

CHCC - FY21 earnings to clock in at PKR 16.65/share

- CHCC is scheduled to announce its FY21 financial result on 26th August 2021, where we expect the company to report an EPS of PKR 4.54 for 4QFY21 compared to a LPS of PKR 3.63 in the same period last year. This will take full year FY21 EPS to PKR 16.65 compared to an LPS of PKR 9.74 in FY20.
- The company is also expected to announce a cash dividend of PKR 1.00 in 4QFY21 which will take the full year dividend to PKR 2.00/share.
- Net sales are anticipated to increase by 89% YoY to PKR 6.85bn during 4QFY21 on account of higher despatches (up 27% YoY) and improved prices (up 49% YoY). Dispatches are expected to grow on the back of 1) resumption in the construction activity post lockdowns accompanied with an accommodative policy rate and 2) Commencement of government's low-cost housing projects.
- Prices are expected to surge by 49% YoY in 4QFY21 due to passing on of rising coal and energy prices by the manufacturers. Moreover, the impact of rising coal and energy prices can be reflected in cost of sales which is expected to rise by 29% YoY in 4QFY21.
- The company is anticipated to record 24pps growth in GMs at 26.3% in FY21 compared to GMs of 2% in FY20. The growth in margins is primarily based on improved prices (up 27% YoY) and growth in local operations of 18% YoY.
- Selling & administration expenses are expected to surge by 44% YoY during 4QFY21 in line with growth in sales.
- 77% YoY growth in other income accompanied with cushioning in finance cost (down 56% YoY) during 4Q is expected to bring profit before tax into positive territory at PKR 1.27bn compared to a loss of PKR 1.0bn in 4QFY20.
- We have a 'HOLD' recommendation on CHCC with a Dec-21 price target (PT) of PKR 190/share providing a potential upside of 7% along with a dividend yield of 1.3%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	190
Current Price (PKR)	177.25
Upside/(Downside) (%)	+ 7%
Dividend Yield (%)	1.3%
Total Return (%)	+ 8.3%
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

Financial Highlights (PKR mn)

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Net Sales	3,630	6,855	89%	17,090	25,276	48%
Cost of Sales	3,908	5,058	29%	16,704	18,634	12%
Gross Profit	(278)	1,797	N/A	386	6,642	1619%
Selling & Admin. Exp	143	206	44%	634	699	10%
Other Income	12	21	77%	71	112	59%
Other Charges	5	73	1367%	19	220	1056%
Finance cost	610	267	-56%	1,917	1,473	-23%
Profit before tax	(1,024)	1,272	N/A	(2,113)	4,362	N/A
Taxation	(318)	391	N/A	(830)	1,127	N/A
Net Income	(706)	881	N/A	(1,284)	3,235	N/A
EPS	(3.63)	4.54		(9.74)	16.65	
DPS	-	1.00		-	2.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
EPS	12.07	9.07	-9.74	16.65	20.32	30.04
EPS Growth	9%	-25%	-207%	-271%	22%	48%
DPS	5.00	1.00	0.00	2.00	8.00	12.00
PER	13.2	17.6	-16.4	9.6	7.8	5.3
Dividend Yield	3.1%	0.6%	0.0%	1.3%	5.0%	7.5%
EV/EBITDA	12.1	14.4	33.8	6.6	5.4	3.7
P/B	2.5	2.6	3.1	2.3	1.8	1.4
ROE	19.1%	15.0%	-18.8%	23.7%	22.7%	26.9%

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 'HOLD' recommendation on the stock based on our Dec-21 PT of 190/share. Our price target provides an upside of 7% along with a dividend yield of 1.3%. 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)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net sales	14,388	15,863	17,090	25,276	30,834	33,169
Cost of sales	11,249	12,980	16,704	18,634	23,033	22,490
Gross Profit	3,139	2,883	386	6,642	7,801	10,679
SG & A	582	690	634	699	753	815
Operating Profit	2,557	2,193	(247)	5,943	7,048	9,864
Other income	81	107	71	112	147	183
Other charges	134	109	19	220	261	397
Finance cost	357	1,143	2,527	1,473	1,713	1,430
Profit before tax	2,147	1,048	(2,723)	4,362	5,221	8,221
Taxation	15	(715)	(830)	1,127	1,273	2,384
Profit after tax	2,132	1,763	(1,893)	3,235	3,948	5,837

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	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	10,139	12,244	12,988
Total Assets	30,520	35,280	32,922	38,618	40,656	41,333
Non-Current liabilities	15,693	17,328	16,980	15,302	11,816	8,350
Current liabilities	3,653	6,196	5,888	9,695	11,436	11,263
Total Liabilities	19,346	23,524	22,868	24,997	23,251	19,613
Equity	11,174	11,756	10,054	13,620	17,405	21,720
Total Equity & liabilities	30,520	35,280	32,922	38,618	40,656	41,333

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21F	FY22F	FY23F
Net Income	2,132	1,763	(1,893)	3,235	3,948	5,837
Non-cash Charges	1,090	1,394	1,754	1,672	1,635	1,701
Operating Cash flows	3,021	1,103	539	4,719	5,087	6,519
FCFF	(7,888)	(1,454)	2,125	1,709	4,843	5,934
Net borrowings	9,663	4,539	(552)	1,114	(2,713)	(3,416)
FCFE	1,421	1,163	(183)	1,731	835	1,502
Net change in cash	1	(18)	7	301	672	(19)
Closing cash	47	30	37	338	1,010	991

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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