

Day Break

Monday, 05 October 2020

Company Update

Exhibit: ASIL earnings outlook

	FY20	FY21	FY22	FY23
EPS (PKR/Share)	2.1	3.9	5.2	5.8
Growth	61%	81%	34%	11%

Exhibit: ASIL margins vs Competitors

Gross Margins	FY18	FY19	FY20
ASIL	25%	19%	24%
ASTL	18%	8%	7%
MUGHAL	13%	10%	10%

Exhibit: ASIL Forward P/E vs IGI Long Steel Coverage

Forward P/E	FY21	FY22	FY23
ASIL	7.7	5.8	5.2
ASTL	21.2	10.2	6.4

Analyst

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Engineering

Agha Steel Industries Limited (ASIL) IPO: Subscribe Recommended; Price Target of PKR 45

- Agha Steel Industries Limited (ASIL) has filed for an Initial Public Offering (IPO) to raise equity capital, the book building component of which is scheduled to be held on 6th and 7th October, 2020.
- The Company is offering 120mn shares (20.8% of total post IPO paid up capital) at a floor price of PKR 30/share (share premium of PKR 20/share) and a maximum 40% price band of PKR 42/share.
- Based on our Company and industry analysis, we recommend a Subscribe call on the scrip with a Jun-21 TP of PKR 45/share.

Agha Steel Industries Limited “Subscribe Recommended; TP of PKR 45/share

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The Company aims to use the IPO proceeds of PKR 3.60bn to expand its rebar production capacity up to 650mn tons from existing capacity of 250mn tons. The total expansion project is estimated to cost PKR 7,042mn out of which IPO proceeds are expected to cover 51% of the cost (floor price of PKR 30/share).

Exhibit: Break up of funds requirement

Particulars	PKR mn
IPO Proceeds	3,600
Long Term Debt	1,735
Supplier's credit for Mi. Da. Plant	1,706
Total Expansion Capex Requirement	7,042

Source: ASIL Prospectus

Exhibit: Utilization of Total Proceeds - Both IPO and Debt

Description	Funds Rqd.	% Allocation	Already Incurred	% Completed
Plant & Machinery (Mi. Da. Rolling Mill)	2,706	38%	999	37%
Land	445	6%	445	100%
Civil Works	510	7%	133	26%
Electrical Works	486	7%	-	0%
Mechanical Works	458	7%	-	0%
Duties & Others	554	8%	20	4%
Air Separation Unit (Plant & Machinery)	476	7%	76	16%
LC Discount Charges	256	4%	62	24%
Contingency	150	2%	-	0%
Working Capital	1,000	14%	-	0%
Total	7,042		1,735	

Source: ASIL Final Prospectus

About Agha Steel Industries Limited (ASIL)

Agha Steel Industries Limited started its operations in 2012 after and is a composite (steel melting and re-rolling) unit located at Port Qasim, Karachi. The Company only deals in graded steel and specialized grade billets and has ~3% market share with annual production capacity of 250,000 MT per annum. The Company possesses state of the art steel-making technology; Pakistan's first 45-ton first Electric Arc Furnace ("EAF") along with the largest Eccentric Bottom Tapping ("EBT") and energy efficient steel melting furnace in Pakistan.

Competitive Advantages of ASIL against competitors

The Company intends to expand its production capacity to 650,000 MT per annum through a state of the art and first in Pakistan Micro Mill Danieli ("Mi.Da.") Rolling Mill. Key benefits of Mi. Da. Plant include:

Exhibit: Lasting Benefits of Mi.Da. Rolling Mill over a traditional Mill

- Elimination of Billets requirements to produce Rebars, resulting in reduction in cost of production by USD 42 per MT
- Higher yield of 99.2% resulting in lower material losses and cost saving of USD 6 per MT
- Reduction in per heat time from c. 70 minutes to c. 48 minutes
- Reduction in labor cost by USD 4 to 8 per MT
- Reduction in consumables cost by USD 3.5 per MT
- Fully automated operations

Source: ASIL Prospectus

Expansion Status of ASIL

	Commencement Date	Completion Date	Status
Shipment of Mi. Da rolling mill	Jan-20	Mar-20	The Mi. Da. Plant shipment is completed whereas the Air Separation Unit
Installation of Mi. Da rolling mill	Sep-20	Dec-20	
Shipment of Air separation unit	Aug-20	Oct-20	shipment is awaited from China
Installation of Air separation unit	Nov-20	Dec-20	
Pre commissioning & Commissioning	Jan-21	Mar-21	

Source: ASIL Prospectus

Exhibit: Comparison with competitors of outstanding legal issues

Penalties Cases constitute majorly on sales tax and tax audits			
PKR mn	ASIL	ASTL	MUGHAL
Total contingent penalties outstanding	618	3,485	877
EPS impact on adverse outcome	1.07	11.73	3.48

Source: Audited Company Accounts, ASIL Prospectus

Industry Outlook

Pakistan remains amongst the lowest per capita consumer of steel (c. 43kgs per capita) in comparison to the region (c. 276kgs per capita) and the world (c.214kgs per capita) [Source: World Steel Association], presenting an exceptional opportunity for the steel sector to grow manifolds and for operators to benefit from a significant upside potential. Currently total steel demand of Pakistan is ~7.1 Million tons p.a. of which imports meet 45% of local demand.

Recommendation

We recommend a "Subscribe" call on the scrip with a Target Price of PKR 45/share. From valuation stand point, the Company is currently trading at a Forward P/E of 7.7x

and 5.8x for FY21 and FY22 whereas its competitor Amreli Steels Limited (ASTL) in our coverage is currently trading at a comparative forward P/E of 21.1 and 10.2 for FY21 and FY22 respectively.

Exhibit: ASIL Key Financial Highlights				
Particular	FY20	FY21	FY22	FY23
Gross Margins	23.7%	21.8%	22.3%	20.4%
Net Margins	9%	10%	10%	9%
EPS (Post IPO Shares)	2.14	3.88	5.18	5.78
P/E	14.0	7.7	5.8	5.2

Source: ASIL Prospectus, IGI Research

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