

Amreli Steels (ASTL)

2QFY18 EPS Rs1.1, +28% YoY (+68% QoQ)

Above expectations

Rai Omar Basharat ^{AC}

rai.omar@topline.com.pk

Tel: +9221-35303330

Topline Securities, Pakistan



www.jamapunji.pk

ASIAMONEY

Best Local Brokerage House
Brokers Poll 2011-14, 2016-17



Best Local Brokerage House 2015-16

2Q Earnings up 28% YoY, due to lower tax incidence

ASTL: Financial highlights

Rsmn	2QFY18	2QFY17	YoY	QoQ	1HFY18	1HFY17	YoY
Sales	3,532	3,340	6%	30%	6,238	6,558	-5%
Cost of sales	2,877	2,764	4%	31%	5,073	5,518	-8%
Gross profit	655	576	14%	28%	1,165	1,040	12%
Distribution costs	80	88	-8%	45%	136	170	-20%
Administrative expenses	83	77	9%	-17%	184	147	26%
Operating Profit	491	411	19%	39%	844	724	17%
Other expenses	31	28	8%	62%	49	47	6%
Other income	0.4	1	n.m	38%	1	6	-88%
EBIT	461	384	20%	38%	796	684	16%
Finance Cost	110	55	101%	13%	207	129	61%
Profit Before Taxation	351	330	7%	48%	589	555	6%
Taxation	23	73	-69%	-46%	65	73	-11%
Profit After Taxation	329	256	28%	68%	524	482	9%
EPS	1.1	0.9			1.8	1.6	

Source: PSX Notice, Topline Research

- ASTL reported 2QFY18 EPS of Rs1.1 up 28% YoY (68% QoQ), which was above expectations.
- ASTL reported sales revenue of Rs3.5bn up 6% YoY / 30% QoQ. This was due to the company running its rolling mill without any major shutdown during the outgoing quarter, we believe. To recall in 1QFY18 the company had shutdown its rolling mills for a period of two weeks.
- Gross margins for the outgoing quarter clocked in at 18.5% up 1.3ppts YoY. This was due to ASTL raising its product prices to fully pass on the impact of the recent PKR devaluation in outgoing quarter, we estimate.

2Q Earnings up 28% YoY, due to lower tax incidence

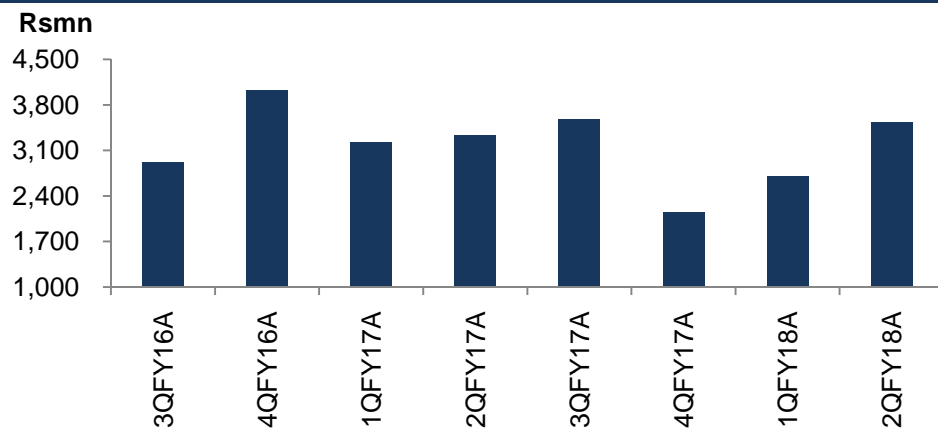
- Effective taxation of the company clocked in at 6.5% compared to 22% reported last year due to the company booking tax credit for its new billet plant which has started its commercial operations in 1QFY18, we believe.
- ASTL has managed to contain its operational expenses effectively, reducing SG&A as a percentage of sales from 4.9% in 2QFY17 to 4.6% in 2QFY18, while financial charges were up 101% YoY due to higher short-term borrowing by the company to meet its growing working capital requirements. To note company has increased its billet production capacity from 200k to 400k in 1QFY18.
- We flag 1) downward revision in duty structure, 2) volatility in commodity prices, 3) dumping from countries not covered by anti-dumping duties, & 4) delay in expansion commissioning, as key risks.

ASTL: Key Numbers

	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	0.5	1.1	3.4	4.3	3.6
Earnings Growth	35%	107%	NM	26%	-16%
PE at Rs91.5	169.0	81.6	26.9	21.3	25.3
Dividend Yield	0%	0%	0%	2%	2%
ROE	3%	5%	17%	12%	10%
PBV	4.4	4.2	4.6	2.5	2.4

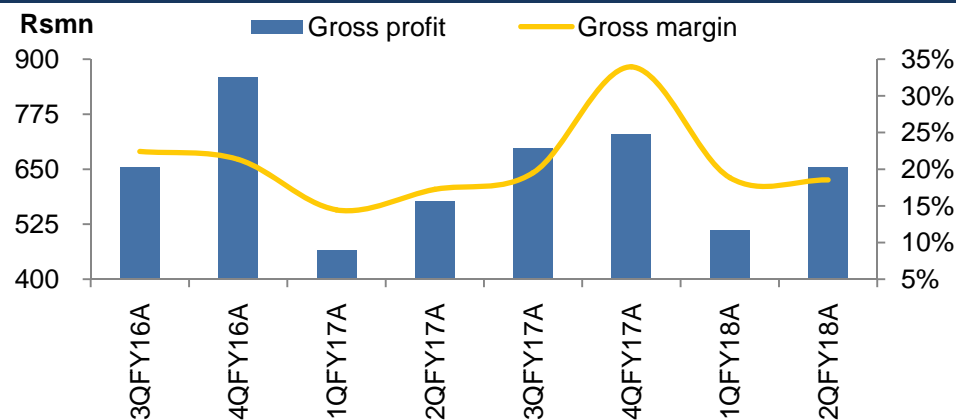
Source: Company Accounts, Topline Research

ASTL: Quarterly Sales



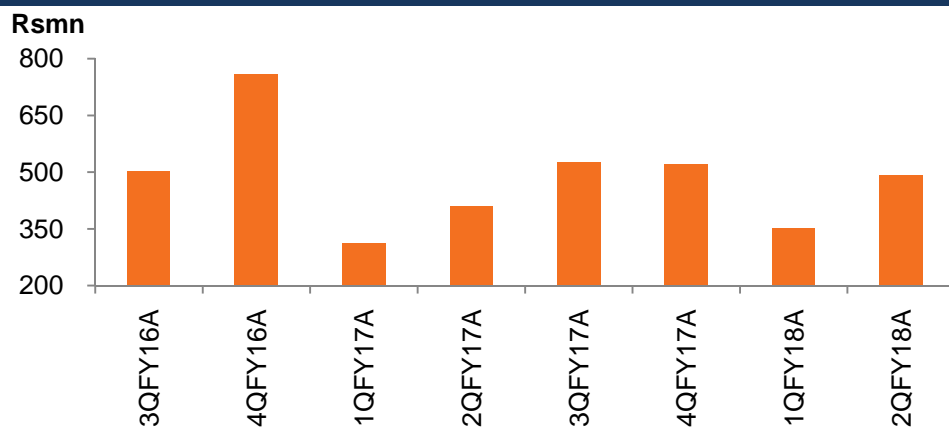
Source: Company Accounts, Topline Research

ASTL: Quarterly Gross Profit & Gross Margins



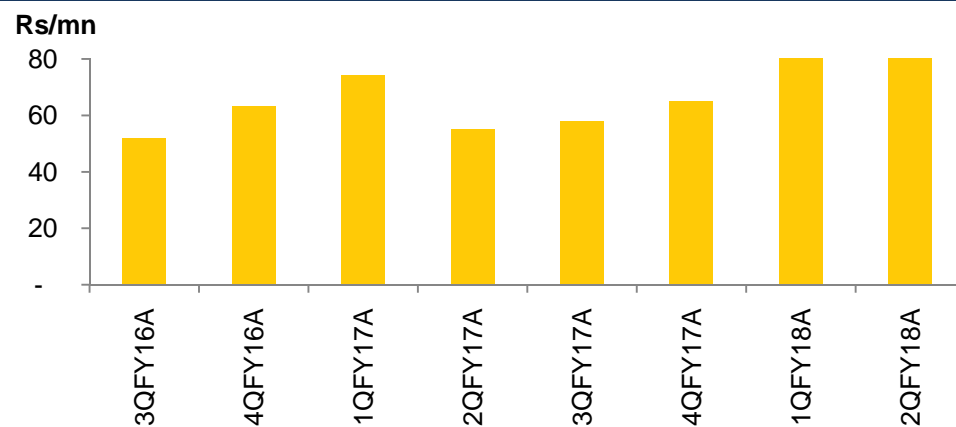
Source: Company Accounts, Topline Research

ASTL: Quarterly Other Income



Source: Company Accounts, Topline Research

ASTL: Quarterly Finance Cost



Source: Company Accounts, Topline Research

Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.