

Aisha Steel Mills Limited

Result Review

PSX: ASL Bloomberg: ASL: PA Reuters: AISH. PSX

Pakistan Research

Lower volumes and margin contraction drag 2QFY22 earnings

- ASL announced its 2QFY22 financial results today, where the company reported a net loss of PKR 286mn (LPS PKR 0.29), as compared to net profit of PKR 1.8bn (EPS PKR 1.92). The result is below our estimates mainly due to lower volumetric sales and gross margin contraction. This takes ASL's 1HFY22 earnings to PKR 0.5/share, down 81% YoY.
- The company's net sales stood at PKR 13.6bn, down 4% YoY. Despite higher product prices, net revenue declined due to lower volumetric sales during the quarter.
- Gross margins clocked in at 3.3% as compared to 21.8% in SPLY, down 18.5ppts YoY mainly due to absence of hefty inventory gains.
- Distribution expense increased by 2.9x to PKR 122mn owing to higher freight charges, whereas finance cost went up by 1.8x YoY to PKR 737mn mainly due to increase in short term borrowings amid higher interest rates.
- On the contrary, ASL booked a tax credit of PKR 138mn during 2Q, as compared to the effective tax rate of 27% in SPLY, restricting the quantum of loss.
- We have a 'Buy' stance on ASL. Our Dec-22 price target (PT) of PKR 31/share provides an upside of 132% along with a dividend yield of 8%.

Key Data

PSX Ticker	ASL
Target Price (PKR)	31
Current Price (PKR)	13
Upside/(Downside) (%)	+ 132%
Dividend Yield (%)	8%
Total Return (%)	+ 139%
12-month High (PKR)	28
12-month Low (PKR)	12
Outstanding Shares (mn)	766
Market Cap (PKR mn)	10,143
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	14,211	13,574	-4%	25,417	31,581	24%
Cost of Sales	11,110	13,121	18%	20,840	28,920	39%
Gross Profit	3,101	452	-85%	4,577	2,660	-42%
Admin & General	81	81	0%	152	162	7%
Selling & Distribution	31	122	291%	43	267	518%
Other Income	23	32	38%	35	38	8%
Finance cost	261	737	183%	704	1,633	132%
Profit Before Taxation	2,555	(424)	NM	3,452	591	-83%
Taxation	695	(138)	NM	932	139	-85%
Net Income	1,860	(286)	NM	2,520	452	-81%
EPS	1.92	-0.29	NM	2.61	0.50	-81%
DPS	-	-	-	-	-	-

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	0.26	(0.88)	8.19	5.16	4.80	5.63
EPS Growth	-84%	N/A	N/A	-37%	-7%	17%
DPS	0.00	0.00	2.00	1.00	1.00	1.25
PER	51.45	NA	1.62	2.57	2.76	2.35
Dividend Yield	0.0%	0.0%	15.1%	7.5%	7.5%	9.4%
EV/EBITDA	16.59	10.43	2.14	2.67	2.58	2.17
P/B	1.40	1.52	0.78	0.56	0.46	0.39
ROE	3.5%	-9.3%	48.8%	22.0%	17.0%	16.6%

Source: Company Accounts, Akseer Research

Aftab Awan

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 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0% and weighted average cost of capital of 15.5%.

Investment Thesis

We have a "Buy" recommendation on the stock. Our Dec-22 PT of 31/share provides an upside of 132% along with the dividend yield of 8%. Our call on ASL is based on 1) strong demand from Auto, Appliances and Construction sector, 2) higher capacity utilization, and 3) import substitution resulting in better volumetric performance.

Risks

Key downside risks to our investment thesis are: 1) Dumping from countries exempted from ADDs and, 2) Contraction in HRC-CRC spread in international market.

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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Sales	20,231	29,777	55,116	71,257	68,170	73,952
Cost of Sales	18,553	27,411	43,931	61,940	59,747	64,890
Gross Profit	1,678	2,366	11,185	9,317	8,423	9,062
SG & A	274	361	596	726	694	750
Operating Profit	1,404	2,005	10,590	8,591	7,729	8,312
Other Income	49	38	499	88	168	312
Other charges	0	0	977	409	381	446
Finance Cost	1,865	3,386	1,524	2,621	2,254	2,019
Profit Before Tax	-412	-1,343	8,588	5,648	5,262	6,159
Taxation	-666	-727	2,220	1,638	1,526	1,786
Profit After Tax	254	-617	6,368	4,010	3,736	4,373

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	20,133	19,007	19,399	20,242	21,346	22,514
Other LT assets	1,427	2,219	553	566	585	609
Non-Current Assets	21,560	21,226	19,951	20,808	21,931	23,123
Current assets	11,171	13,304	16,572	24,563	25,389	29,101
Total Assets	32,731	34,531	36,524	45,371	47,320	52,224
Non-Current liabilities	7,273	9,461	6,274	5,194	4,139	3,103
Current liabilities	16,711	16,972	15,783	20,473	19,660	21,141
Total Liabilities	23,984	26,433	22,057	25,666	23,799	24,244
Equity	7,235	6,652	13,062	18,223	21,959	26,332
Total Equity & liabilities	32,731	34,531	36,524	45,371	47,320	52,224

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	254	-617	6,368	4,010	3,736	4,373
Non cash Charges	508	801	793	838	886	938
Operating Cash flows	-3,963	2,166	6,144	-410	4,936	4,166
FCFF	-10,373	5,003	6,010	-228	4,546	3,494
Net borrowings	11,390	-2,486	-4,874	1,121	-1,422	-322
FCFE	161	7	55	-968	1,524	1,739
Net change in cash	163	-26	55	259	1,605	1,824
Closing cash	209	183	238	497	2,102	3,926

Source: Company Accounts, Akseer Research

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Valuation Methodology

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.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
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

Alpha Capital (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