

**Cherat Cement Company Limited**  
Result Review

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

Pakistan Research

**CHCC: 3QFY22 EPS reported at PKR 5.48, down 3% YoY**

- CHCC announced its 3QFY22 results today wherein the company reported net earnings of PKR 1.06bn (EPS PKR 5.48) down 3% YoY, compared to net earnings of PKR 1.09bn (EPS 5.63) in 3QFY21. This accumulates 9MFY22 earnings to PKR 17.68/share compared to PKR 11.44 in 9MFY21, up 54.6% YoY.
- Net revenue of the company stood at PKR 7.8bn in 3Q, up 14% YoY mainly supported by higher cement retention price of PKR 430/bag, up 27% YoY. This is despite decline in cement volumes by 10% YoY.
- CHCC's gross margin declined to 27% in 3QFY22, down 3ppts YoY compared to 3QFY21. The company registered a lower gross margin on the back of escalating coal prices.
- Finance cost of the company declined by 5% YoY to PKR 305mn during 3Q due to decline in long term financing by 23%.
- On a sequential basis, earnings of the company remained lower by 9.5% QoQ due to decline in local cement dispatches by 2% QoQ. Along with this, company's other income also declined 9% QoQ as company reported exchange gain in previous quarter.
- We have a 'BUY' recommendation on CHCC with our Dec-22 price target (PT) of PKR 220/share, providing an upside of 54% along with a dividend yield of 3%.

**Key Data**

PSX Ticker	CHCC
Target Price (PKR)	220
Current Price (PKR)	83
Upside/(Downside) (%)	+ 68%
Dividend Yield (%)	+4%
Total Return (%)	+ 71%
12-month High (PKR)	195
12-month Low (PKR)	116
Outstanding Shares (mn)	195.5
Market Cap (PKR mn)	27,646
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	6,832	7,803	14%	18,421	22,581	23%
Cost of Sales	4,748	5,723	21%	13,576	16,344	20%
<b>Gross Profit</b>	<b>2,084</b>	<b>2,080</b>	<b>0%</b>	<b>4,845</b>	<b>6,238</b>	<b>29%</b>
Selling & Admin. Exp	204	221	8%	529	631	19%
Other Income	17	15	-9%	65	304	367%
Other Charges	83	94	13%	169	299	76%
Finance cost	321	305	-5%	1,206	905	-25%
Profit before tax	<b>1,492</b>	<b>1,475</b>	<b>-1%</b>	<b>3,006</b>	<b>4,706</b>	<b>57%</b>
Taxation	399	410	3%	784	1,271	62%
<b>Net Income</b>	<b>1,094</b>	<b>1,065</b>	<b>-3%</b>	<b>2,222</b>	<b>3,435</b>	<b>55%</b>
EPS	5.63	5.48	-3%	11.44	17.68	55%
DPS	-	-		1.00	-	

Source: Company Accounts, Akseer Research

**Key Financial Ratios**

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	9.07	-9.74	16.50	22.27	32.63	28.10
EPS Growth	-25%	-207%	-269%	35%	47%	-14%
DPS	1.00	0.00	2.25	5.50	10.00	7.00
PER	14.5	-13.5	7.9	5.9	4.0	4.7
Dividend Yield	0.8%	0.0%	1.7%	4.2%	7.6%	5.3%
EV/EBITDA	12.8	30.2	5.5	4.4	3.7	5.2
P/B	2.2	2.5	1.9	1.4	1.1	1.0
ROE	15.0%	-18.8%	23.6%	24.4%	27.5%	20.5%

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 Firm (FCFF) method. We have used a risk free rate of 12%, beta of 1.0 and market risk premium of 6% to arrive at cost of equity of 18%.

### Investment Thesis

We have a 'BUY' recommendation on the stock based on our Dec-22 PT of 220/share. Our price target provides an upside of 68% along with a dividend yield of 4%. Our investment case on CHCC is based on (1) higher cement dispatches following election year and 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) 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						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	15,863	17,090	25,207	34,697	37,868	37,158
Cost of sales	12,980	16,704	18,479	26,472	25,825	26,176
<b>Gross Profit</b>	<b>2,883</b>	<b>386</b>	<b>6,728</b>	<b>8,225</b>	<b>12,042</b>	<b>10,982</b>
SG & A	690	634	720	812	917	1,046
<b>Operating Profit</b>	<b>2,193</b>	<b>(247)</b>	<b>6,008</b>	<b>7,413</b>	<b>11,126</b>	<b>9,936</b>
Other income	107	71	105	208	336	340
Other charges	109	19	251	325	497	435
Finance cost	1,143	2,527	1,524	1,598	2,034	2,152
<b>Profit before tax</b>	<b>1,048</b>	<b>(2,723)</b>	<b>4,337</b>	<b>5,699</b>	<b>8,931</b>	<b>7,689</b>
Taxation	(715)	(830)	1,132	1,372	2,590	2,230
<b>Profit after tax</b>	<b>1,763</b>	<b>(1,893)</b>	<b>3,205</b>	<b>4,327</b>	<b>6,341</b>	<b>5,459</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	26,891	25,307	25,591	26,654	38,814	56,747
Other LT assets	296	930	756	786	819	855
Non-Current Assets	27,186	26,237	26,347	27,440	39,633	57,602
Current assets	8,093	6,685	7,846	12,246	14,930	13,109
<b>Total Assets</b>	<b>35,280</b>	<b>32,922</b>	<b>34,194</b>	<b>39,686</b>	<b>54,562</b>	<b>70,711</b>
Non-Current liabilities	17,328	16,980	13,331	14,933	25,089	31,823
Current liabilities	6,196	5,888	7,273	7,005	6,419	12,281
<b>Total Liabilities</b>	<b>23,524</b>	<b>22,868</b>	<b>20,604</b>	<b>21,938</b>	<b>31,508</b>	<b>44,104</b>
Equity	11,756	10,054	13,590	17,747	23,054	26,607
<b>Total Equity &amp; liabilities</b>	<b>35,280</b>	<b>32,922</b>	<b>34,193</b>	<b>39,685</b>	<b>54,562</b>	<b>70,711</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn) – Consolidated						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	1,763	(1,893)	3,205	4,327	6,341	5,459
Non-cash Charges	1,394	1,754	1,667	1,800	1,800	2,174
<b>Operating Cash flows</b>	<b>1,103</b>	<b>539</b>	<b>4,705</b>	<b>4,639</b>	<b>7,674</b>	<b>7,465</b>
<b>FCFF</b>	<b>(1,454)</b>	<b>2,125</b>	<b>3,880</b>	<b>2,989</b>	<b>(4,842)</b>	<b>(11,114)</b>
Net borrowings	4,539	(552)	(2,982)	411	9,512	12,476
<b>FCFE</b>	<b>1,163</b>	<b>(183)</b>	<b>(228)</b>	<b>2,187</b>	<b>3,226</b>	<b>(166)</b>
Net change in cash	(18)	7	103	2,018	2,192	(2,072)
<b>Closing cash</b>	<b>30</b>	<b>37</b>	<b>140</b>	<b>2,158</b>	<b>4,350</b>	<b>2,278</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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