

**Cherat Cement Company Limited**  
Analyst Briefing Takeaways

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

**Pakistan Research**

## CHCC - FY21 Analyst briefing key takeaways

- Cherat Cement Company (CHCC) held analyst briefing yesterday to discuss its FY21 financial results. The company recorded net sales of PKR 25.2bn in FY21 compared to PKR 17.9bn in FY20, witnessing 47% growth YoY.
- Moreover, the company achieved gross margins of 26.7% in FY21 compared to single digit margins of 2% in FY20 and attributed the growth in margins to higher cement dispatches and better retention prices.
- The company expects the demand to stay afloat with industry dynamics suggesting growth on the back of PSDP releases and election period on the radar. Moreover, improving political condition in Afghanistan would also be a major catalyst for exports as the company envisages cement dispatches growth of 6-7% YoY in FY22.
- For FY22, 10-12% YoY growth is anticipated in the local dispatches. Accordingly, the capacity utilization is likely to earmark the level of 90% from current levels of 85%.
- However, to sustain its utilization level and to meet the anticipated demand during FY22 and FY23, the company is undergoing the BMR activity on line 1. The BMR is likely to complete by 4QFY22 and will result in cost efficiency of PKR 350/ ton, further supporting the margins.
- The management also discussed that Greenfield project expansion is on the move which is expected to add 10,000-11,000 TPD capacity and will become operational in 4QFY24. The cost for commissioning of the new line is around PKR 34bn where the company plans to raise PKR 24bn through debt and PKR 10bn through internal cash.
- Moreover, the company also highlighted that installation of 13MW solar plant with capital cost of PKR 1.45bn is as per timeline and is likely to become operational in 3QFY22.
- Regarding the rising cost of inputs, the company mentioned that landed cost of coal has reached USD 170/ton and freight charges have increased to USD 27/ton.
- At present company inventory levels for two months of coal with landed cost amounting to USD 151/ton. CHCC uses South African coal, (~65% share), Afghan coal (~25%) and local coal (~10%). Going forward, the company indicated on increasing share of importing coal from Afghanistan and local coal.
- In terms of leveraging cost pass-on, the company discussed that it is engaged with government along with other industry players to reduce the FED in order to gain some room for cost pass on.
- We have a 'BUY' recommendation on CHCC with a Dec-21 price target (PT) of PKR 190/share, providing a potential upside of 16% and a dividend yield of 1.4%.

### Key Data

PSX Ticker	CHCC
Target Price (PKR)	190
Current Price (PKR)	164.38
Upside/(Downside) (%)	+ 16%
Dividend Yield	1.4%
Total Return (%)	+ 17.14%
12-month High (PKR)	195.50
12-month Low (PKR)	107.00
Outstanding Shares (mn)	194.29
Market Cap (PKR mn)	34,438
Year End	June

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 Dec-21 PT of 190/share. Our price target provides an upside of 16% along with a dividend yield of 1.4%. Our investment case on CHCC is based on (1) normalcy in economic activity post lockdowns (2) boom in construction sector 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						
	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
Net sales	14,388	15,863	17,090	25,207	30,834	33,169
Cost of sales	11,249	12,980	16,704	18,479	23,033	22,490
<b>Gross Profit</b>	<b>3,139</b>	<b>2,883</b>	<b>386</b>	<b>6,728</b>	<b>7,801</b>	<b>10,679</b>
SG & A	582	690	634	720	753	815
<b>Operating Profit</b>	<b>2,557</b>	<b>2,193</b>	<b>(247)</b>	<b>6,008</b>	<b>7,048</b>	<b>9,864</b>
Other income	81	107	71	105	144	179
Other charges	134	109	19	251	261	396
Finance cost	357	1,143	2,527	1,524	1,712	1,430
<b>Profit before tax</b>	<b>2,147</b>	<b>1,048</b>	<b>(2,723)</b>	<b>4,337</b>	<b>5,219</b>	<b>8,217</b>
Taxation	15	(715)	(830)	1,132	1,273	2,383
<b>Profit after tax</b>	<b>2,132</b>	<b>1,763</b>	<b>(1,893)</b>	<b>3,205</b>	<b>3,946</b>	<b>5,834</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	23,806	26,891	25,307	27,736	27,639	27,538
Other LT assets	432	296	930	742	774	807
Non-Current Assets	24,238	27,186	26,237	28,478	28,413	28,345
Current assets	6,282	8,093	6,685	10,067	12,164	12,906
<b>Total Assets</b>	<b>30,520</b>	<b>35,280</b>	<b>32,922</b>	<b>38,545</b>	<b>40,576</b>	<b>41,251</b>
Non-Current liabilities	15,693	17,328	16,980	15,302	11,816	8,350
Current liabilities	3,653	6,196	5,888	9,652	11,435	11,263
<b>Total Liabilities</b>	<b>19,346</b>	<b>23,524</b>	<b>22,868</b>	<b>24,954</b>	<b>23,251</b>	<b>19,613</b>
Equity	11,174	11,756	10,054	13,591	17,325	21,637
<b>Total Equity &amp; liabilities</b>	<b>30,520</b>	<b>35,280</b>	<b>32,922</b>	<b>38,545</b>	<b>40,576</b>	<b>41,251</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	2,132	1,763	(1,893)	3,205	3,946	5,834
Non-cash Charges	1,090	1,394	1,754	1,672	1,635	1,701
<b>Operating Cash flows</b>	<b>3,021</b>	<b>1,103</b>	<b>539</b>	<b>4,702</b>	<b>5,072</b>	<b>6,516</b>
<b>FCFF</b>	<b>(7,888)</b>	<b>(1,454)</b>	<b>2,125</b>	<b>1,727</b>	<b>4,828</b>	<b>5,931</b>
Net borrowings	9,663	4,539	(552)	1,082	(2,681)	(3,416)
<b>FCFE</b>	<b>1,421</b>	<b>1,163</b>	<b>(183)</b>	<b>1,683</b>	<b>852</b>	<b>1,500</b>
Net change in cash	1	(18)	7	253	641	(22)
<b>Closing cash</b>	<b>47</b>	<b>30</b>	<b>37</b>	<b>289</b>	<b>930</b>	<b>908</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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