PAKISTAN September 13, 2021

Foundation Alert

CHCC: Analyst Briefing Takeaways

Event

- Cherat Cement Company Limited (CHCC PA) held its Analyst briefing today to discuss its financial/operational performance for FY21 and future outlook of the company. Following are the key takeaways of the briefing.

Impact

- Cherat Cement Company Limited (CHCC PA) profitability clocked in at Rs3.2bn (EPS of Rs16.50) in FY21 as compared to loss of Rs1.9bn (LPS Rs9.74) in FY20.
- Management attributes increase in profitability to (1) better cement retention prices in local market (up 27% YoY in FY21), (2) increase in dispatches in both domestic and export market and (3) decline in finance cost.
- CHCC revenue increased by 47% YoY in FY21. Management attributes increase in revenue to YoY 17% growth in dispatches and Rs1,300/ton (Rs65/bag) increase in cement retention prices in FY21.
- Management also discussed 24.4ppt YoY increase in CHCC gross margins in FY22 and disclosed that apart from aforementioned price/volume factors lower fixed cost contribution and change in energy mix has provided further support to the higher margins.
- Furthermore, company's management also discussed that YoY growth in domestic demand for FY22 is expected at 9% given higher PSDP disbursement in 1HFY22 and start of pre-election infrastructure projects from 2HFY22. Export of north region is expected to increase given decline in duties by new regime in Kabul. However, south region exports are expected to decline in FY22 due to lower exports to Bangladesh/Sri Lanka and higher freight charges. To highlight, company's current capacity utilization is above 85%.
- Company management also discussed current power mix of the company and disclosed that natural gas is contributing 55% in the energy mix followed by 35% contribution of WHR plant and 5/5% electricity contribution from PESCO/PEDO.
- Furthermore, management also discussed mix of its coal usage and disclosed that imported coal is contributing 50-60% in total coal usage followed by 25-30% local coal and 20-25% coal is imported from Afghanistan. Current cost of imported coal is at Rs35k/ton, while Afghani/local coal cost is 25/19K/ton at company premises. To highlight, after new regime in Afghanistan imported coal is not available but is expected to arrive in near future. Moreover, Afghani coal is normally priced at 10-15% discount to South African imported coal price.
- On new 11,000tpd capacity addition project, the management has disclosed that total cost of the project would be ~Rs34bn and is expected to be financed with 70% debt and 30% with internally generated cash during the period. Management is targeting to achieve COD of new line before Jun'24.
- Furthermore, CHCC management also discussed BMR of line-I and disclosed that the BMR is expected to save on raw material usage and Rs350/ton on line-I due to efficiency measures.

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 would uplift profitability.

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: Company Accounts, Foundation Research, September 2021

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Recommendations definitions

If

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