

Aisha Steel Mills Limited

Result Review

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

Pakistan Research

FY22 EPS clocks in at PKR 1.16, down 82% YoY

- ASL announced its FY22 financial results today where the company reported an EPS of PKR 1.16, down 82% YoY as compared to PKR 6.6 in SPLY. This decline in earnings mainly emanates from higher production cost and absence of inventory gains booked in the corresponding period last year.
- Net sales grew by 18% YoY to PKR 64.8bn on account of higher product prices. On the contrary, gross margin contracted by 11.8ppt to 8.5% during the year owing to higher input costs.
- Selling & distribution expenses went up by 76% to PKR 421mn owing to higher freight charges on export sales during the year.
- The company booked higher finance cost during FY22 at PKR 2.3bn, up 51% YoY primarily due to higher interest rates and short-term borrowings. Similarly, other expenses grew by 24% YoY to PKR 1.2bn due to exchange losses booked during the year.
- Contrary to our expectation, ASL's effective tax rate during FY22 remained 10%, compared to 26% in FY21. This tax credit served as the major deviation from our earnings expectation.
- On a quarterly basis, ASL posted earnings at PKR 0.6/share, down 61% YoY, owing to gross margin contraction (12.9% Vs 19.7% 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 64% along with a dividend yield of 5%.

Key Data

PSX Ticker	ASL
Target Price (PKR)	17
Current Price (PKR)	10
Upside/(Downside) (%)	+ 64%
Dividend Yield (%)	5%
Total Return (%)	+ 69%
12-month High (PKR)	22
12-month Low (PKR)	10
Outstanding Shares (mn)	766
Market Cap (PKR mn)	7,862
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	14,363	15,714	9%	55,116	64,830	18%
Cost of Sales	11,530	13,681	19%	43,931	59,317	35%
Gross Profit	2,833	2,033	-28%	11,185	5,514	-51%
Admin & General	122	113	-8%	357	395	11%
Selling & Distribution	90	141	58%	239	421	76%
Other Income	443	24	-95%	499	86	-83%
Finance cost	614	715	17%	1,524	2,299	51%
Other Charges	478	507	6%	977	1,208	24%
Profit Before Taxation	1,973	580	-71%	8,588	1,275	-85%
Taxation	356	(53)	NM	2,220	129	-94%
Net Income	1,617	632	-61%	6,368	1,146	-82%
EPS	1.6	0.6	-61%	6.6	1.2	-82%
DPS	2.0	0.0		2.0	0.0	

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24F
EPS	0.33	(0.81)	6.61	1.16	2.06	3.21
EPS Growth	-78%	N/A	N/A	-82%	77%	56%
DPS	0.00	0.00	2.00	0.00	0.50	0.75
PER	31.0	NA	1.6	8.9	5.0	3.2
Dividend Yield	0.0%	0.0%	19.5%	0.0%	4.9%	7.3%
EV/EBITDA	15.40	9.62	1.94	4.34	3.56	2.71
P/B	1.09	1.18	0.60	0.62	0.55	0.46
ROE	3.5%	-9.3%	48.8%	7.5%	11.7%	15.4%

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 64% 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	FY22A	FY23E	FY24F
Net Sales	20,231	29,777	55,116	64,830	58,897	62,313
Cost of Sales	18,553	27,411	43,931	59,317	52,676	54,597
Gross Profit	1,678	2,366	11,185	5,514	6,220	7,715
SG & A	274	361	596	817	826	889
Operating Profit	1,404	2,005	10,590	4,697	5,395	6,826
Other Income	49	38	499	86	209	243
Other charges	0	0	977	1,208	223	348
Finance Cost	1,865	3,386	1,524	2,299	2,300	1,922
Profit Before Tax	-412	-1,343	8,588	1,275	3,080	4,800
Taxation	-666	-727	2,220	129	1,047	1,632
Profit After Tax	254	-617	6,368	1,146	2,033	3,168

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	20,240	18,942	20,675
Total Assets	32,731	34,531	36,524	41,048	40,873	43,798
Non-Current liabilities	7,273	9,461	6,274	5,167	4,126	3,095
Current liabilities	16,711	16,972	15,783	19,041	17,794	18,496
Total Liabilities	23,984	26,433	22,057	24,208	21,919	21,591
Equity	7,235	6,652	13,062	15,359	17,392	20,560
Total Equity & liabilities	32,731	34,531	36,524	41,048	40,873	43,798

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	254	-617	6,368	1,146	2,033	3,168
Non cash Charges	508	801	793	838	886	938
Operating Cash flows	-3,963	2,166	6,144	107	3,582	3,354
FCFF	-10,373	5,003	6,298	494	3,110	2,517
Net borrowings	11,390	-2,486	-4,874	727	-1,562	-786
FCFE	161	7	55	-845	29	463
Net change in cash	163	-26	55	383	110	548
Closing cash	209	183	238	621	731	1,279

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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