

## PAKISTAN



## FSL Steel Universe 1QFY23E Key Financial Highlights

	1QFY23E	1QFY22	YoY	QoQ
MUGHAL	2.02	5.03	-60%	-35%
ISL	1.10	6.13	-82%	739%
AGHA	0.13	0.92	-86%	-31%
ASTL	(1.84)	2.36	-	7%

FSL universe	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23E
GP Margin	18%	15%	11%	13%	12%
EBITDA Margin	17%	14%	10%	10%	10%
Net Margin	10%	8%	5%	1%	2%
Interest cover	6.0	4.2	2.4	1.9	1.4

MUGHAL	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23E
GP Margin	20%	16%	12%	14%	14%
EBITDA Margin	18%	15%	11%	13%	13%
Net Margin	12%	10%	6%	5%	4%
Interest cover	5.5	4.7	1.9	2.7	2.1

ISL	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23E
GP Margin	18%	15%	8%	14%	12%
EBITDA Margin	17%	15%	8%	8%	10%
Net Margin	11%	8%	4%	0.3%	3%
Interest cover	21.6	6.6	4.8	3.3	1.8

AGHA	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23E
GP Margin	23%	22%	23%	18%	18%
EBITDA Margin	21%	16%	23%	15%	15%
Net Margin	9%	10%	9%	2%	1%
Interest cover	2.7	3.3	2.0	1.3	1.2

ASTL	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23E
GP Margin	14%	11%	11%	9%	10%
EBITDA Margin	12%	9%	9%	6%	6%
Net Margin	6%	4%	3%	-3%	-5%
Interest cover	3.2	2.5	1.9	1.0	0.5

Source: Company Accounts, Foundation Research, October 2022

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# Pakistan Steel

## Profitability margins subsiding amid lower sales and higher finance costs

### Event

▪ FSL steel universe profitability is expected to decrease/increase by 85/22% YoY/QoQ in 1QFY23. Decline in profitability is attributable to (1) lower sales for both long/flat steel players amid economic consolidation, (2) sector failure to completely pass on the impact of higher manufacturing costs amid lower capacity utilization, (3) increase in finance cost given increase in interest rates amid higher working capital needs and (4) increase in effective tax rate due to imposition of 4% super tax in FY23 budget. Among individual companies, AGHA/ISL/MUGHAL profitability is expected to decline by 86/82/60% YoY, while ASTL is expected to report LPS of Rs1.84 in 1QFY23.

### Impact

▪ **Lower sales amid high energy costs to restrict profitability:** FSL steel universe topline is expected to decline by 10/18% YoY/QoQ in 1QFY23, due to lower volumetric sales. To highlight retention prices are up 42% YoY. Furthermore, FSL steel universe gross margins are expected to decline by 4.9ppt YoY to 13.2% in 1QFY23 due to (1) lower volumes amid economic slowdown, (2) increased financial costs due to higher interest rates given increase in WC needs, (3) higher energy cost and (4) increase in fixed cost contribution.

▪ **High Manufacturing costs and ↓ sales to suppress MUGHAL's profitability:** MUGHAL profitability is expected to decline by 60/35% YoY/QoQ to Rs2.02/sh in 1QFY23. Decline in profitability would come from (1) procurement of expensive scrap, (2) lower realized prices for copper ingot exports (↓17.7/18.7% YoY/QoQ), (3) 114% YoY increase in finance costs and (4) higher effective tax rate.

▪ **Lower HRC-CRC margins to contain ISL profitability:** We expect ISL profitability to decline by 82% YoY to Rs1.10/sh in 1QFY23. Decline in company's profitability is due to (1) 31.1/4.6% YoY/QoQ decline in HRC-CRC margins, (2) 349% YoY increase in finance cost given higher interest rates, (3) decline in volumes due to slowdown in domestic economic activity and (4) lower exports.

▪ **ASTL to report loss given lower sales and high finance cost:** We expect ASTL to report loss of Rs1.84/sh in 1QFY23. This is due to (1) decline in volumes given slowdown of demand in south amid floods and economic consolidation due to limited fiscal space, (2) increase in finance cost (up 132/13% YoY/QoQ) in 1QFY23 due to increased debt given higher WC needs amid higher interest rates, (3) Higher provision booked for doubtful debts and (4) increased fixed cost contribution due to closure of plant.

▪ **AGHA profitability is expected to remain subdued due to lower volumes:** AGHA is expected to report EPS of Rs0.13 (↓86/31% YoY/QoQ) in 1QFY23. We attribute decrease in company's profitability to (1) decline in volumes growth and (2) higher finance costs (↑ 64/1.4% YoY/QoQ).

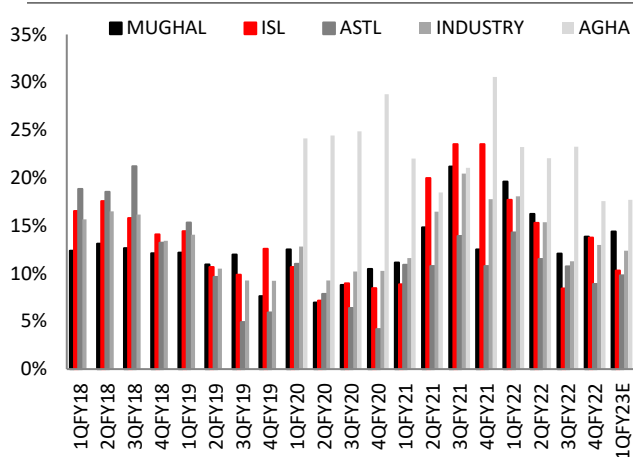
### Outlook

▪ 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, supportive government policies to restrict dumping would keep the listed players in limelight in the long run.

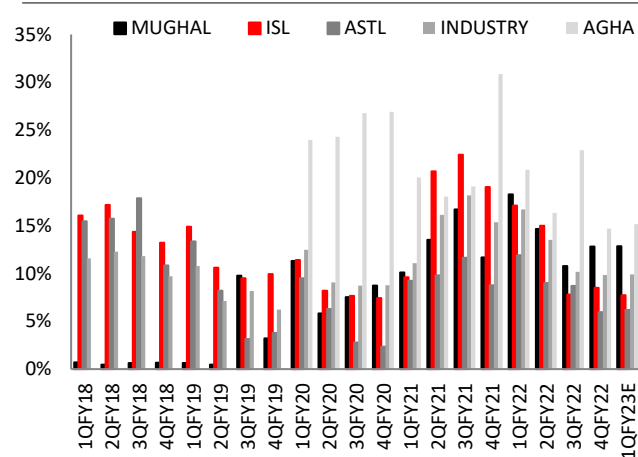
**Table 01: 1QFY23 FSL Steel Universe Financial Highlights (Rs mn)**

	1QFY23	1QFY22	YoY	QoQ
Net Sales	51,009	56,501	-10%	-18%
Cost of Sales	44,289	46,297	-4%	-18%
<b>Gross Profit</b>	<b>6,720</b>	<b>10,204</b>	<b>-34%</b>	<b>-17%</b>
Administrative expenses	702	496	42%	-12%
S&D expenses	861	587	47%	-28%
Other operating charges	584	538	8%	-34%
Other Income	120	112	8%	-25%
<b>EBITDA</b>	<b>5,618</b>	<b>9,442</b>	<b>-40%</b>	<b>-9%</b>
Financial charges	3,369	1,460	131%	20%
PBT	1,494	7,234	-79%	-42%
Taxation	636	1,618	-61%	-66%
<b>PAT</b>	<b>858</b>	<b>5,616</b>	<b>-85%</b>	<b>22%</b>
GP Margins	13.17%	18.06%		
EBITDA Margins	11.0%	16.7%		
NP Margins	1.7%	9.9%		

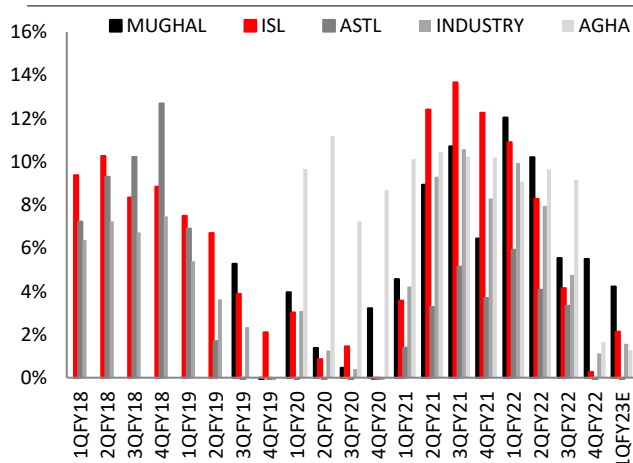
Source: Company accounts, Foundation Research, October 2022

**Fig 1: Gross margins to decline given ↑ energy costs**

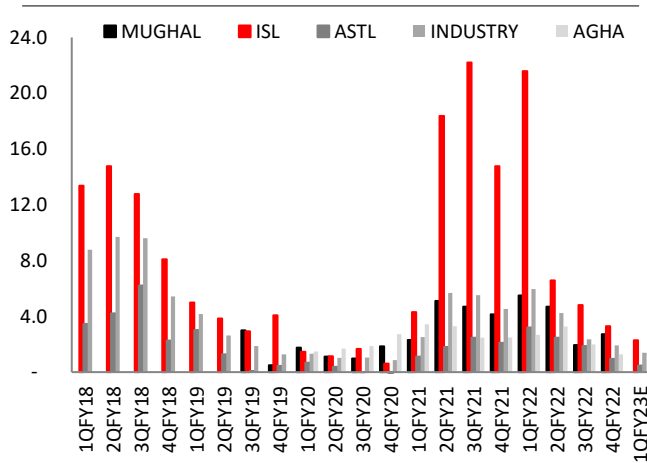
Source: Company acc, FSL Research, Oct 2022

**Fig 2: .....and EBITDA margins to decline as well**

Source: Company acc, FSL Research, Oct 2022

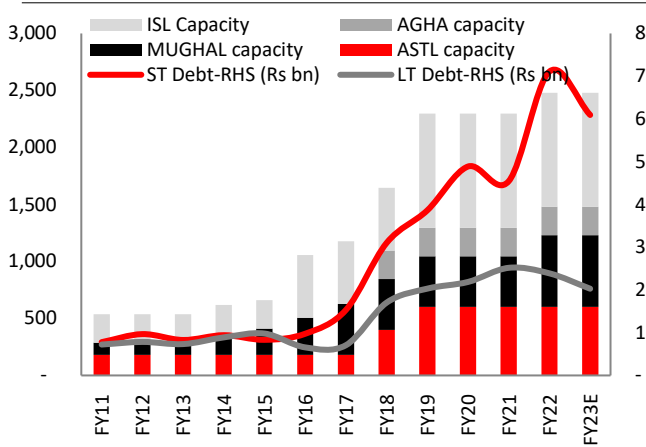
**Fig 3: Net margins to decline amid ↑ Interest rates...**

Source: Company acc, FSL Research, Oct 2022

**Fig 4: ...Interest Cover will also worsen**

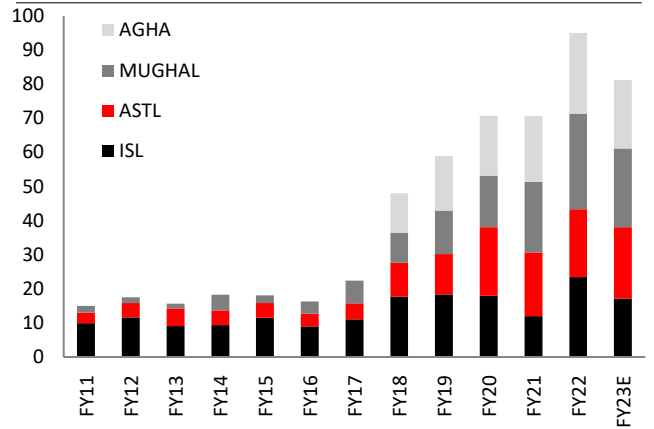
Source: Company acc, FSL Research, Oct 2022

**Fig 5: Debt levels ↑ due to higher WC needs (Rs bn)**



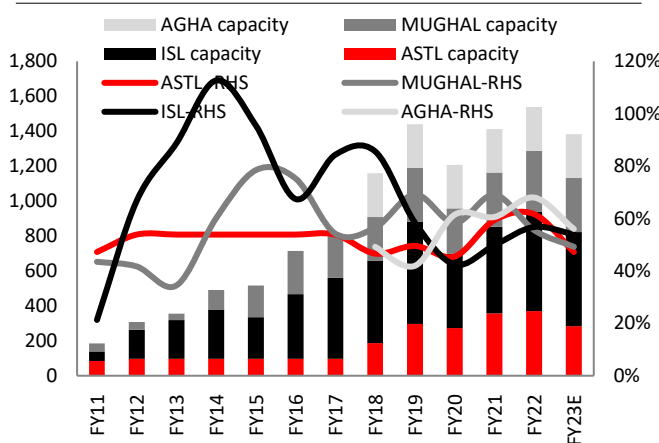
Source: Company acc, FSL Research, Oct 2022

**Fig 6: Debt levels to remain high (Rs bn)**



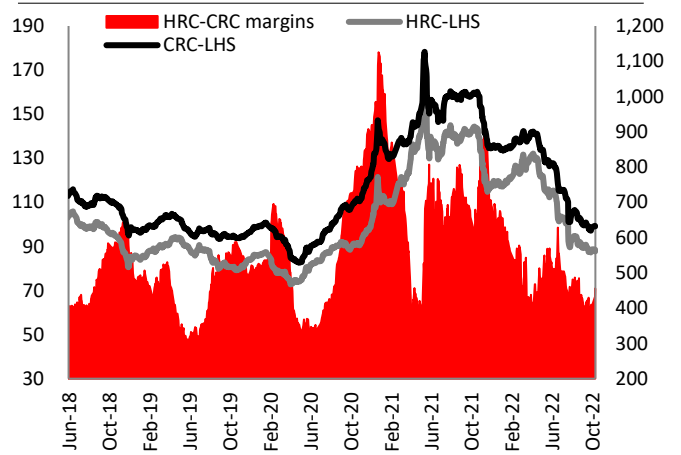
Source: Company acc, FSL Research, Oct 2022

**Fig 7: Moderating demand to decrease utilization**



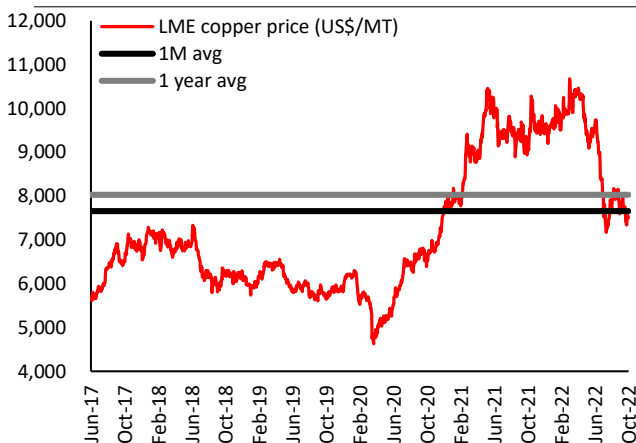
Source: Company acc, FSL Research, Oct 2022

**Fig 8: Lower margins to restrict pricing power**



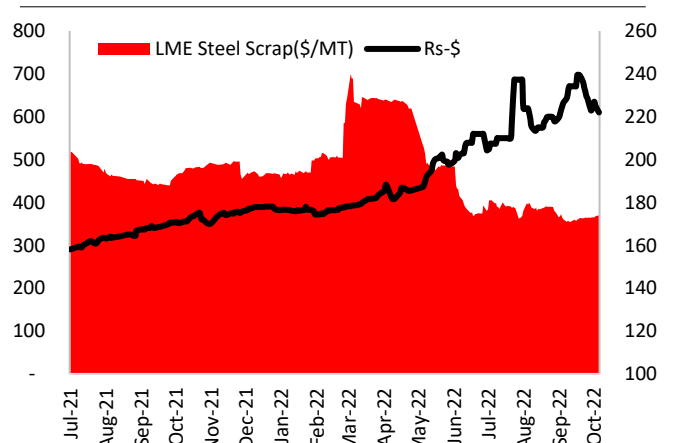
Source: Bloomberg, FSL Research, Oct 2022

**Fig 9: Demand/Supply disparity resulted in ↓ prices**



Source: Bloomberg, FSL Research, Oct 2022

**Fig 10: Scrap prices decline due to recession concerns**



Source: Bloomberg, FSL Research, Oct 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.