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19th August 2024

CHCC: 4QFY24 EPS expected to clock in at PKR 6.21, up 13x YoY, DPS PKR 3.0

Cherat Cement Company Limited

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

- CHCC is scheduled to announce its 4QFY24 financial result on 22nd August 2024, wherein we expect the company to report an EPS of PKR 6.21, up 13x YoY. The considerable increase on a YoY basis is due to the low base effect following the impact of super tax in 4QFY23. On a cumulative basis, this will take the full year FY24 EPS to PKR 30.12, up 33% YoY. Along with the result, we expect the company to announce a cash payout of PKR 3.0/share, taking the overall payout to PKR 4.5/share in FY24.
- Net revenue for the company is projected to reach PKR 9.3bn in the 4QFY24, representing an 8% YoY increase. This growth is attributed to 7% YoY rise in the net average retention price while overall dispatches remained stagnant on a YoY basis.
- Gross margins are likely to increase to 28% during 4QFY24 vs 21% SPLY, largely due to the increase in retention prices and a 18% YoY decrease in coal prices.
- However, on a sequential basis we expect the company's gross margins to decline by 114 bps to 28%, due to a higher mix of low margin exports in the total offtakes and elevated coal prices in the 4QFY24.
- The company's finance cost is expected to decline 37% YoY due to a 49% YoY decrease in debt levels.
- We have a 'BUY' recommendation on CHCC with our Dec-24 price target (PT) of PKR 213/share, providing an upside of 26%.

Key Data

PSX Ticker	CHCC
Target Price (PKR)	213
Current Price (PKR)	169
Upside/(Downside) (%)	+26%
Dividend Yield (%)	1.8%
Total Return (%)	28%
12-month High (PKR)	174
12-month Low (PKR)	121
Outstanding Shares (mn)	194
Market Cap (PKR mn)	32,863

Source: PSX, Akseer Research

Financial Estimates (PKR mn)	4QFY23	4QFY24E	YoY	FY23	FY24E	YoY
Sales	8,630	9,284	8%	37,386	38,214	2%
Cost of sales	6,786	6,640	-2%	27,249	26,405	-3%
Gross Profit	1,843	2,644	43%	10,137	11,809	16%
Admin & Selling Expense	282	345	22%	1,043	1,262	21%
Other Income	94	141	50%	454	470	3%
Other expense	26	146	457%	362	534	47%
Finance Cost	499	316	-37%	1,914	1,448	-24%
Profit before tax	1,130	1,978	75%	7,272	9,035	24%
Taxation	1,037	771	-26%	2,868	3,184	11%
Net Income	93	1,206	13x	4,404	5,851	33%
EPS	0.48	6.21	-	22.67	30.12	-
DPS	3.00	3.00	-	4.5	4.5	-

Source: Company Accounts, Akseer Research

Key Financial Ratios	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
EPS (PKR)	16.50	22.93	22.67	30.12	32.02	42.77
EPS Growth	-269%	39%	-1%	33%	6%	34%
DPS (PKR)	2.25	3.00	4.50	4.50	8.00	17.00
PER	8.2	5.9	6.0	4.5	4.2	3.2
Dividend Yield	1.7%	2.2%	3.3%	3.3%	5.9%	12.6%
EV/EBITDA	5.6	4.2	3.5	2.5	2.2	1.7
P/B	1.9	1.5	1.3	1.0	0.8	0.7
ROE	23.6%	25.7%	21.1%	22.3%	20.1%	23.1%

Source: Company Accounts, Akseer Research

Valuation Basis

Our PT for Cherat Cement Company Limited (CHCC) has been computed using the Free Cash Flow to Firm (FCFF) method. We have used a risk free rate of 15%, a beta of 1.0 and a market risk premium of 6% to arrive at a cost of equity of 21%.

Investment Thesis

We have a 'Buy' recommendation on the stock based on our Dec-24 PT of 213/share. Our price target provides an upside of 26.2% along with a dividend yield of 1.8%. Our investment case on CHCC is based on (1) improved retention prices and (2) ease in coal prices.

Risks

Key downside risks to our investments thesis are: (1) a higher than anticipated increase in input cost (coal, FO, gas) (2) lower than anticipated growth in cement demand (3) lower than expected cement prices and, (4) a 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 and 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)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net sales	25,207	32,085	37,386	38,214	38,388	47,385
Cost of sales	18,479	23,135	27,249	26,405	26,023	31,777
Gross Profit	6,728	8,951	10,137	11,809	12,365	15,608
SG & A	720	878	1,043	1,262	1,423	1,558
Operating Profit	6,008	8,072	9,094	10,547	10,942	14,050
Other income	105	390	454	470	474	473
Other charges	251	275	362	534	595	638
Finance cost	1,524	1,359	1,914	1,448	622	262
Profit before tax	4,337	6,829	7,272	9,035	10,199	13,623
Taxation	1,132	2,373	2,868	3,184	3,978	5,313
Profit after tax	3,205	4,456	4,404	5,851	6,221	8,310

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
PPE	25,591	27,568	28,935	28,497	29,839	31,368
Other LT assets	756	571	502	571	570	569
Non-Current Assets	26,347	28,140	29,437	29,068	30,409	31,936
Current assets	7,846	10,465	9,865	12,541	12,942	15,951
Total Assets	34,194	38,885	39,302	41,609	43,351	47,887
Non-Current liabilities	13,331	11,441	10,254	6,796	6,198	5,608
Current liabilities	7,273	9,847	8,169	8,601	6,241	6,324
Total Liabilities	20,604	21,289	18,423	15,398	12,439	11,932
Equity	13,590	17,316	20,879	26,211	30,912	35,955
Total Equity & liabilities	34,193	38,885	39,302	41,609	43,351	47,887

Source: Company Accounts, Akseer Research

Cashflow Statement (PKR mn)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Net Income	3,205	4,456	4,404	5,851	6,221	8,310
Non-cash Charges	1,667	1,617	1,602	1,737	1,859	1,994
Operating Cash flows	4,705	6,246	8,021	8,234	7,499	7,979
FCFF	3,880	3,538	6,212	7,873	4,677	4,616
Net borrowings	(2,982)	(936)	(5,178)	(4,774)	(2,455)	(773)
FCFE	(228)	1,716	(125)	2,161	1,842	3,683
Net change in cash	103	987	(966)	228	322	416
Closing cash	140	1,127	160	388	710	1,126

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
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