Day Break

Wednesday, 01 November 2017

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COMPANY UPDATE

AMRELI STEELS LIMITED
ENGINEERING

Recommendation		UR
Target Price:		UR
Last Closing:	31-Oct-17	88.1
Upside:		-
Valuation Methodology:		-
Time Horizon:		-

Market Data

Bloomberg Tkr.		ASTL PA
Shares (mn)		297.0
Free Float Shares (mn)		74.3
Free Float Shares (%)		25.0%
Market Cap (PKRbn | USDmn)	26.2	248.4
Exchange		KSE ALL

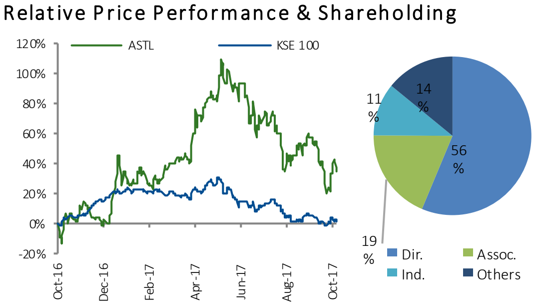
Price Info.	90D	180D	365D
Abs. Return	(18.6)	(21.9)	41.4
Lo	79.7	79.7	57.8
Hi	115.1	138.0	138.0

Key Company Financials

Period End: Jun

PKRbn	FY14	FY15	FY16	FY17
Total Revenue	12.0	14.4	12.4	13.3
Net Income	0.5	1.0	1.3	1.1
EPS (PKR)	1.8	3.4	4.3	3.6
DPS (PKR)	-	-	2.0	2.0
Total Assets	11.1	12.3	16.8	18.2
Total Equity	4.8	5.9	10.7	11.1
Key Financial Ratios				
ROE (%)	11.2	17.2	12.0	9.6
P/E (x)	48.2	25.9	20.5	24.4
P/B (x)	5.4	4.5	2.4	2.3
DY (%)	-	-	2.3	2.3

Relative Price Performance & Shareholding



About the Company

Amreli Steels Limited is one of the largest manufacturers of Steel Reinforcement Bars in Pakistan. Situated in the industrial hub of Karachi, our plant uses one of the most modern hot re-rolling mill technologies in the industry and is capable of continuously producing straight bars up to 30 tons/hour. This translates into an annual production capacity of 180,000 MT.

Source: Bloomberg, PSX & IGI Research

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Engineering

ASTL: Analyst Briefing Takeaway 1QFY18

- Amreli Steel Limited (ASTL) held its analyst briefing on 31th Oct-17 to discuss financial result for 1QFY18 and future prospects of the company. The company registered earnings of PKR 196mn (EPS PKR 0.66) down by 13.2%YoY during 1QFY18 as compared to PKR 226mn (EPS PKR 0.76).
- ASTL is confident to complete the upcoming production capacity expansion by end of Feb-18 which will translate total production of rebar from 180k to 605k MT.
- Company also plans to make its foot print in Punjab region for that ASTL has successfully acquired warehouse in Lahore to capture the market and make its presence there.
- The company expects buoyant demand going forward emanating from dams (Dasu & Suki Kinari hydro project) and private development projects.

Earnings for 1QFY18 reported at PKR EPS 0.66 down by 13%YoY

Amreli Steel Limited (ASTL) held its analyst briefing on 31th Oct-17 to discuss financial result for 1QFY18 and future prospects of the company. The company registered earnings of PKR 196mn (EPS PKR 0.66) down by 13.2%YoY during 1QFY18 as compared to PKR 226mn (EPS PKR 0.76) in the same period last year.

Drop in earnings are primarily attribute to a) decline in production owing to closure of plant on account of maintenance carried out for 10 days, b) nominal sales of 34 MT on trading of rebars compared to 9,874 MT in the same period last year, c) +45%YoY increase in admin cost and, d) +31%YoY rise in finance cost.

Revenue drop by 14%QoQ; owing to plant closure and as rebar trading income terminates

ASTL quarterly revenues dropped by 14%QoQ, as the plant remained shut down for 10days to carry out routine plant maintenance. In addition regulatory duty (RD) imposed earlier made overall import of rebars unviable, henceforth company's trading volumes dropped to 34MT from 9,874MT same period last year. This along with rising international scrap prices led to lower gross margins during the quarter, to 19% versus, 23% in previous quarter.

Exhibit:

ASTL Result Highlights

PKRmn	1QFY18	1QFY17	YoY	4QFY17	QoQ
Revenue	2,706	3,218	-16%	3,149	-14.1%
Gross Profit	510	465	9.7%	730	-30.1%
Admin Exp	101	70	44.5%	94	7.1%
Dist. Exp	55	82	-32.3%	79	-29.8%
Finance Cost	97	74	31.1%	65.2	48.8%
Pre-tax Profits	238	225	5.5%	455.3	-47.8%
Post-tax Profits	196	226	-13.2%	254.8	-23.2%
EPS	0.66	0.76		0.86	
Key Ratios					
Gross Margins (%)	18.8%	14.4%		23.2%	
Effective Tax Rate (%)	17.7%	-0.1%		44.0%	

SOURCE: Company Accounts, IGI Research *No of shares: 297.01mn*

Capacity and production (current and after expansion)

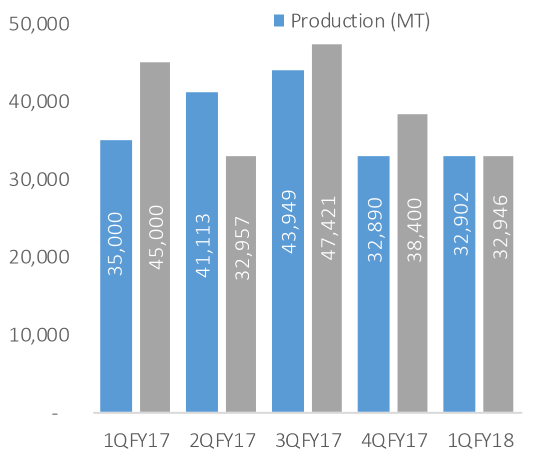
Site Plant

000'MT		Expansion		
Plant	Existing	In progress	Approved	Total
Rolling	180	-	145	325
Melting	-	-	-	-

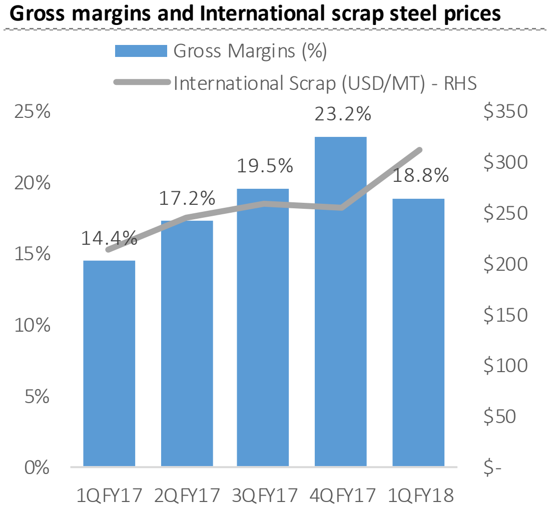
Dhabeji Plant

000'MT		Expansion		
Plant	Existing	In progress	Approved	Total
Rolling	-	425	-	425
Melting	400	200	-	600

Production and sales volume for 1QFY18 (MT)



Gross margins and International scrap steel prices



Source: Company Financials, IGI Research

Key analyst briefing takeaway

The management in its analyst briefing discussed key points regarding 1QFY18 result and provided guidance on company's upcoming expansions and industry dynamics. Key result highlights included:

- The management highlighted, administrative cost during the quarter was high due to hiring of new staff relating to expansion and the company also booked a provision against old receivables;
- Finance cost leaped up as interest costs augmented due to financing of expansion project through long term loan;
- Effective tax rate stood at 17.7%YoY compared to reversal in same period last year, as the company booked tax income of PKR 0.26mn owing to utilization of deferred tax assets in 1QFY17;
- Gross margins increased by 440bps to 18.8% in 1QFY18 as compared to 14.4% in the same period last year, on the back of significant decline in scrap prices. However, margins are down on quarterly basis due to aforesaid reasons.

Key management updates regarding future prospect and operations

The management also provided guidance on company's upcoming expansions and company's standing given current industry dynamics.

- The management remain confident to complete the upcoming production capacity expansion by Feb-18 which will translate total production of rebar from 180k to 605k MT;
- Management quoted amount of PKR 2,500/MT on account of production efficiencies once Dhabaji plant commences operation;
- Company also plans to make its foot print in Punjab region for that ASTL has successfully acquired warehouse in Lahore to capture the market and make its presence there;
- The management expects the effective tax rate to normalize around 17% in FY18, as company realized 25% of BMR activities tax credit and 10% still remains pertaining to listing;
- The company expects buoyant demand going forward emanating from dams (Dasu & Suki Kinari hydro project) and private development projects;
- The management believes that the new in pipeline capacities of competitors (Agha 300K, Nagina 200K, & Liberty 200K) will take some time to enter the market.

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