

# Day Break

Friday, 24 April 2020

## COMPANY UPDATE

### Amreli Steels Limited

Engineering

<b>Recommendation</b>	<b>BUY</b>
Target Price: Dec/20	46.8
Last Closing: 23-Apr-20	34.6
Upside / (Down side) %:	35.38
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: 8M

#### 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)	10.3   66.5
Exchange	KSE 100
<b>Price Info.</b>	90D 06M 12M
Abs. Return	(2.5) 28.6 0.1
Lo	21.3 21.3 15.8
Hi	39.4 41.6 41.6

#### Key Company Financials

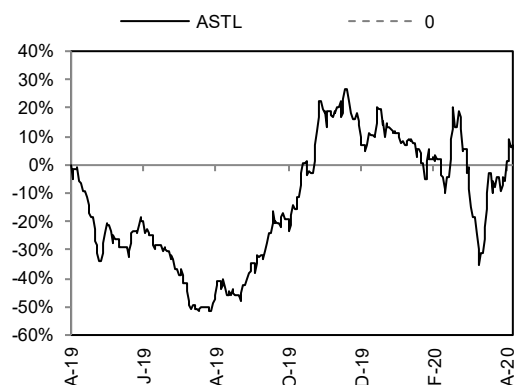
Period End: Jun

PKRbn	2020e	2021f	2022f	2023f
Total Revenue	27.1	20.1	24.7	31.7
Net Income	(1.1)	0.2	1.1	1.8
EPS (PKR)	(3.6)	0.7	3.6	6.0
DPS (PKR)	-	0.3	1.5	2.5
Total Assets	28.3	24.9	26.2	28.6
Total Equity	11.2	11.3	11.9	13.0

#### Key Financial Ratios

ROE (%)	(9.1)	1.8	9.3	14.4
P/E (x)	- 9.6	49.8	9.5	5.7
P/B (x)	0.9	0.9	0.9	0.8
DY (%)	-	0.7	4.3	7.2

#### Relative Price Performance



Source: Bloomberg, PSX &amp; IGI Research

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## Engineering

### ASTL: Losses to continue albeit of lower extent, 3QFY20E LPS: PKR (0.18)

- ✓ ASTL's board meeting is scheduled on 25<sup>th</sup> Apr-20 to announce financial result for 3QFY20, wherein we expect the company to present a net loss of PKR (0.18)/share, up by 82%YoY compared to loss of PKR (0.99)/share in the same period last year.
- ✓ Net sales of the Company during 3QFY20E are expected to rise by 15% courtesy improved volumetric sales (est. up by +25%YoY)
- ✓ Gross profit margins of the Company are expected to improve to 10%, driven primarily by benign scrap prices globally.
- ✓ Finance costs, up by +48%YoY, due to higher short term borrowing requirements of the Company amid a peaked interest rate scenario, will badly hurt overall performance.

### Losses to continue in 3QFY20E, LPS: PKR 0.18, up by 82%YoY

Amreli Steels Limited's (ASTL) board meeting is scheduled on 25<sup>th</sup> Apr-20 to announce financial result for 3QFY20, wherein we expect the company to present a net loss of PKR 53mn (LPS: PKR 0.18), up 82%YoY, compared to loss of PKR 293mn (LPS: PKR 0.99) in the same period last year. This will bring 9MFY20E accumulated loss to PKR 366mn (LPS: PKR 1.23), down by 1.6xYoY, as against profit of PKR 224mn (EPS: PKR 0.75) reported in the similar period of the preceding year.

Net sales of the Company during 3QFY20E are expected to rise by +15%YoY courtesy improved volumetric sales (est. up by +25%YoY), despite lower retentions in the domestic space due to stiff competition. Similarly, gross profit margins of the Company are expected to improve to 10% as against 5% reported in the similar period of the preceding largely due to substantially lower cost of production driven by benign scrap prices globally. However, the performance is to be badly hurt from enhanced finance costs, up by 48%YoY, due to higher short term borrowing requirements of the Company amid a peaked interest rate scenario.

#### Exhibit: ASTL Result Highlights

Period end (JUN) - PKRmn	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	7,335	6,406	15%	20,977	18,723	12%
Gross Profit	769	315	2.4x	2,033	1,840	10%
Sell. / Dist. & Admin	295	289	2%	932	810	15%
EBIT	475	26	18x	1,101	1,030	7%
Financial Charges	548	370	48%	1,762	860	2.1x
Pre-tax Profits	(74)	(344)	-78%	(663)	154	-4.3x
Taxation	(21)	(52)	-58%	(297)	(70)	4.2x
Post-tax Profits	(53)	(293)	-82%	(366)	224	1.6x
EPS	(0.18)	(0.99)		(1.23)	0.75	
<b>Key Ratios</b>						
Gross Margin (%)	10.5	4.9		9.7	9.8	
Net Margin (%)	(0.7)	(4.6)		(1.7)	1.2	
Effective Tax Rate (%)	29%	15%		45%	-46%	

Source: Company Accounts, IGI Research

No. of Shares: 297mn

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
Hold	If target price on aforementioned security(ies) is in between -10% and 10%, from its last closing price(s)
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**Time Horizon:** Dec – 2020

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):  
(Discounted Cash Flow)

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