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CHCC: 4QFY24 EPS clocks in at PKR 4.40, up 9.15x YoY, DPS PKR 4.00

Cherat Cement Company Limited

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

- CHCC announced its 4QFY24 financial result today, wherein the company posted an EPS of PKR 4.40 compared to an EPS of PKR 0.48 in 4QFY23. This takes cumulative earnings of FY24 to PKR 28.31/share, up 25% YoY. Along with the result, the company announced a cash payout of PKR 4.00/share, taking the overall payout to PKR 5.50/share in FY24.
- The result is below our expectation due to higher deferred tax in 4QFY24, translating into an effective tax rate of 61% versus 36% in 3QFY24.
- Gross margins clocked in at 28%, in-line with our expectation during 4QFY24 versus 21% SPLY driven by a combination of higher retention prices and a decline in coal prices.
- However, on a sequential basis gross margins declined by 147bps to 28% in 4QFY24 potentially due to higher mix of low margin exports in the overall mix.
- As per data released by APCMA, company's local dispatches remained stagnant in 4QFY24, whereas, the average retention price increased by 7% YoY.
- Finance cost decreased by 50% YoY, potentially due to lower borrowings.
- Company's effective tax rate clocked in at 61% in 4QFY24 compared to 36% in 3QFY24 due to higher deferred taxation.
- We have a 'BUY' recommendation on CHCC with our Dec-24 Price Target (PT) of PKR 213/share, providing an upside of 25% along with dividend yield of 4.7%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	213
Current Price (PKR)	170
Upside/(Downside) (%)	+25%
Dividend Yield (%)	4.7%
Total Return (%)	30%
12-month High (PKR)	178
12-month Low (PKR)	121
Outstanding Shares (mn)	194
Market Cap (PKR mn)	33,001

Source: PSX, Akseer Research

Financial Estimates (PKR mn)	4QFY23	4QFY24	YoY	FY23A	FY24A	YoY
Sales	8,630	9,503	10%	37,386	38,434	3%
Cost of sales	6,786	6,828	1%	27,249	26,593	-2%
Gross Profit	1,843	2,675	45%	10,137	11,840	17%
Admin & Selling Expense	282	344	22%	1,043	1,261	21%
Other Income	94	165	75%	454	493	9%
Other expense	26	76	189%	362	464	28%
Finance Cost	499	249	-50%	1,914	1,381	-28%
Profit before tax	1,130	2,171	92%	7,272	9,228	27%
Taxation	1,037	1,316	27%	2,868	3,728	30%
Net Income	93	855	9.15x	4,404	5,500	25%
EPS	0.48	4.40	-	22.67	28.31	-
DPS	3.00	4.00	-	4.50	5.50	-

Source: Company Accounts, Akseer Research

Key Financial Ratios	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
EPS (PKR)	16.50	22.93	22.67	28.31	32.02	42.77
EPS Growth	-269%	39%	-1%	25%	13%	34%
DPS (PKR)	2.25	3.00	4.50	5.50	8.00	17.00
PER	8.2	5.9	6.0	6.0	5.3	4.0
Dividend Yield	1.7%	2.2%	3.3%	3.2%	4.7%	10.0%
EV/EBITDA	5.6	4.2	3.5	3.1	2.7	2.1
P/B	1.9	1.5	1.3	1.3	1.1	0.9
ROE	23.6%	25.7%	21.1%	21.4%	20.5%	23.5%

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

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-24 PT of 213/share. Our Price Target provides an upside of 25% along with a dividend yield of 4.7%. Our investment case on CHCC is based on (1) improved retention prices and (2) ease in coal prices.

Risks

Key downside risks to our investments thesis are: (1) a higher than anticipated increase in input cost (coal, FO, gas) (2) lower than anticipated growth in cement demand (3) lower than expected cement prices and, (4) a 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 and 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	FY24A	FY25E	FY26E
Net sales	25,207	32,085	37,386	38,434	38,388	47,385
Cost of sales	18,479	23,135	27,249	26,593	26,023	31,777
Gross Profit	6,728	8,951	10,137	11,840	12,365	15,608
SG & A	720	878	1,043	1,261	1,423	1,558
Operating Profit	6,008	8,072	9,094	10,579	10,942	14,050
Other income	105	390	454	493	474	473
Other charges	251	275	362	464	595	638
Finance cost	1,524	1,359	1,914	1,381	623	262
Profit before tax	4,337	6,829	7,272	9,228	10,198	13,623
Taxation	1,132	2,373	2,868	3,728	3,977	5,313
Profit after tax	3,205	4,456	4,404	5,500	6,221	8,310

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
PPE	25,591	27,568	28,935	28,497	29,839	31,368
Other LT assets	756	571	502	571	570	569
Non-Current Assets	26,347	28,140	29,437	29,068	30,409	31,936
Current assets	7,846	10,465	9,865	12,541	12,942	15,951
Total Assets	34,194	38,885	39,302	41,609	43,351	47,887
Non-Current liabilities	13,331	11,441	10,254	6,796	6,198	5,608
Current liabilities	7,273	9,847	8,169	8,601	6,241	6,324
Total Liabilities	20,604	21,289	18,423	15,398	12,439	11,932
Equity	13,590	17,316	20,879	26,211	30,912	35,955
Total Equity & liabilities	34,193	38,885	39,302	41,609	43,351	47,887

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Net Income	3,205	4,456	4,404	5,851	6,221	8,310
Non-cash Charges	1,667	1,617	1,602	1,737	1,859	1,994
Operating Cash flows	4,705	6,246	8,021	8,234	7,499	7,979
FCFF	3,880	3,538	6,212	7,873	4,677	4,616
Net borrowings	(2,982)	(936)	(5,178)	(4,774)	(2,455)	(773)
FCFE	(228)	1,716	(125)	2,161	1,842	3,683
Net change in cash	103	987	(966)	228	322	416
Closing cash	140	1,127	160	388	710	1,126

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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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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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