

Earning Review

CHCC: 2QFY23 EPS clocked in at Rs8.01, up 32% YoY

Event

- Cherat Cement Company Limited (CHCC PA) profitability clocked in at Rs1.6bn (EPS Rs8.01, up 32/5% YoY/QoQ) in 2QFY23 as compared to profit of Rs1.2bn (EPS Rs6.06) in 2QFY22. This takes 1HFY23 profitability to Rs3.0bn (EPS Rs15.64, up 28% YoY) as compared to profit of Rs2.4bn (EPS Rs12.20) in 1HFY22.

Impact

- We attribute increase in company profitability to (1) better retention prices in domestic market due to multiple price hikes and (2) increased reliance on Afghan/domestic coal along with alternate fuels for energy requirements.
- CHCC revenue increased by 37% YoY in 2QFY23. We attribute increase in revenue to higher retention prices as dispatches remained on lower side due to lower demand amid economic slowdown and decline in exports.
- CHCC gross margins increased by 145bps YoY to 28.7% in 2QFY23 due to increased reliance on domestic/Afghan coal and efficiency measures taken by the company, in our view.
- Company finance cost increased by 73/8% YoY in 2QFY23 due to higher interest rates.
- Among other major heads admin/distribution cost increased by 24/10% YoY in 2QFY23, given higher inflation and substantial increase in HSD prices.
- Furthermore, CHCC's other income decreased by 48% YoY in 2QFY23 due to decline in investment income.
- Moreover, CHCC's effective tax rate clocked in at 28.1% in 2QFY23. 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.
- However, near term profitability growth of the company is expected to remain muted given (1) sector's inability to completely pass on the impact of rise in fuel/power and other overhead costs, (2) slowdown in demand due to economic slowdown and (3) uncertainty over pricing discipline as more expansions are about to come online.

Analyst

Usman Arif
+92 21 3561 2290-94

usman.arif@fs.com.pk
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Fig 1: CHCC 2QFY23 Key Financial Highlights (Rs mn)

	2QFY23	2QFY22	YoY	QoQ	1HFY23	1HFY22	YoY
Sales - net	10,408	7,618	37%	15%	19,457	14,779	32%
COGS	7,416	5,539	34%	21%	13,571	10,621	28%
Gross profit	2,991	2,079	44%	3%	5,886	4,158	42%
Distribution Expenses	144	131	10%	10%	275	243	13%
Admin Expenses	103	83	24%	-2%	209	168	24%
Other operating expenses	128	71	80%	25%	230	205	13%
Other operating income	69	132	-48%	26%	124	289	-57%
EBIT	2,686	1,926	39%	3%	5,297	3,831	38%
Financial Charges	521	301	73%	8%	1,001	600	67%
PBT	2,165	1,624	33%	2%	4,296	3,231	33%
Taxation	609	447	36%	-6%	1,258	861	46%
PAT	1,556	1,177	32%	5%	3,038	2,370	28%
EPS@194.295mn sh	8.01	6.06			15.64	12.20	
GP margins	28.7%	27.3%			30.3%	28.1%	
EBIT margins	25.8%	25.3%			27.2%	25.9%	
NP margins	14.9%	15.5%			15.6%	16.0%	

Source: PSX, Company Accounts, Foundation Research, February 2023

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