

## 1QFY23 EPS likely to clock in at PKR 0.1, down 81% YoY

- ASL's board meeting is scheduled on October 27, 2022 to consider 1QFY23 financial results. We expect the company to post an EPS of PKR 0.1, down 81% YoY as compared to PKR 0.7 in SPLY. This decline in earnings mainly emanates from lower volumetric sales and margin contraction.
- Net sales are expected to decline by 29% YoY to PKR 12.8bn on account of lower volumetric sales. We expect gross margin to contract by 2.5% to 9.8% during the quarter owing to decline in HRC-CRC margins.
- Selling & distribution expenses are likely to decrease by 38% to PKR 90mn on the back of decline in topline. Admin expenses on the other hand are expected to increase by 15% YoY.
- We expect finance cost to go down by 22% YoY to PKR 0.7bn. This is mainly due to the removal of exchange losses from finance cost and into the head of other expenses. Just to recall, ASL booked close to PKR 400mn exchange losses in finance cost during 1QFY22. Upon normalizing this, finance cost will in fact increase by 40% YoY owing to increased borrowings and higher interest rates.
- On a sequential basis, ASL's earnings are expected to decline by 78% QoQ, owing to lower volumetric sales, gross margin contraction (12.9% in previous quarter) and absence of tax credit.
- We have a "BUY" stance on ASL. Our Jun-23 PT of PKR 16/share indicates an upside of 70%.

### Key Data

PSX Ticker	ASL
Target Price (PKR)	16
Current Price (PKR)	10
Upside/(Downside) (%)	+ 70%
Dividend Yield (%)	0%
Total Return (%)	+ 70%
12-month High (PKR)	19
12-month Low (PKR)	9
Outstanding Shares (mn)	925
Market Cap (PKR mn)	8,850
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	1QFY22	1QFY23E	YoY
Net Sales	18,007	12,845	-29%
Cost of Sales	15,799	11,586	-27%
<b>Gross Profit</b>	<b>2,208</b>	<b>1,259</b>	<b>-43%</b>
Admin & General	81	93	15%
Selling & Distribution	146	90	-38%
Other Income	6	12	95%
Finance cost	896	700	-22%
Other Charges	76	180	136%
<b>Profit Before Taxation</b>	<b>1,015</b>	<b>208</b>	<b>-80%</b>
Taxation	277	69	-75%
<b>Net Income</b>	<b>738</b>	<b>139</b>	<b>-81%</b>
EPS	0.7	0.1	-81%
DPS	-	-	

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(0.81)	6.59	1.16	1.03	2.42	2.89
EPS Growth	N/A	N/A	-82%	-11%	135%	19%
DPS	0.00	2.00	0.00	0.00	0.00	0.00
PER	NA	1.5	8.2	9.3	4.0	3.3
Dividend Yield	0.0%	20.9%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	9.42	1.89	5.27	3.91	3.13	2.59
P/B	1.10	0.56	0.65	0.63	0.53	0.45
ROE	-9.3%	48.8%	9.0%	7.8%	15.4%	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 16%.

### Investment Thesis

We have a "Buy" recommendation on the stock. Our Jun-23 PT of 16/share provides an upside of 70%. 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) Further 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Sales	29,777	55,116	64,830	56,979	59,132	62,055
Cost of Sales	27,411	43,931	59,317	51,395	52,688	55,082
<b>Gross Profit</b>	<b>2,366</b>	<b>11,185</b>	<b>5,514</b>	<b>5,584</b>	<b>6,444</b>	<b>6,973</b>
SG & A	361	596	817	773	835	902
<b>Operating Profit</b>	<b>2,005</b>	<b>10,590</b>	<b>4,697</b>	<b>4,811</b>	<b>5,610</b>	<b>6,071</b>
Other Income	38	499	86	119	173	127
Other charges	0	977	1,208	720	161	189
Finance Cost	3,386	1,524	2,299	2,692	2,056	1,748
<b>Profit Before Tax</b>	<b>-1,343</b>	<b>8,588</b>	<b>1,275</b>	<b>1,518</b>	<b>3,566</b>	<b>4,261</b>
Taxation	-727	2,220	129	501	1,177	1,406
<b>Profit After Tax</b>	<b>-617</b>	<b>6,368</b>	<b>1,146</b>	<b>1,017</b>	<b>2,389</b>	<b>2,855</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	19,007	19,399	19,124	19,071	19,764	20,304
Other LT assets	2,219	553	911	1,005	1,171	1,467
Non-Current Assets	21,226	19,951	20,036	20,076	20,935	21,771
Current assets	13,304	16,572	26,769	18,180	17,788	18,098
<b>Total Assets</b>	<b>34,531</b>	<b>36,524</b>	<b>46,805</b>	<b>38,256</b>	<b>38,724</b>	<b>39,869</b>
Non-Current liabilities	9,461	6,274	5,100	4,623	4,279	3,927
Current liabilities	16,972	15,783	27,669	19,252	17,627	16,233
<b>Total Liabilities</b>	<b>26,433</b>	<b>22,057</b>	<b>32,769</b>	<b>23,875</b>	<b>21,906</b>	<b>20,159</b>
Equity	6,652	13,062	12,730	13,079	15,468	18,323
<b>Total Equity &amp; liabilities</b>	<b>34,531</b>	<b>36,524</b>	<b>46,805</b>	<b>38,256</b>	<b>38,724</b>	<b>39,869</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	-617	6,368	1,146	1,017	2,389	2,855
Non cash Charges	801	817	1,043	1,056	1,108	1,148
<b>Operating Cash flows</b>	<b>2,166</b>	<b>6,168</b>	<b>-5,420</b>	<b>8,995</b>	<b>3,665</b>	<b>3,986</b>
<b>FCFF</b>	<b>4,047</b>	<b>6,058</b>	<b>-4,140</b>	<b>9,795</b>	<b>3,242</b>	<b>3,469</b>
Net borrowings	-2,486	-4,874	7,754	-6,966	-1,721	-1,644
<b>FCFE</b>	<b>7</b>	<b>55</b>	<b>1,547</b>	<b>1,026</b>	<b>144</b>	<b>654</b>
Net change in cash	-26	55	-30	355	191	691
<b>Closing cash</b>	<b>183</b>	<b>238</b>	<b>208</b>	<b>563</b>	<b>754</b>	<b>1,445</b>

Source: Company Accounts, Akseer Research

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