

## Cherat Cement Company Limited

### Result Review

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

Pakistan Research

## CHCC: 1QFY22 EPS clocks in at PKR 6.14, up 21% QoQ

- CHCC announced its 1QFY22 financial result today where the company posted above expectations net earnings of PKR 6.14/ share versus PKR 1.59/share in 1QFY21.
- Deviation in earnings is accredited to lower cost of sales as we expected it to grow by 34% YoY in 1QFY22 against actual growth of 24% YoY. Similarly, the cost of sales declined by 4% on a sequential basis due to probable lower effective coal cost resulting from higher share of Afghan and local coal.
- Topline of the company grew in line with our estimates to PKR 7.2bn during 1QFY22 (+37% YoY). The growth is attributed to higher cement MRP prices in North which increased by 25% YoY to PKR 660/bag in 1QFY22.
- Resultantly, gross margins of the company settled at 29% in 1QFY22 (+8pps YoY) compared to margins of 21% in SPLY.
- On a sequential basis, the company managed to attain limited gross margin accretion of a percentage point due to restrained growth in topline accompanied with 4% QoQ growth in cost of sales.
- Finance cost of the company declined to PKR 299mn in 1QFY22 (-43% YoY) benefitting from single digit interest rates over the year.
- We have a 'BUY' recommendation on CHCC with a Jun-22 price target (PT) of PKR 177/share, providing a potential upside of 31%.

### Key Data

PSX Ticker	CHCC
Target Price (PKR)	177
Current Price (PKR)	134
Upside/(Downside) (%)	+ 31%
Dividend Yield	0%
Total Return (%)	+ 31%
12-month High (PKR)	195
12-month Low (PKR)	116
Outstanding Shares (mn)	194.29
Market Cap (PKR mn)	26,255
Year End	June

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	1QFY21	1QFY22	YoY	4QFY21	QoQ
Net Sales	5,217	7,161	37%	6,786	6%
Cost of Sales	4,106	5,082	24%	4,903	4%
<b>Gross Profit</b>	<b>1,111</b>	<b>2,079</b>	<b>87%</b>	<b>1,883</b>	<b>10%</b>
Selling & Admin. Exp	153	197	29%	191	3%
Other Income	8	156	1855%	40	292%
Other Charges	25	134	439%	82	63%
Finance cost	522	299	-43%	319	-6%
<b>Profit before tax</b>	<b>420</b>	<b>1,607</b>	<b>283%</b>	<b>1,331</b>	<b>21%</b>
Taxation	111	414	274%	349	19%
<b>Net Income</b>	<b>309</b>	<b>1,193</b>	<b>286%</b>	<b>983</b>	<b>21%</b>
EPS	1.59	6.14	286%	5.06	21%
DPS	-	-		1.25	

Source: Company Accounts, Akseer Research

### Key Financial Ratios – Consolidated

	FY19A	FY20A	FY21F	FY22F	FY23F	FY24F
EPS	9.07	-9.74	16.50	15.23	16.92	20.33
EPS Growth	-25%	NM	NM	-8%	11%	20%
DPS	1.00	0.00	2.25	3.00	3.50	4.00
PER	14.9	NM	8.2	8.9	8.0	6.6
Dividend Yield	0.7%	0.0%	1.7%	2.2%	2.6%	3.0%
EV/EBITDA	13.1	30.7	5.6	6.6	6.0	6.0
P/B	2.2	2.6	1.9	1.6	1.4	1.2
ROE	15.0%	-18.8%	23.6%	18.1%	17.2%	17.6%

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 11%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 17%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Jun-22 PT of 177/share. Our price target provides an upside of 31%. Our revised investment case on CHCC is based on (1) nearing election period (2) higher PSDP releases and (3) 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) prolonged pandemic situation (5) increase 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) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	15,863	17,090	25,207	34,862	34,666	36,015
Cost of sales	12,980	16,704	18,479	28,796	27,201	26,881
<b>Gross Profit</b>	<b>2,883</b>	<b>386</b>	<b>6,728</b>	<b>6,066</b>	<b>7,465</b>	<b>9,134</b>
SG & A	690	634	720	828	969	1,146
<b>Operating Profit</b>	<b>2,193</b>	<b>(247)</b>	<b>6,008</b>	<b>5,238</b>	<b>6,496</b>	<b>7,988</b>
Other income	107	71	105	165	194	177
Other charges	109	19	251	231	272	298
Finance cost	1,143	2,527	1,524	1,277	1,789	2,801
<b>Profit before tax</b>	<b>1,048</b>	<b>(2,723)</b>	<b>4,337</b>	<b>3,895</b>	<b>4,630</b>	<b>5,067</b>
Taxation	(715)	(830)	1,132	937	1,343	1,116
<b>Profit after tax</b>	<b>1,763</b>	<b>(1,893)</b>	<b>3,205</b>	<b>2,959</b>	<b>3,287</b>	<b>3,951</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	26,891	25,307	25,591	29,234	38,408	54,027
Other LT assets	296	930	756	786	819	855
Non-Current Assets	27,186	26,237	26,347	30,019	39,227	54,882
Current assets	8,093	6,685	7,846	11,211	11,118	10,336
<b>Total Assets</b>	<b>35,280</b>	<b>32,922</b>	<b>34,194</b>	<b>41,230</b>	<b>50,345</b>	<b>65,217</b>
Non-Current liabilities	17,328	16,980	13,331	15,625	23,258	23,658
Current liabilities	6,196	5,888	7,273	9,225	7,968	19,133
<b>Total Liabilities</b>	<b>23,524</b>	<b>22,868</b>	<b>20,604</b>	<b>24,851</b>	<b>31,226</b>	<b>42,792</b>
Equity	11,756	10,054	13,590	16,379	19,119	22,426
<b>Total Equity &amp; liabilities</b>	<b>35,280</b>	<b>32,922</b>	<b>34,193</b>	<b>41,230</b>	<b>50,344</b>	<b>65,217</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	1,763	(1,893)	3,205	2,959	3,287	3,951
Non-cash Charges	1,394	1,754	1,667	1,642	2,102	2,858
<b>Operating Cash flows</b>	<b>1,103</b>	<b>539</b>	<b>4,705</b>	<b>3,130</b>	<b>5,442</b>	<b>6,086</b>
<b>FCFF</b>	<b>(1,454)</b>	<b>2,125</b>	<b>3,880</b>	<b>(1,185)</b>	<b>(4,564)</b>	<b>(10,207)</b>
Net borrowings	4,539	(552)	(2,982)	2,887	6,819	12,060
<b>FCFE</b>	<b>1,163</b>	<b>(183)</b>	<b>(228)</b>	<b>732</b>	<b>986</b>	<b>(331)</b>
Net change in cash	(18)	7	103	564	437	(975)
<b>Closing cash</b>	<b>30</b>	<b>37</b>	<b>140</b>	<b>704</b>	<b>1,141</b>	<b>166</b>

Source: Company Accounts, Akseer Research

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