ASTL

The scrip with growth potential offering a return of 79%

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We initiate our coverage on Amreli Steels Limited (ASTL) with a DCF based Dec-20 TP of Rs.53 which provides an upside potential of 79%

In spite of challenging macroeconomic conditions the company still managed to grow its revenues at a 5-year CAGR of 19% respectively

Going forward, we expect the company's revenues and earnings to grow at a 5-year CAGR of 13% and 141% respectively as the company will improve its margins and achieve economies of scale

Furthermore, the upcoming expansionary phase of the economy, construction of dams, removal of the ban on high rise buildings, launch of Naya Pakistan Housing Scheme and government's upcoming package for construction industry would uplift the demand for long steel

Sector Overview

According to the World Steel organization, crude steel production in Pakistan has declined by 32% to 3.04mn MT's in 11MCY19 as compared to 4.44mn MT's tons during SPLY. The said decline was caused due to the contractionary monetary and fiscal policies by the SBP and GOP. Moreover, the aforementioned policies caused the sectors' profitability to decline as higher interest rates resulted in lower demand and currency depreciation contributed to higher imported raw material costs along with higher energy costs. However, the recent data of cement dispatches has eliminated most of the investor's concerns regarding future demand as the upcoming expansion of the economy, construction of dams, lifting of a ban on high rise buildings and the launch of Naya Pakistan Housing Scheme would further bolster the steel demand in near future.

Company Overview

Amreli Steels Limited was incorporated in 1984 as a private limited company and converted into a public unquoted company in 2009. The Company enlisted on Pakistan Stock Exchange in December 2015 and is mainly engaged in manufacturing and sale of steel rebars and billets.

With the announcement of successful commissioning and commencement of commercial operations of the New Rolling Mill at Dhabeji, Sindh during last year, the rebar production capacity of the Company has increased to 605,000 tons per annum which reects that the management is on the track to achieve its long term vision of being the first million-ton quality rebar manufacturer of the country.

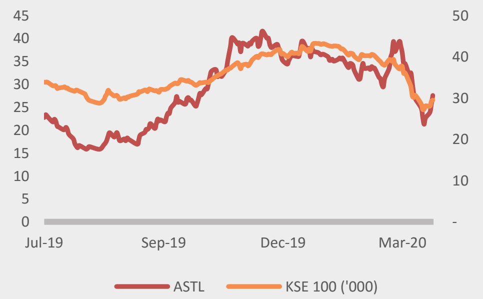
Sizable Growth in Revenue Despite Economic Slowdown

Despite an economic slowdown, the company's revenue has grown at the rate of 11% to Rs13.6bn in 1HFY20 as compared to Rs12.32bn during SPLY, following a significant growth of 84% YoY in FY19. Growth in FY19 was attributed to a hike in prices and increased sales volumes. Going forward, we expect the company's revenues to grow at a 5-year CAGR of 13% to Rs52bn by FY24 as the upcoming expansion of the economy, building of dams, lifting of a ban on high rise buildings, launch of Naya Pakistan Housing Scheme and government's upcoming package for construction industry would further bolster the steel demand in near future. will encourage the demand for steel products in near future.

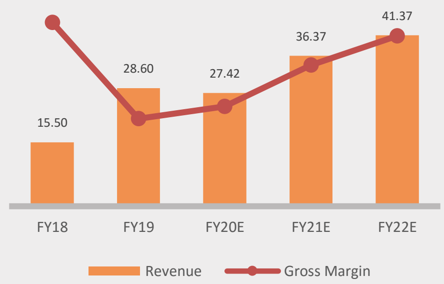
Key Statistics

Symbol	ASTL
TP - Dec 20	53.00
LDCP	29.62
Upside (%)	79
Free Float ('mn)	74
Market Cap. (Rs.'mn)	8,797

ASTL vs KSE 100



Sales (Rs'bn) vs Gross Margin



Sources: ACPL Research, Company Financials, PSX,

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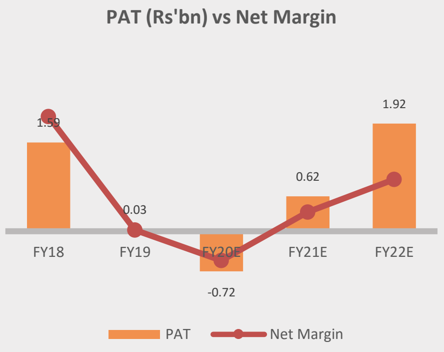

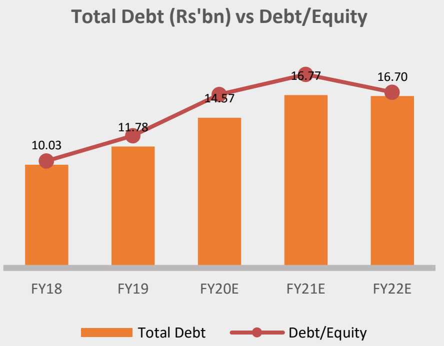

Sources: ACPL Research, Company Financials,

Potential for Improved Margins Due to Cheaper Raw Materials

The company was facing a difficult situation in the past due to higher raw materials costs and its inability to pass the costs over the consumers. As the domestic market had lower demand and excess supply of steel products. Covid-19 has hit all the economies across the globe resulting in lower crude steel prices owing to excess supply and lower demands for steel products. The company will have improved gross profit margins due to lower cost of sales. Pakistan has reinforced its macro-economic indicators which will improve Pakistani rupee outlook. Stable PKR will also help in improved and stables margins as there are fewer chances of currency free fall which happened in the recent past and resulted in squeezed gross margins from 18% in FY18 to 8.5% in FY19.

Exports Potential Owing to International Quality Products

ASTL can produce rebars on any international steel standard in the world. This capacity of ASTL provides the company with an export potential to target any market across the world as it has the capacity to meet any given standard in the world. It has the capability to provide customized products to some extent as it gives the option of cut to length and customized rib patterns which further adds value to its products.

Cut in Interest Rate to Ease the Burden from Net Income

ASTL is one of the leveraged companies in the industry with long-term debt to equity ratio of 0.52x and total debt to equity ratio of 1.31x. The company has a long-term and short-term debt of Rs6.2bn and Rs9.35bn respectively outstanding on its balance sheet as of 31 Dec 2019. Therefore, the dovish stance adopted by the SBP in its recent MP announcement would relieve the burden from its bottom line as this would provide a breather to the earnings of the company. According to our sensitivity analysis, a cut of 100bps in KIBOR would increase the earning by Rs0.22.

Valuation

ASTL is trading at a FY20E P/B of 0.76x which offers a discount of 15% relative to its historical 5-year average of 0.9x. We have a **BUY** stance on the script with a DCF based Dec-20 TP of Rs.53 which provides an upside potential of 79%.

Key Risks to Valuation

- More than expected depreciation of PKR
- Hike in prices of raw material
- Delayed Policy rate cut to single-digit
- Less than expected growth in demand

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	17.44	22.52	18.58	17.80	8.48	9.65	13.66	16.50	15.45
OP Margin	%	13.46	16.81	12.77	12.07	4.18	4.96	8.98	11.82	10.76
NP Margin	%	7.02	10.31	8.09	10.23	0.11	-2.61	1.70	4.64	4.61
ROE	%	17.22	15.44	9.84	13.20	0.26	-6.03	5.29	15.38	15.59
ROCE	%	15.82	14.36	9.70	8.34	4.25	4.48	9.93	13.85	13.47
ROA	%	8.25	8.81	6.14	7.07	0.12	-2.36	1.89	5.44	5.76

Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	1.08	1.88	1.13	1.05	0.86	1.03	1.00	1.03	1.07
Acid-test	x	0.30	0.51	0.31	0.19	0.25	0.32	0.32	0.34	0.35
Cash to current liab.	x	0.02	0.02	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	5	2	3	2	3	3	3	3	3
Inventory Days		70	168	115	214	92	109	109	109	109
Receivables Days		29	23	21	25	19	18	18	18	18
Payables Days		30	41	38	70	54	45	45	45	45
Operating Cycle		69	149	98	169	57	82	82	82	82

Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
EPS	Rs.	3.40	4.31	3.62	5.34	0.11	-2.41	2.09	6.46	7.19
DPS	Rs.	0.00	1.99	2.00	2.19	0.01	0.00	0.84	2.58	2.87
Div. Yield	%	0.00	3.76	3.76	4.12	0.02	0.00	1.57	4.87	5.42
Dividend Cover	x	0.00	2.16	1.81	2.44	11.80	0.00	2.50	2.50	2.50
BVPS	Rs.	19.77	35.99	37.53	43.37	41.22	38.81	40.06	43.94	48.25
Payout	%	0.00	46.31	55.18	41.00	8.48	0.00	40.00	40.00	40.00
Retention	%	100.00	53.69	44.82	59.00	91.52	100.00	60.00	60.00	60.00
No. of Shares	'mn	297	297	297	297	297	297	297	297	297
P/E		8.70	6.88	8.19	5.55	268.02	0.00	14.19	4.59	4.12
Sales per share		48.53	48.53	41.75	44.72	52.19	96.28	92.33	122.46	139.30
P/BV		1.50	0.82	0.79	0.68	0.72	0.76	0.74	0.67	0.61
Price to Sales		0.51	0.61	0.71	0.66	0.57	0.31	0.32	0.24	0.21

Gearing Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Debt to Equity	x	0.73	0.35	0.42	0.78	0.96	1.26	1.41	1.28	1.18
L.T. Debt to Equity	x	0.36	0.09	0.09	0.23	0.22	0.50	0.36	0.21	0.11
Interest Cover	x	2.90	6.21	6.74	3.93	0.95	0.57	1.36	2.23	2.51

Source: ACPL Research, Company Financials

Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	14,414	12,400	13,284	15,501	28,596	27,423	36,372	41,373	46,338
Cost of sale	11,899	9,608	10,816	12,742	26,172	24,778	31,403	34,546	39,179
Gross profit	**2,514**	**2,792**	**2,468**	**2,758**	**2,424**	**2,646**	**4,969**	**6,827**	**7,159**
Selling and promotion expenses	281	341	337	378	716	658	873	993	1,112
Administration expenses	229	216	325	409	501	623	827	940	1,053
Other operating expenses	100	165	117	123	18	21	27	31	35
Operating Profit	**1,905**	**2,069**	**1,690**	**1,848**	**1,188**	**1,344**	**3,242**	**4,863**	**4,959**
Other operating income	35	15	7	23	7	17	23	26	29
Finance cost	668	336	252	476	1,262	2,370	2,393	2,190	1,985
Profit before taxation	1,272	1,749	1,445	1,394	- 67	- 1,009	872	2,699	3,003
Taxation	261	470	371	- 191	- 100	- 292	252	781	869
Profit after taxation	**1,011**	**1,279**	**1,074**	**1,585**	**33**	**- 717**	**620**	**1,919**	**2,135**
EPS	**3.40**	**4.31**	**3.62**	**5.34**	**0.11**	**- 2.41**	**2.09**	**6.46**	**7.19**

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Net sales	20.5%	-14.0%	7.1%	16.7%	84.5%	-4.1%	32.6%	13.8%	12.0%
Cost of sale	12.4%	-19.3%	12.6%	17.8%	105.4%	-5.3%	26.7%	10.0%	13.4%
Gross profit	82.8%	**11.0%**	**-11.6%**	**11.8%**	**-12.1%**	**9.2%**	**87.8%**	**37.4%**	**4.9%**
Selling and promotion expenses	44.6%	21.5%	-1.2%	12.1%	89.4%	-8.1%	32.6%	13.8%	12.0%
Administration expenses	43.0%	-5.5%	50.2%	25.9%	22.6%	24.3%	32.6%	13.8%	12.0%
Other operating expenses	230.4%	65.7%	-29.4%	5.6%	-85.6%	16.8%	32.6%	13.8%	12.0%
Operating Profit	**92.2%**	**8.6%**	**-18.4%**	**9.4%**	**-35.7%**	**13.1%**	**141.3%**	**50.0%**	**2.0%**
Other operating income	72.3%	-55.7%	-52.2%	206.4%	-68.5%	144.7%	32.6%	13.8%	12.0%
Finance cost	5.8%	-49.8%	-25.0%	89.3%	165.0%	87.7%	1.0%	-8.5%	-9.4%
Profit before taxation	234.7%	37.5%	-17.4%	-3.5%	-104.8%	-1401.9%	186.5%	209.4%	11.3%
Taxation	104.4%	80.5%	-21.1%	-151.4%	-47.6%	191.8%	186.5%	209.4%	11.3%
Profit after taxation	300.6%	26.5%	**-16.0%**	**47.6%**	**-97.9%**	**-2284.3%**	**186.5%**	**209.4%**	**11.3%**
EPS	**300.6%**	**26.5%**	**-16.0%**	**47.6%**	**-97.9%**	**-2284.3%**	**186.5%**	**209.4%**	**11.3%**

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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III. Relative Valuation Model
IV. Sum of Parts Valuation

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