AKD Daily

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Today's Daily

ASTL: Dhabeji project starts paying back

Previewing FY18 result, we expect ASTL to report NPAT of PkR1,576mn (EPS: PkR5.31) compared to NPAT of PkR1,074mn (EPS: PkR3.62) in full year FY17, up 47%YoY. The anticipated earnings growth is a function of i) 25%YoY topline growth that comes both from higher volumes (+14%YoY) and price hike (+17%YoY) and ii) margin accretion (+104bpsYoY) on the back of elevated primary margin (pricing spread between rebar-scrap prices). On a quarterly basis, we expect the company to post net earnings of PkR579mn (EPS: PkR1.95) in 4QFY18 vs. PkR255mn (EPS: PkR0.86) in 4QFY17, up 2.27xYoY. Additional units from the new Dhabeji line, higher retention price and lower effective tax rate (ETR: 18% in 4QFY18 vs. 44% in 4QFY17) are key contributors to the elevated bottom-line. Accompanying results, the company is also expected to announce a cash dividend of PkR2.25/sh. Gaining 3.8%FYTD, ASTL trades at an attractive FY19F P/E of 6.6x. We currently have a Buy stance on ASTL, where our liking for the scrip stems from its strong earnings credentials (4yr forward earnings CAGR of 18%).

KSE100 - Index	
Current	41,266.39
Previous	41,620.96
Chg.	-0.85%

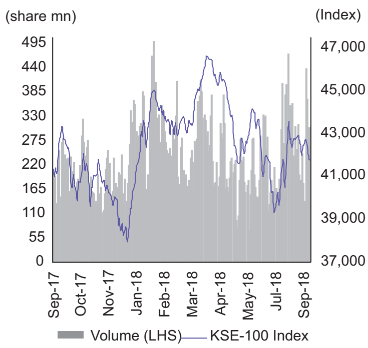
Mkt Cap. (PkRbn/US$bn)	
Current	8,581 / 69.07
Previous	8,662 / 69.72
Chg.	-0.94%

Daily Turnover (mn)	
Current	159.68
Previous	126.93
Chg.	25.8%

Value Traded (PkRmn/US$mn)	
Current	4,949 / 39.83
Previous	5,485 / 44.15
Chg.	-9.8%

News and Views

- The country's foreign exchange reserves slipped US$315mn to record at US$16.37bn in the previous week. Despite marginal uptick in reserves held by commercial banks by US$26mn, on account of external payments, SBP's reserves declined by US$342mn, recording at US$9.89bn
- Chinese Foreign Minister Wang Yi is expected to arrive Pakistan today for a three-day official visit, where the minister is expected to meet leaders in Pakistan and discuss bilateral issues with emphasis on CPEC. This comes only a few days after visit of US Secretary of State Mike Pompeo.
- The newly constituted Economic Advisory Council (EAC) recommended unpopular decisions to consolidate fiscal deficit. Instead of increasing gas prices, EAC suggested withdrawal of income tax incentives introduced in the FY19 budget as well as abolishing subsidies to different sectors including textile.



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ASTL: Income Statement

(PKR mn)	4QFY18E	4QFY17	YoY	3QFY18	QoQ	FY18E	FY17	YoY
Net Sales	5,728	3,149	82%	4,628	24%	16,594	13,284	25%
Cost of Sales	(4,618)	(2,419)	91%	(3,647)	27%	(13,338)	(10,816)	23%
Gross Profit	1,109	730	52%	981	13%	3,255	2,468	32%
GM	19.37%	23.17%	(380)	21.20%	(183)	19.62%	18.58%	104
Distribution cost	(130)	(79)	65%	(92)	41%	(358)	(337)	6%
Admin cost	(107)	(94)	13%	(114)	-6%	(405)	(325)	25%
OPEX	(54)	(36)	49%	(47)	14%	(150)	(117)	29%
Finance cost	(109)	(65)	66%	(117)	-7%	(432)	(252)	72%
Other Income	4	0	-	1	-	6	7	-23%
PBT	714	455	57%	612	17%	1,916	1,445	33%
Taxes	(136)	(201)	-32%	(139)	-3%	(340)	(371)	-9%
Net Income	579	255	127%	473	22%	1,576	1,074	47%
EPS (PkR)	1.95	0.86	127%	1.59	22%	5.31	3.62	47%

Source: AKD Research & Company Report

FY18 earnings to move up 47%YoY: ASTL is scheduled to announce its FY18 result on Jun 11'18, where we expect the company to report NPAT of PkR1,576mn (EPS: PkR5.31) vs. PkR1,074mn (EPS: PkR3.62) in FY17. Solid topline growth (+25%YoY, courtesy price hike and higher offtakes) and elevated gross margin (+1.04pts, as a result of widening spread between re-bar and scrap steel) are expected to push earnings 47%YoY higher. On a quarterly basis, 4QFY18E earnings are anticipated to go up by 2.27xYoY to PkR579mn (EPS: PkR1.95) vs. PkR255mn (EPS: PkR0.86) in 4QFY17. In 4QFY18, bottom-line growth is a function of i) 82%YoY increase in revenue due to additional units from new Dhabeji line and higher retention price and ii) lower effective tax rate (18%YoY vs. 44% in 4QFY17) due to utilization of various tax credits (under ITO section 65-B, C & D). In addition to the results, the company is expected to announce a final cash dividend of PkR2.25/sh (payout 42%).

Too early to be wary of supply concerns: The steel sector has lost 13% since Jan'18, where part of the reason is the investors' concern about potential supply glut scenario once the new entrants (i.e. Naveena Group, Al Haj Group and others) and the existing players (i.e. Mughal & Agha steel) with additional capacities (estimated at 1.265mn tons) will start commercial operations. We view these concerns as both undue and untimely at this stage of the expansion cycle. Also, we don't see any supply side pressures at-least for next three-four years for two simple reasons. First, new entrants need a minimum of two years to set-up a plant, which means no substantial new addition for at least a year. Secondly, there is a lot of room available for graded steel manufacturers to cannibalize sub-standard product market share, which presently accounts for ~50% of the domestic re-bar consumption. Moreover, public sector projects (i.e. dams and other ongoing infrastructure projects that require graded steel) and domestic housing projects are expected to further increase the demand for graded steel.

Investment perspective: We continue to prefer ASTL on the back of i) company's strong earning credentials (4yr forward earnings CAGR of 18%) and ii) its competitive position compared to other players, where early materialization of expansion project provides a competitive edge. That said, sub-standard substitutes – that approximately makeup ~50% of the market – pose a key threat to ASTL in the post-expansion period. We believe ASTL's strong brand name, product quality and increasing product awareness can be effective mitigants in this regard. Gaining 3.8%FYTD, ASTL trades at an attractive FY19F P/E of 6.6(x), where our Jun'19 TP of 117 implies a 60% capital upside. Buy!

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Neutral	≤ 5% to ≥ -5% potential
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Sell	≤ -20% downside potential

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