

3QFY22 earnings decline amid lower volumes and margin contraction

- ASL announced its 3QFY22 financial results today, where the company posted an EPS of PKR 0.05, down 97% YoY. The result was below our estimates mainly due to higher than estimated contraction in gross margins and lower volumetric sales. This takes ASL's 9MFY22 earnings to PKR 0.53/share, down 89% YoY.
- The company's net sales stood at PKR 17.5bn, up 14% YoY on the back of higher product prices. Gross margins clocked in at 4.7% as compared to 24.6% in SPLY mainly due to absence of inventory gains.
- Finance cost went up by 1.7x YoY to PKR 557mn mainly due to increased borrowing coupled with high interest rates.
- Effective tax rate stood at 41.0% in 3QFY22 against 29.0% in same period last year, compressing the earnings growth.
- On sequential basis, ASL posted earnings increase of 1.2x QoQ owing to higher volumetric sales and gross margin improvement by 1.4%.
- We have a 'Buy' stance on ASL. Our Dec-22 price target (PT) of PKR 30/share provides an upside of 134% along with a dividend yield of 4%.

Key Data

PSX Ticker	ASL
Target Price (PKR)	30
Current Price (PKR)	13
Upside/(Downside) (%)	134%
Dividend Yield (%)	4%
Total Return (%)	138%
12-month High (PKR)	28
12-month Low (PKR)	12
Outstanding Shares (mn)	766
Market Cap (PKR mn)	9,806
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	15,337	17,536	14%	40,754	49,117	21%
Cost of Sales	11,561	16,716	45%	32,401	45,636	41%
Gross Profit	3,775	820	-78%	8,352	3,481	-58%
Admin & General	82	80	-3%	234	242	3%
Selling & Distribution	106	53	-50%	149	321	115%
Other Income	21	25	17%	56	62	11%
Finance cost	206	557	170%	910	2,191	141%
Profit Before Taxation	3,163	105	-97%	6,615	695	-89%
Taxation	931	43	-95%	1,863	182	-90%
Net Income	2,232	62	-97%	4,752	514	81%
EPS	2.32	0.06	-97%	4.94	0.53	-89%
DPS	-	-	-	-	-	-

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	0.26	(0.88)	8.19	2.66	6.14	5.67
EPS Growth	-84%	N/A	N/A	-68%	131%	-8%
DPS	0.00	0.00	2.00	0.50	1.25	1.25
PER	51.45	NA	1.62	4.82	2.09	2.26
Dividend Yield	0.0%	0.0%	15.1%	3.9%	9.8%	9.8%
EV/EBITDA	16.59	10.43	2.14	3.28	2.07	2.06
P/B	1.40	1.52	0.78	0.60	0.47	0.39
ROE	3.5%	-9.3%	48.8%	12.8%	22.6%	17.3%

Source: Company Accounts, Akseer Research

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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 30/share provides an upside of 134% along with the dividend yield of 4%. 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	67,066	68,170	73,952
Cost of Sales	18,553	27,411	43,931	59,600	58,247	64,890
Gross Profit	1,678	2,366	11,185	7,466	9,923	9,062
SG & A	274	361	596	906	826	889
Operating Profit	1,404	2,005	10,590	6,560	9,097	8,173
Other Income	49	38	499	191	313	486
Other charges	0	0	977	244	486	450
Finance Cost	1,865	3,386	1,524	3,134	2,215	2,005
Profit Before Tax	-412	-1,343	8,588	3,372	6,709	6,205
Taxation	-666	-727	2,220	1,281	1,946	1,800
Profit After Tax	254	-617	6,368	2,090	4,763	4,406

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	21,659	24,155	28,137
Total Assets	32,731	34,531	36,524	42,467	46,086	51,260
Non-Current liabilities	7,273	9,461	6,274	5,180	4,148	3,103
Current liabilities	16,711	16,972	15,783	19,503	19,309	21,037
Total Liabilities	23,984	26,433	22,057	24,682	23,457	24,141
Equity	7,235	6,652	13,062	16,303	21,067	25,472
Total Equity & liabilities	32,731	34,531	36,524	42,467	46,086	51,260

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	254	-617	6,368	2,090	4,763	4,406
Non cash Charges	508	801	793	838	886	938
Operating Cash flows	-3,963	2,166	6,144	244	5,427	3,922
FCFF	-10,373	5,003	6,010	508	5,009	3,240
Net borrowings	11,390	-2,486	-4,874	770	-1,296	-97
FCFE	161	7	55	-665	2,140	1,720
Net change in cash	163	-26	55	562	2,221	1,805
Closing cash	209	183	238	800	3,021	4,827

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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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
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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