

## Earning Review

### CHCC: 1QFY23 EPS clocked in at Rs7.63, up 24% YoY

#### Event

- Cherat Cement Company Limited (CHCC PA) profitability clocked in at Rs1.5bn (EPS Rs7.63, up 24/45% YoY/QoQ) in 1QFY23 as compared to profit of Rs1.2mn in 1QFY22.

#### Impact

- We attribute increase in company profitability to better cement retention prices due to multiple price hikes by the company to pass on the impact of higher fuel and energy cost.
- CHCC's revenue increased by 26% YoY in 1QFY23 due to better retention prices as dispatches declined by 25% YoY. Furthermore, CHCC's local/export dispatches declined by 25/26% YoY in 1QFY23.
- Subsequently, Company gross margins increased by 3/26ppt YoY/QoQ to 32% in 1QFY23.
- CHCC's finance cost increased by 61% YoY in 1QFY23 due to higher interest rates (up 625bps YoY), in our view.
- Among other major heads admin/distribution cost increased by 25/17% YoY in 1QFY23, given higher inflation and substantial increase in HSD prices.
- Furthermore, CHCC's other income decreased by 65/37% YoY/QoQ in 1QFY23.
- Moreover, CHCC's effective tax rate clocked in at 30.4% in 1QFY23. Increase in effective tax rate is due to imposition of super tax in FY23 budget.

#### Outlook

- We have an Outperform stance on the scrip as company would benefit from procurement of afghan coal at competitive prices due to its geographical position, increase in market share post expansion and strong balance sheet position. However, 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 given economic consolidation.

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Fig 01: CHCC 1QFY23 Key Financial Highlights (Rs mn)

Rs (mn)	1QFY23	1QFY22	YoY	QoQ
Sales - net	9,050	7,161	26%	-5%
COGS	6,155	5,082	21%	-9%
<b>Gross profit</b>	<b>2,895</b>	<b>2,079</b>	<b>39%</b>	<b>7%</b>
Distribution Expenses	131	112	17%	-9%
Admin Expenses	106	85	25%	2%
Other operating expenses	103	134	-23%	-542%
Other operating income	55	156	-65%	-37%
<b>EBIT</b>	<b>2,611</b>	<b>1,906</b>	<b>37%</b>	<b>1%</b>
Financial Charges	480	299	61%	6%
<b>PBT</b>	<b>2,131</b>	<b>1,607</b>	<b>33%</b>	<b>0%</b>
Taxation	648	414	57%	-41%
<b>PAT</b>	<b>1,483</b>	<b>1,193</b>	<b>24%</b>	<b>45%</b>
EPS@194.295mn sh	7.63	6.14		
GP margins	32.0%	29.0%		
EBIT margins	28.9%	26.6%		
NP margins	16.4%	16.7%		

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

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### Recommendations definitions

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