

**Cherat Cement Company Limited**  
Result Review

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

Pakistan Research

**CHCC: 2QFY23 EPS reported at PKR 8.0, up 32% YoY**

- CHCC announced its 2QFY23 financial results today, wherein the company posted an EPS of PKR 8.0, up 32% YoY, compared to an of EPS 6.1 in 2QFY22. This takes cumulative 1HFY23 EPS to PKR 15.6 vs an EPS of PKR 12.2 in SPLY, up 28% YoY.
- Net revenue of the company stood at PKR 10.4bn, up 37% YoY in 2Q mainly supported by 50% YoY higher cement retention prices. This is despite the decline in cement volumes by 9% YoY.
- CHCC's gross margin clocked in at 28.7% in 2QFY23 vs 27.3% in 2QFY22. Higher margins were due to improved retention prices along with effective coal management.
- Finance cost of the company increased by 73% YoY to PKR 521mn during 2Q due to upward revision in interest rates as well as a slight increase in short term borrowing.
- On sequential basis, company's earnings grew by 5% QoQ, primarily due to 13% QoQ increase in volumetric sales.
- We have a 'BUY' recommendation on CHCC with our Dec-23 price target (PT) of PKR 150/share, providing an upside of 42%.

**Key Data**

PSX Ticker	CHCC
Target Price (PKR)	150
Current Price (PKR)	106
Upside/(Downside) (%)	+ 42%
Dividend Yield (%)	+0%
Total Return (%)	+ 42%
12-month High (PKR)	151
12-month Low (PKR)	75
Outstanding Shares (mn)	194
Market Cap (PKR mn)	20,523
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Sales	7,618	10,408	37%	14,779	19,457	32%
Cost of Sales	5,539	7,416	34%	10,621	13,571	28%
<b>Gross Profit</b>	<b>2,079</b>	<b>2,991</b>	<b>44%</b>	<b>4,158</b>	<b>5,886</b>	<b>42%</b>
Selling & Admin. Exp	214	247	15%	411	483	18%
Other Income	132	69	-48%	289	124	-57%
Other Charges	71	128	80%	205	230	13%
Finance cost	301	521	73%	600	1,001	67%
<b>Profit before tax</b>	<b>1,624</b>	<b>2,165</b>	<b>33%</b>	<b>3,231</b>	<b>4,296</b>	<b>33%</b>
Taxation	447	609	36%	861	1,258	46%
<b>Net Income</b>	<b>1,177</b>	<b>1,556</b>	<b>32%</b>	<b>2,370</b>	<b>3,038</b>	<b>28%</b>
EPS	6.1	8.0		12.2	15.6	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
EPS	-9.7	16.5	22.9	27.2	14.4	32.5
EPS Growth	-207%	NM	39%	19%	-47%	126%
DPS	0.00	2.25	3.00	0.00	0.00	3.00
PER	NM	7.5	5.4	4.5	8.5	3.8
Dividend Yield	-	1.8%	2.4%	-	-	2.4%
EV/EBITDA	NM	5.3	4.0	3.1	6.2	3.5
P/B	2.4	1.8	1.4	1.0	0.9	0.8
ROE	NM	23.6%	25.7%	23.0%	10.8%	20.0%

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 17%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 23%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-23 PT of 150/share. Our price target provides an upside of 42%. Our investment case on CHCC is based on (1) upcoming 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 estimate 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)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net sales	17,090	25,207	32,085	36,558	28,777	44,416
Cost of sales	16,704	18,479	23,135	25,241	20,989	31,673
<b>Gross Profit</b>	<b>386</b>	<b>6,728</b>	<b>8,951</b>	<b>11,317</b>	<b>7,788</b>	<b>12,743</b>
SG & A	634	720	878	981	1,013	1,175
<b>Operating Profit</b>	<b>(247)</b>	<b>6,008</b>	<b>8,072</b>	<b>10,336</b>	<b>6,775</b>	<b>11,567</b>
Other income	71	105	390	500	470	453
Other charges	19	251	275	481	291	570
Finance cost	2,527	1,524	1,359	2,468	2,782	2,040
<b>Profit before tax</b>	<b>(2,723)</b>	<b>4,337</b>	<b>6,829</b>	<b>7,888</b>	<b>4,172</b>	<b>9,411</b>
Taxation	(830)	1,132	2,373	2,603	1,377	3,106
<b>Profit after tax</b>	<b>(1,893)</b>	<b>3,205</b>	<b>4,456</b>	<b>5,285</b>	<b>2,795</b>	<b>6,305</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
PPE	25,307	25,591	27,568	29,671	50,188	50,107
Other LT assets	930	756	571	819	855	892
Non-Current Assets	26,237	26,347	28,140	30,490	51,042	51,000
Current assets	6,685	7,846	10,465	12,284	8,444	13,354
<b>Total Assets</b>	<b>32,922</b>	<b>34,194</b>	<b>38,885</b>	<b>42,774</b>	<b>59,487</b>	<b>64,354</b>
Non-Current liabilities	16,980	13,331	11,441	14,430	11,857	9,224
Current liabilities	5,888	7,273	9,847	5,387	21,845	23,589
<b>Total Liabilities</b>	<b>22,868</b>	<b>20,604</b>	<b>21,289</b>	<b>19,817</b>	<b>33,702</b>	<b>32,812</b>
Equity	10,054	13,590	17,316	22,957	25,784	31,541
<b>Total Equity &amp; liabilities</b>	<b>32,922</b>	<b>34,194</b>	<b>38,885</b>	<b>42,774</b>	<b>59,487</b>	<b>64,354</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Net Income	(1,893)	3,205	4,456	5,285	2,795	6,305
Non-cash Charges	1,754	1,667	1,617	1,779	1,871	2,854
<b>Operating Cash flows</b>	<b>539</b>	<b>4,705</b>	<b>6,246</b>	<b>5,005</b>	<b>6,317</b>	<b>5,956</b>
<b>FCFF</b>	<b>2,125</b>	<b>3,880</b>	<b>3,538</b>	<b>2,777</b>	<b>(14,206)</b>	<b>4,549</b>
Net borrowings	(552)	(2,982)	(936)	(658)	14,300	(2,098)
<b>FCFE</b>	<b>(183)</b>	<b>(228)</b>	<b>1,716</b>	<b>466</b>	<b>(1,771)</b>	<b>1,085</b>
Net change in cash	7	103	987	821	(1,738)	536
<b>Closing cash</b>	<b>37</b>	<b>140</b>	<b>1,127</b>	<b>1,948</b>	<b>209</b>	<b>745</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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