

## PAKISTAN



## FSL Steel Universe 1QFY22 Profitability Preview

	1QFY22	1QFY21	YoY	QoQ
ISL	5.0	1.3	293%	-5%
ASTL	2.0	0.4	425%	31%
MUGHAL	3.8	1.1	258%	12%
AGHA	0.9	0.9	6%	23%

FSL universe	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22E
GP Margin	12%	16%	20%	18%	16%
EBITDA Margin	11%	16%	18%	16%	15%
Net Margin	4%	9%	11%	8%	8%
Interest cover	2.5	5.7	5.5	4.5	5.2

ISL	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22E
GP Margin	9%	20%	24%	24%	20%
EBITDA Margin	10%	21%	22%	19%	18%
Net Margin	4%	12%	14%	12%	11%
Interest cover	4.3	18.4	22.2	14.8	13.7

ASTL	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22E
GP Margin	11%	11%	14%	11%	11%
EBITDA Margin	9%	10%	13%	9%	10%
Net Margin	1%	3%	5%	4%	4%
Interest cover	1.1	1.8	2.5	2.1	2.7

MUGHAL	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22E
GP Margin	11%	15%	21%	13%	14%
EBITDA Margin	10%	14%	17%	12%	13%
Net Margin	5%	9%	11%	6%	9%
Interest cover	2.3	5.1	4.7	4.2	4.8

AGHA	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22E
GP Margin	22%	18%	21%	31%	21%
EBITDA Margin	20%	18%	19%	31%	21%
Net Margin	10%	10%	10%	10%	10%
Interest cover	3.4	3.3	2.5	2.5	2.9

Source: Company Accounts, Foundation Research, Oct 2021

## Analyst

Usman Arif  
 +92 21 35612290  
 usman.arif@fs.com.pk  
 Ext 339

Foundation Securities (Pvt) Ltd  
 Monday, October 25, 2021

## Pakistan Steel

## Higher Profitability stream to continue in 1QFY22

## Event

▪ FSL steel universe is expected to post highest ever profit of Rs4.6bn (up 199/10% YoY/QoQ) in 1QFY22 as compared to profit of Rs1.5bn in 1QFY21. We attribute expected increase in profitability to (1) recovery in volumes in both flat and long steel products given strong economic rebound, (2) improvement in cash conversion cycle, (3) increased pricing power in flat steel market amid recovery in HRC-CRC margins, (4) start of price increase cycle for long steel, (5) lower fixed cost contribution per unit due to enhanced utilization levels and (6) increased contribution of exports business in MUGHAL.

## Impact

▪ **Better retention prices amid higher volumes to uplift profitability:** FSL steel universe sales expected to increase by 51/9% YoY/QoQ in 1QFY22 due to better retention prices for both long/flat steel players given multiple price hikes amid higher volumes. Furthermore, average gross margin of the universe is expected to increase by 4.5ppt YoY to 16.2% in 1QFY22 due to (1) higher HRC/CRC margins for flat steel (up 34/18% YoY/QoQ) and (2) start of price increase cycle for long steel players due to close coordination between industry players to pass on the impact of hike in scrap cost (up/down 65/3% YoY/QoQ). To highlight, finance cost is expected to increase by 8% YoY in 1QFY22.

▪ **ISL to maintain its momentum given increased pricing power:** ISL is expected to post EPS of Rs5.0/sh (up/down 293/5% YoY/QoQ) in 1QFY22. ISL profitability would increase due to (1) higher pricing power of local manufacturers given decline in imports by private traders, (2) increased demand due to rebound in economic activity and (3) decline in finance cost amid lower working capital requirement.

▪ **ASTL to report highest profitability growth among listed players:** We expect ASTL profitability to increase by 425/31% YoY/QoQ in 1QFY22. Company profitability would increase due to (1) ~17% YoY increase in volumes amid better retention prices given multiple price hikes, (2) 10% YoY decline in finance cost due to drop in working capital requirement and (3) lower provision for doubtful debt amid increased pricing power.

▪ **Capacity addition and copper exports to drive MUGHAL profitability:** Increased re-rolling capacity after COD of 430K tons new mill and higher copper prices would allow MUGHAL to witness 258/12% YoY/QoQ increase in its profitability. To highlight, further upside in MUGHAL's profitability would be restricted by higher fixed cost contribution and increased working capital requirement.

▪ **Volumetric constraints to restrict upside in profitability:** AGHA is expected to report EPS of Rs0.9 (up 6/23% YoY/QoQ) in 1QFY22. We attribute increase in company's profitability to higher retention prices as volumetric growth of AGHA remained restricted in 1QFY22 due to delay in COD of new rebar mill.

## Outlook

▪ We have a positive stance towards the sector given (1) listed players' greater financial muscle as compared to ungraded players in rebar segment, (2) price increase cycle in rebar market, (3) reduced share of private importers in flat steel market given volatility in international prices and (4) favorable Gov't policies.

Fig 1: 1QFY22E FSL Steel Universe Financial Highlights (Rs mn)

	1QFY22E	1QFY21	YoY	QoQ
Net Sales	54,750	36,349	51%	9%
Cost of Sales	45,901	32,123	43%	11%
<b>Gross Profit</b>	<b>8,849</b>	<b>4,225</b>	<b>109%</b>	<b>-1%</b>
Administrative expenses	450	377	20%	7%
S&D expenses	776	508	53%	-7%
Other operating charges	441	188	135%	-39%
Other Income	138	117	18%	266%
<b>EBITDA</b>	<b>8,157</b>	<b>4,029</b>	<b>102%</b>	<b>4%</b>
Financial charges	1,395	1,297	8%	-10%
PBT	5,925	1,973	200%	8%
Taxation	1,349	441	206%	4%
<b>PAT</b>	<b>4,576</b>	<b>1,532</b>	<b>199%</b>	<b>10%</b>
GP Margins	16.2%	11.6%		
EBITDA Margins	14.9%	11.1%		
NP Margins	8.4%	4.2%		

Source: Company accounts, Foundation Research, October 2021

Fig 2: Gross margins to ↓ sequentially in 1QFY22...

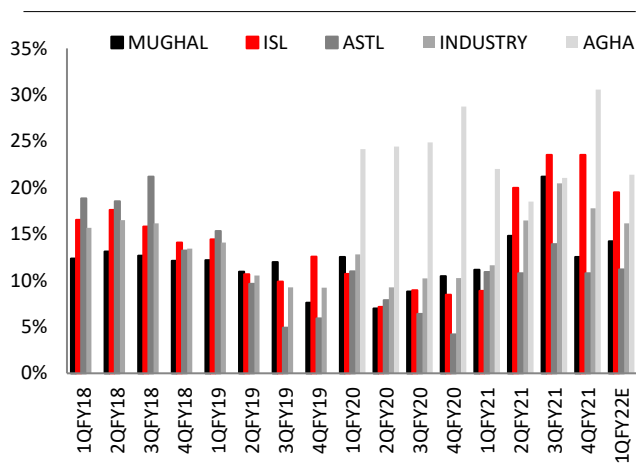


Fig 3: ...so EBITDA to decline as well

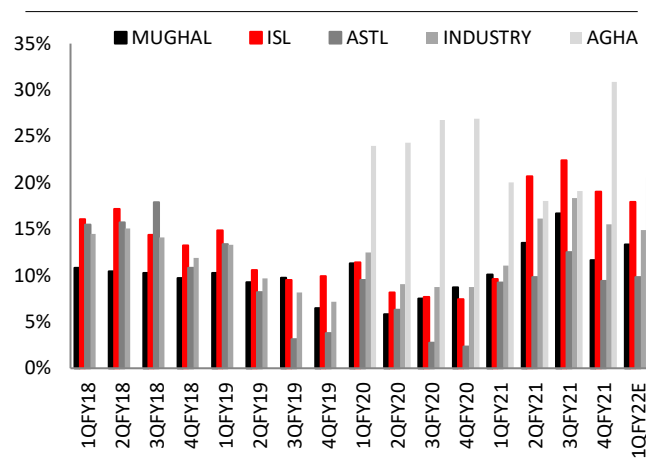
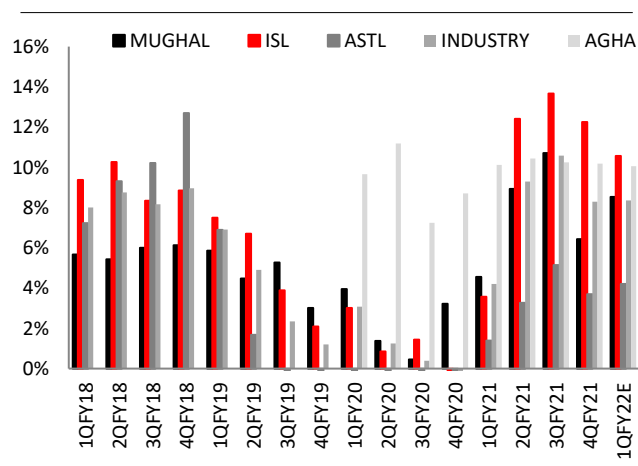
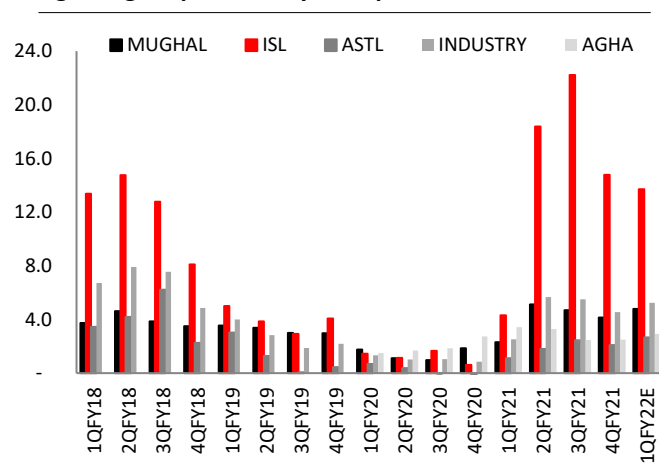


Fig 4: ASTL net margins back on track



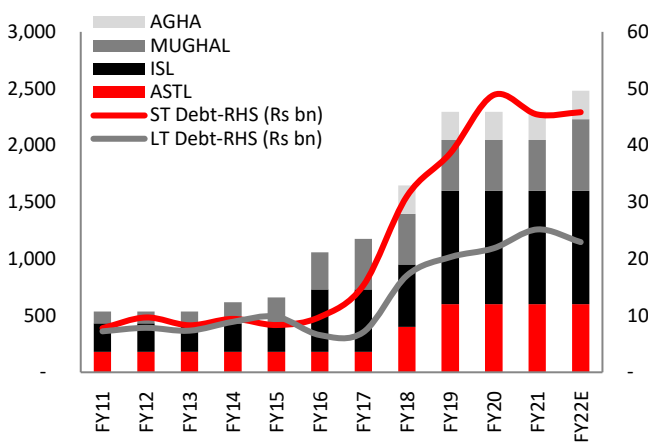
Source: Company acc, FSL Research, October 2021

Fig 5: Higher profitability to improve interest cover



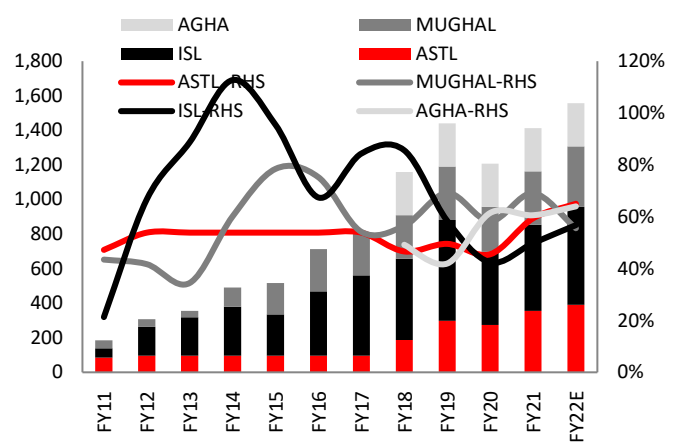
Source: Company acc, FSL Research, October 2021

**Fig 6: Debt levels ↑ due to expansions (K tons)**



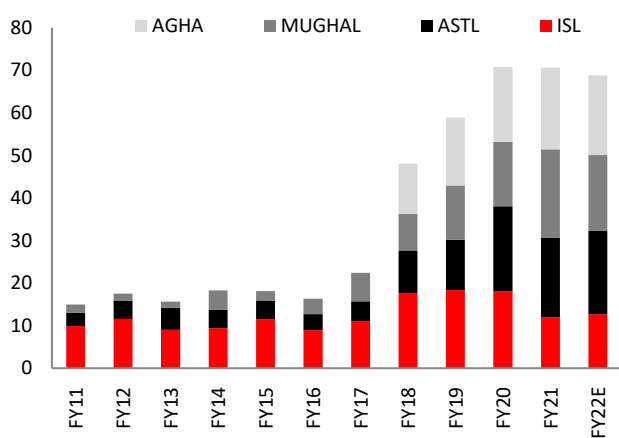
Source: Company acc, FSL Research, October 2021

**Fig 7: Strong private sector demand to ↑ utilization**



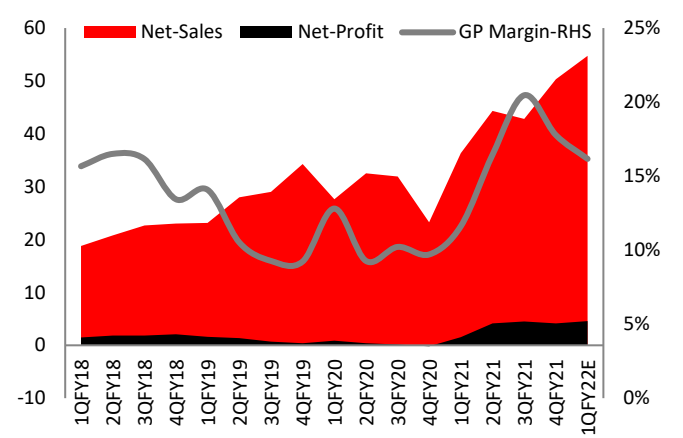
Source: Company acc, FSL Research, October 2021

**Fig 8: Debt levels to remain on higher side (Rs bn)**



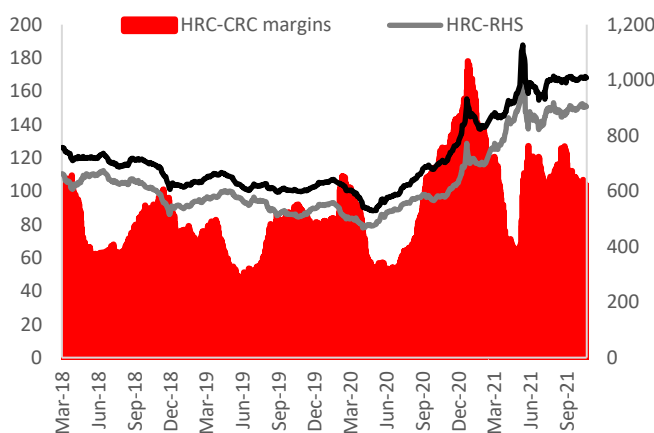
Source: Company acc, FSL Research, October 2021

**Fig 9: FSL universe to report highest profit (Rs bn)**



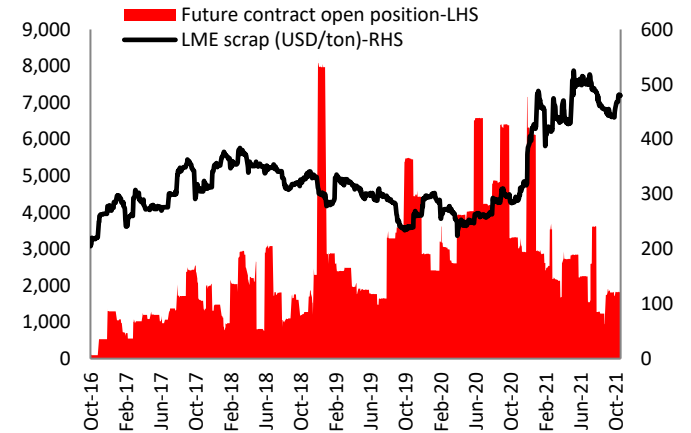
Source: Company acc, FSL Research, October 2021

**Fig 10: Pricing power to remain with local players**



Source: Company acc, FSL Research, October 2021

**Fig 11: Prices to normalize as trade resumes**



Source: Company acc, FSL Research, October 2021

## Abbreviations

FY	Fiscal year
EBITDA	Earnings before interest tax depreciation and amortization
ADD	Anti dumping duty
EPS	Earnings per share
HRC	Hot Rolled Coil
CRC	Cold Rolled Coil
LT	Long term
ST	Short Term
PAT	Profit before tax
PBT	Profit after tax
YoY	Year-on-Year
Bn	Billion
Mn	Million
WC	Working Capital

## Important disclosures:

**Disclaimer:** This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

**Research Dissemination Policy:** Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

**Target price risk disclosures:** Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

**Analyst certification:** The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

### Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.