

## 2QFY22 EPS likely to clock in at PKR 1.05, down 45% YoY

- ASL's board meeting is scheduled on 25<sup>th</sup> February 2022 to consider 2QFY22 financial results. We expect the company to post net earnings of PKR 1.05/share, down 45% YoY as against an EPS of PKR 1.93 in the SPLY. Decline in earnings is primarily due to absence of hefty inventory gains. This will take ASL's 1HFY22 earnings to PKR 1.81/share, down 30% YoY.
- Net sales are likely to grow by 54% YoY, and settle at PKR 21.8bn as against PKR 14.2bn in SPLY, mainly due to increase in CRC prices by 45% YoY during the quarter.
- Gross margin of the company is expected to contract to 12% during 2Q vs 22% in SPLY, owing to absence of inventory gains.
- Selling & distribution cost will go up by 2.5x to PKR 109mn owing to higher freight charges. Similarly, finance cost is likely to grow by 2.8x to PKR 996mn due to increase in short term borrowings amid higher interest rates.
- On a sequential basis, ASL's earnings are expected to grow by 39% QoQ on the back of higher volumetric sales.
- We have a "BUY" stance on ASL. Our Dec-22 PT of PKR 31/share indicates an upside of 92% along with a dividend yield of 7%.

### Key Data

PSX Ticker	ASL
Target Price (PKR)	31
Current Price (PKR)	14
Upside/(Downside) (%)	+ 92%
Dividend Yield (%)	7%
Total Return (%)	+ 99%
12-month High (PKR)	28
12-month Low (PKR)	13
Outstanding Shares (mn)	766
Market Cap (PKR mn)	10,740
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	2QFY21	2QFY22E	YoY	1HFY21	1HFY22E	YoY
Net Sales	14,211	21,884	54%	25,417	39,891	57%
Cost of Sales	11,110	19,200	73%	20,840	34,999	68%
<b>Gross Profit</b>	<b>3,101</b>	<b>2,684</b>	<b>-13%</b>	<b>4,577</b>	<b>4,892</b>	<b>7%</b>
Admin & General	81	92	13%	152	173	13%
Selling & Distribution	31	109	251%	43	255	489%
Other Income	23	22	-3%	35	28	-19%
Finance cost	261	996	282%	704	1,893	169%
<b>Profit Before Taxation</b>	<b>2,555</b>	<b>1,406</b>	<b>-45%</b>	<b>3,452</b>	<b>2,421</b>	<b>-30%</b>
Taxation	695	384	-45%	932	661	-29%
<b>Net Income</b>	<b>1,860</b>	<b>1,022</b>	<b>-45%</b>	<b>2,520</b>	<b>1,760</b>	<b>-30%</b>
EPS	1.93	1.05	-45%	2.62	1.81	-30%
DPS	0.00	0.00		0.00	0.00	

### Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	0.26	(0.88)	8.19	5.16	4.80	5.63
EPS Growth	-84%	N/A	N/A	-37%	-7%	17%
DPS	0.00	0.00	2.00	1.00	1.00	1.25
PER	66.48	NA	2.09	3.32	3.57	3.04
Dividend Yield	0.0%	0.0%	11.7%	5.8%	5.8%	7.3%
EV/EBITDA	18.14	11.48	2.40	2.99	2.92	2.49
P/B	1.81	1.97	1.01	0.72	0.60	0.50
ROE	3.5%	-9.3%	48.8%	22.0%	17.0%	16.6%

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 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 31/share provides an upside of 92% along with the dividend yield of 7%. 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	71,257	68,170	73,952
Cost of Sales	18,553	27,411	43,931	61,940	59,747	64,890
<b>Gross Profit</b>	<b>1,678</b>	<b>2,366</b>	<b>11,185</b>	<b>9,317</b>	<b>8,423</b>	<b>9,062</b>
SG & A	274	361	596	726	694	750
<b>Operating Profit</b>	<b>1,404</b>	<b>2,005</b>	<b>10,590</b>	<b>8,591</b>	<b>7,729</b>	<b>8,312</b>
Other Income	49	38	499	88	168	312
Other charges	0	0	977	409	381	446
Finance Cost	1,865	3,386	1,524	2,621	2,254	2,019
<b>Profit Before Tax</b>	<b>-412</b>	<b>-1,343</b>	<b>8,588</b>	<b>5,648</b>	<b>5,262</b>	<b>6,159</b>
Taxation	-666	-727	2,220	1,638	1,526	1,786
<b>Profit After Tax</b>	<b>254</b>	<b>-617</b>	<b>6,368</b>	<b>4,010</b>	<b>3,736</b>	<b>4,373</b>

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	24,563	25,389	29,101
<b>Total Assets</b>	<b>32,731</b>	<b>34,531</b>	<b>36,524</b>	<b>45,371</b>	<b>47,320</b>	<b>52,224</b>
Non-Current liabilities	7,273	9,461	6,274	5,194	4,139	3,103
Current liabilities	16,711	16,972	15,783	20,473	19,660	21,141
<b>Total Liabilities</b>	<b>23,984</b>	<b>26,433</b>	<b>22,057</b>	<b>25,666</b>	<b>23,799</b>	<b>24,244</b>
Equity	7,235	6,652	13,062	18,223	21,959	26,332
<b>Total Equity &amp; liabilities</b>	<b>32,731</b>	<b>34,531</b>	<b>36,524</b>	<b>45,371</b>	<b>47,320</b>	<b>52,224</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	254	-617	6,368	4,010	3,736	4,373
Non cash Charges	508	801	793	838	886	938
<b>Operating Cash flows</b>	<b>-3,963</b>	<b>2,166</b>	<b>6,144</b>	<b>-410</b>	<b>4,936</b>	<b>4,166</b>
<b>FCFF</b>	<b>-10,373</b>	<b>5,003</b>	<b>6,010</b>	<b>-228</b>	<b>4,546</b>	<b>3,494</b>
Net borrowings	11,390	-2,486	-4,874	1,121	-1,422	-322
<b>FCFE</b>	<b>161</b>	<b>7</b>	<b>55</b>	<b>-968</b>	<b>1,524</b>	<b>1,739</b>
Net change in cash	163	-26	55	259	1,605	1,824
<b>Closing cash</b>	<b>209</b>	<b>183</b>	<b>238</b>	<b>497</b>	<b>2,102</b>	<b>3,926</b>

Source: Company Accounts, Akseer Research

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