

ASL: Demand contraction to result in losses during 2QFY23

- ASL's board meeting is scheduled on February 24, 2023 to consider 2QFY23 financial results. We expect the company to post net loss of PKR 0.7/share, as against an LPS of PKR 0.3 in the SPLY. This will take 1HFY23 LPS to PKR 2.1/share vs an EPS of 0.5 in 1HFY22.
- Net sales are expected to decline by 42% YoY to PKR 7.9bn on account of lower volumetric sales due to demand contraction. Furthermore, we expect the gross margin to settle at 1.5% in 2Q, vs 3.3% in 2QFY22 due to higher input cost.
- Selling & distribution expenses are likely to decrease by 42% to PKR 47mn, owing to decline in the topline.
- Finance cost is expected to go up by 17% YoY to PKR 0.9bn vs PKR 737mn in SPLY. This is mainly due to elevated borrowings and higher interest rates.
- On a sequential basis, the quantum of loss is likely to decline, mainly on account of huge exchange loss booked in preceding quarter.
- We have a "HOLD" stance on ASL. Our Dec-23 PT of PKR 8.0/share indicates capital upside of 13%.

Key Data

PSX Ticker	ASL
Target Price (PKR)	8
Current Price (PKR)	7
Upside/(Downside) (%)	+ 13%
Dividend Yield (%)	0%
Total Return (%)	+ 13%
12-month High (PKR)	14
12-month Low (PKR)	7
Outstanding Shares (mn)	925
Market Cap (PKR mn)	6,178
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Net Sales	13,574	7,867	-42%	31,581	14,409	-54%
Cost of Sales	13,121	7,749	-41%	28,920	14,139	-51%
Gross Profit	452	118	-74%	2,660	271	-90%
Admin & General	122	116	-5%	203	210	3%
Selling & Distribution	81	47	-42%	227	71	-69%
Finance cost	737	863	17%	1,633	1,672	2%
Other Charges	32	19	-40%	44	1,341	29.4x
Profit Before Taxation	(424)	(975)	NM	591	(2,991)	NM
Taxation	(138)	(292)	NM	139	(897)	NM
Net Income	(286)	(682)	NM	452	(2,094)	NM
EPS	-0.3	-0.7	NM	0.5	-2.1	NM

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	(0.62)	6.45	1.16	(3.20)	0.15	1.29
EPS Growth	N/A	N/A	-82%	-375%	-105%	749%
DPS	0.00	2.00	0.00	0.00	0.00	0.00
PER	NA	1.0	5.8	NM	44.0	5.2
Dividend Yield	0.0%	29.9%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	8.64	1.69	4.83	12.22	5.01	4.21
P/B	0.77	0.39	0.45	0.65	0.64	0.56
ROE	-9.3%	48.8%	9.0%	-35.4%	1.7%	12.3%

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 17.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23.0% and weighted average cost of capital of 14%.

Investment Thesis

We have a "Hold" recommendation on the stock. Our Dec-23 PT of 8/share provides an upside of 13%. Our call on ASL is based on 1) Demand contraction from Auto, Appliances and Construction sector and, 2) lower capacity utilization.

Risks

Key upside risks to our investment thesis are: 1) Demand pickup and, 2) Increase 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	33,964	38,024	44,086
Cost of Sales	27,411	43,931	59,317	32,161	33,346	38,415
Gross Profit	2,366	11,185	5,514	1,803	4,679	5,671
SG & A	361	596	817	773	835	902
Operating Profit	2,005	10,590	4,697	1,030	3,844	4,770
Other Income	38	499	86	126	186	104
Other charges	0	977	1,208	2,113	62	108
Finance Cost	3,386	1,524	2,299	3,750	3,745	2,868
Profit Before Tax	-1,343	8,588	1,275	-4,707	224	1,898
Taxation	-727	2,220	129	-1,553	74	626
Profit After Tax	-617	6,368	1,146	-3,153	150	1,272

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	15,734	15,713	17,545
Total Assets	34,531	36,524	46,805	35,811	36,648	39,316
Non-Current liabilities	9,461	6,274	5,100	4,561	4,245	3,903
Current liabilities	16,972	15,783	27,669	21,039	21,995	23,696
Total Liabilities	26,433	22,057	32,769	25,600	26,240	27,599
Equity	6,652	13,062	12,730	8,909	9,058	10,330
Total Equity & liabilities	34,531	36,524	46,805	35,811	36,648	39,316

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	-617	6,368	1,146	-3,153	150	1,272
Non-cash Charges	801	817	1,043	1,056	1,108	1,148
Operating Cash flows	2,166	6,168	-5,420	3,917	2,423	1,550
FCFF	4,047	6,058	-4,140	5,427	3,132	1,783
Net borrowings	-2,486	-4,874	7,754	-1,807	-497	12
FCFE	7	55	1,547	1,107	126	-126
Net change in cash	-26	55	-30	435	174	-89
Closing cash	183	238	208	643	817	728

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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