

## Cherat Cement Company Limited

### Result Review

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

Pakistan Research

## CHCC - FY21 EPS clocks in at PKR 16.50, DPS PKR 2.25

- CHCC announced its FY21 financial result today where the company posted net earnings of PKR 16.50/ share versus the LPS of PKR 9.74/share in FY20. Along with the result, the company announced a final dividend of PKR 1.25/share in 4QFY21, taking full year DPS to PKR 2.25.
- Turnaround in earnings has mainly emerged from higher local dispatches (+ 18% YoY) along with better cement prices (up by 27 % YoY). Resultantly, gross margins of the company improved 24 pps in FY21 to 26.7%.
- Selling and admin expenses grew 14% YoY to PKR 720mn in FY21 on the back of higher dispatches and exports.
- Finance cost of the company reduced by 21% YoY to PKR 1.5bn in FY21 mainly due to reduction in short term borrowings and reduced interest rates.
- In 4QFY21 alone, the company reported net earnings of PKR 5.06/share supported through growth in topline and lower finance cost.
- Net sales during the quarter grew by 87% YoY and settled at PKR 6.78bn mainly on the back of higher dispatches and improved local cement prices.
- We have a 'HOLD' recommendation on CHCC with a Dec-21 price target (PT) of PKR 190/share, providing a potential upside of 9% and a dividend yield of 1.3%.

### Key Data

PSX Ticker	CHCC
Target Price (PKR)	190
Current Price (PKR)	174.15
Upside/(Downside) (%)	+ 9%
Dividend Yield	1.3%
Total Return (%)	+ 10.3%
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 Estimates (PKR mn)

	4QFY20A	4QFY21	YoY	FY20A	FY21	YoY
Net Sales	3,630	6,786	87%	17,090	25,207	47%
Cost of Sales	3,908	4,903	25%	16,704	18,479	11%
<b>Gross Profit</b>	<b>(278)</b>	<b>1,883</b>	<b>N/A</b>	<b>386</b>	<b>6,728</b>	<b>1641%</b>
Selling & Admin. Exp	143	191	33%	634	720	14%
Other Income	12	40	241%	71	105	49%
Other Charges	5	82	1558%	19	251	1221%
Finance cost	610	319	-48%	1,917	1,524	-21%
<b>Profit before tax</b>	<b>(1,024)</b>	<b>1,331</b>	<b>N/A</b>	<b>(2,113)</b>	<b>4,337</b>	<b>N/A</b>
Taxation	(318)	349	N/A	(830)	1,132	N/A
<b>Net Income</b>	<b>(706)</b>	<b>983</b>	<b>N/A</b>	<b>(1,284)</b>	<b>3,205</b>	<b>N/A</b>
EPS	(3.63)	5.06		(9.74)	16.50	
DPS	-	1.25		-	2.25	

Source: Company Accounts, Akseer Research

### Key Financial Ratios – Consolidated

	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
EPS	12.07	9.07	-9.74	16.50	20.31	30.03
EPS Growth	9%	-25%	-207%	-269%	23%	48%
DPS	5.00	1.00	0.00	2.25	8.00	12.00
PER	14.4	19.2	-17.9	10.6	8.6	5.8
Dividend Yield	2.9%	0.6%	0.0%	1.3%	4.6%	6.9%
EV/EBITDA	12.8	15.2	35.7	6.9	5.7	4.0
P/B	2.8	2.9	3.4	2.5	2.0	1.6
ROE	19.1%	15.0%	-18.8%	23.6%	22.8%	27.0%

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 9% 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 - MLCF

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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