

## Earning Preview

### CHCC: 2QFY22 EPS expected to clock in at Rs5.8, up 37% YoY

#### Event

- Cherat Cement Company Limited (CHCC PA) is expected to post EPS of Rs5.78 (up/down 37/6% YoY/QoQ) in 2QFY22, cumulating into 1HFY22E profitability of Rs2.3bn (EPS Rs11.92, up 105% YoY).

#### Impact

- We attribute expected increase in CHCC profitability to better cement retention prices in local market and higher other income due to exchange gain on hedging instruments given sequential rupee depreciation.
- CHCC's revenue is expected to increase by 23/9% YoY/QoQ in 2QFY22 due to 46/16% YoY/QoQ increase in cement retention price as company dispatches declined by 14/6% YoY/QoQ in 2QFY22. Furthermore, CHCC local/export dispatches are expected to decline by 9/64% YoY in 2QFY22.
- Furthermore, CHCC gross margins are expected to decline by 0.1/3.3ppt YoY/QoQ to 25.8% in 2QFY22 due to higher fuel/energy cost, in our view.
- CHCC finance cost is expected to decline by 8% YoY in 2QFY22 due to decline in debt levels of the company.
- Among other major heads admin/distribution cost is expected to increase/decrease by 23/9% YoY in 2QFY22. Distribution cost is expected to decline due to 64% YoY decline in exports.
- Furthermore, CHCC other operating expenses are expected to increase significantly by 101% YoY due to higher provision for WPPF/WWF given better profitability of the company.
- CHCC's other income is also expected to increase by 3.6x YoY in 2QFY22 due to exchange gain on hedging instrument amid sequential rupee depreciation, in our view.
- Moreover, CHCC effective tax rate is expected to clock in at 26.3% in 2QFY22.

#### Outlook

- We have Outperform stance on the scrip with Dec-22 target price of Rs188.3/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 amid decline in demand growth.
- However company would benefit from (1) favorable Gov't policies for construction sector, (2) continuous increase in consumer housing finance and (3) increased demand from public sector due to pre-election spending.

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Fig 1: CHCC 2QFY22 Earnings Preview (Rs mn)

	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Sales - net	7,805	6,371	23%	9%	14,966	11,589	29%
COGS	5,793	4,721	23%	14%	10,875	8,827	23%
<b>Gross profit</b>	<b>2,012</b>	<b>1,650</b>	<b>22%</b>	<b>-3%</b>	<b>4,092</b>	<b>2,761</b>	<b>48%</b>
Distribution Expenses	93	103	-9%	-17%	205	193	6%
Admin Expenses	87	70	23%	2%	171	132	29%
Other operating expenses	124	61	101%	-8%	257	86	198%
Other operating income	147	40	263%	-6%	303	48	526%
<b>EBIT</b>	<b>1,856</b>	<b>1,456</b>	<b>27%</b>	<b>-3%</b>	<b>3,762</b>	<b>2,398</b>	<b>57%</b>
Financial Charges	332	363	-8%	11%	631	885	-29%
PBT	1,524	1,094	39%	-5%	3,130	1,514	107%
Taxation	401	274	46%	-3%	815	385	112%
<b>PAT</b>	<b>1,123</b>	<b>820</b>	<b>37%</b>	<b>-6%</b>	<b>2,316</b>	<b>1,129</b>	<b>105%</b>
EPS@194.295mn sh	5.78	4.22			11.92	5.81	
GP margins	25.8%	25.9%			27.3%	23.8%	
EBIT margins	23.8%	22.9%			25.1%	20.7%	
NP margins	14.4%	12.9%			15.5%	9.7%	

Source: PSX, Company Accounts, Foundation Research, February 2022

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### Recommendations definitions

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