



AKD Securities Limited

TREC Holder & Registered Broker
Pakistan Stock Exchange

Equity Research / Pakistan



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Today's Daily

■ Pakistan Steel: Risks are overplayed, reiterate buy on ASTL

The domestic long steel sector lost 33.6% CYTD, with sentiments marred by numerous challenges including: 1) commerce division's proposal to withdraw duty on steel products and 2) adverse budgetary measures (i.e. additional sales tax levy and reduction in developmental budget). Amongst major players, ASTL has seen steep correction (down 42.4%CYTD) on account of delayed materialization of its flagship Dhabeji expansion. With a change in macro-economic landscape, we have revised down our earnings estimates (FY19/FY20F: 6%/5%) for ASTL incorporating macro developments (interest rate hike and rupee depreciation) while adjusting for maintenance shut down. Consequently, our rolled forward (Jun'19) TP comes down to PkR 117/sh (previously at PkR135/sh). With regulatory protection remaining in place alongwith sector's strong pricing power (as evident from last three price hikes post rupee devaluation, prices up 20% since Jan'18), we feel concerns regarding margin stability are unwarranted. Sector valuations have become increasingly appealing with ASTL trading at an attractive FY19F P/E of 5.15x (35% retracement since Dec'17). With protective measures duly in place along with strong earnings growth outlook (4yr forward NPAT CAGR of 18%), we reiterate our buy call on ASTL.

KSE100 - Index

Current 40,897.90
Previous 39,932.98
Chg. 2.42%

Mkt Cap. (PkRbn/US\$bn)

Current 8,419 / 65.53
Previous 8,275 / 64.41
Chg. 1.74%

Daily Turnover (mn)

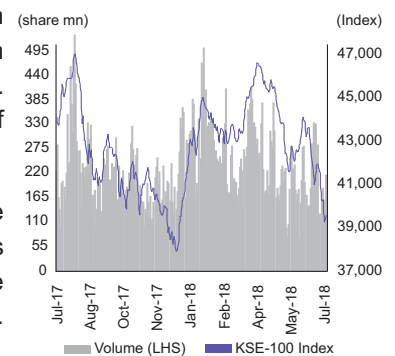
Current 247.83
Previous 141.97
Chg. 74.6%

Value Traded (PkRmn/US\$m)

Current 8,630 / 67.17
Previous 6,021 / 46.86
Chg. 43.3%

News and Views

- Large scale manufacturing (LSM) increased 2.76%YoY in May'18 as retail sector thrived on growing consumer demand, while construction boom kept fueling steel production. Other key sectors that remained on upward trajectory included food & tobacco, oil production and steel. However, on the MoM basis LSM production recorded a decrease of 11.63%.
- Circular debt in the power sector alone has inflated to a staggering figure of PkR977bn. The current payables stand at PkR542.9bn and the loans borrowed by the power sector parked in PHPL (Power Holding Private Limited) at PkR434 billion, making the sector extremely unsustainable.
- The federal cabinet decided to hold open trial of former Prime Minister Nawaz Sharif in two references filed by National Accountability Bureau. However, Nawaz's counsel Khawaja Haris objection to the proceedings being heard by the same judge was taken up by the Islamabad High Court which subsequently adjourned the matter until the last week of July'18.



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Dhabeji expansion to drive earnings growth : ASTL has successfully commissioned its flagship Dhabeji expansion project with earnings expected to fully materialize from 1QFY19. Management plans to gradually ramp up production at the new plant. Apart from being energy and mechanically efficient, the new plant would also be entitled to tax credit for the next five years under ITO-18 section 65E. On the demand side, headwinds in the form of reduction in developmental outlay may slow public sector construction activity in the short run. That said, we remain optimistic about the long term steel demand with big tickets projects (i.e. Dasu, Diamer-Bhasha, Suki Kinari and Karot hydropower projects), import and substandard product substitution coming into play.

Macro developments leading to earnings & TP revision: Incorporating recent interest rate hikes, rupee depreciation and adjusting for revised utilization for maintenance shutdown, we revise down our FY19/FY20F earnings estimates by 6%/5%. Consequently, our rolled forward (Jun'19) TP comes down to PkR 117/sh (previously at PkR135/sh).

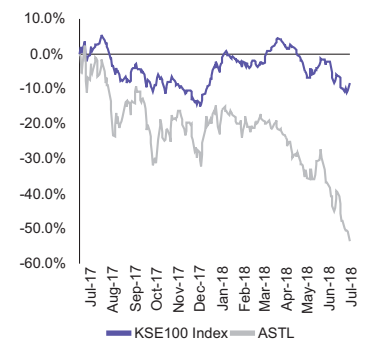
Investment perspective: With expansion coming online at least six months ahead of its competition(albeit delayed from on target), ASTL is well positioned to capture early market share. However, sub-standard substitutes that approximately make up ~50% of the market remain a key competitive threat for ASTL post expansion. We believe ASTL's strong brand name and product quality can be effective mitigants in this regard. With protective measures duly in place along with strong earnings growth outlook (4yr forward NPAT CAGR of 18%), we reiterate our buy call on ASTL.

ASTL: Earnings and TP revision

EPkR/sh	FY19F	FY20F	TP
New	11.17	13.84	117
Old	11.88	14.57	135
Change	-6%	-5%	-13%

Source: AKD Research

ASTL vs. KSE100 Index



Source: PSX & AKD Research



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



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