

# Flash Note

Thursday, 28 February 2019

## Engineering

### Amreli Steels Limited (ASTL)

**High production costs, restricted price pass over ability and expansion incidental costs push 2QFY19 EPS down by 67%YoY to PKR 0.36; positive taxes arrest further damage.**

- Amreli Steels Limited (ASTL) announced its 2QFY19 financial results wherein it recorded earnings of PKR 108mn (EPS: PKR 0.36), down by a colossal 67%YoY margin as against PKR 329mn (EPS: PKR 1.11) reported in the same period last year. Cumulatively, this brings 1HFY18 EPS to PKR 1.74, down by a meagre 2%YoY as against PKR 1.77 recognized in the same period last year.
- Net Sales of the Company increased by 81%YoY to PKR 6.40bn, largely driven by incremental sales volumes made via expansion plant.
- Gross Profits of the Company fell by 6%YoY despite an outstanding sales performance, with gross margins collapsing by a substantial 900bps to 10% as against previously recorded 19%. The huge fall in margins is owed to a) exorbitant rise in raw material prices due to PKR devaluation and Company's limited price pass over ability in the domestic market due to intense competition; and b) impact of incremental depreciation due on expansion plant.
- Finance cost of the Company enhanced by more than 2 folds due to its unwinding towards the income statement post capitalization of expansion plant.
- Pre Tax Profits of the Company have dropped by a significant 78%YoY, taking PBT/share to PKR 0.26 as against PKR 1.18 reported in the same period last year.
- Positive tax income possibly due to available unclaimed tax credits on investments worth PKR 30mn as against a tax expense of 23mn in the similar period of the preceding year saved the Company from further damage resulting in EPS of 0.36/share as against PKR 1.11 reported in the same period last year.

Exhibit:

#### ASTL Result Highlights

Period end (JUN) - PKRmn	2QFY19	2QFY18	YoY	1HFY19	1HFY18	YoY
Net Sales	6,395	3,532	81%	12,317	6,238	97%
Gross Profit	617	655	-6%	1,525	1,165	31%
Sell. / Dist. & Admin	256	164	57%	522	320	63%
Non-Operating Income	7	0	244x	45	49	-8%
EBIT	358	461	-22%	988	796	24%
Financial Charges	281	110	2.56x	490	207	2.37x
Pre-tax Profits	77	351	-78%	498	589	-15%
Taxation	(30)	23	n/m	(18)	65	n/m
Post-tax Profits	108	329	-67%	516	524	-2%
EPS	0.36	1.11		1.74	1.77	
DPS	-	-		-	-	
<b>Key Ratios</b>						
Gross Margin (%)	10%	19%		12%	19%	
Net Margin (%)	2%	9%		4%	8%	
Effective Tax Rate (%)	n/m	6%		n/m	11%	

Source: Company Accounts, IGI Research

No. of Shares: 297mn

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