Foundation Securities
REP-095

PAKISTAN November 30, 2022

Foundation Alert

AGHA: Analyst Briefing Takeaways

Event

- Agha Steel Industries Limited (AGHA PA) held its Analyst Briefing yesterday to discuss FY22 financial results and its future prospects. Following are the key takeaways of the briefing.

Impact

- Company's topline grew by 29% YoY to Rs25.6bn in FY22 with a CAGR of 22% over the period of five years. This is mainly due to higher rebar retention prices as dispatches declined 7% YoY during FY22.
- Company is in the process of installing 400,000 MT MiDa rolling mill which will take its total capacity to 650,000 MT/annum during FY24.
- Company has ~5% of market share with current capacity 250,000 MT/annum.
- Company will enhance its commercial operations in the north region and targeting Rs150bn topline in upcoming years once new rolling mill comes online.
- Moreover, institutional clients comprise 76% of total sales (mostly Chinese mega projects/dams) while the remaining 24% are retail customers.
- Company sold 81.5/16.3/0.75/1.5% of total sales in Sindh/Punjab/Baluchistan/KPK province during FY22.
- Company's average electricity tariff was Rs28/kwh in FY22 as compared to Rs20/kwh in FY21.
- Other expenses went up 246% YoY to 681mn as the company booked Rs350mn of foreign exchange loss on account of payment made to supplier for MiDa rolling mill amid record rupee depreciation and replacement cost booked against the assets of the company.
- Company is expecting FY23 profitability to shrink further due to lower sales and high finance costs.
- Management is expecting some recovery in volumes during 2HFY23 on the back of rehabilitation activities and resumption of delayed projects.
- According to management, rebar prices have bottomed out at this point in time. Whereas, current retention prices in North/South region are Rs208,000/215,000/MT.
- Company has installed 2MW solar power plant at its site and planning to add 3MW more next year.
- Company has ability to blend cheaper scrap coupled with bulk buying facilities. It also has the capability to produce low carbon billet which were previously imported and are sold at better profit margins. Company also has in-house oxygen supply facility and composite production unit i.e. melting and re-rolling done at the same place.
- Some of the primary challenges being faced by the steel industry are (1) high interest rates, (2) demand suppression and (3) volatile exchange rate.

Outlook

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

Fig 01: AGHA 1QFY23 Key Financial Highlights (Rs mn)

	1QFY23	1QFY22	YoY	QoQ	FY22	FY21	YoY
Net Sales	4,704	6,145	-23%	-32%	25,648	19,858	29%
Cost of Sales	3,685	4,718	-22%	-36%	20,158	15,356	31%
Gross Profit	**1,019**	**1,427**	**-29%**	-16%	**5,490**	**4,503**	**22%**
Administrative expenses	77	73	6%	-40%	335	297	13%
S&D expenses	130	113	15%	171%	354	285	24%
Other operating charges	10	58	-83%	-95%	681	197	246%
Other Income	83	16	425%	-14%	303	239	27%
EBIT	**885**	**1,199**	**-26%**	-13%	**4424**	**3,962**	**12%**
Financial charges	697	450	55%	-4%	2136	1,409	52%
PBT	187	749	-75%	-9%	2288	2,553	-10%
Taxation	34	191	-82%	-63%	434	517	-16%
PAT	**153**	**558**	**-73%**	34%	**1,855**	**2,036**	**-9%**
EPS	0.25	0.92			3.07	3.37	
GP Margins	21.70%	23.20%			21.41%	22.68%	
EBIT Margins	18.80%	19.50%			17.25%	19.95%	
NP Margins	3.30%	9.10%			7.23%	10.25%	

Source: PSX, Foundation Research, November 2022

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Recommendations definitions

If

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