AKD Daily

Friday, Feb 09, 2018

Today's Daily

ASTL: Capacity constraints to keep earnings in check

Previewing 2QFY18 result for ASTL, we expect the company to post NPAT of PkR217mn (EPS: PkR0.73) versus NPAT of PKR256mn (EPS: PkR0.86) in 2QFY17- down 16%YoY. Higher admin (likley to go up 58%YoY) and finance cost (expected to remain 51%YoY higher) in the wake of the company's expansionary efforts along with resumption of normal tax regime (post IPO exemption period) are anticipated to push earnings lower. On a cumulative basis, we expect the earnings to stand 15%YoY lower in 1HFY18E, with NPAT clocking in at PkR412mn (EPS: PkR1.39) vs. PkR482mn (EPS: PkR1.62) in 1HFY17. Apart from the aforementioned factors, lower dispatches (down 23%YoY) on account of capacity constraint and one off trading activity last year (expected to go down by 23%YoY) further dampens earnings. Moreover, updating on recent judgment by Sindh High Court, we highlight that the court's verdict bears no significance for the steel sector, as it only seeks to repeal RD imposed through recent SRO 1037 (I) 2017, while the duty structure for steel products remains unchanged. In this backdrop, we reiterate our buy call on ASTL (DCF based TP of PkR132/sh, upside: 41%) citing strong earnings growth outlook (5yr forward NPAT CAGR of 25%).

KSE100 - Index	
Current	43,679.87
Previous	44,096.49
Chg.	-0.94%

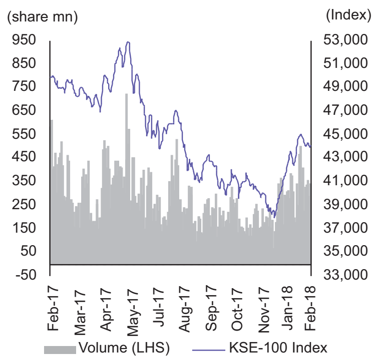
Mkt Cap. (PkRbn/US$bn)	
Current	9,077 / 82.11
Previous	9,151 / 82.79
Chg.	-0.82%

Daily Turnover (mn)	
Current	246.02
Previous	269.99
Chg.	-8.9%

Value Traded (PkRmn/US$mn)	
Current	9,482 / 85.78
Previous	11,350 / 102.68
Chg.	-16.5%

News and Views

- Pakistan's total foreign exchange reserves clocked in at US$19.18bn for week ended on Feb 2, (down 0.88%WoW) vs. US$19.35bn the week earlier. The reserves held by the SBP declined to $13.06bn (down by US$173mn) on account of external debt servicing, while reserves held by commercial banks remained at US$6.12bn.
- China agreed to accommodate the demands of Pakistani exporters in the amended Free Trade Agreement (FTA) which is expected to be signed in March. The demands primarily included provision for tariff concessions equivalent to ASEAN countries. To recall, the negotiation to finalize the revised FTA (initially signed in 2006) has been underway since 2012.
- The Provincial Development Working Party has approved six developmental projects with an estimated cost of PKR11.53bn while five projects have been deferred due to adequate designs.



Umer Farooq
umer.farooq@*akdsecurities.net*
111-253-111 Ext:637

ASTL: Capacity constraints to keep earnings in check

Previewing 2QFY18 result for ASTL, we expect the company to post NPAT of PkR217mn (EPS: PkR0.73) versus NPAT of PKR256mn (EPS: PkR0.86) in 2QFY17- down 16%YoY. Higher admin (likley to go up 58%YoY) and finance cost (expected to remain 51%YoY higher) in the wake of the company's expansionary efforts along with resumption of normal tax regime (post IPO exemption period) are anticipated to push earnings lower. On a cumulative basis, we expect the earnings to stand 15%YoY lower in 1HFY18E, with NPAT clocking in at PkR412mn (EPS: PkR1.39) vs. PkR482mn (EPS: PkR1.62) in 1HFY17. Apart from the aforementioned factors, lower dispatches (down 23%YoY) on account of capacity constraint and one off trading activity last year (expected to go down by 23%YoY) further dampens earnings. Moreover, updating on recent judgment by Sindh High Court, we highlight that the court's verdict bears no significance for the steel sector, as it only seeks to repeal RD imposed through recent SRO 1037 (I) 2017, while the duty structure for steel products remains unchanged. In this backdrop, we reiterate our buy call on ASTL (DCF based TP of PkR132/sh, upside: 41%) citing strong earnings growth outlook (5yr forward NPAT CAGR of 25%).

2QFY18 preview: ASTL is scheduled to announce its 2QFY18 result on Feb 17'18, where we estimate the company to report NPAT of PkR217mn (EPS: PkR0.73) against NPAT of PkR256mn (EPS: PkR0.86) in 2QFY17- down 16%YoY. The earnings decline is expected to arise from: 1) higher admin expenditure (+58%YoY) on account of new hiring for the expansion project, 2) elevated finance cost (+51%YoY) and 3) resumption of normal tax regime post IPO exemption period. Sequentially, earnings are expected to recover (+24%QoQ) due to higher re-bars off-take (+20%QoQ), as the plant remained fully operational during the quarter compared to 10-days maintenance glitch in the previous quarter.

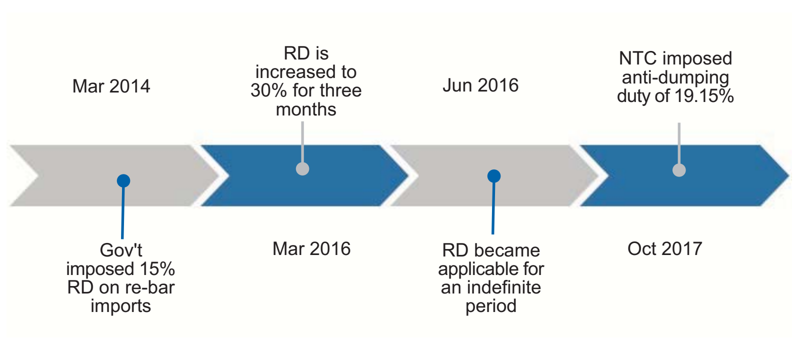
ASTL: Income Statement

(PKR mn)	2QFY18E	2QFY17	YoY	1QFY18	QoQ	1HFY18E	1HFY17	YoY
Net Sales	3,366	3,340	1%	2,706	24%	6,072	6,558	-7%
COGS	(2,788)	(2,764)	1%	(2,196)	27%	(4,984)	(5,518)	-10%
Gross Profit	578	576	0%	510	13%	1,088	1,040	5%
GM	17.17%	17.23%	(6)	18.85%	(167)	17.92%	15.86%	206
Dist. cost	(68)	(88)	-22%	(55)	23%	(124)	(170)	-27%
Admin cost	(122)	(77)	58%	(101)	20%	(223)	(147)	52%
OPEX	(22)	(28)	-23%	(19)	15%	(41)	(47)	-13%
Fin. cost	(82)	(55)	51%	(97)	-15%	(179)	(129)	39%
PBT	289	330	-12%	237	22%	526	555	-5%
Taxes	(72)	(73)	-	(42)	71%	(114)	(73)	57%
Net Income	217	256	-16%	195	11%	412	482	-15%
EPS (PkR)	0.73	0.86	-16%	0.66	11%	1.39	1.62	-15%

Source: Co. Report & AKD Research

SHC's judgment holds neutral implications: In a reserved judgment, Sindh High Court (SHC) has revoked recently imposed regulatory duty (RD) on import of various discretionary goods. The court's order has a neutral bearing on the steel sector, as it only repealed RD levied through SRO 1037 (I) 2017, while duty structure for the steel sector remains unchanged. Looking at the regulatory framework for long steel industry, we highlight that the long steel products initially came under the ambit of regulatory protection in Jun 26'14, when RD of 15% on imported re-bars was determined. The said duty was later increased to 30% in Mar 21'16 for three months, followed by another notification (Dated: Jun 24'16) imposing duty for an indefinite period (See timeline below).

Timeline: Regulatory framework over the years



Source: Company Accounts & AKD Research

Investment perspective: With expansion coming online at least one year ahead of its immediate competitors, ASTL is well positioned to enjoy the first mover's advantage. However, sub-standard substitutes that approximately make up 60% of the market remain a key competitive threat for ASTL post expansion. We believe ASTL's strong brand image and quality can be effective mitigants in this regard, enabling double digit demand growth (5yr forward CAGR of 19.7%) over our investment horizon. With protective measures duly in place alongwith strong earnings growth outlook (5yr forward NPAT CAGR of 25%), we reiterate our buy call on ASTL.

Disclosure Section

Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument and is for the personal information of the recipient containing general information only. AKD Securities Limited (hereinafter referred as AKDS) is not soliciting any action based upon it. This report is not intended to provide personal investment advice nor does it provide individually tailored investment advice. This report does not take into account the specific investment objectives, financial situation/financial circumstances and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. AKDS recommends that investors independently evaluate particular investments and strategies and it encourages investors to seek the advice of a financial advisor.

The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. The securities or strategies discussed in this report may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them.

Reports prepared by AKDS research personnel are based on public information. AKDS makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. Facts and views presented in this report have not been reviewed by and may not reflect information known to professionals in other business areas of AKDS including investment banking personnel. AKDS has established information barriers between certain business groups maintaining complete independence of this research report.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. Neither AKDS, nor any of its affiliates or their research analysts have any authority whatsoever to make any representation or warranty on behalf of the issuer(s). AKDS Research Policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

We have taken all reasonable care to ensure that the information contained herein is accurate, up to date, and complies with all prevailing Pakistani legislations. However, no liability can be accepted for any errors or omissions, or for any loss resulting from the use of the information provided as any data and research material provided ahead of an investment decision are for information purposes only. We shall not be liable for any errors in the provision of this information, or for any actions taken in reliance thereon. We reserve the right to amend, alter, or withdraw any of the information contained in these pages at any time and without notice. No liability is accepted for such changes.

Stock Ratings

Different securities firms use a variety of rating terms as well as different rating systems to describe their recommendations. A rating system which uses similar terms such as Buy, Accumulate, Neutral, Reduce and Sell is not equivalent to our rating system. Investors should carefully read the definitions of all ratings used in each research report. In addition, research reports contain information carrying the analyst's view and investors should carefully read the entire research report and not infer its contents from the rating ascribed by the analyst. In any case, ratings or research should not be used or relied upon as investment advice. An investor's decision to buy, sell or hold a stock should depend on individual circumstances (such as the investors existing holdings or investment objectives) and other considerations. Please see our table below for ratings definitions which are based on price returns.

Rating Definitions

Buy	≥ 20% upside potential
Accumulate	> 5% to < 20% upside potential
Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
Sell	≤ -20% downside potential

Analyst Certification of Independence

The analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

The research analysts, strategists or research associates principally having received compensation responsible for the preparation of this AKDS research report based upon various factors including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

Disclosure of Interest Area

AKDS and the authoring analyst do not have any interest in any companies recommended in this research report irrespective of the fact that AKD Securities Limited may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment.

Regional Disclosures (Outside Pakistan)

The information provided in this report and the report itself is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject AKDS or its affiliates to any registration or licensing requirements within such jurisdiction or country.