

## Foundation Alert

### CHCC: Announced Capacity Expansion of 3.5mn TPA

#### Event

- Cherat Cement Company Limited (CHCC PA) in its board meeting held today, has approved setting up of a Greenfield cement manufacturing plant of ~3.5mn TPA at Dera Ismail Khan, KPK.

#### Impact

- The company expects the project to complete in three years' time period with expected Capex of Rs34bn.
- Furthermore, company in its today's board meeting also approved acquisition of land and mining leases in D.I. Khan for Rs1.3bn.
- CHCC currently has an installed capacity of 4.5mn TPA at Lakrai, Nowshera. After the commencement of the announced capacity, total capacity will be increased to 8.0mn TPA.
- Furthermore, post expansion CHCC capacity based market share in north region will be increased by 2.9ppt to 9.3% based on current capacity addition announced by LUCK/KOHC/FCCL/BWCL/MLCF.
- CHCC cement dispatches increased by 12.9% YoY in 9MFY21 and plant capacity utilization remained at 88% in 9MFY21 compared to 78% in 9MFY20.
- Furthermore, CHCC current debt/equity stands at 143%. Assuming 75/25 debt/equity for the new project CHCC debt/equity would be increased to 161/166% in FY22/23, in our view.

#### Outlook

- Going forward, we expect momentum in cement demand to continue given increased contribution from the private sector along with increase in public spending on the back of major infrastructure projects.
- We have positive inclination on the stock given increasing capacity, better utilization level and elevated margins which will uplift profitability.

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.