

## Aisha Steel Mills Limited

REP-091  
October 15, 2018

- ASL stock price has declined by 47% since CYTD as compared to KSE-100 Index which has declined by only 10%. That much decline in stock price has made the ASL valuation attractive where stock is currently trading at FY19E P/E of around 7.3x
- Company posted FY18 EPS of Rs1.54 as compared to Rs1.07 during SPLY, recording a growth of 43.92% YoY
- Imports to be curtailed if the anti-dumping duties would be imposed on Russia which would help the company to grab further market share
- Continuous improvement in financial position would help the company to enhance its bottom line
- We have a BUY stance on the scrip with the DCF based target price of Rs13 for Jun-19, providing an upside potential of 35% from the last day closing price

### FY18 Result Highlights

ASL posted an EPS of Rs1.54, recording a growth of 43.92% YoY against EPS of Rs1.07 during same period last year. The Company has posted a revenue of 18.9bn in FY18, recording a growth of 34.3% YoY against the revenue of 14.07bn during SPLY. Gross margin has expanded to 17.53% as compared to 14.83% last year mainly due to the imposition of anti-dumping duties on import of CRC from China and Ukraine for the period of five years, which enhanced the pricing power as well as the volumetric sales of the company. Finance cost has increased by 13.74% from Rs0.95bn to Rs1.08bn on account of increased interest rates and exchange losses during the period. Company earned a net profit of Rs1.3bn, recording a growth of 25.86% YoY as compared to Rs1.02bn during the same period last year

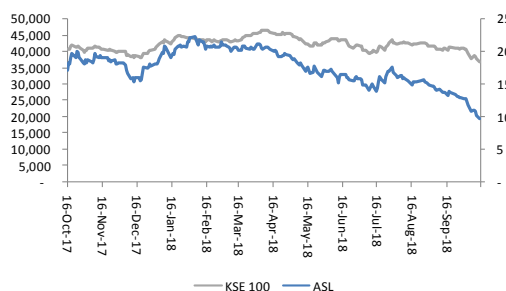
### Favorable Sector Dynamics Even in Contracting Economy

- Current demand of flat steel in Pakistan is about 1.4mn tons per annum of which around 54% demand is catered by domestic producers i.e. ASL, ISL. However, the remaining 46% demand is fulfilled by imports from Russia, South Korea and Japan. Considering the recent scenario, ASL had announced the expansion of its plant which will enhance the CRC production capacity of the company by 230,000 tons to 450,000. Furthermore, the company would also be able to produce 250,000 tons of galvanized coils which will diversify the product line of the company. The total cost of this expansion project is around Rs5.4bn which is being financed by 60% debt and 40% equity. As per the recent annual report, new galvanized line is expected to commence by December 2018 while the expanded CRC production facility would commence by around April 2019. It is to be noted that the expanded capacity of ISL has already been commenced in June 2018 after which its total CRC production capacity has increased from 550,000 tons to 1mn tons. Accordingly, the total production capacity at the end of FY19 would be standing at 1.45mn tons per annum (ASL: 450,000 tons ; ISL: 1,000,000 tons)
- Local producers are getting benefitted by the imposition of anti-dumping duties on import of CRC and galvanized coils from China and Ukraine. However, the industry is still facing challenges by the cheap imports from Russia. Therefore, the management of ASL has decided to file a petition for imposing anti-dumping duties on Russia as well. We expect the company would be in strong position to win the case as the existing situation of current account deficit doesn't allow us to import such products which are already being manufactured locally.
- SBP has increased the interest rate from the bottom of 5.75% to 8.5% during the year. Going forward, further hike in interest rate is also expected in order to control the rising inflation rate which would hamper the overall growth of the economy.

### Key Data

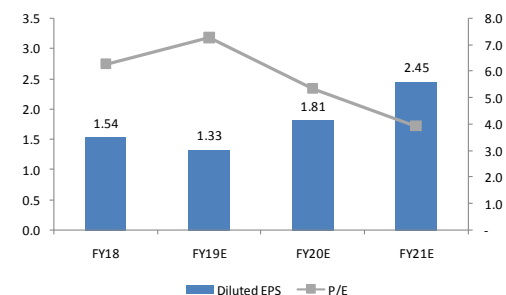
Target Price—Jun 19	Rs. 13.00
LDCP—15 Oct 18	Rs. 9.65
Upside	35%
Stance	BUY
Ostdg. Shares (mn)	832.14
Free Float (mn)	332.88
Market Cap (mn)	Rs. 8,030.15

### Price Performance vs. KSE100 Index



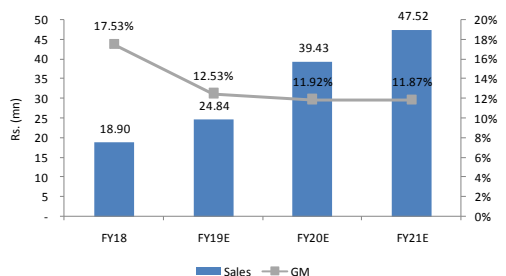
Source: PSX, ASL Research

### EPS Estimate



Source: Co Financials, ASL Research

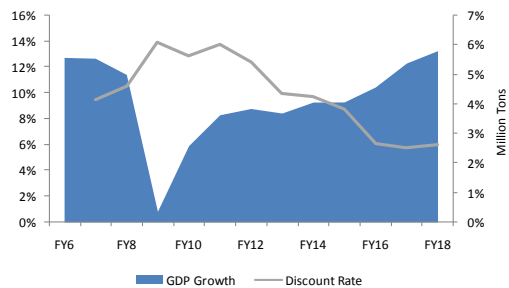
### Sales vs. GM Estimate



Source: Co. Financials, ASL Research

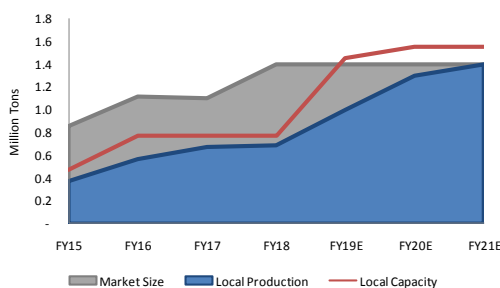
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Fig.1 GDP Growth vs. Discount Rate



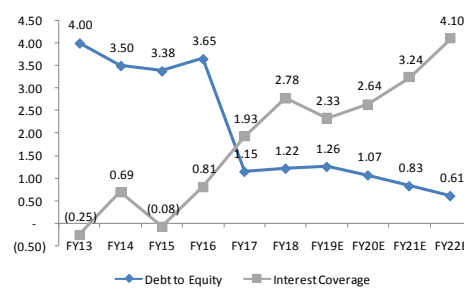
Source: PBS, ASL Research

Fig.2 Market Size vs. Local Production



Source: Co. Financials, ASL Research

Fig. 3 Debt to Equity vs. Interest Coverage



Source: Co. Financials, ASL Research

- As the interest rate had gone up from 9% in 2006 to 14% in 2009, the GDP growth rate had fallen down to 0.36% from 5.56% (See Fig.1). Therefore, we assume zero growth (rather than the average growth of 12% historically) in the demand of flat steel in coming years and expect the capacity expansion would allow the company to grab market share of imported CRC and galvanized coils as the industry is protected by the anti-dumping duties on China and Ukraine for at least five years and the anti dumping duties on Russia are also on the way (See Fig.2). However, we expect the gross margins to remain around 11%-12% due to rising HRC prices and limited pricing power ahead.

**Continuous Improvement in Financial Position**

- The company had been through a tough time in recent years as evident in Fig. 3. The debt to equity ratio of the company was at 4x back in FY13 which has now been reduced to 1.22x. In the same way, interest coverage ratio of the company has increased to 1.93x from – 0.25x in FY13. The company currently possesses the loan of Rs4.8bn with the mark-up of 2%-3.28% above six month KIBOR and the new loan which is to be obtained amounting to Rs3.24bn at the mark-up of 1.9% above six months KIBOR. We expect the improved cash flows would assist the company to get rid of the debt burden gradually. Furthermore, we expect the D/E ratio would be as low as 0.61x by FY22 along with the interest coverage ratio of 4.1x which would further enhance the bottom line of the company.

**Valuation & Recommendation**

- ASL is currently trading at FY19E P/E of 7.3x. We have a **BUY** stance on the scrip with the DCF based target price of Rs13 for Jun-19, providing an upside potential of 35% from the last day closing price

**Risks to Our Valuation**

- Higher than expected interest rate
- Higher than expected devaluation of PKR
- Rise in international HRC prices
- Delay in the imposition anti-dumping duties on Russia
- Delay in the commencement of expanded capacity

**Disclaimer**

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**Valuation Methodology**

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method ( P/E, P/B, Justified P/B & P/E etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

**Rating**

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price