

Earning Review

CHCC: 4QFY21 EPS clocked in at Rs5.06, DPS Rs1.25

Event

- Cherat Cement Company Limited (CHCC PA) profitability clocked in at Rs983mn (EPS of Rs5.06) in 4QFY21 as compared to loss of Rs706mn (LPS Rs3.63) in 4QFY20. This will take FY21 profitability to Rs3,205mn (EPS of Rs16.50) as compared to loss of Rs1,893mn (LPS of Rs9.74) in FY20.
- The result is accompanied with a cash payout of Rs1.25/sh, taking total payout to Rs2.25/sh in FY21.

Impact

- We attribute increase in CHCC profitability to (1) better cement retention prices in local market, (2) increase in dispatches in both domestic and export market and (3) decline in finance cost.
- CHCC's revenue increased by 87% YoY in 4QFY21 due to 30% YoY increase in dispatches amid 40% YoY increase in cement retention price. Furthermore, CHCC local/export dispatches increased by 9/1982% YoY in 4QFY21. To highlight, company's utilization level remained at 88% in 4QFY21.
- Furthermore, CHCC gross margins increased by 35.4ppt YoY to 27.8% in 4QFY21 due to better retention prices and higher dispatches. However, on sequential basis company's gross margin declined by 2.7ppt QoQ in 4QFY21 due to higher energy cost, in our view.
- Furthermore, CHCC finance cost declined by 48/1% YoY/QoQ in 4QFY21 due to 625bps cut in policy rate by SBP to mitigate the economic impact of outbreak COVID-19.
- Among other major heads admin/distribution cost increased by 39/30% YoY in 4QFY21.
- Furthermore, CHCC other operating expenses increased significantly due to higher provision for WPPF/WWF given better profitability of the company.
- Moreover, CHCC effective tax rate remained at 26.2% in 4QFY21.

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. The company would be a key beneficiary of prevailing lower interest rate due to high financial leverage. We have positive inclination on the stock given increased capacity, better utilization level and elevated margins which will uplift profitability.

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Fig 01: CHCC 4QFY21 Key Financial Highlights

Rs (mn)	4QFY21	4QFY20	YoY	QoQ	FY21	FY20	YoY
Sales - net	6,786	3,630	87%	-1%	25,207	17,090	47%
COGS	4,903	3,908	25%	3%	18,479	16,704	11%
Gross profit	1,883	(278)	N/A	-10%	6,728	386	1641%
Distribution Expenses	113	87	30%	-9%	429	362	19%
Admin Expenses	78	56	39%	-2%	291	272	7%
Other operating expenses	82	5	1558%	-1%	251	19	1221%
Other operating income	40	12	241%	141%	105	71	49%
EBIT	1,650	(414)	N/A	-9%	5,861	(196)	N/A
Financial Charges	319	610	-48%	-1%	1,524	2,527	-40%
PBT	1,331	(1,024)	N/A	-11%	4,337	(2,723)	N/A
Taxation	349	(318)	N/A	-13%	1,132	(830)	N/A
PAT	983	(706)	N/A	-10%	3,205	(1,893)	N/A
EPS@227.15mn sh	5.06	(3.63)			16.50	(9.74)	
GP margins	27.8%	-7.7%			26.7%	2.3%	
EBIT margins	24.3%	-11.4%			23.3%	-1.1%	
NP margins	14.5%	-19.4%			12.7%	-11.1%	

Source: PSX, Company Accounts, Foundation Research, August 2021

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