

PAKISTAN



FSL Steel Universe 3QFY22 Key Financial Highlights

	3QFY22	YoY	QoQ	9MFY22	YoY
ASTL	1.8	6%	-12%	6.2	98%
AGHA	0.9	4%	-9%	2.9	9%
MUGHAL	2.5	-24%	-54%	13.0	74%
ISL	2.6	-52%	-27%	12.3	4%

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
GP Margin	20%	18%	18%	15%	11%
EBITDA Margin	18%	15%	17%	14%	10%
Net Margin	11%	8%	10%	8%	5%
Interest cover	5.5	4.5	6.0	4.2	2.4

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
GP Margin	14%	11%	14%	11%	11%
EBITDA Margin	12%	9%	12%	9%	9%
Net Margin	5%	4%	6%	4%	3%
Interest cover	2.5	2.1	3.2	2.5	1.9

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
GP Margin	21%	31%	23%	22%	23%
EBITDA Margin	19%	31%	21%	16%	23%
Net Margin	10%	10%	9%	10%	9%
Interest cover	2.5	2.5	2.7	3.3	2.0

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
GP Margin	21%	13%	20%	16%	12%
EBITDA Margin	17%	12%	18%	15%	11%
Net Margin	11%	6%	12%	10%	6%
Interest cover	4.7	4.2	5.5	4.7	1.9

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22
GP Margin	24%	24%	18%	15%	8%
EBITDA Margin	22%	19%	17%	15%	8%
Net Margin	14%	12%	11%	8%	4%
Interest cover	22.2	14.8	21.6	6.6	4.8

Source: Company Accounts, Foundation Research, May 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

 Foundation Securities (Pvt) Ltd
 Thursday, May 12, 2022

Pakistan Steel

Profitability declined amid rising steel scrap prices

Event

▪ FSL steel universe profitability clocked in at Rs3.1bn (down 32% YoY) in 3QFY22 as compared to profit of Rs4.5bn in 3QFY21. This decline in profitability is attributable to (1) lower gross profits due to surging input costs amid supply chain disruptions and (2) increased financial charges due to rising interest rates amid higher working capital needs. Moreover, on sequential basis profitability declined due to lower volumes.

Impact

▪ **Profitability remained low due to higher input and finance costs:** FSL steel universe revenue increased by 51/11% YoY/QoQ in 3QFY22 due to higher retention prices. However, despite multiple price hikes average gross margin declined by 9.2/4.1ppt YoY/QoQ to 11.27% in 3QFY22 attributable to rise in raw material and energy cost. To highlight, int'l avg scrap prices increased by 23/14% YoY/QoQ amid avg rupee depreciation of 11.9% YoY in 3QFY22.

▪ **Lower sales volume restricted ISL profitability growth:** ISL posted an EPS of 2.6 (down 52/27% YoY/QoQ) in 3QFY22. ISL profitability declined due to (1) decreased demand due to lower economic activity given higher construction cost, (2) higher financial charges (up 128% YoY) amid increase in interest rates with debt standing at Rs11.77bn at the end of 3QFY22. Furthermore, ISL gross/net margins declined by 15/9.5ppt YoY and 6.8/4.1ppt QoQ.

▪ **Tax credits supported MUGHAL bottom line:** MUGHAL reported an EPS of 2.5 (down 24/54% YoY/QoQ) in 3QFY22 as compared to an EPS of 3.31 SPLY. Decline in company's profitability is attributable to (1) higher financial charges (up 121/44% YoY/QoQ), (2) lower sales volume and (3) decline in other income. Moreover, MUGHAL gross/net margins went down by 9/5% YoY to 12.1/5.5% in same period.

▪ **ASTL outperformed peers due to better retention prices amid higher volumes:** ASTL profitability increased/decreased by 6/12% YoY/QoQ in 3QFY22. Company profitability increased due to (1) higher volumes due to strong demand from private sector projects, (2) better rebar retention prices due to multiple price hikes to pass on the impact of higher input costs, and (3) lower effective tax rate. However, company's bottom line is dented by higher finance costs (up 64/38% YoY/QoQ).

▪ **Volumetric constraints restricted AGHA profitability:** Delay in expansion project constrains AGHA profitability growth to 4/-9% YoY/QoQ in 3QFY22. Marginal increase in profitability is due to higher prices as company volumes declined. Furthermore, AGHA gross/net margins increased/decreased by 2.2/1.1ppt YoY in 3QFY22 to 23/9%. Moreover, higher financial charges (up 77/126% YoY/QoQ) and tax costs (up 972/89% YoY/QoQ) decreased company PAT in 3QFY22.

Outlook

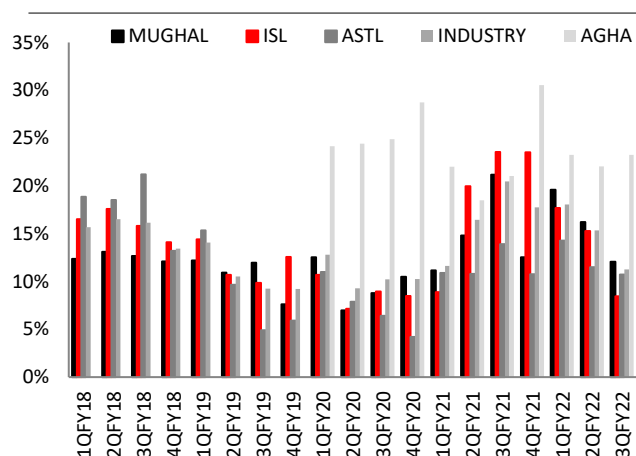
▪ Steel demand would remain under pressure due to (1) slowdown in economic activity amid economic headwinds and (2) curtailment of development spending amid swelling fiscal imbalances. However, above factors are already incorporated in current market prices and given (1) listed players' greater financial muscle as compared to ungraded players in long steel segment and (2) supporting Gov't policies, we have positive stance towards the sector.

Table 1: 3QFY22 FSL Steel Universe Financial Highlights (Rs mn)

	3QFY22	3QFY21	YoY	QoQ	9MFY22	9MFY21	YoY
Net Sales	64,463	42,830	51%	11%	179,029	123,523	45%
Cost of Sales	57,196	34,067	68%	16%	152,639	103,237	48%
Gross Profit	7,268	8,764	-17%	-19%	26,390	20,286	30%
Administrative expenses	456	490	-7%	-14%	1,481	1,332	11%
S&D expenses	816	700	16%	26%	2,050	1,710	20%
Other operating charges	290	598	-52%	-72%	1,867	1,189	57%
Other Income	91	89	3%	-76%	582	630	-8%
EBITDA	6,550	7,781	-16%	-17%	23,840	18,965	26%
Financial charges	2,456	1,282	92%	47%	5,591	3,698	51%
PBT	3,341	5,781	-42%	-38%	15,984	12,987	23%
Taxation	278	1,249	-78%	-65%	2,685	2,803	-4%
PAT	3,063	4,531	-32%	-34%	13,299	10,184	31%
GP Margins	11.27%	20.46%			14.7%	16.4%	
EBITDA Margins	10.2%	18.2%			13.3%	15.4%	
NP Margins	4.8%	10.6%			7.4%	8.2%	

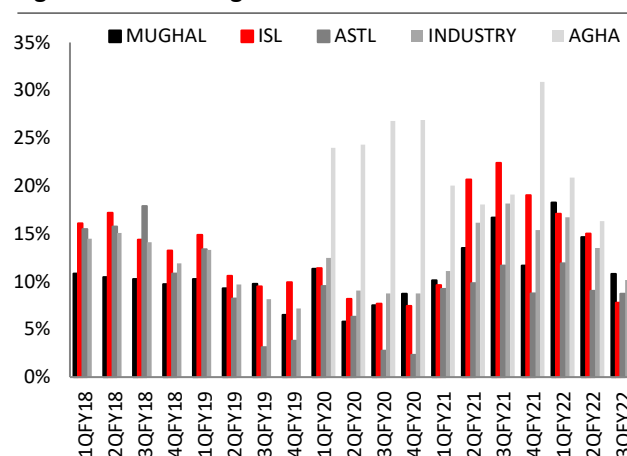
Source: Company accounts, Foundation Research, May 2022

Fig 1: FSL universe GM decline due to slowdown...



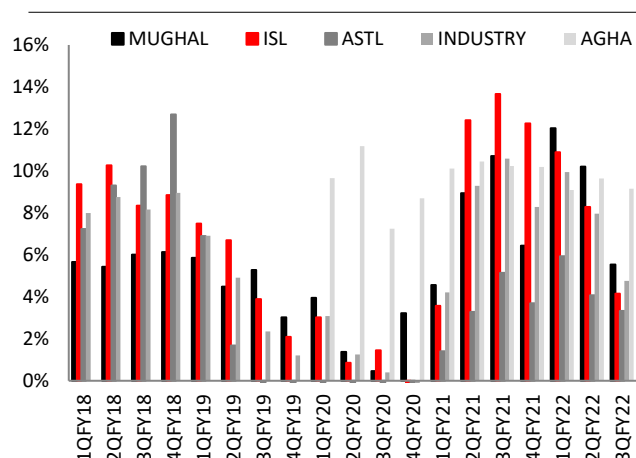
Source: Company acc, FSL Research, May 2022

Fig 2: ...EBITDA margins declined as well



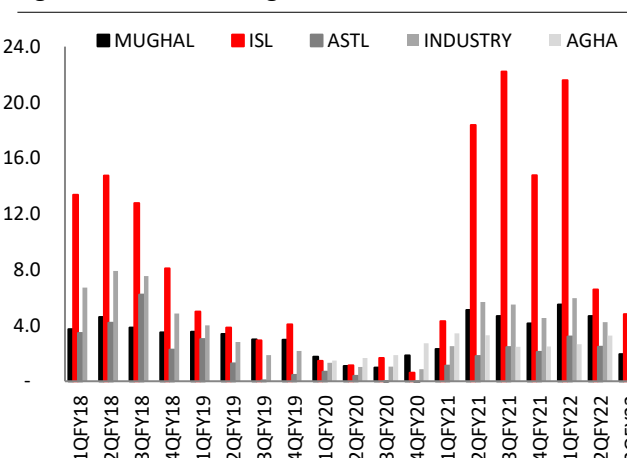
Source: Company acc, FSL Research, May 2022

Fig 3: ↑ financial charges dented Universe NM...



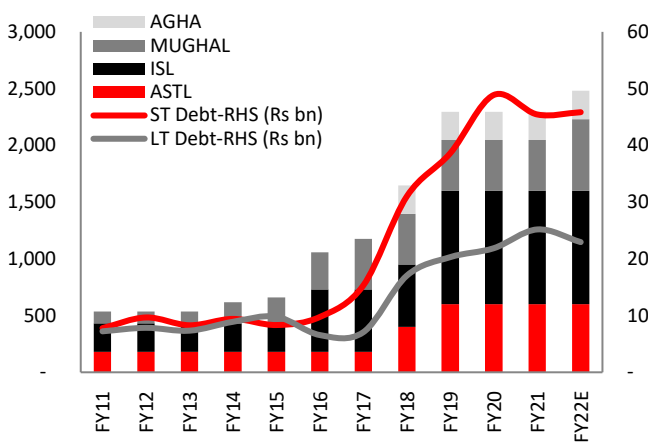
Source: Company acc, FSL Research, May 2022

Fig 4: ...Interest coverage has also decreased



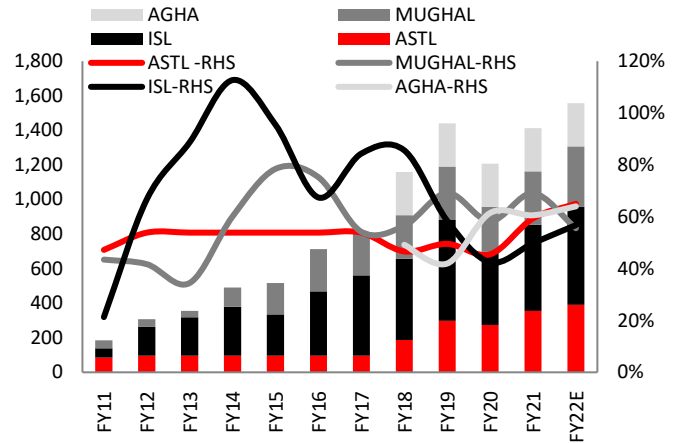
Source: Company acc, FSL Research, May 2022

Fig 5: Debt levels ↑ due to higher WC amid expansion



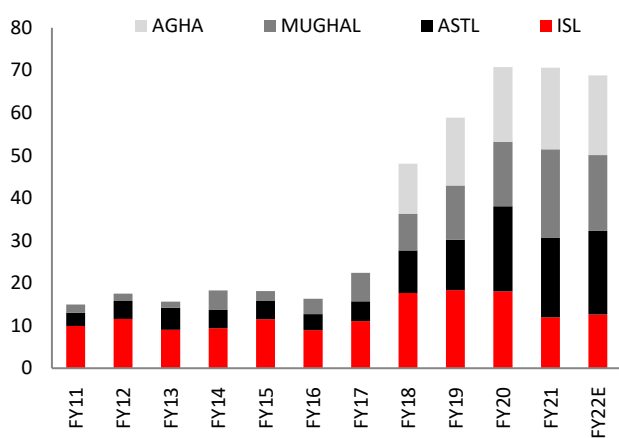
Source: Company acc, FSL Research, May 2022

Fig 6: Capacity utilization to remain on higher side



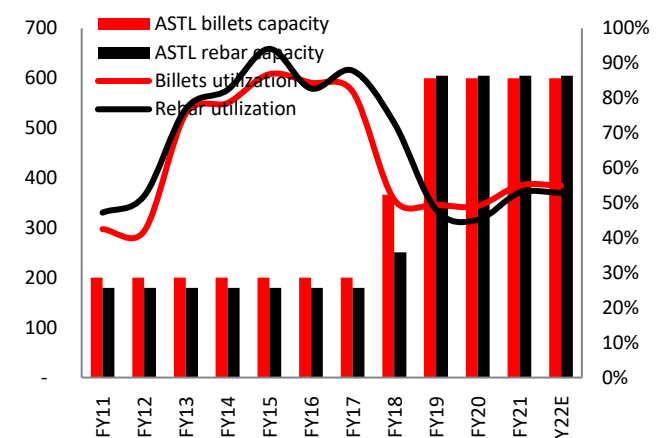
Source: Company acc, FSL Research, May 2022

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



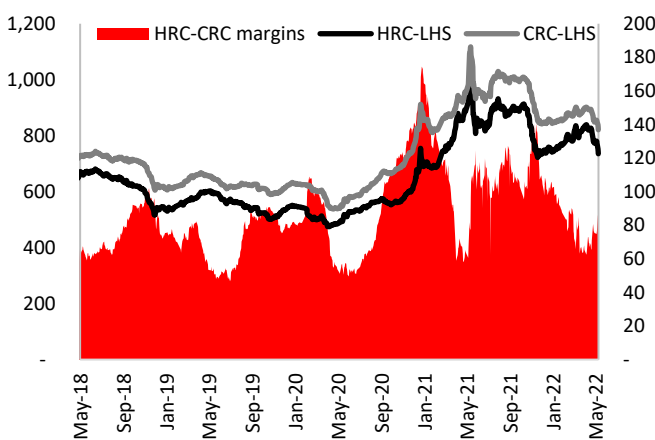
Source: Company acc, FSL Research, May 2022

Fig 8: ↑ Capacity utilization to cut fixed cost/unit



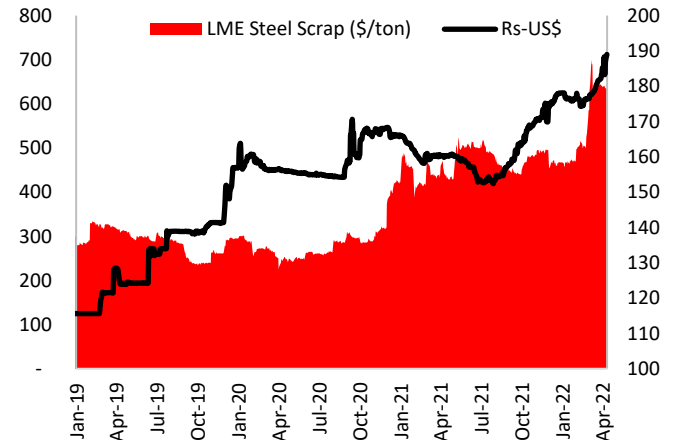
Source: Company acc, FSL Research, May 2022

Fig 9: Pricing Power remained with the local players



Source: Company acc, FSL Research, May 2022

Fig 10: Scrap prices at new ↑ post Russia-Ukraine war



Source: Company acc, FSL Research, May 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

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.