

Amreli Steels Limited
Corporate Briefing Takeaways**Engineering**

The Management of Amreli Steels Limited held a Corporate Briefing Session on 10th Feb'21 to discuss the financial result and future outlook.

Takeaways

- ASTL posted a profit of PKR 312mn (EPS: PKR 1.05) in 2QFY21, against a loss in SPLY and depicting a jump of 2.8x QoQ.
- Primary reason behind the growth remained a 21% jump QoQ in off-take to 96k tons in 2Q led by rising construction activity in the country.
- Albeit, margins at 10.8% in 2Q vs. 10.9% in 1Q remained below street consensus as higher scrap and power costs (PKR ~18/KwH) eroded the benefit of higher prices and volumetric growth.
- Pertinently, rebar prices were constant in Oct'20 when the company sold its highest ever single month volume of over 36,000 tons. They slightly increased by PKR 1,000 a ton in Nov'20 for retail clients (effective increase of PKR 600/ton) and rose significantly in Dec'20 when least sales were made due to volatility in prices. Hence, price hikes could not augment margins.
- Since Dec'20 to date, ASTL has cut rebar prices by PKR 5,000/ton and current price is set at PKR 136,000/ton. It is expected they may further come down by a maximum of PKR 1-2,000 per ton.
- Going forward, while the company has booked scrap between USD 450-500 per ton in Jan'20, next quarter margins may remain stagnant given inventory gain (higher rebar prices). The impact will be muted though as thus far 3Q has shown some slowness (buyers await further cuts in prices). However, margins may be slashed in the following quarter due to significantly higher scrap prices.
- The company management targets to sell 90,000 tons in 3Q and between 115-120,000 tons in the subsequent quarter.
- The company has no plans to expand at present or avail the TERF offered by SBP (long term goal of expanding to a 1.1mn tons plant from 600k currently requires an investment of PKR 18-20bn). Instead, ASTL will focus on improving utilisation and expects its rebar sales to grow by 25% in FY22.
- Current scrap mix of the company is 80: 20 for Shredded: Bundles. Shredded scrap cost is currently at USD 385/ton and is expected to hover at similar levels. Bundles are usually USD 30-40/ton more expensive.
- Although a notification is awaited, electricity tariff will potentially go up by PKR 1.95/KwH in the upcoming quarters, translating to a cost increase of PKR 1,500 per ton.

Analyst:**Misha Zahid****misha.zahid@arifhabibltd.com****Contact: +92-21-32462742**

Analyst Certification: The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return from current market price, with Target period as Dec 2021 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +10% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -10% and +10% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -10% from last closing of market price(s)

* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices:

- **Discounted Cash Flow (DCF)**
- **Dividend Discount Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

Disclaimer: This document has been prepared by Research analysts at Arif Habib Limited (AHL). This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, AHL does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. AHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, AHL is under no obligation to update or keep the information current. AHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his or her own advisors to determine the merits and risks of such investment. AHL or any of its affiliates shall not be in any way responsible for any loss or damage that may be arise to any person from any inadvertent error in the information contained in this report.