

## Cherat Cement Company Limited

### Result Preview

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

Pakistan Research

## CHCC: 4QFY22 EPS to clock in at PKR 2.92, down 42%; DPS of PKR 1.25

- CHCC is scheduled to announce its 4QFY22 financial result on 25<sup>th</sup> August 2022, where we expect the company to report an EPS of PKR 2.92 for 4QFY22 compared to an EPS of PKR 5.06 in 4QFY21, down 42% YoY. This will take FY22 EPS to PKR 20.60 vs PKR 16.50 in FY21, up 26% YoY. We expect the company to announce a final cash dividend of 1.25/share along with the FY22 result.
- Net sales are anticipated to augment by 40% YoY to PKR 9.5bn during 4QFY22 on account of improved retention prices (up 60% YoY). This is despite a decline in local dispatches by 4% YoY due to a cut in government development expenditures during 4QFY22.
- We anticipate gross margin to settle at 25%, down 3pp YoY in 4QFY22. This is due to rising cost of sales owing to burgeoning coal cost.
- Selling & administration expenses are expected to surge by 30% YoY during 4QFY22, largely fuelled by inflationary pressure.
- Finance cost of the company is expected to grow by 40% YoY to PKR 445mn in 4QFY22 led by higher interest rate during the quarter.
- CHCC is expected to post 25% growth on pretax basis, however, PAT is expected to decline by 42% YoY due to imposition of super tax on FY22 profits. Consequently, effective tax rate of the company would likely clock in at 66% in 4QFY22 vs 26% in 4QFY21.
- We have a 'BUY' recommendation on CHCC with a Dec-22 price target (PT) of PKR 160/share providing a potential upside of 60% along with a dividend yield of 1.2%.

#### Key Data

PSX Ticker	CHCC
Target Price (PKR)	160
Current Price (PKR)	100
Upside/(Downside) (%)	+ 60%
Dividend Yield (%)	+1.2%
Total Return (%)	+ 61.2%
12-month High (PKR)	180.00
12-month Low (PKR)	74.55
Outstanding Shares (mn)	194.29
Market Cap (PKR mn)	34,438
Year End	June

Source: Company Accounts, Akseer Research

#### Financial Estimates (PKR mn)

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Net Sales	6,786	9,495	40%	25,207	32,076	27%
Cost of Sales	4,903	7,079	44%	18,479	23,423	27%
<b>Gross Profit</b>	<b>1,883</b>	<b>2,415</b>	<b>28%</b>	<b>6,728</b>	<b>8,653</b>	<b>29%</b>
Selling & Admin. Exp	191	248	30%	720	880	22%
Other Income	40	71	77%	105	375	257%
Other Charges	82	127	55%	251	425	69%
Finance cost	319	445	40%	1,524	1,351	-11%
<b>Profit before tax</b>	<b>1,331</b>	<b>1,666</b>	<b>25%</b>	<b>4,337</b>	<b>6,372</b>	<b>47%</b>
Taxation	349	1,099	215%	1,132	2,370	109%
<b>Net Income</b>	<b>983</b>	<b>567</b>	<b>-42%</b>	<b>3,205</b>	<b>4,002</b>	<b>25%</b>
EPS	5.06	2.92	-42%	16.50	20.60	25%
DPS	1.25	1.25		1.25	2.25	

Source: Company Accounts, Akseer Research

#### Key Financial Ratios

	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
EPS	9.07	-9.74	16.50	20.60	13.98	11.54
EPS Growth	-25%	NM	NM	25%	-32%	-17%
DPS	1.00	0.00	2.25	1.25	0.00	0.00
PER	14.5	NM	7.9	6.4	9.4	11.4
Dividend Yield	0.8%	0.0%	1.7%	1.0%	0.0%	0.0%
EV/EBITDA	12.8	30.2	5.5	4.4	6.4	9.4
P/B	2.2	2.5	1.9	1.5	1.3	1.1
ROE	15.0%	NM	23.6%	23.0%	13.6%	10.1%

Source: Company Accounts, Akseer Research

Altamash Hemani

[altamash.hemani@alphacapital.com](mailto:altamash.hemani@alphacapital.com)

### 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 13%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 19%.

### Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-22 PT of 160/share. Our price target provides an upside of 60% along with a dividend yield of 1.2%. Our investment case on CHCC is based on (1) upcoming expansion (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)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net sales	15,863	17,090	25,207	32,076	33,809	29,308
Cost of sales	12,980	16,704	18,479	23,423	27,152	23,344
<b>Gross Profit</b>	<b>2,883</b>	<b>386</b>	<b>6,728</b>	<b>8,653</b>	<b>6,656</b>	<b>5,963</b>
SG & A	690	634	720	880	889	971
<b>Operating Profit</b>	<b>2,193</b>	<b>(247)</b>	<b>6,008</b>	<b>7,773</b>	<b>5,767</b>	<b>4,992</b>
Other income	107	71	105	375	397	383
Other charges	109	19	251	425	242	208
Finance cost	1,143	2,527	1,524	1,351	1,870	1,820
<b>Profit before tax</b>	<b>1,048</b>	<b>(2,723)</b>	<b>4,337</b>	<b>6,372</b>	<b>4,053</b>	<b>3,347</b>
Taxation	(715)	(830)	1,132	2,370	1,337	1,105
<b>Profit after tax</b>	<b>1,763</b>	<b>(1,893)</b>	<b>3,205</b>	<b>4,002</b>	<b>2,715</b>	<b>2,243</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
PPE	26,891	25,307	25,591	30,275	39,132	57,523
Other LT assets	296	930	756	786	819	855
Non-Current Assets	27,186	26,237	26,347	31,061	39,951	58,377
Current assets	8,093	6,685	7,846	7,688	12,313	11,431
<b>Total Assets</b>	<b>35,280</b>	<b>32,922</b>	<b>34,194</b>	<b>38,749</b>	<b>52,264</b>	<b>69,809</b>
Non-Current liabilities	17,328	16,980	13,331	15,202	25,372	32,121
Current liabilities	6,196	5,888	7,273	6,124	6,962	15,479
<b>Total Liabilities</b>	<b>23,524</b>	<b>22,868</b>	<b>20,604</b>	<b>21,327</b>	<b>32,334</b>	<b>47,600</b>
Equity	11,756	10,054	13,590	17,422	19,930	22,209
<b>Total Equity &amp; liabilities</b>	<b>35,280</b>	<b>32,922</b>	<b>34,193</b>	<b>38,749</b>	<b>52,264</b>	<b>69,809</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	1,763	(1,893)	3,205	4,002	2,715	2,243
Non-cash Charges	1,394	1,754	1,667	1,984	1,984	1,984
<b>Operating Cash flows</b>	<b>1,103</b>	<b>539</b>	<b>4,705</b>	<b>7,230</b>	<b>3,480</b>	<b>4,085</b>
<b>FCFF</b>	<b>(1,454)</b>	<b>2,125</b>	<b>3,880</b>	<b>1,411</b>	<b>(6,107)</b>	<b>(15,070)</b>
Net borrowings	4,539	(552)	(2,982)	(63)	10,026	15,131
<b>FCFE</b>	<b>1,163</b>	<b>(183)</b>	<b>(228)</b>	<b>499</b>	<b>2,666</b>	<b>(1,158)</b>
Net change in cash	(18)	7	103	330	2,459	(1,122)
<b>Closing cash</b>	<b>30</b>	<b>37</b>	<b>140</b>	<b>470</b>	<b>2,928</b>	<b>1,807</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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**Contact Details****Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8,  
off. Shahrāh-e-Faisal

T: +92-21-34320359 -60

E: [info@akseerresearch.com](mailto:info@akseerresearch.com)

**Alfa Adhi Securities (Pvt) Limited** (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,  
KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: [info@alfaadhi.net](mailto:info@alfaadhi.net)