

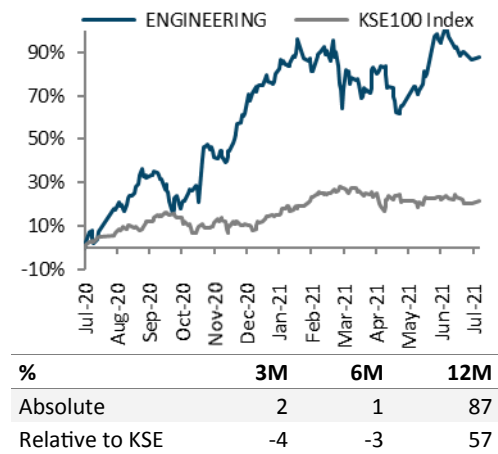
# PAKISTAN STEEL SECTOR

## 4QFY21 Earnings Preview

Friday, July 23, 2021

The annual results of the steel sector are around the corner, where we expect the BMA Steel universe to post earning of PKR 19.69Bn in FY21 compared to negative earnings of PKR 0.66Bn in SPLY. Improvement in profitability is expected mainly on account of higher steel production (LSM FY21E ↑18% YoY), economic revival and upbeat steel prices (Rebar/CRC ↑33%/35% YoY). The gross margins across the industry are estimated to increase to 17.2% in FY21 from 8.5% in FY20, mainly on account of higher demand from construction, auto and appliance sector boom. Company wise; MUGHAL, ASTL, ISL and ASL are expected to post an EPS and DPS of PKR 12.8/4.3/17.9/8.9 and 4.5/1.5/7.5/1.0 respectively. Our top picks for the sector are MUGHAL and ISL with Jun 22 TP of 135/sh and PKR 116/sh respectively.

Steel Performance vs. KSE-100 Index



Source: BMA Research

Table 1: BMA Steel Universe

PKR Mn	4QFY21E	4QFY20	YoY	3QFY21	QoQ	FY21	FY20	YoY
Revenue	66,327	25,777	157%	52,886	25%	215,045	131,696	63%
COGS	54,720	23,749	130%	41,459	32%	177,988	120,524	48%
Gross Profit	11,607	2,027	473%	11,428	2%	37,057	11,172	232%
PAT	6,354	(583)	N.M.	6,222	2%	19,693	(655)	N.M.

Source: BMA Research

**MUGHAL; Copper Ingot hedge against lower long steel margins:** Mughal Iron and Steel Industries Limited (MUGHAL) is expected to post a PAT of PKR 1,219Mn (EPS: PKR 4.18) during 4QFY21 (↑6.2x/10% YoY/QoQ). Consequently, profitability during FY21 is estimated to reach PKR 3.73Bn (EPS: PKR 12.77), ↑6.3x YoY. Gross margins are expected to clock in at 17.2% in 4QFY21 (10.8%/21.2% in 4QFY20/3QFY21), on the back of higher copper ingot prices (↑14% QoQ) and rebar/girder prices (↑2.5% QoQ). On an annual basis, the gross margins should climb to 16.4% in FY21 compared to 9.6% in SPLY. Furthermore, the management should announce a dividend of PKR 4.5/sh for the year.

Table 2: Mughal Iron & Steel Industries Limited - (PSX: MUGHAL, Bloomberg: MUGHAL.PA) Earnings Snapshot

PKR Mn	4QFY21E	4QFY20	YoY	3QFY21	QoQ	FY21	FY20	YoY
Sales	13,838	5,844	137%	10,372	33%	43,657	27,305	60%
COGS	11,460	5,213	120%	8,176	40%	36,485	24,688	48%
Gross Profit	2,378	632	277%	2,196	8%	7,173	2,617	174%
PAT	1,219	195	525%	1,110	10%	3,728	593	529%
EPS	4.18	0.67		3.80		12.77	2.03	
DPS	4.50	-		-		4.50	-	

Source: BMA Research

**ASTL; Upbeat scrap prices lower profitability:** We expect Amreli Steel Limited (ASTL) to post PAT of PKR 357Mn (EPS: PKR 1.20) during 4QFY21, down 29% QoQ. This will take FY21 earnings to PKR 1,283Mn (EPS: PKR 4.32), an impressive rebound from loss of PKR 1,127Mn in FY20 (LPS: PKR 3.79). The decline in profitability is estimated to be driven by inability to pass on higher scrap prices (↑9% QoQ). Gross margins are expected to decline to 10.3% compared to 4.2%/13.9% in 4QFY20/3QFY21. The gross margins in FY21 should clock in at 11.4%, up 4.0 ppts YoY. Moreover, we expect the company to announce an annual dividend of PKR 1.50/sh for FY21.

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**BMA Capital Management Ltd.**

**Table 3: Amreli Steels Limited - (PSX: ASTL, Bloomberg: ASTL.PA) Earnings Snapshot**

PKR Mn	4QFY21E	4QFY20	YoY	3QFY21	QoQ	FY21	FY20	YoY
Sales	11,697	5,142	127%	9,776	20%	38,925	26,532	47%
COGS	10,492	4,926	113%	8,416	25%	34,469	24,556	40%
Gross Profit	1,205	216	459%	1,360	-11%	4,455	1,976	126%
PAT	357	(439)	N.M.	503	-29%	1,283	(1,127)	N.M.
EPS	1.20	(1.48)		1.69		4.32	(3.79)	
DPS	1.50	-		-		1.50		

Source: BMA Research

**ISL; Higher dispatches and prices to boost profitability:** International Steels Limited (ISL) is estimated to post earnings of PKR 2,621Mn (EPS: PKR 6.0) in 4QFY21 (↑10% QoQ.), mainly on account of sequential increase in flat steel dispatches, higher CRC prices (↑17.6% QoQ) and exchange rate appreciation (↑2.2% QoQ). While, gross margins are expected to fall slightly to 20.1% (8.5%/23.5% 4QFY20/3QFY21) due to increase in HRC cost (↑20% QoQ). Cumulative earnings for FY21 are expected to clock-in at PKR 7.77Bn (EPS: PKR 17.9), ↑15.7x YoY, whereas gross margins are likely to land at 18.5% compared to 8.8% in SPLY. We expect the company to announce a dividend of PKR 4.5/sh for 2HFY21, taking annual total dividend to PKR 7.5/sh.

**Table 4: International Steel Limited - (PSX: ISL, Bloomberg: ISL.PA) Earnings Snapshot**

PKR Mn	4QFY21E	4QFY20	YoY	3QFY21	QoQ	FY21	FY20	YoY
Sales	22,155	9,589	131%	17,402	27%	73,073	48,082	52%
COGS	17,711	8,776	102%	13,305	33%	59,576	43,869	36%
Gross Profit	4,444	813	447%	4,097	8%	13,496	4,213	220%
PAT	2,621	(161)	N.M.	2,378	10%	7,773	495	1471%
EPS	6.03	(0.37)		5.47		17.87	1.14	
DPS	4.50	-		-		7.50	-	

Source: BMA Research

**ASL; Lower inventory gains to taper down earnings:** Aisha Steel Mills Limited's (ASL) profitability is expected to decline modestly to PKR 2,157Mn (EPS: PKR 2.8), ↓3% QoQ on account of lower inventory gains. Gross margin should settle at 19.2% (7.1%/24.6% 4QFY20/3QFY21) due to higher HRC cost (↑20% QoQ). The annual earnings for FY21 should elevate to PKR 6.9Bn (EPS: PKR 8.9), compared to a loss of PKR 617Mn (LPS: PKR 0.89) in SPLY. Similarly, the company should report gross margins of 20.1% for FY21 compared to 7.9% in FY20. Due to an impressive year, the management may announce a final dividend of PKR 1.0/sh for FY21.

**Table 5: Aisha Steels Limited - (PSX: ASL, Bloomberg: ASL.PA) Earnings Snapshot**

PKR Mn	4QFY21E	4QFY20	YoY	3QFY21	QoQ	FY21	FY20	YoY
Sales	18,637	5,201	258%	15,337	22%	59,391	29,777	99%
COGS	15,057	4,834	211%	11,561	30%	47,458	27,411	73%
Gross Profit	3,580	367	875%	3,775	-5%	11,933	2,366	404%
PAT	2,157	(178)	N.M.	2,232	-3%	6,909	(617)	N.M.
EPS	2.79	(0.22)		2.90		8.91	(0.89)	
DPS	1.00	-		-		1.00	-	

Source: BMA Research

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

### Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

## Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)