

ASL: 1QFY22 EPS expected at PKR 1.22, up 79% YoY, down 27% QoQ

- ASL's board meeting is scheduled on October 28, 2021 to consider its quarterly financial results. We expect the company to post net earnings of PKR 1.22/share, up 79% YoY as against an EPS of PKR 0.69 in the SPLY.
- We expect net sales to grow by 57% YoY, and settle at PKR 17.6bn on account of higher volumes led by revival of economic activities and increase in the CRC prices of 85% YoY during the quarter.
- Finance cost is anticipated to decline by 9% YoY to PKR 403mn due to reduction in borrowings, whereas admin/selling expenses are expected to grow 38%/57% YoY in line with revenue growth.
- On sequential basis, ASL's earnings are likely to post decline of 27% QoQ. Despite 23% QoQ increase in revenue, ASL's GMs are likely to shrink to 12.8% (19.7% in the preceding quarter) due to absence of hefty inventory gains.
- Furthermore, lower effective tax rate of 18% also contributed to bottomline growth in 4QFY21, which will not be the case in 1QFY22.
- Our June-22 price target (PT) of PKR 30/share provides an upside of 69% along with a dividend yield of 6%.
- We have a 'Buy' stance on the stock which is trading at FY22 PE and PBV of 3.4x and 0.7x, respectively.

Key Data	
PSX Ticker	ASL
Target Price (PKR)	30
Current Price (PKR)	18
Upside/(Downside) (%)	69%
Dividend Yield (%)	6%
Total Return (%)	75%
12-month High (PKR)	28
12-month Low (PKR)	15
Outstanding Shares (mn)	766
Market Cap (PKR mn)	13,435
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)					
	1QFY21	1QFY22E	YoY	4QFY21E	QoQ
Net Sales	11,206	17,608	57%	14,363	23%
Cost of Sales	9,730	15,348	58%	11,530	33%
Gross Profit	1,476	2,260	53%	2,833	-20%
Admin & General	71	98	38%	122	-20%
Selling & Distribution	12	19	57%	90	-79%
Other Income	12	23	90%	443	-95%
Finance cost	444	403	-9%	614	-34%
Profit Before Taxation	897	1,663	85%	1,973	-16%
Taxation	237	482	104%	356	35%
Net Income	660	1,181	79%	1,617	-27%
EPS (Diluted)	0.69	1.22	79%	1.68	-27%
DPS	0.00	0.00		2.00	

Key Financial Ratios						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	0.26	(0.88)	8.19	5.02	5.22	5.87
EPS Growth	-84%	N/A	N/A	-39%	4%	12%
DPS	0.00	0.00	2.00	1.00	1.00	1.25
PER	66.48	NA	2.09	3.41	3.28	2.92
Dividend Yield	0.0%	0.0%	11.7%	5.8%	5.8%	7.3%
EV/EBITDA	18.14	11.48	2.40	3.27	2.90	2.45
P/B	1.81	1.97	1.01	0.73	0.59	0.49
ROE	3.5%	-9.3%	48.8%	21.6%	18.3%	17.0%

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 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 14.7%.

Investment Thesis

We have a "Buy" recommendation on the stock based on our Jun-22 PT of 30/share. Our price target indicates an upside of 69% along with the dividend yield of 6%. 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, 2) Contraction in HRC-CRC spread in international market and 3) Prolonged pandemic spread.

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	62,868	68,265	73,952
Cost of Sales	18,553	27,411	43,931	54,800	59,825	64,890
Gross Profit	1,678	2,366	11,185	8,068	8,440	9,062
SG & A	274	361	596	643	695	752
Operating Profit	1,404	2,005	10,590	7,425	7,745	8,311
Other Income	49	38	499	93	177	332
Other charges	0	0	977	399	415	465
Finance Cost	1,865	3,386	1,524	1,613	1,786	1,760
Profit Before Tax	-412	-1,343	8,588	5,505	5,722	6,418
Taxation	-666	-727	2,220	1,597	1,659	1,861
Profit After Tax	254	-617	6,368	3,909	4,062	4,557

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	22,078	25,544	29,458
Total Assets	32,731	34,531	36,524	42,885	47,475	52,581
Non-Current liabilities	7,273	9,461	6,274	5,193	4,142	3,105
Current liabilities	16,711	16,972	15,783	18,090	19,587	21,088
Total Liabilities	23,984	26,433	22,057	23,283	23,729	24,193
Equity	7,235	6,652	13,062	18,122	22,184	26,741
Total Equity & liabilities	32,731	34,531	36,524	42,885	47,475	52,581

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	254	-617	6,368	3,909	4,062	4,557
Non cash Charges	508	801	793	838	886	938
Operating Cash flows	-3,963	2,166	6,144	761	3,880	4,408
FCFF	-10,373	5,003	6,010	228	3,157	3,552
Net borrowings	11,390	-2,486	-4,874	50	-339	-333
FCFE	161	7	55	-868	1,550	1,969
Net change in cash	163	-26	55	360	1,631	2,054
Closing cash	209	183	238	598	2,229	4,283

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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