

Cherat Cement Company Limited

Result Preview

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

Pakistan Research

CHCC: 3QFY23 EPS to clock in at PKR 6.20, up 13% YoY

- CHCC is scheduled to announce its 3QFY23 financial result on 27th April 2023, wherein we expect the company to report an EPS of PKR 6.20 for 3QFY23 compared to an EPS of PKR 5.48 in 3QFY22, up 13% YoY. This will take 9MFY23 EPS to PKR 21.84, up 23%.
- Net sales are anticipated to increase by 18% YoY to PKR 9.2bn during 3QFY23 on account of improved retention prices (up 43% YoY). This is despite a decline in overall dispatches by 17% YoY due to weak industry volumes.
- We anticipate gross margin to remain stagnant and settle at 28% in 3Q. This is largely due to the steep increase in retention prices of cement bag.
- Finance cost of the company is expected to grow by 83% YoY to PKR 557mn in 3QFY23 led by higher interest rate during the quarter.
- We have a 'BUY' recommendation on CHCC with a Dec-23 price target (PT) of PKR 150/share providing a potential upside of 33% along with a dividend yield of 2.7%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	150
Current Price (PKR)	113
Upside/(Downside) (%)	+ 33%
Dividend Yield (%)	+2.7%
Total Return (%)	+ 36%
12-month High (PKR)	143.48
12-month Low (PKR)	74.55
Outstanding Shares (mn)	194.29
Market Cap (PKR mn)	21,918
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY22	3QFY23E	YoY	9MFY22	9MFY23E	YoY
Net Sales	7,803	9,216	18%	22,581	28,673	27%
Cost of Sales	5,723	6,599	15%	16,344	20,170	23%
Gross Profit	2,080	2,616	26%	6,238	8,503	36%
Selling & Admin. Exp	221	232	5%	631	715	13%
Other Income	15	57	274%	304	181	-40%
Other Charges	94	113	21%	299	344	15%
Finance cost	305	557	83%	905	1,558	72%
Profit before tax	1,475	1,771	20%	4,706	6,067	29%
Taxation	410	567	38%	1,271	1,824	44%
Net Income	1,065	1,204	13%	3,435	4,243	23%
EPS	5.48	6.20	-	17.68	21.84	-

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY20A	FY22A	FY23F	FY24F	FY25F
EPS	-9.74	16.50	22.93	27.71	11.05	36.84
EPS Growth	-207%	-	39%	21%	-60%	233%
DPS	-	2.25	3.00	3.00	1.00	3.50
PER	-	6.8	4.9	4.1	10.2	3.1
Dividend Yield	-	2.0%	2.7%	2.7%	0.9%	3.1%
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	-	23.6%	25.7%	24.0%	8.8%	23.1%

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 equity (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 33% along with a dividend yield of 2.7%. 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	FY20A	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
Gross Profit	386	6,728	8,951	10,831	5,720	13,163
SG & A	634	720	878	985	1,043	1,178
Operating Profit	(247)	6,008	8,072	9,846	4,678	11,984
Other income	71	105	390	492	457	444
Other charges	19	251	275	488	240	636
Finance cost	2,527	1,524	1,359	1,815	1,690	1,110
Profit before tax	(2,723)	4,337	6,829	8,035	3,204	10,682
Taxation	(830)	1,132	2,373	2,651	1,057	3,525
Profit after tax	(1,893)	3,205	4,456	5,383	2,147	7,157

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY20A	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	12,016
Total Assets	32,922	34,194	38,885	42,431	55,786	58,150
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
Total Liabilities	22,868	20,604	21,289	19,958	31,328	27,182
Equity	10,054	13,590	17,316	22,472	24,457	30,968
Total Equity & liabilities	32,922	34,193	38,885	42,431	55,786	58,150

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY20A	FY22A	FY23F	FY24F	FY25F
Net Income	(1,893)	3,205	4,456	5,383	2,147	7,157
Non-cash Charges	1,754	1,667	1,617	1,931	2,897	2,940
Operating Cash flows	539	4,705	6,246	5,735	7,226	7,853
FCFF	2,125	3,880	3,538	3,069	(12,017)	7,412
Net borrowings	(552)	(2,982)	(936)	(1,062)	11,818	(5,278)
FCFE	(183)	(228)	1,716	791	(1,332)	1,391
Net change in cash	7	103	987	564	(1,493)	745
Closing cash	37	140	1,127	1,691	197	942

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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