

Cherat Cement Company Limited

Result Review

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

Pakistan Research

CHCC: 3QFY24 EPS came in at PKR 6.40, down 2% YoY

- CHCC announced its 3QFY24 financial result today, wherein the company posted an unconsolidated EPS of PKR 6.40 compared to an EPS of PKR 6.55 in 3QFY23. This takes cumulative earnings of 9MFY24 to PKR 23.91/share, up 8% YoY.
- The result is slightly below our expectation given higher than expected cost of sales.
- Gross margins of the company increased by 370bps YoY due to lower coal prices and higher cement prices.
- Revenue experienced a decrease of 7% YoY to PKR 8.64bn primarily because of lower dispatches.
- Company's dispatches decreased by 16.4% YoY in 3QFY24 primarily because of 20.4% YoY decline in local cement dispatches. However, company exports surged by 33.5% YoY during the quarter.
- However, cement prices increased by 16.4% YoY in company territory, while exports prices improved by 19.7% YoY.
- Moreover, coal prices declined by 16.7% YoY in 3QFY24 due to ease in international prices.
- Selling & admin expense observed an increase of 16% YoY and was reported at PKR 321bn because of higher exports.
- Finance cost of the company decreased by 23% YoY, owing to a decrease in the borrowing.
- Company's effective tax rate clocked in at 36% in 3QFY24 compared to 30% in 3QFY23 due to higher super tax rate.
- We have a 'BUY' recommendation on CHCC with our Dec-24 price target (PT) of PKR 217/share, providing an upside of 31% along with dividend yield of 3%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	217
Current Price (PKR)	166
Upside/(Downside) (%)	+ 31%
Dividend Yield (%)	3%
Total Return (%)	34%
12-month High (PKR)	174
12-month Low (PKR)	111
Outstanding Shares (mn)	194.29
Market Cap (PKR mn)	32,199
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YoY
Net Sales	9,299	8,640	-7%	28,756	28,931	1%
Cost of Sales	6,892	6,081	-12%	20,463	19,765	-3%
Gross Profit	2,407	2,559	6%	8,293	9,166	11%
Selling & Admin. Exp	277	321	16%	760	917	21%
Other Income	236	139	-41%	360	360	0%
Other Charges	105	112	6%	336	388	15%
Finance cost	415	321	-23%	1,416	1,132	-20%
Profit before tax	1,846	1,944	5%	6,142	7,089	15%
Taxation	573	700	22%	1,831	2,412	32%
Net Income	1,272	1,244	-2%	4,310	4,676	8%
EPS	6.55	6.40	-2%	22.19	23.91	8%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY21A	FY22A	FY23A	FY24E	FY25F	FY25F
EPS	16.50	22.93	22.67	31.64	36.24	45.65
EPS Growth	-269%	39%	-1%	40%	15%	26%
DPS	2.25	3.00	4.50	3.50	7.00	9.00
PER	8.2	5.9	6.0	4.3	3.7	3.0
Dividend Yield	1.7%	2.2%	3.3%	2.6%	5.2%	6.7%
EV/EBITDA	5.6	4.2	3.5	2.8	2.3	1.8
P/B	1.9	1.5	1.3	1.0	0.8	0.7
ROE	23.6%	25.7%	21.1%	23.0%	21.7%	22.4%

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 equity (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 217/share. Our price target provides an upside of 31% along with a dividend yield of 3%. Our investment case on CHCC is based on (1) ease in coal prices 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) lower than expected 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	FY24E	FY25F	FY26F
Net sales	25,207	32,085	37,386	37,712	39,841	44,440
Cost of sales	18,479	23,135	27,249	25,410	25,867	27,685
Gross Profit	6,728	8,951	10,137	12,302	13,974	16,755
SG & A	720	878	1,043	1,238	1,373	1,478
Operating Profit	6,008	8,072	9,094	11,064	12,601	15,277
Other income	105	390	454	468	468	466
Other charges	251	275	362	499	519	620
Finance cost	1,524	1,359	1,914	1,627	1,007	584
Profit before tax	4,337	6,829	7,272	9,406	11,543	14,539
Taxation	1,132	2,373	2,868	3,258	4,502	5,670
Profit after tax	3,205	4,456	4,404	6,147	7,041	8,869

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	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	12,639	13,604	16,421
Total Assets	34,194	38,885	39,302	43,766	47,811	54,039
Non-Current liabilities	13,331	11,441	10,254	10,959	8,722	6,497
Current liabilities	7,273	9,847	8,169	6,106	6,672	7,969
Total Liabilities	20,604	21,289	18,423	17,065	15,394	14,466
Equity	13,590	17,316	20,879	26,701	32,417	39,573
Total Equity & liabilities	34,193	38,885	39,302	43,766	47,811	54,039

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY21A	FY22A	FY23A	FY24E	FY25F	FY26F
Net Income	3,205	4,456	4,404	6,147	7,041	8,869
Non-cash Charges	1,667	1,617	1,602	1,730	1,918	2,126
Operating Cash flows	4,705	6,246	8,021	5,569	8,200	9,782
FCFF	3,880	3,538	6,212	3,209	3,814	4,599
Net borrowings	(2,982)	(936)	(5,178)	(354)	(1,426)	(906)
FCFE	(228)	1,716	(125)	1,792	1,775	3,336
Net change in cash	103	987	(966)	1,467	449	1,623
Closing cash	140	1,127	160	1,627	2,075	3,698

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

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