

Earning Review

CHCC: 1QFY22 EPS clocked in at Rs6.14, up 3.9x YoY

Event

- Cherat Cement Company Limited (CHCC PA) profitability clocked in at Rs1,193mn (EPS of Rs6.14) in 1QFY22 as compared to profit of Rs309mn (EPS Rs1.59) in 1QFY21.
- The result is above our expectations due to lower fuel/power cost, in our view.

Impact

- We attribute increase in CHCC profitability to (1) better cement retention prices in local market, (2) higher cement exports, (3) increase in other income and (4) lower finance cost.
- CHCC's revenue increased by 37% YoY in 1QFY22 due to 3% YoY increase in dispatches amid 37% YoY increase in cement retention price. Furthermore, CHCC local/export dispatches decreased/increased by 4/69% YoY in 1QFY22. To highlight, company's utilization level remained at 83% in 1QFY22.
- Furthermore, CHCC gross margins increased by 7.7/1.3ppt YoY/QoQ to 29.0% in 1QFY22 due to better retention prices and lower fuel/power cost, in our view.
- Furthermore, CHCC finance cost declined by 43/6% YoY/QoQ in 1QFY22 due to decline in debt levels of the company.
- Among other major heads admin/distribution cost increased by 36/24% YoY in 1QFY22.
- Furthermore, CHCC other operating expenses increased significantly due to higher provision for WPPF/WWF given better profitability of the company.
- CHCC's other income also increased to Rs156mn in 1QFY22 we wait for further clarity on this front.
- Moreover, CHCC effective tax rate remained at 25.8% in 1QFY22.

Outlook

- We have Outperform stance on the scrip with Jun-22 target price of Rs186.6/sh. Furthermore, near term profitability of the company is expected to remain under pressure given sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs.
- However company would benefit from (1) favorable Gov't policies (2) continuous increase in consumer housing finance (up 39.8% YoY to Rs111.7bn in Aug'21) and (3) increased demand from public sector due to early disbursement of PSDP.

Analyst

Usman Arif
+92 21 3561 2290-94

usman.arif@fs.com.pk
Ext 339

Fig 01: CHCC 1QFY22 Key Financial Highlights (Rs mn)

Rs (mn)	1QFY22	1QFY21	YoY	QoQ
Sales - net	7,161	5,217	37%	6%
COGS	5,082	4,106	24%	4%
Gross profit	2,079	1,111	87%	10%
Distribution Expenses	112	90	24%	-1%
Admin Expenses	85	62	36%	8%
Other operating expenses	134	25	439%	63%
Other operating income	156	8	1855%	292%
EBIT	1,906	942	102%	15%
Financial Charges	299	522	-43%	-6%
PBT	1,607	420	283%	21%
Taxation	414	111	274%	19%
PAT	1,193	309	286%	21%
EPS@194.295mn sh	6.14	1.59		
GP margins	29.0%	21.3%		
EBIT margins	26.6%	18.1%		
NP margins	16.7%	5.9%		

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

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Recommendations definitions

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