<b>39,302</b>	<b>43,837</b>	<b>47,763</b>	<b>53,902</b>
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
<b>Total Liabilities</b>	<b>20,604</b>	<b>21,289</b>	<b>18,423</b>	<b>17,320</b>	<b>15,304</b>	<b>14,560</b>
Equity	13,590	17,316	20,879	26,517	32,459	39,342
<b>Total Equity &amp; liabilities</b>	<b>34,193</b>	<b>38,885</b>	<b>39,302</b>	<b>43,837</b>	<b>47,763</b>	<b>53,902</b>

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
<b>Operating Cash flows</b>	<b>4,705</b>	<b>6,246</b>	<b>8,021</b>	<b>5,127</b>	<b>8,771</b>	<b>9,528</b>
<b>FCFF</b>	<b>3,880</b>	<b>3,538</b>	<b>6,212</b>	<b>2,897</b>	<b>4,385</b>	<b>4,345</b>
Net borrowings	(2,982)	(936)	(5,178)	(337)	(1,470)	(838)
<b>FCFE</b>	<b>(228)</b>	<b>1,716</b>	<b>(125)</b>	<b>1,367</b>	<b>2,301</b>	<b>3,150</b>
Net change in cash	103	987	(966)	1,042	878	1,437
<b>Closing cash</b>	<b>140</b>	<b>1,127</b>	<b>160</b>	<b>1,202</b>	<b>2,080</b>	<b>3,517</b>

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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