

**Cherat Cement Company Limited**  
Result Review

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

Pakistan Research

**CHCC: 2QFY24 EPS reported at PKR 9.62, up 20% YoY; DPS PKR 1.50**

- CHCC announced its 2QFY24 financial results today, wherein the company posted an EPS of PKR 9.62, up 20% YoY, compared to an EPS of 8.01 in 2QFY23. This took cumulative 1HFY24 EPS to PKR 17.51, up 12% YoY. Along with the result, CHCC announced an interim cash dividend of PKR 1.50 for the quarter under review.
- Net revenue for 2QFY24 clocked in at PKR 10.2bn, down 2% YoY, primarily attributable to a 15% YoY decline in dispatches on the back of a slowdown in construction activities. To note, on a sequential basis, earnings increased by 22% QoQ due to elevated retention prices.
- CHCC's gross margins came at 35% in 2QFY24 vs 29% in 2QFY23. Greater margins were due to lower weighted average coal prices coupled with higher retention prices.
- Finance cost for the quarter declined by 26% YoY to PKR 386mn mainly due to lower borrowing.
- Implementation of the axle load regime and increase in fuel cost manifested in a surge in distribution costs by 21% YoY.
- We have a 'BUY' recommendation on CHCC with our Dec-24 price target (PT) of PKR 190/share, providing an upside of 31% along with a dividend yield of 4%.

**Key Data**

PSX Ticker	CHCC
Target Price (PKR)	190
Current Price (PKR)	146
Upside/(Downside) (%)	+ 30%
Dividend Yield (%)	+4%
Total Return (%)	+ 34%
12-month High (PKR)	169
12-month Low (PKR)	100
Outstanding Shares (mn)	194
Market Cap (PKR mn)	28,308
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	2QFY23	2QFY24	YoY	1HFY23	1HFY24	YoY
Net Sales	10,408	10,220	-2%	19,457	20,291	4%
Cost of Sales	7,416	6,685	-10%	13,571	13,684	1%
<b>Gross Profit</b>	<b>2,991</b>	<b>3,535</b>	<b>18%</b>	<b>5,886</b>	<b>6,607</b>	<b>12%</b>
Selling & Admin. Exp	247	305	23%	483	596	23%
Other Income	69	142	105%	124	190	53%
Other Charges	128	153	20%	230	276	20%
Finance cost	521	386	-26%	1,001	811	-19%
Profit before tax	<b>2,165</b>	<b>2,833</b>	<b>31%</b>	<b>4,296</b>	<b>5,113</b>	<b>19%</b>
Taxation	609	964	58%	1,258	1,712	36%
<b>Net Income</b>	<b>1,556</b>	<b>1,868</b>	<b>20%</b>	<b>3,038</b>	<b>3,401</b>	<b>12%</b>
EPS	8.01	9.62	20%	15.64	17.51	12%
DPS	-	1.50	-	-	1.50	-

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
EPS	16.50	22.93	22.67	30.31	31.10	36.45
EPS Growth	-269%	39%	-1%	34%	3%	17%
DPS	2.25	3.00	4.50	6.00	6.00	7.50
PER	9.9	7.1	7.2	5.4	5.2	4.5
Dividend Yield	1.4%	1.8%	2.8%	3.7%	3.7%	4.6%
EV/EBITDA	6.3	4.8	4.0	3.2	3.2	2.7
P/B	2.3	1.8	1.5	1.2	1.0	0.9
ROE	23.6%	25.7%	21.1%	22.7%	19.6%	19.4%

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 15%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 21%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-24 PT of 190/share. Our price target provides an upside of 30% along with a dividend yield of 4%. Our investment case on CHCC is based on (1) 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 estimated 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)						
	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
Net sales	25,207	32,085	37,386	39,864	41,452	44,440
Cost of sales	18,479	23,135	27,249	27,414	29,147	30,676
<b>Gross Profit</b>	<b>6,728</b>	<b>8,951</b>	<b>10,137</b>	<b>12,450</b>	<b>12,305</b>	<b>13,764</b>
SG & A	720	878	1,043	1,255	1,373	1,478
<b>Operating Profit</b>	<b>6,008</b>	<b>8,072</b>	<b>9,094</b>	<b>11,194</b>	<b>10,932</b>	<b>12,286</b>
Other income	105	390	454	521	468	466
Other charges	251	275	362	451	469	531
Finance cost	1,524	1,359	1,914	1,608	1,025	613
<b>Profit before tax</b>	<b>4,337</b>	<b>6,829</b>	<b>7,272</b>	<b>9,656</b>	<b>9,905</b>	<b>11,608</b>
Taxation	1,132	2,373	2,868	3,766	3,863	4,527
<b>Profit after tax</b>	<b>3,205</b>	<b>4,456</b>	<b>4,404</b>	<b>5,890</b>	<b>6,042</b>	<b>7,081</b>

Source: Company Accounts, Akseer Research

Balance Sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
PPE	25,591	27,568	28,935	30,628	33,710	37,123
Other LT assets	756	571	502	500	497	495
Non-Current Assets	26,347	28,140	29,437	31,127	34,207	37,618
Current assets	7,846	10,465	9,865	12,138	12,596	13,991
<b>Total Assets</b>	<b>34,194</b>	<b>38,885</b>	<b>39,302</b>	<b>43,266</b>	<b>46,803</b>	<b>51,609</b>
Non-Current liabilities	13,331	11,441	10,254	10,959	8,722	6,497
Current liabilities	7,273	9,847	8,169	6,349	7,212	8,584
<b>Total Liabilities</b>	<b>20,604</b>	<b>21,289</b>	<b>18,423</b>	<b>17,307</b>	<b>15,934</b>	<b>15,081</b>
Equity	13,590	17,316	20,879	25,958	30,869	36,528
<b>Total Equity &amp; liabilities</b>	<b>34,193</b>	<b>38,885</b>	<b>39,302</b>	<b>43,266</b>	<b>46,803</b>	<b>51,609</b>

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
Net Income	3,205	4,456	4,404	5,890	6,042	7,081
Non-cash Charges	1,667	1,617	1,602	1,730	1,918	2,126
<b>Operating Cash flows</b>	<b>4,705</b>	<b>6,246</b>	<b>8,021</b>	<b>4,865</b>	<b>7,353</b>	<b>8,349</b>
<b>FCFF</b>	<b>3,880</b>	<b>3,538</b>	<b>6,212</b>	<b>2,423</b>	<b>2,979</b>	<b>3,183</b>
Net borrowings	(2,982)	(936)	(5,178)	(334)	(1,282)	(801)
<b>FCFE</b>	<b>(228)</b>	<b>1,716</b>	<b>(125)</b>	<b>1,108</b>	<b>1,072</b>	<b>2,008</b>
Net change in cash	103	987	(966)	297	(60)	587
<b>Closing cash</b>	<b>140</b>	<b>1,127</b>	<b>160</b>	<b>457</b>	<b>397</b>	<b>984</b>

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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