MUGHAL IRON & STEEL (MUGHAL)

Feb 10th , 2017

HOLD

Price Target : PKR 129/sh

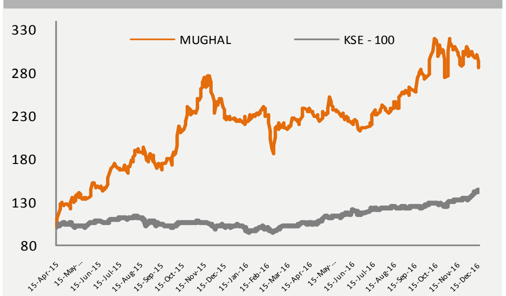
COMPANY DATA	
52-week Price Range (PKR)	57.88—122.76
No. of Shares Outstanding (mn)	125.80
Market Cap (PKRmn)	15,443.1
Market Cap (USDmn)	147.39
EV/ Ebitda (x)	7.91
Free Float (%)	24%
Year End	Jun
KATS Code	MUGHAL

Source: KSE

Key Ratios (x/%)	FY17E	FY18E	FY19E	FY20E
EPS (Revised)	11.94	12.90	16.24	17.04
EBITDA Margin (%)	13%	12%	13%	13%
P/E (x)	10.21	9.46	7.51	7.16
P/B (x)	2.26	1.97	1.68	1.47

Source: Company Accounts, Nael Research

RELATIVE TO KSE – 100



Source: KSE

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Margins to heat up marginally post Gas load enhancement!

- **We revise our estimates on MUGHAL switching to 'HOLD' rating:** Our Jun-17 DCF based price target of PKR 129/sh implies 6% upside potential from current price levels of PKR 122/sh, and 14% upside from the previous target of PKR 113/sh.
- **Gas fired CPP load enhancement from 1.8mmcfd to 2.8mmcfd:** The previously filed application for the endorsement of gas load enhancement to Sui Northern Gas Pipelines Limited (SNGPL) has finally been approved.
- **Robust growth in revenues adding value:** … Envisioning the current growth prospects and infrastructure projects we expect MUGHAL's revenues to grow at CAGR 9%/11%/7% for FY17E/FY18E/FY19E respectively.
- **Investment Risk:** Key risks to our investment thesis are 1) Privatization of PSM 2) Surge in steel scrap prices 3) Decline in local demand & 4) Resumption of FTA with China.

Gas fired CPP load enhancement from 1.8mmcfd to 2.8mmcfd: The previously filed application for the endorsement of gas load enhancement to Sui Northern Gas Pipelines Limited (SNGPL) has finally been approved. MUGHAL via notice at PSX informed that 9.3MW gas fired captive power plant shall attain a gas load enhancement by 55% from the preceding 1.8mmcfd to 2.8mmcfd. Incorporating into our model the gas load enhancement for the next two quarters using the conversion factor approach, we expect an additional savings of PKR 1.08/sh (annualized) if the plant continues regular operation. We also project the GP margins to rise to 14% (FY17E) from 11% (FY16A) of the previous year.

Robust growth in revenues adding value: The rapid growth in infrastructure has outpaced the construction and material sector i.e. steel and cements immensely. These two industries that are now entirely dependent upon the growing domestic demand of construction materials. Mughal steel even before its IPO (March, 2015) kept expanding its melt shop capacity in order to cater the rising demand. Envisioning the current growth prospects and infrastructure projects we expect MUGHAL's revenues to grow at CAGR 9%/11%/7% for FY17E/FY18E/FY19E respectively.

Anti-Dumping imposition versus FTA: After immense efforts by the domestic players for safeguarding their interest, survival in the local market depicts positive outlook. Previously, the free trade agreements and dumping of steel by China & Ukraine posed a material threat to the market share of the domestic producers. The barrier seems to be lifting up as NTC is considering the threats local market had in FY12—13 when the margins were already squeezed due to high cost of doing business alongside low domestic share due to cheaply priced dumped steel by China. Unlike that era the sector is now outperforming post anti-dumping imposition on steel imports.

Financial Highlights

PKR MN	FY16A	FY17E	FY18E	FY19E
Sales	18,983	20,711	22,978	24,658
COGS	16,925	17,782	19,907	20,984
GP	2,059	2,930	3,071	3,673
EBIT	1,717	2,455	2,548	3,140
PBT	1,292	2,178	2,352	2,962
NPAT	893	1,503	1,623	2,044
EPS	**7.10**	**11.94**	**12.90**	**16.24**

Source: Company Accounts, Nael Research

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Disclosure Related to Author

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Stock Recommendation	Return
BUY	> 15%
HOLD	> -15% to < 15%
SELL	< -15%