

ASL - FY21 EPS expected at PKR 8.92, 4QFY21 EPS at PKR 2.81

- ASL's board meeting is scheduled on September 30, 2021 to consider FY21 financial results. We expect the company to post earnings of PKR 8.92/share in FY21 as against LPS of PKR 1.01 in FY20. We do not forecast any cash dividend along with FY21 results.
- The company's top line is likely to increase by 1.8x YoY, mainly due to higher volumes led by revival of economic activities after COVID-19.
- Gross margins (GMs) are likely to clock in at 22% during FY21 as against 8% in FY20. The improvement in GMs can mainly be attributed to inventory gains booked during the year.
- Finance cost is anticipated to decline by 64% YoY and settle at PKR 1.2bn, driven by interest rate cuts and decline in short-term borrowing.
- On quarterly basis, ASL is likely to post an EPS of PKR 2.81 as against LPS of PKR 0.34 in SPLY. Noticeable surge in sales and improved margins post recovery from COVID-19 led to the profitable bottomline.
- Our Dec-21 PT of PKR 25/share indicates downside of 12%, implying a "HOLD" stance on ASL.

Key Data

PSX Ticker	ASL
Target Price (PKR)	25
Current Price (PKR)	22
Upside/(Downside) (%)	12%
Dividend Yield (%)	0%
Total Return (%)	12%
12-month High (PKR)	28
12-month Low (PKR)	14
Outstanding Shares (mn)	766
Market Cap (PKR mn)	16,842
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Net Sales	5,201	14,537	179%	29,777	55,290	86%
Cost of Sales	4,834	10,774	123%	27,411	43,175	58%
Gross Profit	367	3,763	925%	2,366	12,115	412%
Selling & Distribution cost	158	98	-38%	402	332	-17%
Admin expenses	24	41	69%	56	190	241%
Other Income	3	7	126%	38	63	64%
Finance cost	744	293	-61%	3,386	1,203	-64%
Profit Before Taxation	-556	3,078	NM	-1,439	9,693	NM
Taxation	-282	948	NM	-727	2,811	NM
Net Income	-274	2,130	NM	-713	6,882	NM
EPS	-0.34	2.81	NM	-1.01	8.92	NM

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21E	FY22F	FY22F
EPS	1.61	0.26	(0.89)	8.92	2.84	3.90
EPS Growth	39%	-84%	N/A	N/A	-68%	37%
DPS	-	-	-	-	-	-
PER	13.70	85.18	NA	2.47	7.73	5.65
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	7.82	20.10	12.82	2.50	5.39	4.44
P/B	2.49	2.33	2.53	1.19	1.03	0.87
ROE	18.5%	3.5%	-9.3%	48.8%	13.7%	15.7%

Source: Company Accounts, Akseer Research

Aftab Awan, ACCA

aftab.awan@akseerresearch.com

Valuation Basis

Our PT for Aisha Steel Mills Limited has been computed using Free cash flow to equity (FCFF) method. We have used a risk free rate of 11.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17.0% and weighted average cost of capital of 15.3%.

Investment Thesis

We have a "HOLD" recommendation on the stock based on our Dec-21 PT of 25/share. Our price target indicates a downside of 12%. Our call on ASL is based on (i) higher leverage ratios and (ii) likely competitive headwinds due to entry in high margin HDGC market.

Risks

Key risks to our investment thesis are: 1) higher than projected margins and 2) greater than expected sales volumes.

Company Description

The Company was incorporated in Pakistan on May 30, 2005 as a public limited company under the repealed Companies Ordinance, 1984. The Company has set up a cold rolling mill complex and a galvanization plant in the downstream Industrial Estate, Pakistan Steel, Bin Qasim, Karachi, to carry out its principal business of manufacturing and selling cold rolled coils and hot dipped galvanized coils.

Financial Highlights - ASL

Income Statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Sales	18,904	20,231	29,777	55,290	58,314	63,749
Cost of Sales	15,590	18,553	27,411	43,175	52,983	57,332
Gross Profit	3,314	1,678	2,366	12,115	5,331	6,417
SG & A	211	274	361	522	416	458
Operating Profit	3,103	1,404	2,005	11,593	4,915	5,959
Other Income	35	49	38	63	384	410
Other charges	144	0	0	760	64	87
Finance Cost	1,079	1,865	3,386	1,203	2,097	2,010
Profit Before Tax	1,916	-412	-1,343	9,693	3,139	4,272
Taxation	632	-666	-727	2,811	910	1,239
Profit After Tax	1,284	254	-617	6,882	2,229	3,033

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	13,374	20,133	19,007	19,198	20,242	21,346
Other LT assets	992	1,427	2,219	2,202	2,190	2,182
Non-Current Assets	14,366	21,560	21,226	21,400	22,432	23,528
Current assets	6,060	11,171	13,283	22,617	27,566	28,606
Total Assets	20,426	32,731	34,509	44,017	49,997	52,134
Non-Current liabilities	4,934	7,273	9,468	9,226	8,631	8,275
Current liabilities	7,001	16,711	16,944	19,236	23,504	22,879
Total Liabilities	11,935	23,984	26,412	28,462	32,135	31,154
Equity	6,933	7,235	6,652	14,094	16,323	19,356
Total Equity & liabilities	20,426	32,731	34,509	44,017	49,997	52,134

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	1,284	254	-617	6,882	2,229	3,033
Non cash Charges	429	508	801	792	837	884
Operating Cash flows	-740	-3,963	2,166	5,422	1,744	2,506
FCFF	-3,275	-10,373	4,897	5,295	1,354	1,945
Net borrowings	2,676	11,390	-2,486	-1,338	1,462	-1,350
FCFE	-1,322	161	7	3,103	1,327	-832
Net change in cash	-815	163	-26	3,678	1,406	-748
Closing cash	46	209	183	3,861	5,267	4,519

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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Sell	Less than or equal to -5%

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Contact Details

Akseer Research (Pvt) Limited

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-34320359 -60

E: info@akseerresearch.com

Alfa Adhi Securities (Pvt) Limited

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,

KCH Society, Block 7 & 8, Near Virtual University, Karachi

T: +92-21-38694242

E: info@alfaadhi.net