

## Cherat Cement Company Limited

### Result Review

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

Pakistan Research

## CHCC: 3QFY23 EPS reported at PKR 6.55, up 19% YoY; DPS PKR 1.50

- CHCC announced its 3QFY23 financial results on 27<sup>th</sup> April 2023, wherein the company posted an EPS of PKR 6.55, up 19% YoY, compared to an of EPS 5.48 in 3QFY22. This takes cumulative 9MFY23 EPS to PKR 22.19, up 25% YoY. Along with the result, CHCC announced an interim dividend of PKR 1.50 for the quarter under review
- Net revenue of the company stood at PKR 9.3bn, up 19% YoY in 3Q mainly supported by 44% YoY higher cement retention prices.
- CHCC's gross margin clocked in at 26% in 3QFY23 vs 27% in 3QFY22. Lower margins were due to recent spike in Afghan coal prices.
- Finance cost of the company increased by 36% YoY to PKR 415mn during 3Q due to upward revision in interest rates.
- On sequential basis, company's earnings declined by 18% QoQ, primarily due to 11% QoQ volumetric decline in local dispatches.
- We have a 'BUY' recommendation on CHCC with our Dec-23 price target (PT) of PKR 150/share, providing an upside of 29% along with a dividend yield of 3%.

#### Key Data

PSX Ticker	CHCC
Target Price (PKR)	150
Current Price (PKR)	106
Upside/(Downside) (%)	+ 29%
Dividend Yield (%)	+3%
Total Return (%)	+ 33%
12-month High (PKR)	151
12-month Low (PKR)	75
Outstanding Shares (mn)	194
Market Cap (PKR mn)	20,523
Year End	June

Source: Company Accounts, Akseer Research

#### Financial Highlights (PKR mn)

	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Net Sales	7,803	9,299	19%	22,581	28,756	27%
Cost of Sales	5,723	6,892	20%	16,344	20,463	25%
<b>Gross Profit</b>	<b>2,080</b>	<b>2,407</b>	<b>16%</b>	<b>6,238</b>	<b>8,293</b>	<b>33%</b>
Selling & Admin. Exp	221	277	25%	631	760	20%
Other Income	15	236	1462%	304	360	19%
Other Charges	94	105	12%	299	336	12%
Finance cost	305	415	36%	905	1,416	56%
Profit before tax	<b>1,475</b>	<b>1,846</b>	<b>25%</b>	<b>4,706</b>	<b>6,142</b>	<b>31%</b>
Taxation	410	573	40%	1,271	1,831	44%
<b>Net Income</b>	<b>1,065</b>	<b>1,272</b>	<b>19%</b>	<b>3,435</b>	<b>4,310</b>	<b>25%</b>
EPS	5.5	6.6	-	17.7	22.2	-
DPS	-	1.50	-	-	1.50	-

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	-9.7	16.5	22.9	27.7	11.0	36.8
EPS Growth	-207%	-269%	39%	21%	-60%	233%
DPS	0.0	2.3	3.0	3.0	1.0	3.5
PER	-11.6	6.8	4.9	4.1	10.2	3.1
Dividend Yield	0%	2%	3%	3%	1%	3%
EV/EBITDA	27.8	5.1	3.8	3.0	6.4	2.9
P/B	2.2	1.6	1.3	1.0	0.9	0.7
ROE	-19%	24%	26%	24%	9%	23%

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 Firm (FCFF) method. We have used a risk free rate of 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-23 PT of 150/share. Our price target provides an upside of 29% along with a dividend yield of 3%. Our investment case on CHCC is based on (1) upcoming expansion 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) 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	38,539	30,036	46,285
Cost of sales	16,704	18,479	23,135	27,708	24,316	33,123
<b>Gross Profit</b>	<b>386</b>	<b>6,728</b>	<b>8,951</b>	<b>10,831</b>	<b>5,720</b>	<b>13,163</b>
SG & A	634	720	878	985	1,043	1,178
<b>Operating Profit</b>	<b>(247)</b>	<b>6,008</b>	<b>8,072</b>	<b>9,846</b>	<b>4,678</b>	<b>11,984</b>
Other income	71	105	390	492	457	432
Other charges	19	251	275	488	240	636
Finance cost	2,527	1,524	1,359	1,815	1,690	1,110
<b>Profit before tax</b>	<b>(2,723)</b>	<b>4,337</b>	<b>6,829</b>	<b>8,035</b>	<b>3,204</b>	<b>10,671</b>
Taxation	(830)	1,132	2,373	2,651	1,057	3,521
<b>Profit after tax</b>	<b>(1,893)</b>	<b>3,205</b>	<b>4,456</b>	<b>5,383</b>	<b>2,147</b>	<b>7,150</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	25,307	25,591	27,568	29,519	46,998	45,242
Other LT assets	930	756	571	819	855	892
Non-Current Assets	26,237	26,347	28,140	30,338	47,852	46,134
Current assets	6,685	7,846	10,465	12,093	7,933	12,009
<b>Total Assets</b>	<b>32,922</b>	<b>34,194</b>	<b>38,885</b>	<b>42,431</b>	<b>55,786</b>	<b>58,143</b>
Non-Current liabilities	16,980	13,331	11,441	11,692	9,013	6,330
Current liabilities	5,888	7,273	9,847	8,266	22,315	20,852
<b>Total Liabilities</b>	<b>22,868</b>	<b>20,604</b>	<b>21,289</b>	<b>19,958</b>	<b>31,328</b>	<b>27,182</b>
Equity	10,054	13,590	17,316	22,472	24,457	30,961
<b>Total Equity &amp; liabilities</b>	<b>32,922</b>	<b>34,193</b>	<b>38,885</b>	<b>42,431</b>	<b>55,786</b>	<b>58,143</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(1,893)	3,205	4,456	5,383	2,147	7,150
Non-cash Charges	1,754	1,667	1,617	1,931	2,897	2,940
<b>Operating Cash flows</b>	<b>539</b>	<b>4,705</b>	<b>6,246</b>	<b>5,735</b>	<b>7,226</b>	<b>7,382</b>
<b>FCFF</b>	<b>2,125</b>	<b>3,880</b>	<b>3,538</b>	<b>3,069</b>	<b>(12,017)</b>	<b>6,942</b>
Net borrowings	(552)	(2,982)	(936)	(1,062)	11,818	(5,278)
<b>FCFE</b>	<b>(183)</b>	<b>(228)</b>	<b>1,716</b>	<b>791</b>	<b>(1,332)</b>	<b>921</b>
Net change in cash	7	103	987	564	(1,493)	275
<b>Closing cash</b>	<b>37</b>	<b>140</b>	<b>1,127</b>	<b>1,691</b>	<b>197</b>	<b>472</b>

Source: Company Accounts, Akseer Research

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