

Earning Review

CHCC: 2QFY22 EPS clocked in at Rs6.06, up 44% YoY

Event

- Cherat Cement Company Limited (CHCC PA) profitability clocked in at Rs1,177mn (EPS Rs6.06, up/down 44/1% YoY/QoQ) in 2QFY22 as compared to profit of Rs820mn in 2QFY21. This takes 1HFY22 accumulated profitability to Rs2,370mn (EPS Rs12.20, up 110% YoY) as compared to profit of Rs1,129mn (EPS 5.81) in 1HFY21.
- The result is in line with our expectations.

Impact

- We attribute increase in CHCC's 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 increased by 20/6% YoY/QoQ in 2QFY22 due to 43/13% YoY/QoQ increase in cement retention price as company dispatches declined by 14/6% YoY/QoQ in 2QFY22. Furthermore, CHCC's local/export dispatches declined by 9/64% YoY in 2QFY22.
- Company gross margins increased/decreased by 1.4/1.7ppt YoY/QoQ to 27.3% in 2QFY22.
- CHCC's finance cost declined by 17% YoY in 2QFY22 due to decline in debt levels of the company.
- Among other major heads admin/distribution cost increased by 18/28% YoY in 2QFY22.
- Furthermore, CHCC's other operating expenses increased by 16% YoY due to higher provision for WPPF/WWF given better profitability of the company.
- To highlight, CHCC's other income increased by 3.3x YoY in 2QFY22 due to exchange gain on hedging instrument amid sequential rupee depreciation, in our view.
- Moreover, CHCC's effective tax rate increased by 2.5/1.7ppt YoY/QoQ to 27.5% 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 01: CHCC 2QFY22 Key Financial Highlights (Rs mn)

	2QFY22	2QFY21	YoY	QoQ	1HFY22	1HFY21	YoY
Sales - net	7,618	6,371	20%	6%	14,779	11,589	28%
COGS	5,539	4,721	17%	9%	10,621	8,827	20%
Gross profit	2,079	1,650	26%	0%	4,158	2,761	51%
Distribution Expenses	131	103	28%	17%	243	193	26%
Admin Expenses	83	70	18%	-2%	168	132	27%
Other operating expenses	71	61	16%	-47%	205	86	138%
Other operating income	132	40	227%	-16%	289	48	496%
EBIT	1,926	1,456	32%	1%	3,831	2,398	60%
Financial Charges	301	363	-17%	1%	600	885	-32%
PBT	1,624	1,094	49%	1%	3,231	1,514	113%
Taxation	447	274	63%	8%	861	385	124%
PAT	1,177	820	44%	-1%	2,370	1,129	110%
EPS@194.295mn sh	6.06	4.22			12.20	5.81	
GP margins	27.3%	25.9%			28.1%	23.8%	
EBIT margins	25.3%	22.9%			25.9%	20.7%	
NP margins	15.5%	12.9%			16.0%	9.7%	

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

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