

AMRELI STEELS LIMITED (ASTL)

 Jan 31st, 2017

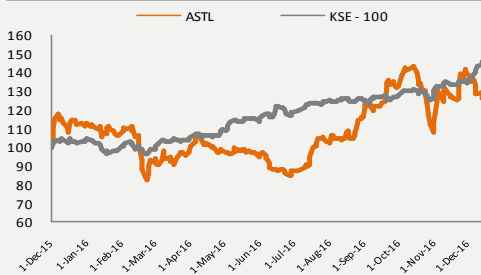
HOLD

Price Target : PKR 91.35/sh

CURRENT MARKET DATA

Current Price	83.50
Market Cap (PKR mn)	24,637.1
52 wk Hi— Low	95.68—44.21
EV/Ebitda (x)	13.34
Outstanding shares (mn)	297.01
Free Float (%)	25%

Sources: PSX

RELATIVE TO KSE—100


Source: PSX

FINANCIAL HIGHLIGHTS 1HFY17E

PKR 'mn'	1HFY17E	1HFY16A	YoY
Net Sales	6,578	5,453	21%
Cost of sales	5,432	4,175	30%
Gross Profit	1,146	1,278	-10%
EBIT	781	914	-15%
Financial Charges	158	221	-28%
Profit before taxation	623	693	-10%
Profit after Tax	499	690	-28%
Basic EPS	1.68	2.32	-28%

Source: Nael Research, Company accounts

Key Ratios (x/%)	FY17E	FY18E	FY19E	FY20E
EPS	4.29	8.68	10.21	11.40
P/E (x)	19.52	9.65	8.20	7.35
P/B (x)	2.24	2.23	2.02	1.76
EBITDA Margin %	18%	27%	26%	26%

Source: Nael Research, Company accounts

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Earnings expected to clock at PKR 0.92/sh, assuming material QoQ growth on account of low-priced scrap inventory sold

- The BOD meeting of Amreli Steels Ltd. (ASTL) is scheduled to discuss its 2QFY17E interim accounts on February 2, 2017 where we expect the company to post an EPS of PKR 0.92/sh, up by significant 26%YoY.
- We assume ASTL's sales volume of 36.9k tons and 41k tons for re-bars and billets respectively, with improvement in steel prices by PKR 2000/ton.
- Revenues are expected to grow 66%YoY against the same period previous year clocking in at PKR 3,359mn in 2QFY17E.
- Gross margins of the company are expected to drop to ~20% in 2QFY17E from 30% of 2QFY16A as scrap prices grew 26%YoY, racing past US\$ 215/ton during the period.
- However, on QoQ basis we expect the margins to normalize in comparison to the previous quarter on account of cheap holding of scrap inventory sold.
- For 1HFY17E, the bottom line is forecasted to depict a sharp decline of -28%YoY posting at PKR 499mn (EPS: 1.68) against PKR 690mn (EPS: 2.32) in 1HFY16A.

Investment Perspective: We switch our stance to "HOLD" rating on ASTL, reiterating our June'17 Price target of **PKR 91.35/share** on account of 1) Volatility in international scrap prices, 2) Increase in steel prices, & 3) Higher volumetric growth.

Financial Highlights 2QFY17E

PKR 'mn'	2QFY17E	2QFY16A	YoY	2QFY17E	1QFY16A	QoQ
Net Sales	3,359	2,022	66%	3,359	3,218	4%
Cost of sales	2,678	1,397	92%	2,678	2,754	-3%
Gross Profit	681	624	9%	681	465	47%
Admin Expenses	77	99	-22%	77	70	10%
Distribution Expenses	86	89	-4%	86	82	4%
Other operating income	4	3	27%	4	5	-27%
Other operating expenses	41	36	13%	41	18	120%
EBIT	482	403	19%	482	299	61%
Financial Charges	84	113	-25%	84	74	13%
Profit before taxation	398	291	37%	398	225	76%
Taxation	123	73	68%	123	0	N/A
Profit after Tax	274	218	26%	274	225	22%
Basic EPS	0.92	0.73	26%	0.92	0.76	22%

Source: Nael Research, Company accounts

Note: The international scrap prices surged to Avg. US\$ 215/ton during 2QFY17 against US\$ 166/ ton— when they were rock bottom in 2QFY16A hovering around.