

Cherat Cement Company Limited

Result Review

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

Pakistan Research

1QFY23 EPS reported at PKR 7.63, up 24% YoY

- CHCC announced its 1QFY23 results today wherein the company reported net profit of PKR 1.48bn (EPS PKR 7.63), up 24% YoY, compared to net profit of PKR 1.19bn (EPS 6.14) in 1QFY22.
- Net revenue of the company stood at PKR 9.05bn, up 26% YoY in 1Q mainly supported by higher cement retention price of 64% YoY. This is despite decline in cement volumes by 18% YoY on account of flash flooding.
- CHCC's gross margin recorded at 32% in 1QFY23 vs 29% in 1QFY22. Higher margins were due to improved retention prices along with effective coal management.
- Finance cost of the company increased by 61% YoY to PKR 480mn during 1Q due to increase in the interest rates.
- The company effective tax rate clocked in at 30% vs 26% SPLY. Higher taxation is due to the recent amendments in Budget FY23.
- We have a 'BUY' recommendation on CHCC with our June-23 price target (PT) of PKR 160/share, providing an upside of 34%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	160
Current Price (PKR)	120
Upside/(Downside) (%)	+ 34%
Dividend Yield (%)	+0%
Total Return (%)	+ 34%
12-month High (PKR)	165
12-month Low (PKR)	75
Outstanding Shares (mn)	194
Market Cap (PKR mn)	20,498
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	1QFY22	1QFY23	YoY
Net Sales	7,161	9,050	26%
Cost of Sales	5,082	6,155	21%
Gross Profit	2,079	2,895	39%
Selling & Admin. Exp	197	236	20%
Other Income	156	55	-65%
Other Charges	134	103	-23%
Finance cost	299	480	61%
Profit before tax	1,607	2,131	33%
Taxation	414	648	57%
Net Income	1,193	1,483	24%
EPS	6.14	7.63	24%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	-9.74	16.50	22.93	18.96	19.68	47.61
EPS Growth	-207%	-269%	39%	-17%	4%	142%
DPS	0.00	2.25	3.00	0.00	0.00	5.00
PER	-12.6	7.5	5.4	6.5	6.2	2.6
Dividend Yield	0.0%	1.8%	2.4%	0.0%	0.0%	4.1%
EV/EBITDA	29.1	5.3	4.0	4.8	5.6	2.7
P/B	2.4	1.8	1.4	1.1	0.9	0.7
ROE	-18.8%	23.6%	25.7%	17.2%	15.2%	27.6%

Source: Company Accounts, Akseer Research

Altamash Hemani
altamash.hemani@alphacapital.com.pk

Valuation Basis

Our PT for Cherat Cement Company Limited (CHCC) has been computed using Free cash flow to Firm (FCFF) method. We have used a risk free rate of 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our June-23 PT of 160/share. Our price target provides an upside of 34%. Our investment case on CHCC is based on (1) upcoming expansion (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) higher than estimate decline in 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)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	17,090	25,207	32,085	37,386	31,301	49,571
Cost of sales	16,704	18,479	23,135	29,748	23,788	33,457
Gross Profit	386	6,728	8,951	7,639	7,514	16,114
SG & A	634	720	878	993	1,046	1,188
Operating Profit	(247)	6,008	8,072	6,646	6,467	14,926
Other income	71	105	390	1,104	1,448	1,469
Other charges	19	251	275	355	371	800
Finance cost	2,527	1,524	1,359	1,897	1,837	1,790
Profit before tax	(2,723)	4,337	6,829	5,497	5,707	13,806
Taxation	(830)	1,132	2,373	1,814	1,883	4,556
Profit after tax	(1,893)	3,205	4,456	3,683	3,824	9,250

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	25,307	25,591	27,568	35,081	50,226	52,296
Other LT assets	930	756	571	819	855	892
Non-Current Assets	26,237	26,347	28,140	35,900	51,081	53,188
Current assets	6,685	7,846	10,465	17,787	20,832	25,849
Total Assets	32,922	34,194	38,840	53,686	71,913	79,038
Non-Current liabilities	16,980	13,331	11,441	24,930	31,657	26,324
Current liabilities	5,888	7,273	9,847	7,401	15,044	19,190
Total Liabilities	22,868	20,604	21,289	32,331	46,701	45,513
Equity	10,054	13,590	17,316	21,355	25,211	33,524
Total Equity & liabilities	32,922	34,194	38,840	53,686	71,913	79,038

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(1,893)	3,205	4,456	3,683	3,824	9,250
Non-cash Charges	1,754	1,667	1,617	2,221	3,087	3,334
Operating Cash flows	539	4,705	6,246	5,306	7,805	9,628
FCFF	2,125	3,880	3,538	(3,156)	(9,197)	5,424
Net borrowings	(552)	(2,982)	(936)	10,972	15,164	(2,564)
FCFE	(183)	(228)	1,716	6,546	4,736	1,661
Net change in cash	7	103	987	6,901	4,769	723
Closing cash	37	140	1,127	8,028	12,797	13,520

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" 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, the JV and/or any of their 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 professionals 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 the JV 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 particular 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 the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. 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 the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

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.

Ratings Criteria

JV employs a three- tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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

The JV endeavours 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.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) 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.

Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.net