

FY22 EPS likely to clock in at PKR 0.9, down 87% YoY

- ASL's board meeting is scheduled on September 27, 2022 to consider FY22 financial results. We expect the company to post an EPS of PKR 0.9, down 87% YoY as compared to PKR 6.6 in SPLY. This decline in earnings mainly emanates from higher production cost, absence of inventory gains booked in the corresponding period last year and higher tax expense.
- Net sales are expected to grow by 22% YoY to PKR 67.4bn on account of higher product prices. On the contrary, gross margin is likely to contract by 13% to 7.4% during the year owing to higher input costs.
- Selling & distribution expenses are likely to increase by 1.25x to PKR 538mn owing to higher freight charges on export sales during the year.
- Finance cost is expected to go up by 79% YoY to PKR 2.7bn, on the back of increased borrowings and higher interest rates.
- ASL's effective tax rate during FY22 is expected at 39%, compared to 26% in FY21. Significant increase in tax expense is due to 10% super tax imposed on FY22 earnings which will restrict the growth in earnings.
- On a quarterly basis, ASL's earnings are expected at PKR 0.4/share, down 78% YoY, owing to gross margin contraction (8.2% expected Vs 19.7% in SPLY) and higher effective tax rate (51% Vs 18% in SPLY), limiting earnings growth in 4Q.
- We have a "BUY" stance on ASL. Our Jun-23 PT of PKR 17/share indicates an upside of 68% along with a dividend yield of 5%.

Key Data

PSX Ticker	ASL
Target Price (PKR)	17
Current Price (PKR)	10
Upside/(Downside) (%)	+ 68%
Dividend Yield (%)	5%
Total Return (%)	+ 73%
12-month High (PKR)	22
12-month Low (PKR)	10
Outstanding Shares (mn)	766
Market Cap (PKR mn)	7,640
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Net Sales	14,363	18,261	27%	55,116	67,378	22%
Cost of Sales	11,530	16,761	45%	43,931	62,396	42%
Gross Profit	2,833	1,501	-47%	11,185	4,982	-55%
Admin & General	122	125	2%	357	367	3%
Selling & Distribution	90	218	143%	239	538	125%
Other Income	443	105	-76%	499	168	-66%
Finance cost	614	532	-13%	1,524	2,722	79%
Profit Before Taxation	478	9	-98%	977	103	-89%
Taxation	1,973	723	-63%	8,588	1,418	-83%
Net Income	356	371	4%	2,220	553	-75%
EPS	1,617	351	-78%	6,368	865	-87%
DPS	1.7	0.4	-78%	6.6	0.9	-87%

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	0.33	(0.81)	6.61	0.90	2.07	3.27
EPS Growth	-78%	N/A	N/A	-86%	131%	58%
DPS	0.00	0.00	2.00	0.00	0.50	0.75
PER	30.1	NA	1.5	11.1	4.8	3.1
Dividend Yield	0.0%	0.0%	20.0%	0.0%	5.0%	7.5%
EV/EBITDA	15.28	9.54	1.92	4.68	3.32	2.51
P/B	1.06	1.15	0.59	0.51	0.45	0.38
ROE	3.5%	-9.3%	48.8%	5.7%	11.7%	15.6%

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 13.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0% and weighted average cost of capital of 15.9%.

Investment Thesis

We have a "Buy" recommendation on the stock. Our Jun-23 PT of 17/share provides an upside of 68% along with the dividend yield of 5%. Our call on ASL is based on 1) Revival of 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	67,378	58,897	62,313
Cost of Sales	18,553	27,411	43,931	62,396	52,676	54,597
Gross Profit	1,678	2,366	11,185	4,982	6,220	7,715
SG & A	274	361	596	906	826	889
Operating Profit	1,404	2,005	10,590	4,076	5,395	6,826
Other Income	49	38	499	168	182	217
Other charges	0	0	977	103	219	346
Finance Cost	1,865	3,386	1,524	2,722	2,331	1,922
Profit Before Tax	-412	-1,343	8,588	1,418	3,026	4,775
Taxation	-666	-727	2,220	553	1,029	1,623
Profit After Tax	254	-617	6,368	865	1,997	3,151

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	20,821	18,630	20,342
Total Assets	32,731	34,531	36,524	41,628	40,561	43,465
Non-Current liabilities	7,273	9,461	6,274	5,168	4,125	3,095
Current liabilities	16,711	16,972	15,783	19,901	17,798	18,496
Total Liabilities	23,984	26,433	22,057	25,069	21,924	21,591
Equity	7,235	6,652	13,062	15,078	17,075	20,227
Total Equity & liabilities	32,731	34,531	36,524	41,628	40,561	43,465

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	254	-617	6,368	865	1,997	3,151
Non cash Charges	508	801	793	838	886	938
Operating Cash flows	-3,963	2,166	6,144	-682	4,059	3,333
FCFF	-10,373	5,003	5,858	-700	3,607	2,496
Net borrowings	11,390	-2,486	-4,874	1,189	-2,024	-786
FCFE	161	7	55	-1,171	44	442
Net change in cash	163	-26	55	56	125	527
Closing cash	209	183	238	294	419	946

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%
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