Foundation Securities
REP-095

PAKISTAN

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Earning Review

AGHA: 4QFY22 EPS clocked in at Rs0.19, down 74% YoY

Event

- Agha Steel Industries Limited (AGHA PA) profitability clocked in at Rs115mn (EPS Rs0.19) in 4QFY22 (down 74/79% YoY/QoQ) against profit of Rs438mn (EPS Rs0.76) in 4QFY21. This takes FY22 profitability to Rs1.8bn (EPS of Rs3.07) as compared to profit of Rs2.0bn (EPS of Rs3.37) in FY21.

Impact

- We attribute decrease in company's profitability to (1) higher scrap prices, 2) Higher admin and other operating charges, (3) higher interest charges and (4) higher effective tax rate.
- In 4QFY22, AGHA sales increased by 61/13% YoY/QoQ due to multiple price hikes during the quarter by the company in order to pass on the impact of higher scrap prices amid rupee depreciation.
- Furthermore, AGHA gross margins decreased by 12.97/5.68ppt YoY/QoQ in 4QFY22 to 17.57%. We attribute decrease in margins to higher production costs given increased fuel and energy prices amid global commodity super cycle and higher scrap prices.
- AGHA's finance cost increased by 46/10% YoY in 4QFY22 due to higher working capital requirement amid increase in KIBOR.
- Moreover, among other heads, company's admin/other operating charges increased by 342/534% in 4QFY22.
- Furthermore, company's effective tax rate clocked in at 45% in 4QFY22.

Outlook

- Company profitability would remain under pressure due to (1) slowdown in economic activity amid record floods and (2) curtailment of development spending amid swelling fiscal imbalances.

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Fig 01: AGHA 4QFY22 Key Financial Highlights (Rs mn)

	4QFY22	4QFY21	YoY	QoQ	FY22	FY21	YoY
Net Sales	6,935	4,299	61%	13%	25,648	19,858	29%
Cost of Sales	5,717	2,985	92%	21%	20,158	15,356	31%
Gross Profit	**1,218**	**1,313**	**-7%**	**-15%**	**5,490**	**4,503**	**22%**
Administrative expenses	128	29	342%	178%	335	297	13%
S&D expenses	48	63	-24%	-31%	354	285	24%
Other operating charges	203	32	534%	243%	681	197	246%
Other Income	96	55	74%	36%	303	239	27%
EBIT	**936**	**1,244**	**-25%**	**-29%**	**4424**	**3,962**	**12%**
Financial charges	728	500	46%	10%	2136	1,409	52%
PBT	208	744	-72%	-69%	2288	2,553	-10%
Taxation	93	306	-70%	-6%	434	517	-16%
PAT	**115**	**438**	**-74%**	**-79%**	**1,855**	**2,036**	**-9%**
EPS @604.9mn Shares	0.19	0.76			3.07	3.37	
GP Margins	17.57%	30.54%			21.41%	22.68%	
EBIT Margins	13.49%	28.94%			17.25%	19.95%	
NP Margins	1.66%	10.19%			7.23%	10.25%	

Source: PSX, Foundation Research, September 2022

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Recommendations definitions

If

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