

## Aisha Steel Mills Limited

### Result Review

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

Pakistan Research

## ASL: 2QFY23 LPS reported at PKR 0.7

- ASL announced its 2QFY23 financial results today, wherein the company reported a net loss of PKR 0.7/share, as against an LPS of PKR 0.3 in the SPLY. This takes 1HFY23 LPS to PKR 2.1/share vs an EPS of 0.5 in 1HFY22.
- Net sales declined by 33% YoY to PKR 9.1bn, compared to PKR 13.6bn in SPLY. This decline mainly came from lower volumetric sales, despite higher product prices. Moreover, company reported loss on gross level owing to higher input costs.
- Selling & distribution expenses decreased by 72% to PKR 22mn vs PKR 81mn in 2QFY22, owing to decline in the topline.
- Finance cost grew by 45% to PKR 765mn in 2QFY23 vs PKR 528mn in SPLY. This increase emanates from 1) higher interest rates and, 2) import related requirement imposed by SBP to deposit 100% cash margin for the opening of LCs, resulting in increased borrowings.
- On a sequential basis, bottomline of the company improved QoQ, due to absence 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 15%.

### Key Data

PSX Ticker	ASL
Target Price (PKR)	8
Current Price (PKR)	7
Upside/(Downside) (%)	+ 15%
Dividend Yield (%)	0%
Total Return (%)	+ 15%
12-month High (PKR)	14
12-month Low (PKR)	6
Outstanding Shares (mn)	925
Market Cap (PKR mn)	6,020
Year End	June

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Sales	13,574	9,143	-33%	31,581	15,686	-50%
Cost of Sales	13,121	9,567	-27%	28,920	15,957	-45%
<b>Gross Profit</b>	<b>452</b>	<b>(424)</b>	<b>NM</b>	<b>2,660</b>	<b>(272)</b>	<b>NM</b>
Admin & General	122	107	-12%	203	200	-1%
Selling & Distribution	81	22	-72%	227	47	-79%
Finance cost	528	765	45%	1,027	1,575	53%
Other Charges	32	48	51%	651	1,082	66%
<b>Profit Before Taxation</b>	<b>(424)</b>	<b>(1,099)</b>	<b>NM</b>	<b>591</b>	<b>(3,115)</b>	<b>NM</b>
Taxation	(138)	(412)	NM	139	(1,017)	NM
<b>Net Income</b>	<b>(286)</b>	<b>(686)</b>	<b>NM</b>	<b>452</b>	<b>(2,098)</b>	<b>NM</b>
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%	NM	NM	749%
DPS	0.00	2.00	0.00	0.00	0.00	0.00
PER	NA	1.0	5.6	NM	42.9	5.1
Dividend Yield	0.0%	30.7%	0.0%	0.0%	0.0%	0.0%
EV/EBITDA	8.59	1.68	4.81	12.15	4.98	4.19
P/B	0.75	0.38	0.44	0.63	0.62	0.54
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 15%. 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
<b>Gross Profit</b>	<b>2,366</b>	<b>11,185</b>	<b>5,514</b>	<b>1,803</b>	<b>4,679</b>	<b>5,671</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>1,030</b>	<b>3,844</b>	<b>4,770</b>
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
<b>Profit Before Tax</b>	<b>(1,343)</b>	<b>8,588</b>	<b>1,275</b>	<b>(4,707)</b>	<b>224</b>	<b>1,898</b>
Taxation	(727)	2,220	129	(1,553)	74	626
<b>Profit After Tax</b>	<b>(617)</b>	<b>6,368</b>	<b>1,146</b>	<b>(3,153)</b>	<b>150</b>	<b>1,272</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	15,734	15,713	17,545
<b>Total Assets</b>	<b>34,531</b>	<b>36,524</b>	<b>46,805</b>	<b>35,811</b>	<b>36,648</b>	<b>39,316</b>
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
<b>Total Liabilities</b>	<b>26,433</b>	<b>22,057</b>	<b>32,769</b>	<b>25,600</b>	<b>26,240</b>	<b>27,599</b>
Equity	6,652	13,062	12,730	8,909	9,058	10,330
<b>Total Equity &amp; liabilities</b>	<b>34,531</b>	<b>36,524</b>	<b>46,805</b>	<b>35,811</b>	<b>36,648</b>	<b>39,316</b>

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
<b>Operating Cash flows</b>	<b>2,166</b>	<b>6,168</b>	<b>(5,420)</b>	<b>3,917</b>	<b>2,423</b>	<b>1,550</b>
<b>FCFF</b>	<b>4,047</b>	<b>6,058</b>	<b>(4,140)</b>	<b>5,427</b>	<b>3,132</b>	<b>1,783</b>
Net borrowings	(2,486)	(4,874)	7,754	(1,807)	(497)	12
<b>FCFE</b>	<b>7</b>	<b>55</b>	<b>1,547</b>	<b>1,107</b>	<b>126</b>	<b>(126)</b>
Net change in cash	(26)	55	(30)	435	174	(89)
<b>Closing cash</b>	<b>183</b>	<b>238</b>	<b>208</b>	<b>643</b>	<b>817</b>	<b>728</b>

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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