AKD Daily

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Today's Daily

Pakistan Steel: RD reduction is more bark than bite

In a recent and what appears to be a populistic move, MoC has reportedly recommended withdrawal of regulatory duty on 57 tariff lines including 47 steel products in the upcoming budget. While the said recommendations hold limited chance to get through considering narrow fiscal space, approval of the same can have wide-ranging implications for the steel sector. For long steel players (ASTL, MUGHAL and ITTEFAQ), elimination of 30% RD on re-bars would significantly hurt the pricing power of domestic manufacturers, as the price differential between imported and local re-bars would shrink to ~PkR13k per ton (which currently stands at ~PkR39k per ton). For flat steel (manufactured by ASL & ISL), the said proposal carries marginally negative implications, with potential elimination of 5% RD on its final products (CRC, HDGC) narrowing the price disparity between imported and local product by ~PkR4-5k per ton. With imported re-bars prices remaining at a premium post RD removal, we continue to like ASTL on the back of strong earnings outlook (5yr forward NPAT CAGR of 30%).

KSE100 - Index

Current	46,560.82
Previous	46,103.61
Chg.	0.99%

Mkt Cap. (PkRbn/US$bn)

Current	9,494 / 82.12
Previous	9,450 / 81.74
Chg.	0.46%

Daily Turnover (mn)

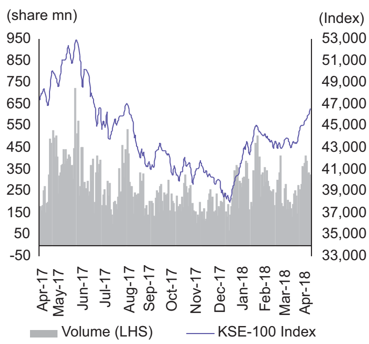
Current	233.35
Previous	270.18
Chg.	-13.6%

Value Traded (PkRmn/US$mn)

Current	12,686 / 109.73
Previous	13,775 / 119.15
Chg.	-7.9%

News and Views

- PM Shahid Khaqan Abbasi yesterday unveiled a populist economic reforms package (ERP) envisaging another 'one-time' amnesty scheme to whiten undeclared assets domestically and abroad along with reduction in income tax rates for existing taxpayers and issuance of dollar-denominated bonds.
- Jeddah-based International Trade Financing Corp. (ITFC) has agreed to lend Pakistan US$3.285bn for a period of 3 years of which US$3bn are to support trade activities while the remaining US$0.285bn are to finance the gasoline purchases for the country.
- SBP has asked Exchange Companies (ECs) to strictly compliance with Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) regulations to avoid any aggressive action by the FATF.



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Proposed regulatory move could escalate competition: Apparently aimed at extending relief to the export sector, Commerce division and National Tariff Commission have identified 515 tariff lines for tariff rationalization in the upcoming budget. The proposal also seeks abolition of regulatory duty (RD) on 57 tariff lines including 47 steel products where approval of the same would have wide-ranging implications for the sector. For long steel players (ASTL, MUGHAL, ITTEFAQ), elimination of 30% RD on re-bars would significantly hurt the pricing power of domestic players, as the price differential between imported and local re-bars would shrink to ~PkR13k per ton (which currently stands at ~PkR39k per ton). For flat steel manufacturers (i.e. ISL and ASL), RD on final products (CRC & HDGC) is mere 5%, where removal of the same would further narrow the current low price gap (~PkR3-5k per month) between imported and local products by ~PkR4-5k per ton. To note, the current low price differential (~PkR3-5K per ton) is primarily due to recent rounds of Rupee depreciation, where importers holding 4-6months old inventory are offering the imported products at a discount price. The pricing gap would once again move to the historical average of PKR10-12k per ton, as importers' inventory

Duty structure for steel sector

	Manufacturers	Custom	Regulatory	Anti-dumping
CRC	ISL/ASL	5.0%	5.0%	13.0-19.04%
HDGC	ISL	5.0%	5.0%	6.0-40.47%
Re-bars	ASTL/MUGHAL	5.0%	30.0%	19.05%

Source: FBR, NTC & AKD Research

Price differential: imported vs local

(PkR 000's)	landed price of Import*	Local	Differential
		Rebars	
With RD	137	98	39
Without RD	111	98	13
Change	-19%	0%	-67%
Cold rolled Coil (CRC)		Cold rolled Coil (CRC)	
With RD	117	93	24
Without RD	112	93	19
Change	-4%	0%	-19%

* Determined on the basis domestic Chinese prices. Source: Bloomberg & AKD Research

backlog comes to an end (our discussion with industry experts also reflect the same). However, this gap is still below price differential of PkR24k per ton, when calculated using the domestic Chinese CRC prices, perhaps affirming the existence of grey channels for imports.

Investment perspective: While proposed regulatory development (if approved) could once again stir up competitive forces, we see limited chance of these getting approved given the rising fiscal imbalance and repercussions on the domestic industry. In this backdrop, we continue to like ASTL on the back of strong earnings outlook (5yr forward NPAT CAGR of 30%) with its flagship dhabeji plant commencing commercial operations from early Apr '18.

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