

Cherat Cement Company Limited
Result Review

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

Pakistan Research

CHCC: 2QFY22 EPS reported at PKR 6.06, up 44% YoY, down 1% QoQ

- CHCC reported its 2QFY22 results today wherein the company's profitability grew by 44% YoY to PKR 6.06/share. This takes 1HFY22 earnings to PKR 12.20/share compared to PKR 5.81 in 1HFY21.
- Net revenue of the company stood at PKR 7.6bn in 2Q, up 20% YoY mainly supported by higher cement retention price of PKR 430/bag, up 40% YoY. However, cement volumes declined by 15% YoY to 0.9mn tons in 2Q, restricting the top-line growth.
- CHCC's gross margin settled at 27% in 2QFY22, up 1ppts compared to 2QFY21. The company reported higher gross margins despite elevated coal price. We believe, higher usage of local and Afghan coal helped the company to increase its gross margins.
- Finance cost of the company declined by 17% YoY to PKR 301mn during 2Q due to lower borrowings.
- Effective tax rate clocked in at 28% in 2Q vs 25% in SPLY, restricting the earnings growth.
- On a sequential basis, earnings of the company declined by 1% QoQ. The company reported growth in revenue by 6% QoQ despite lower cement dispatches of 6% QoQ as local cement prices improved by 13% QoQ. However, higher coal prices resulted in gross margins attrition by 1.7% QoQ.
- We have a 'BUY' recommendation on CHCC with our Dec-22 price target (PT) of PKR 220/share, providing an upside of 54% along with a dividend yield of 3%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	220
Current Price (PKR)	83
Upside/(Downside) (%)	+ 54%
Dividend Yield (%)	+3%
Total Return (%)	+ 57%
12-month High (PKR)	195
12-month Low (PKR)	116
Outstanding Shares (mn)	194
Market Cap (PKR mn)	27,646
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	6,371	7,618	20%	11,589	14,779	28%
Cost of Sales	4,721	5,539	17%	8,827	10,621	20%
Gross Profit	1,650	2,079	26%	2,761	4,158	51%
Selling & Admin. Exp	173	214	24%	325	411	26%
Other Income	40	132	227%	48	289	496%
Other Charges	61	71	16%	86	205	138%
Finance cost	363	301	-17%	885	600	-32%
Profit before tax	1,094	1,624	49%	1,514	3,231	113%
Taxation	274	447	63%	385	861	124%
Net Income	820	1,177	44%	1,129	2,370	110%
EPS	4.22	6.06	44%	5.81	12.20	110%
DPS	1.00	-		1.00	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	9.07	-9.74	16.50	20.20	32.57	28.03
EPS Growth	-25%	NM	NM	22%	61%	-14%
DPS	1.00	-	2.25	5.00	10.00	7.00
PER	15.7	NM	8.6	7.0	4.4	5.1
Dividend Yield	0.7%	-	1.6%	3.5%	7.0%	4.9%
EV/EBITDA	13.4	31.6	5.8	5.0	3.9	5.4
P/B	2.4	2.7	2.0	1.6	1.2	1.1
ROE	15.0%	NM	23.6%	22.6%	27.8%	20.7%

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 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 220/share. Our price target provides an upside of 54% along with a dividend yield of 3%. Our investment case on CHCC is based on (1) higher cement dispatches following election year 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 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	34,150	37,868	37,158
Cost of sales	12,980	16,704	18,479	26,472	25,825	26,176
Gross Profit	2,883	386	6,728	7,678	12,042	10,982
SG & A	690	634	720	812	917	1,046
Operating Profit	2,193	(247)	6,008	6,866	11,126	9,936
Other income	107	71	105	199	317	321
Other charges	109	19	251	297	496	434
Finance cost	1,143	2,527	1,524	1,598	2,034	2,152
Profit before tax	1,048	(2,723)	4,337	5,170	8,913	7,671
Taxation	(715)	(830)	1,132	1,245	2,585	2,225
Profit after tax	1,763	(1,893)	3,205	3,925	6,328	5,446

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	26,891	25,307	25,591	26,654	38,814	56,747
Other LT assets	296	930	756	786	819	855
Non-Current Assets	27,186	26,237	26,347	27,440	39,633	57,602
Current assets	8,093	6,685	7,846	11,844	14,612	12,779
Total Assets	35,280	32,922	34,194	39,284	54,245	70,381
Non-Current liabilities	17,328	16,980	13,331	14,933	25,089	31,823
Current liabilities	6,196	5,888	7,273	7,005	6,419	12,281
Total Liabilities	23,524	22,868	20,604	21,938	31,508	44,104
Equity	11,756	10,054	13,590	17,346	22,737	26,277
Total Equity & liabilities	35,280	32,922	34,193	39,284	54,245	70,381

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	1,763	(1,893)	3,205	3,925	6,328	5,446
Non-cash Charges	1,394	1,754	1,667	1,800	1,800	2,174
Operating Cash flows	1,103	539	4,705	4,336	7,562	7,452
FCFF	(1,454)	2,125	3,880	2,686	(4,954)	(11,127)
Net borrowings	4,539	(552)	(2,982)	411	9,512	12,476
FCFE	1,163	(183)	(228)	1,884	3,114	(179)
Net change in cash	(18)	7	103	1,715	2,178	(2,085)
Closing cash	30	37	140	1,855	4,033	1,948

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

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