

PAKISTAN



FSL Steel Universe 3QFY22E Key Financial Highlights

	3QFY22E	YoY	QoQ	9MFY22	YoY
MUGHAL	5.7	71%	3%	16.2	117%
ASTL	2.2	32%	10%	6.6	113%
AGHA	1.1	19%	4%	3.0	14%
ISL	4.2	-23%	17%	13.9	17%

FSL universe	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22E
GP Margin	20%	18%	18%	15%	17%
EBITDA Margin	18%	15%	17%	14%	16%
Net Margin	11%	8%	10%	8%	8%
Interest cover	5.5	4.5	6.0	4.2	3.6

MUGHAL					
GP Margin	21%	13%	20%	16%	17%
EBITDA Margin	17%	12%	18%	15%	16%
Net Margin	11%	6%	12%	10%	10%
Interest cover	4.7	4.2	5.5	4.7	3.9

ASTL					
GP Margin	14%	11%	14%	11%	14%
EBITDA Margin	12%	9%	12%	9%	11%
Net Margin	5%	4%	6%	4%	4%
Interest cover	2.5	2.1	3.2	2.5	2.6

AGHA					
GP Margin	21%	31%	23%	22%	24%
EBITDA Margin	19%	31%	21%	16%	22%
Net Margin	10%	10%	9%	10%	10%
Interest cover	2.5	2.5	2.7	3.3	2.5

ISL					
GP Margin	24%	24%	18%	15%	17%
EBITDA Margin	22%	19%	17%	15%	17%
Net Margin	14%	12%	11%	8%	10%
Interest cover	22.2	14.8	21.6	6.6	5.6

Source: Company Accounts, Foundation Research, April 2022

Analyst

Usman Arif	usman.arif@fs.com.pk
+92 21 35612290	Ext 339
Ali Ahmad	ali@fs.com.pk
+92 21 35612290	Ext 311

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Pakistan Steel

Profitability to remain elevated in 3QFY22

Event

▪ FSL steel universe profitability is expected to increase by 11/9% YoY/QoQ in 3QFY22. Increase in profitability is attributable to (1) better retention prices for long steel products amid higher volumes, (2) higher profitability of MUGHAL non-ferrous (copper) segment and (3) increased pricing power in flat steel market given limited imports by private traders. Among individual companies MUGHAL/ASTL/AGHA profitability is expected to increase by 71/32/19% YoY in 3QFY22. However, ISL profitability is expected to decline by 23% YoY in 3QFY22 due to decline in volumes amid lower HRC-CRC margins.

Impact

▪ **Pricing power to support profitability:** FSL steel universe sales are expected to increase by 40/4% YoY/QoQ in 3QFY22 due to better retention prices for both long/flat steel players given multiple price hikes. We attribute increase in profitability to (1) increased pricing power of flat steel players given restricted imports by private players 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 23/14% YoY/QoQ) and 10.7% avg rupee devaluation in 3QFY22.

▪ **Correct timing of scrap inventory build-up and recovery in non-ferrous segment margins to drive MUGHAL's profitability:** MUGHAL profitability is expected to increase by 71/3% YoY/QoQ to Rs5.7/sh in 3QFY22. Increase in profitability would come from (1) higher realized prices for copper ingot exports (up 17/4% YoY/QoQ) amid avg rupee devaluation of 10.7/1.7% YoY/QoQ in 3QFY22 and (2) higher rebar retention prices. To highlight, MUGHAL profitability growth would be restricted due to expected 113% YoY increase in finance cost given increase in debt levels.

▪ **Better retention prices and increased sales in South region to uplift ASTL profitability:** We expect ASTL profitability to increase by 32/10% YoY/QoQ to Rs2.2/sh in 3QFY22. Company profitability would increase due to (1) better rebar retention prices, (2) decline in operating cycle given higher pricing power and growth in south region and (3) lower provision for doubtful debt. Furthermore, ASTL finance cost is expected to increase by 52/28% YoY/QoQ in 3QFY22.

▪ **AGHA's profitability growth to remain restricted due to delay in COD of new mill:** AGHA is expected to report EPS of Rs1.1 (up 19/4% YoY/QoQ) in 3QFY22. We attribute increase in company's profitability to higher retention prices as volumetric growth of AGHA remained restricted in 3QFY22 due to delay in COD of new rebar mill.

▪ **ISL profitability to decline due to lower HRC-CRC margins:** We expect ISL profitability to decline by 23% YoY to Rs4.2/sh in 3QFY22. Decline in company's profitability is attributable to (1) 32/27% YoY/QoQ decline in HRC-CRC margins, (2) 3.2x YoY increase in finance cost given higher interest rates and (3) lower volumes. To highlight, on sequential basis ISL profitability would increase by 17% QoQ due to reversal of inventory loss booked in 2QFY22.

Outlook

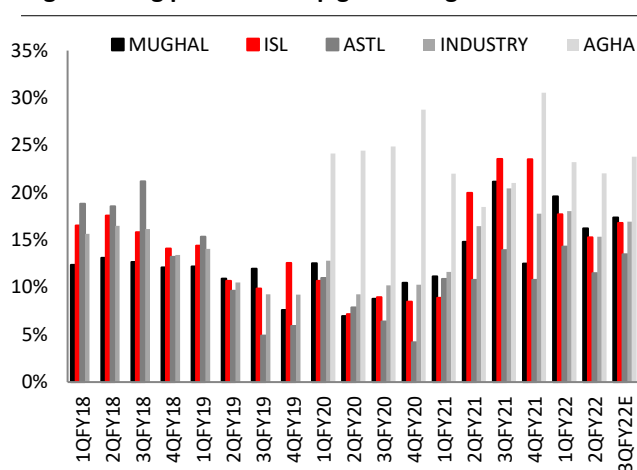
▪ We have a positive stance towards the sector given (1) listed players' greater financial muscle as compared to ungraded players in rebar segment, (2) price increase cycle in rebar market and (3) reduced share of private importers in flat steel market.

Fig 1: 3QFY22E FSL Steel Universe Financial Highlights (Rs mn)

	3QFY22E	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Net Sales	60,099	42,830	40%	4%	174,665	123,523	41%
Cost of Sales	49,923	34,067	47%	2%	145,366	103,237	41%
Gross Profit	10,176	8,764	16%	14%	29,299	20,286	44%
Administrative expenses	545	490	11%	3%	1,570	1,332	18%
S&D expenses	631	700	-10%	-2%	1,865	1,710	9%
Other operating charges	627	598	5%	-40%	2,204	1,189	85%
Other Income	298	89	236%	-21%	788	630	25%
EBITDA	9,424	7,781	21%	20%	26,713	18,965	41%
Financial charges	2,409	1,282	88%	44%	5,543	3,698	50%
PBT	6,262	5,781	8%	16%	18,905	12,987	46%
Taxation	1,232	1,249	-1%	56%	3,638	2,803	30%
PAT	5,031	4,531	11%	9%	15,266	10,184	50%
GP Margins	16.93%	20.46%			16.8%	16.4%	
EBITDA Margins	15.7%	18.2%			15.3%	15.4%	
NP Margins	8.4%	10.6%			8.7%	8.2%	

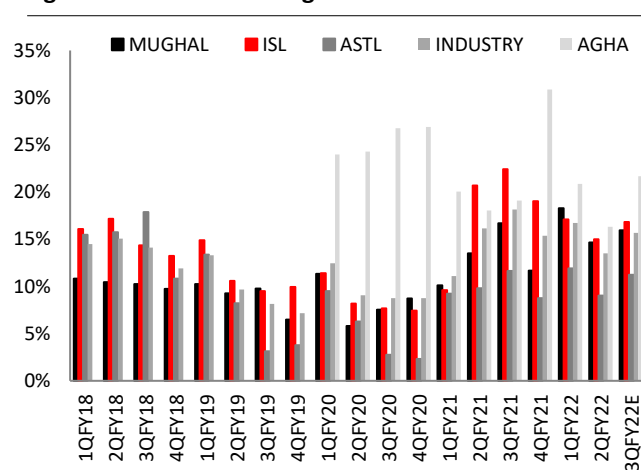
Source: Company accounts, Foundation Research, April 2022

Fig 2: Pricing power to keep gross margins elevated...



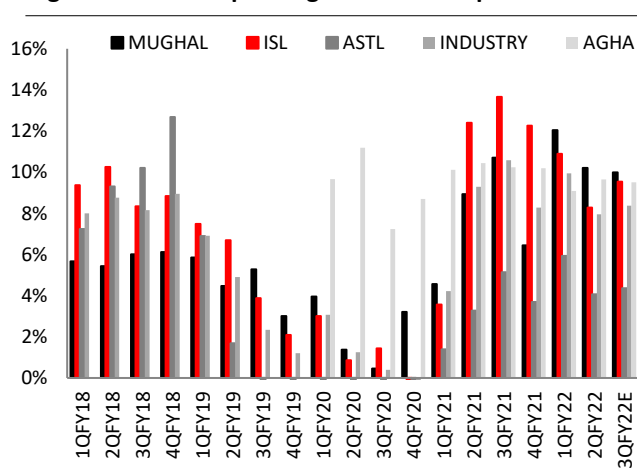
Source: Company acc, FSL Research, April 2022

Fig 3:and EBITDA margins as well



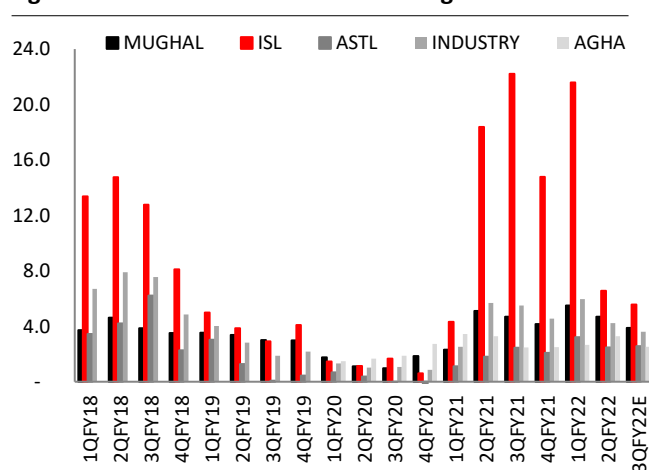
Source: Company acc, FSL Research, April 2022

Fig 4: MUGHAL to post highest NM over peers



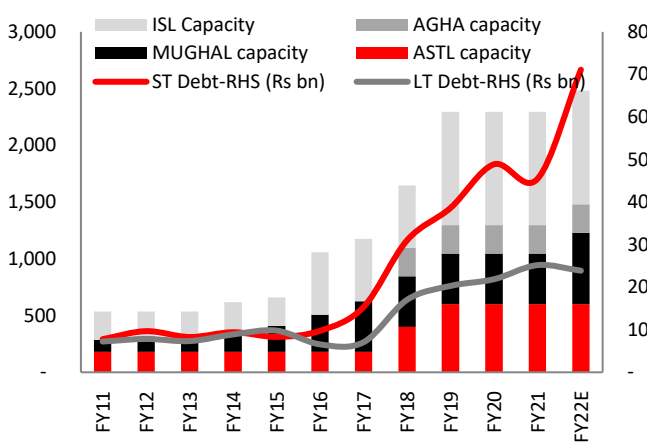
Source: Company acc, FSL Research, April 2022

Fig 5: ISL interest cover to remain on higher side



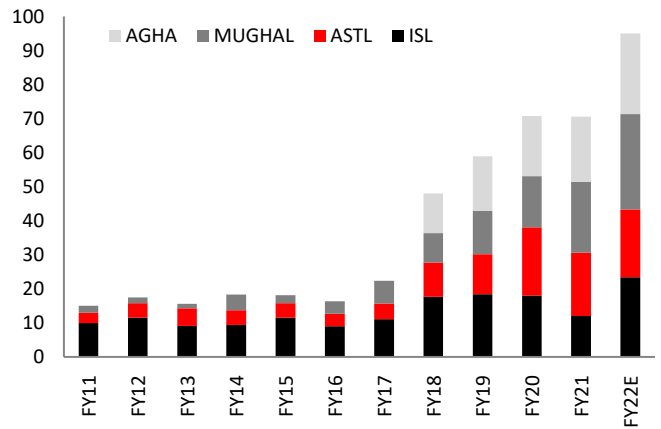
Source: Company acc, FSL Research, April 2022

Fig 6: Debt levels ↑ due to higher WC need (Rs bn)



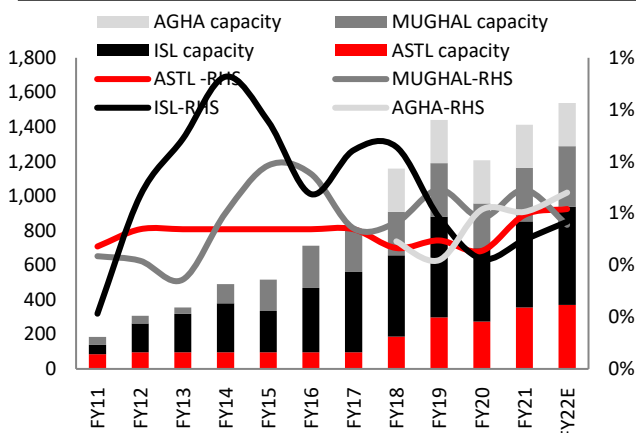
Source: Company acc, FSL Research, April 2022

Fig 7: Debt levels to remain on higher side (Rs bn)



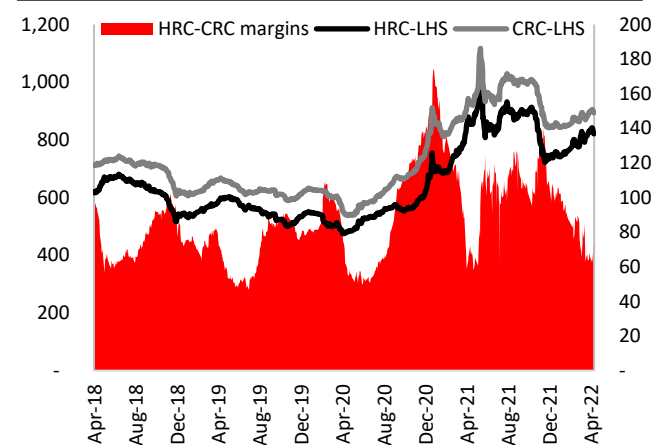
Source: Company acc, FSL Research, April 2022

Fig 8: Strong demand to ↑ production/utilization



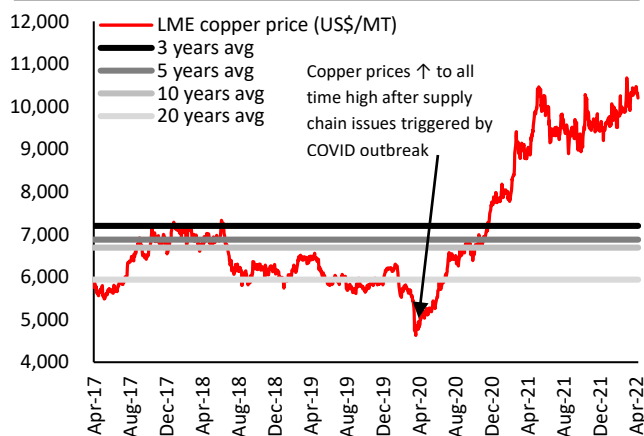
Source: Company acc, FSL Research, April 2022

Fig 9: Lower margins to put back importers in play



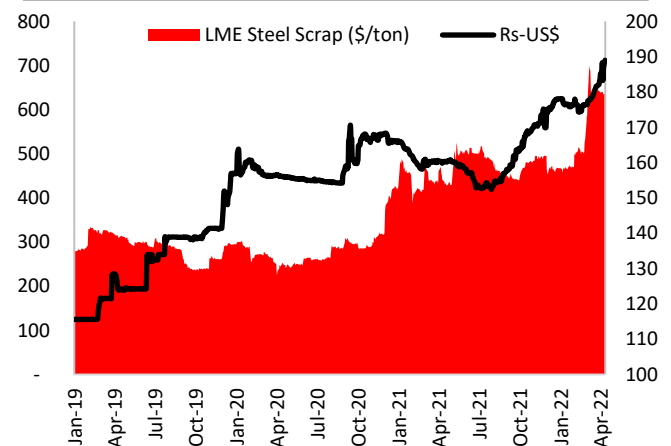
Source: Bloomberg, FSL Research, April 2022

Fig 10: Demand/Supply disparity resulted in ↑ prices



Source: Bloomberg, FSL Research, April 2022

Fig 11: Scrap prices at new ↑ post Russia-Ukraine war



Source: Bloomberg, FSL Research, April 2022

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

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