

Cherat Cement Company Limited
Result Review

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

Pakistan Research

CHCC: 4QFY22 EPS reported at PKR 5.25, up 4% YoY; DPS PKR 3.00

- CHCC announced its 4QFY22 results today wherein the company reported net profit of PKR 1.02bn (EPS PKR 5.25), up 4% YoY, compared to net profit of PKR 0.98bn (EPS 5.06) in 4QFY21. This accumulates FY22 EPS to PKR 22.93 compared to an EPS of PKR 16.50 in FY21, up 39% YoY. The result is also accompanied with a final cash dividend of PKR 3.00/share. The result was higher than our expectation due to lower than anticipated cost of sales.
- Net revenue of the company stood at PKR 9.5bn, up 40% YoY in 4Q mainly supported by higher cement retention price of 60% YoY. This is despite decline in cement volumes by 13% YoY.
- CHCC's gross margin recorded at 29% in 4QFY22 vs 28% in 4QFY21. Higher margins were due to improved retention prices along with effective coal management.
- Finance cost of the company increased by 42% YoY to PKR 454mn during 4Q due to increase in the interest rates.
- Despite a 59% YoY increase in PBT, company's bottom-line growth was limited to 4% in 4Q. This was due to the new taxes imposed by the government in the FY23 budget taking effective tax rate to 52% in 4Q.
- We have a 'BUY' recommendation on CHCC with our Dec-22 price target (PT) of PKR 160/share, providing an upside of 52%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	160
Current Price (PKR)	106
Upside/(Downside) (%)	+ 52%
Dividend Yield (%)	+0%
Total Return (%)	+ 52%
12-month High (PKR)	180
12-month Low (PKR)	76
Outstanding Shares (mn)	194
Market Cap (PKR mn)	20,498
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	6,786	9,504	40%	25,207	32,085	27%
Cost of Sales	4,903	6,791	39%	18,479	23,135	25%
Gross Profit	1,883	2,713	44%	6,728	8,951	33%
Selling & Admin. Exp	191	247	29%	720	878	22%
Other Income	40	87	117%	105	390	272%
Other Charges	82	(23)	-128%	251	275	10%
Finance cost	319	454	42%	1,524	1,359	-11%
Profit before tax	1,331	2,123	59%	4,337	6,829	57%
Taxation	349	1,102	216%	1,132	2,373	110%
Net Income	983	1,021	4%	3,205	4,456	39%
EPS	5.06	5.25	4%	16.50	22.93	39%
DPS	1.25	3.00		2.25	3.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
EPS	9.07	-9.74	16.50	22.93	14.12	11.59
EPS Growth	-25%	-207%	-269%	39%	-38%	-18%
DPS	1.00	0.00	2.25	3.00	-	-
PER	11.6	-10.8	6.4	4.6	7.5	9.1
Dividend Yield	0.9%	0.0%	2.1%	2.8%	-	-
EV/EBITDA	11.5	26.9	4.9	3.8	5.7	8.7
P/B	1.7	2.0	1.5	1.1	1.0	0.9
ROE	15.0%	-18.8%	23.6%	24.9%	13.7%	10.1%

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 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 Dec-22 PT of 160/share. Our price target provides an upside of 52%. 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) – Consolidated						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
Net sales	15,863	17,090	25,207	32,085	33,809	29,308
Cost of sales	12,980	16,704	18,479	23,135	27,152	23,344
Gross Profit	2,883	386	6,728	8,951	6,656	5,963
SG & A	690	634	720	878	889	971
Operating Profit	2,193	(247)	6,008	8,072	5,767	4,992
Other income	107	71	105	390	442	398
Other charges	109	19	251	275	244	208
Finance cost	1,143	2,527	1,524	1,359	1,870	1,820
Profit before tax	1,048	(2,723)	4,337	6,829	4,095	3,361
Taxation	(715)	(830)	1,132	2,373	1,351	1,109
Profit after tax	1,763	(1,893)	3,205	4,456	2,744	2,252

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	26,891	25,307	25,591	30,275	39,132	57,523
Other LT assets	296	930	756	786	819	855
Non-Current Assets	27,186	26,237	26,347	31,061	39,951	58,377
Current assets	8,093	6,685	7,846	8,142	12,456	11,583
Total Assets	35,280	32,922	34,194	39,203	52,407	69,961
Non-Current liabilities	17,328	16,980	13,331	15,202	25,372	32,121
Current liabilities	6,196	5,888	7,273	6,124	6,962	15,479
Total Liabilities	23,524	22,868	20,604	21,327	32,334	47,600
Equity	11,756	10,054	13,590	17,876	20,073	22,361
Total Equity & liabilities	35,280	32,922	34,193	39,203	52,407	69,961

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	1,763	(1,893)	3,205	4,456	2,744	2,252
Non-cash Charges	1,394	1,754	1,667	1,984	1,984	1,984
Operating Cash flows	1,103	539	4,705	7,685	3,506	4,096
FCFF	(1,454)	2,125	3,880	1,903	(6,081)	(15,059)
Net borrowings	4,539	(552)	(2,982)	(63)	10,026	15,131
FCFE	1,163	(183)	(228)	953	2,693	(1,147)
Net change in cash	(18)	7	103	784	2,145	(1,110)
Closing cash	30	37	140	924	3,069	1,959

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%
Sell	Less than or equal to -5%

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