Result Preview | Pakistan Research

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CHCC: 4QFY26 EPS expected to clock in at PKR 10.90, up 15% YoY

Cherat Cement Company Limited PSX: CHCC | Bloomberg: CHCC PA | Reuters: CHRC.PSX

- CHCC is expected to announce its 4QFY26 results, wherein we expect the company to report an EPS of PKR 10.90, up 15% YoY, taking FY26 EPS to PKR 39.30 (down 12% YoY). We expect the company to also declare a final dividend of PKR 4/share for 4QFY26, bringing cumulative dividend for FY26 to PKR 5.5/share.
- Net sales for 4QFY26 are expected to clock in at PKR 8.8bn, down 9% YoY, primarily due to the Afghan border closure, given CHCC's high exposure to Afghanistan among peers, with exports accounting for 20% of total dispatches in 4QFY25. Despite a 2% YoY increase in domestic dispatches, total dispatches fell 18% YoY as the export decline more than offset domestic growth, driving the net sales decline.
- We expect 4QFY26 gross margins to clock in at 37%, up 4ppts YoY, primarily driven by presence of low-cost coal inventory supported by a likely ~6% YoY increase in net retention, leading to margin expansion. Consequently, gross profit/ton is expected to rise 27% YoY to PKR 6,230/ton in 4QFY26 (from PKR 4,923/ton SPLY).
- Finance cost is projected at PKR 72mn, down 16% YoY, led by a 54% YoY fall in interest-bearing debt to PKR 2.5bn in 4QFY26 (from PKR 5.5bn SPLY).
- The company is expected to report a one-off deferred tax adjustment due to a likely revaluation of deferred tax liabilities at lower tax rate following a reduction in super tax rate to 8% in FY27 budget. We expect company to post an Effective Tax Rate (ETR) of 29% in 4QFY26 (compared to 39% SPLY). Normalizing earnings for the quarter at an ETR of 39%, EPS is estimated to clock in at PKR 9.38/share, down 1% YoY.
- On a sequential basis, earnings are expected to grow 51% QoQ, primarily due to a 13% QoQ increase in revenue supported by 5%/7% QoQ increase in dispatches and net retention respectively. The presence of low-cost coal inventory is further expected to expand gross margins by 6% QoQ. Normalizing the earnings an ETR of 39%, earnings are expected to increase 30% QoQ.

Key Data	
PSX Ticker	CHCC
Target Price (PKR)	431
Current Price (PKR)	310
Upside/(Downside) (%)	39%
Dividend Yield (%)	3%
Total Return (%)	42%
12-month High (PKR)	390
12-month Low (PKR)	225
Outstanding Shares (mn)	194
Market Cap (PKR mn)	60,426

Source: PSX, Akseer Research

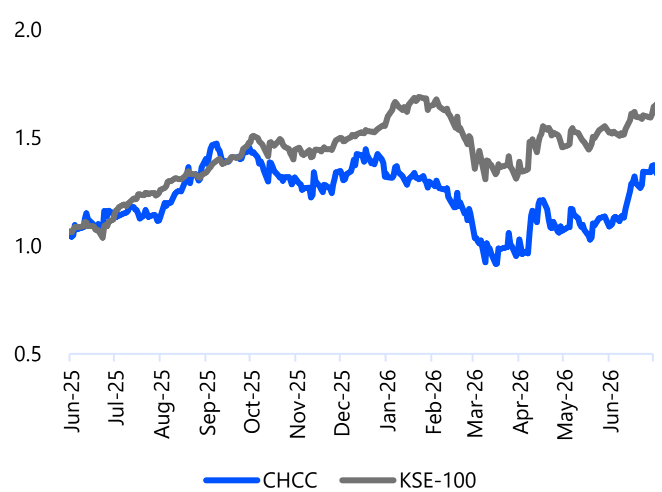
Financial estimates (PKR Mn)	4QFY25	4QFY26E	YoY	FY25	FY26E	YoY
Sales	9,739	8,874	-9%	37,811	36,464	-4%
Cost of Sales	6,569	5,594	-15%	23,841	23,582	-1%
Gross Profit	**3,170**	**3,280**	**3%**	**13,970**	**12,883**	**-8%**
General and Admin	157	171	9%	596	669	12%
Selling and Distribution	241	243	1%	854	903	6%
Other Operating Expenses	122	201	64%	629	722	15%
Other Income	450	404	-10%	1,588	1,664	5%
Finance Cost	86	72	-16%	592	350	-41%
Profit Before Tax	**3,015**	**2,997**	**-1%**	**12,887**	**11,902**	**-8%**
Taxation- Without DTL Adjustment	1,167	1,169	0%	4,206	4,642	10%
Net Income – Without DTL	**1,848**	**1,828**	**-1%**	**8,681**	**7,260**	**-16%**
EPS (PKR) – Without DTL adjustment	**9.51**	**9.38**	**-1%**	**44.68**	**37.78**	**-16%**
Taxation- With DTL Adjustment	1,167	879	-25%	4,206	4,266	1%
Net income- With DTL	**1,848**	**2,118**	**15%**	**8,681**	**7,634**	**-12%**
EPS (PKR)	**9.51**	**10.90**	**15%**	**44.68**	**39.30**	**-12%**
DPS (PKR)	4.50	4.00	-11%	5.50	5.50	0%

Source: Company Accounts, Akseer Research

Key Financial Ratios	FY24A	FY25A	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F
EPS (PKR)	28.3	44.7	39.3	45.9	51.7	61.4	71.6	82.3
EPS Growth	24.9%	57.8%	-12.0%	16.8%	12.7%	18.8%	16.6%	14.8%
DPS (PKR)	5.5	5.5	5.5	7.9	8.9	10.6	12.3	14.1
BVPS (PKR)	131.5	171.4	200.1	238.2	281.0	331.9	391.2	459.3
PER	10.9	6.9	7.9	6.7	6.0	5.0	4.3	3.8
Dividend Yield	1.8%	1.8%	1.8%	2.5%	2.9%	3.4%	4.0%	4.6%
P/B	2.4	1.8	1.5	1.3	1.1	0.9	0.8	0.7
ROE	23.7%	29.5%	21.2%	21.0%	19.9%	20.1%	19.8%	19.3%

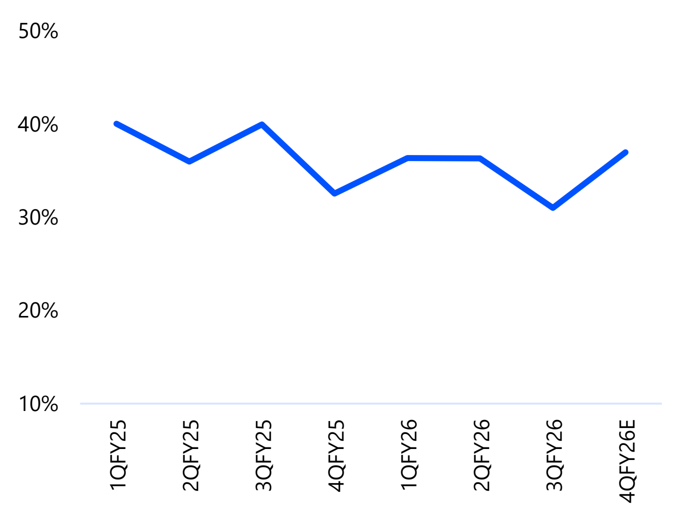
Source: Company Accounts, Akseer Research

Relative Price Performance of CHCC



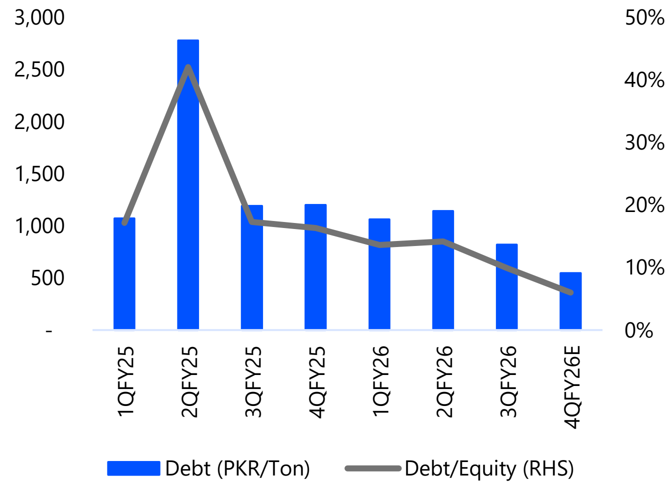
Source: PSX, Akseer Research

Stabilizing Gross Margins



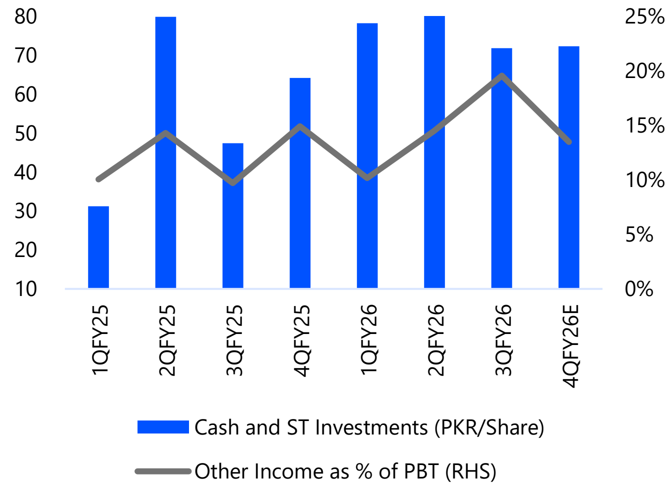
Source: Company Accounts, Akseer Research

Declining leverage ...



Source: Company Accounts, Akseer Research

... And Increasing Cash and Cash Equivalents Supporting Earnings



Source: Company Accounts, Akseer Research

Valuation Basis

Our PT for Cherat Cement Company Limited (CHCC) has been computed using the Free Cash Flow to Firm (FCFF) method. We have used a risk-free rate of 11.7%, a beta of 1.2, a market risk premium of 6%,7 and cost of debt of 15.5% to arrive at WACC of 16.1%.

Investment Thesis

We have rolled forward our PT for CHCC to June-27 with a target of PKR 431/share and maintain a 'Buy' recommendation. Our investment case is based on (1) increased reliance on local coal alongside expansion of solar capacity to 27.4MW to help contain energy costs, (2) a strong financial position characterized by minimal leverage and ample liquidity, providing support to bottom line, and (3) an attractive valuation with the stock currently trading at an EV/Ton of USD 39/ton, representing a 16% discount to our universe average of USD 47/ton.

Risks

Key downside risks to our investment thesis include (1) continued closure of Afghan border to disrupt local coal prices and cause pressure on exports, suppressing earnings and (2) rising transport costs to render imported coal expensive.

Company Description

Cherat Cement Company Limited (CHCC) is a Pakistani based cement manufacturer, producing ordinary Portland and various other types of cement. The plant is located in Cherat, Nowshera, Khyber Pakhtunkhuwa and has an annual cement production capacity of 4.5mn tons.

Financial Highlights – CHCC

Income Statement (PKR Mn)	FY24A	FY25A	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F
Net Sales	38,434	37,811	36,464	43,315	48,639	56,219	64,399	72,964
Cost of Sales	26,593	23,841	23,582	27,766	31,684	36,660	42,211	48,170
Gross Profit	**11,840**	**13,970**	**12,883**	**15,549**	**16,956**	**19,558**	**22,188**	**24,794**
Other Expenses	1,725	2,079	2,294	2,758	3,023	3,427	3,850	4,284
Operating Profit (EBIT)	**10,116**	**11,890**	**10,589**	**12,792**	**13,933**	**16,131**	**18,338**	**20,511**
Other Income	493	1,588	1,664	1,616	2,228	2,982	3,877	4,940
Finance Cost	1,381	592	350	247	206	164	122	81
Profit before tax (PBT)	**9,228**	**12,887**	**11,902**	**14,161**	**15,956**	**18,949**	**22,092**	**25,370**
Taxation/Levies	3,728	4,206	4,266	5,239	5,904	7,011	8,174	9,387
Profit after tax (PAT)	**5,500**	**8,681**	**7,636**	**8,921**	**10,052**	**11,938**	**13,918**	**15,983**
EPS (PKR)	**28.31**	**44.68**	**39.30**	**45.92**	**51.74**	**61.44**	**71.63**	**82.26**
DPS (PKR)	5.50	5.50	5.50	7.90	8.90	10.57	12.32	14.15

Source: Company Accounts, Akseer Research

Balance Sheet (PKR Mn)	FY24A	FY25A	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F
PPE	28,286	28,034	27,292	27,897	28,321	28,768	29,239	29,735
Other LT assets	1,247	1,165	865	797	730	662	594	526
Non-current assets	29,533	29,199	28,157	28,694	29,051	29,430	29,833	30,261
Current assets	11,501	21,355	22,861	29,708	37,650	47,221	58,457	71,413
Total assets	**41,034**	**50,554**	**51,018**	**58,403**	**66,701**	**76,651**	**88,290**	**101,674**
Non-current liabilities	8,134	8,477	8,131	7,770	7,409	7,048	6,687	6,325
Current liabilities	7,358	8,769	4,003	4,361	4,697	5,124	5,599	6,110
Total liabilities	**15,491**	**17,246**	**12,134**	**12,131**	**12,106**	**12,171**	**12,286**	**12,435**
Equity	25,543	33,308	38,884	46,271	54,595	64,480	76,004	89,239
Total equity & liabilities	**41,034**	**50,554**	**51,018**	**58,403**	**66,701**	**76,651**	**88,290**	**101,674**

Source: Company Accounts, Akseer Research

Cash Flow Statement (PKR Mn)	FY24A	FY25A	FY26E	FY27F	FY28F	FY29F	FY30F	FY31F
Net Operating Profit After Tax	6,029	8,010	6,459	8,059	8,778	10,163	11,553	12,922
Non-Cash Charges	1,812	1,789	1,816	2,057	2,164	2,276	2,395	2,520
Operating Cash Flows	12,046	11,192	7,384	9,816	11,163	12,851	14,801	16,887
FCFF	**10,668**	**9,065**	**5,433**	**6,360**	**7,369**	**8,421**	**9,638**	**10,877**
Net Borrowings	(6,511)	696	(2,969)	(361)	(361)	(361)	(361)	(361)
FCFE	**3,334**	**9,363**	**2,251**	**5,844**	**6,878**	**7,956**	**9,200**	**10,465**
Closing Cash	**430**	**673**	**869**	**6,197**	**12,750**	**20,532**	**29,780**	**40,609**

Source: Company Accounts, Akseer Research

Disclaimer

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.

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