



## Today's Daily

### ■ **ASTL: Expansion keeps the wheels rolling**

Following financial close of second expansion of melting/rolling capacity of 200k/125k tons, we revisit our investment case for ASTL. Incorporation of this second expansion (Dhabeji only, as SITE expansion has not achieved financial close) into our estimates, adds PkR28/sh taking the Jun'18 (DCF based) TP to PkR134/sh. We believe the company's aggressive expansion plans are key in meeting robust steel demand (+29%YoY in FY17), expected to emanate as spillovers from planned commercial infrastructure developments (evident from FY18's +37%YoY PSDP allocation) and residential construction to meet persistent housing units shortfall (~12mn units as per ABAD report, 2016). Thus, this opportune expansion is expected to add PkR4.66/sh to incremental earnings (beyond FY18F). Keeping these catalysts in mind, we prudently assume average capacity utilization at 76% (vs. management expectations of 80%), where deviations from our estimate would add upside to our TP/earnings estimates (see table-II). Backed by clarity over expansion-II along with improving fundamentals (5yr forward NPAT CAGR of 15%), we have a buy stance on stock with our revised TP of PkR134/sh, offering 43% upside. Buy!

#### KSE100 - Index

Current	41,233.08
Previous	41,974.22
Chg.	-1.77%

#### Mkt Cap. (PkRbn/US\$bn)

Current	8,626 / 81.91
Previous	8,773 / 83.30
Chg.	-1.67%

#### Daily Turnover (mn)

Current	130.15
Previous	103.18
Chg.	26.1%

#### Value Traded (PkRmn/US\$m)

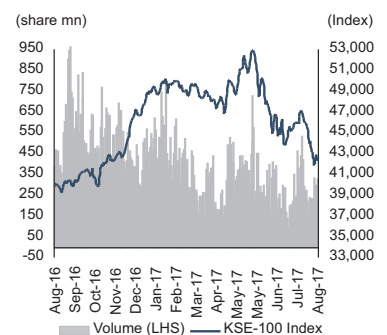
Current	5,987 / 56.84
Previous	5,706 / 54.18
Chg.	4.9%

**AKD Daily**

Wednesday, Aug 30, 2017

## News and Views

- While dropping the petroleum ministry's proposal to increase the profit margins of OMCs, ECC in its meeting approved following agenda items: 1) allocation of 14.2 MMCFD gas from Sofia field to SSGC, 2) marketing of Euro-IV and Euro-V HSD 3) re-allocation of up to 130/25mmfcd gas from OGDCL's KPD/ MOL's Makori East field to SSGC and SNGPL.
- ECNEC has approved PkR124.707bn development projects for power sector as well as transportation and health sectors. The projects include 1) construction of a new 132kv grid station and transmission lines of PkR12.699bn by SEPCO, 2) energy loss reduction project in various districts of Sindh costing PkR10.514bn, 3) construction of Chitral-Doraha Pass Road, 4) dualization and improvement of old Bannu Road, and 5) change in financing modalities for construction of Lahore-Sialkot Motorway.
- The Fertilizer Manufacturers of Pakistan Advisory Council (FMPAC) has raised concerns over delay in repayment of pending subsidy amounts. To recall, Prime Minister's office issued directives to the MNFSR to release pending subsidy claims.



**AKD Research**  
research@akdsecurities.net  
111-253-111 Ext:639

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**Expansion-II to serve surging steel demand:** Gearing up to feed soaring steel demand, ASTL's second expansion (including SITE) will lift its melting/rolling capacity by 50%/56%, taking total melting/rolling capacity to 600k/750k tons. Adding value, this second expansion (Dhabeji only) is estimated to raise our TP by PkR28/sh resulting in average incremental earnings (FY18F and beyond) of PkR4.66/sh. While having regulatory protection in the form of regulatory duty, domestic re-bar manufacturers can pass-on any hike in raw material prices to the end consumers, whereas on demand side, risks can emerge from delayed materialization of CPEC and other infrastructure projects. However, we believe the demand outlook remains firm, backed by spillovers in the commercial space from planned public sector investments and private residential construction activity to meet the persistent housing shortfall.

**Sensitivity to utilization:** Gauging varying demand/utilization scenarios, we estimate on average a 5% change in capacity utilization for the total plant (post-expansions) will change our incremental earnings by PkR1.17/sh (~7% of average post FY18F). As per management guidance, the total estimated capex for the second expansion (excluding SITE) stands at PkR1.5bn, where Dhabeji rolling expansion (PkR0.5bn) will be entirely finance through equity while melting facility (PkR1.0bn) is expected to be funded through partial debt, in a 90:10 D:E mix. Furthermore, ASTL management is presently evaluating different options regarding rolling expansion at SITE.

**ASTL: Earnings & TP revision**

PkR/sh	FY18F	FY19F	TP
Previous	7.11	11.62	106
New	8.58	15.48	134
Change	21%	33%	26%

Source: Co. Reports & AKD Research

**Expansion schedule**

	DHABEJI		SITE
	Expansion-I	Expansion-II	Expansion-II
Melting	200,000	200,000	-
COD	Nov'17	Nov'17	-
Rolling	300,000	125,000	145,000
COD	Nov'17	Jun'18	Tentative

Source: PSX Notice & AKD Research

**Table II: Sensitivity to capacity utilization**

Utilization(%)	Jun'18 TP	FY18-23F EPS
-5%	21.0	3.50
Base case	28.0	4.66
5%	39.0	5.83

Source: Co. Reports & AKD Research



**Investment Perspective:** Gaining 40% CYTD, ASTL's price performance has largely been a function of continued expansion footing, furthering long term growth prospects. Though historically trading at a relatively premium to the steel sector, (FY17P/E of 28.3x vs. sector FY17P/E: 12.54x), ASTL currently trades at a FY18F P/E of 10.9x. With clarity over expansion-II along with improving fundamentals (5yr earnings CAGR of 15%), we have a buy stance on scrip with our revised TP of PkR134/sh, offering 43% upside. Buy!



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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