

Cherat Cement Company Limited

Result Preview

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

Pakistan Research

1QFY23 EPS expected to clock in at PKR 6.97, up 14%

- CHCC's board meeting is scheduled on 26th October 2022 to consider 1QFY23 financial results. The company is expected to report an EPS of PKR 6.97 in 1QFY23 compared to an EPS of PKR 6.14 in 1QFY22, up 14% YoY.
- Higher earnings can primarily be attributable to increase in cement prices by 60% YoY.
- Net sales are anticipated to grow by 24% YoY to PKR 8.9bn during 1QFY23 on account of improved retention prices (up 61% YoY). This is despite a decline in local dispatches by 18% YoY due to high rains and flash floods in the country.
- We anticipate gross margin to settle at 28%, down 1pp YoY in 1QFY23. Gross margins are likely to remain stable despite burgeoning coal and power cost as the company has successfully pass on the cost impact through cement prices.
- Selling & administration expenses are expected to surge by 26% YoY during 1QFY23 on account of higher fuel prices.
- Finance cost of the company is expected to grow by 69% YoY to PKR 506mn in 1QFY23 led by higher interest rates during the quarter coupled with increase in short term borrowings.
- CHCC is expected to post 22% growth on pretax basis, however, due to imposition of super tax in the FY23 budget, the bottomline growth is restricted to 14% YoY.
- We have a 'BUY' recommendation on CHCC with a June-23 price target (PT) of PKR 160/share providing a potential upside of 33%.

Key Data

| | |
|-------------------------|---------|
| PSX Ticker | CHCC |
| Target Price (PKR) | 160 |
| Current Price (PKR) | 120 |
| Upside/(Downside) (%) | + 32.9% |
| Dividend Yield (%) | +0% |
| Total Return (%) | + 32.9% |
| 12-month High (PKR) | 165.90 |
| 12-month Low (PKR) | 74.55 |
| Outstanding Shares (mn) | 194.29 |
| Market Cap (PKR mn) | 23,348 |
| Year End | June |

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

| | 1QFY22 | 1QFY23F | YoY |
|--------------------------|--------------|--------------|------------|
| Net Sales | 7,161 | 8,909 | 24% |
| Cost of Sales | 5,082 | 6,381 | 26% |
| Gross Profit | 2,079 | 2,528 | 22% |
| Selling & Admin. Exp | 197 | 248 | 26% |
| Other Income | 156 | 272 | 74% |
| Other Charges | 134 | 84 | -37% |
| Finance cost | 299 | 506 | 69% |
| Profit before tax | 1,607 | 1,963 | 22% |
| Taxation | 414 | 609 | 47% |
| Net Income | 1,193 | 1,354 | 14% |
| EPS | 6.14 | 6.97 | 14% |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS | -9.74 | 16.50 | 22.93 | 18.96 | 19.68 | 47.61 |
| EPS Growth | - | - | 39% | -17% | 4% | 142% |
| DPS | 0.00 | 2.25 | 3.00 | 0.00 | 0.00 | 5.00 |
| PER | - | 7.5 | 5.4 | 6.5 | 6.2 | 2.6 |
| Dividend Yield | - | 1.8% | 2.4% | - | - | 4.1% |
| EV/EBITDA | 29.1 | 5.3 | 4.0 | 4.8 | 5.6 | 2.7 |
| P/B | 2.4 | 1.8 | 1.4 | 1.1 | 0.9 | 0.7 |
| ROE | - | 23.6% | 25.7% | 17.2% | 15.2% | 27.6% |

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 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 June-23 PT of 160/share. Our price target provides an upside of 33% 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) | | | | | | |
|---------------------------|----------------|--------------|--------------|--------------|--------------|---------------|
| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
| Net sales | 17,090 | 25,207 | 32,085 | 37,386 | 31,301 | 49,571 |
| Cost of sales | 16,704 | 18,479 | 23,135 | 29,748 | 23,788 | 33,457 |
| Gross Profit | 386 | 6,728 | 8,951 | 7,639 | 7,514 | 16,114 |
| SG & A | 634 | 720 | 878 | 993 | 1,046 | 1,188 |
| Operating Profit | (247) | 6,008 | 8,072 | 6,646 | 6,467 | 14,926 |
| Other income | 71 | 105 | 390 | 1,104 | 1,448 | 1,469 |
| Other charges | 19 | 251 | 275 | 355 | 371 | 800 |
| Finance cost | 2,527 | 1,524 | 1,359 | 1,897 | 1,837 | 1,790 |
| Profit before tax | (2,723) | 4,337 | 6,829 | 5,497 | 5,707 | 13,806 |
| Taxation | (830) | 1,132 | 2,373 | 1,814 | 1,883 | 4,556 |
| Profit after tax | (1,893) | 3,205 | 4,456 | 3,683 | 3,824 | 9,250 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
| PPE | 25,307 | 25,591 | 27,568 | 35,081 | 50,226 | 52,296 |
| Other LT assets | 930 | 756 | 571 | 819 | 855 | 892 |
| Non-Current Assets | 26,237 | 26,347 | 28,140 | 35,900 | 51,081 | 53,188 |
| Current assets | 6,685 | 7,846 | 10,465 | 17,787 | 20,832 | 25,849 |
| Total Assets | 32,922 | 34,194 | 38,885 | 53,686 | 71,913 | 79,038 |
| Non-Current liabilities | 16,980 | 13,331 | 11,441 | 24,930 | 31,657 | 26,324 |
| Current liabilities | 5,888 | 7,273 | 9,847 | 7,401 | 15,044 | 19,190 |
| Total Liabilities | 22,868 | 20,604 | 21,289 | 32,331 | 46,701 | 45,513 |
| Equity | 10,054 | 13,590 | 17,316 | 21,355 | 25,211 | 33,524 |
| Total Equity & liabilities | 32,922 | 34,193 | 38,885 | 53,686 | 71,913 | 79,038 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|-----------------------------|--------------|--------------|--------------|----------------|----------------|---------------|
| | FY20A | FY21A | FY22A | FY23F | FY24F | FY25F |
| Net Income | (1,893) | 3,205 | 4,456 | 3,683 | 3,824 | 9,250 |
| Non-cash Charges | 1,754 | 1,667 | 1,617 | 2,221 | 3,087 | 3,334 |
| Operating Cash flows | 539 | 4,705 | 6,246 | 5,306 | 7,805 | 9,628 |
| FCFF | 2,125 | 3,880 | 3,538 | (3,156) | (9,197) | 5,424 |
| Net borrowings | (552) | (2,982) | (936) | 10,972 | 15,164 | (2,564) |
| FCFE | (183) | (228) | 1,716 | 6,546 | 4,736 | 1,661 |
| Net change in cash | 7 | 103 | 987 | 6,901 | 4,769 | 723 |
| Closing cash | 37 | 140 | 1,127 | 8,028 | 12,797 | 13,520 |

Source: Company Accounts, Akseer Research

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Valuation Methodology

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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JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

| Rating | Expected Total Return |
|--------|-------------------------------|
| Buy | Greater than or equal to +15% |
| Hold | Between -5% and +15% |
| Sell | Less than or equal to -5% |

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