

# Pakistan Equity | Engineering | Company Update

June 27, 2022

REP-057

## ASTL venturing into Non Ferrous segment Project to improve profitability by 15%-20%



Best Local Brokerage  
House 2015-16, FY2020

**ASIAMONEY**

Best Local Brokerage House  
Brokers Poll 2011-14, 2016-21



Best Brokerage  
House 2018,19-20



Best Research  
House 2019-20



Best Brokerage  
House 2019-21

**Mehroz Khan**

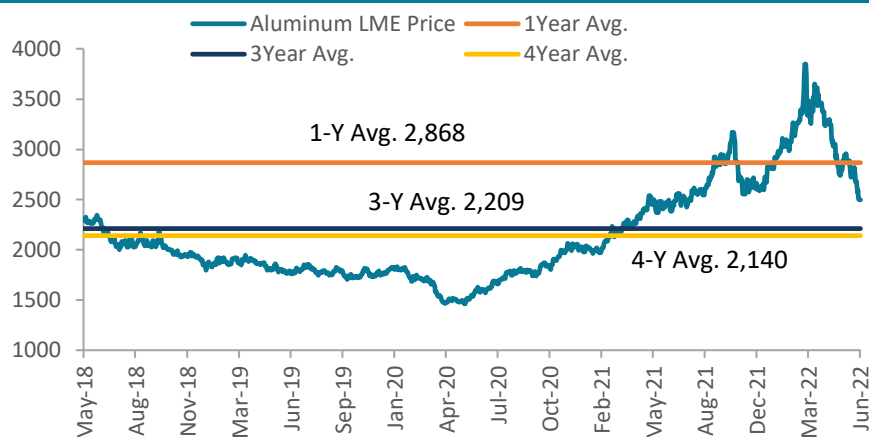
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**Topline Securities, Pakistan**

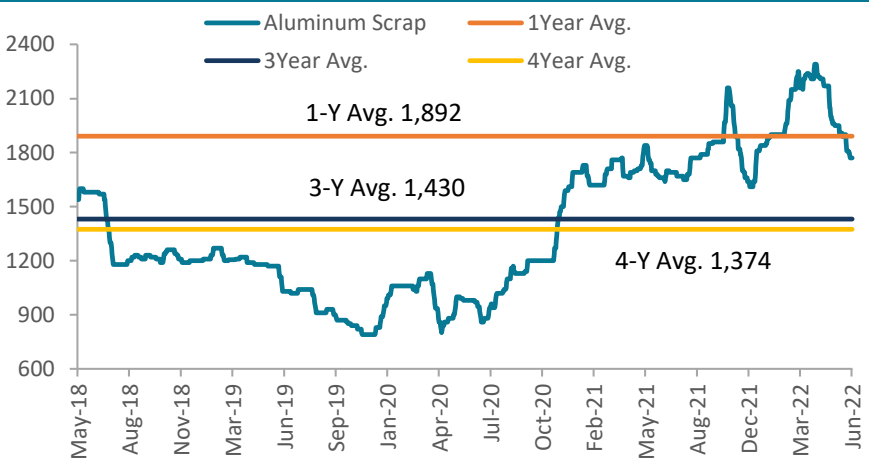
# Versatile product portfolio to increase earnings growth potential

**Aluminum London Metal Exchange LME Price Trend (US\$/MT)**



Source: Bloomberg, Topline Research

**Aluminum Scrap London Metal Exchange LME Price Trend (US\$/MT)**



Source: Bloomberg, Topline Research

- The Board of Directors of Amreli Steel Limited (ASTL) recently approved an investment to install facility for production of ADC12 Aluminum Alloy Ingots which is widely used alloy to produce Pressure Die Casting (PDC) components used in Engineering, Electric Lighting and Automotive Industry. As per our discussion with management, total CAPEX of the project is estimated at Rs750mn with the project to be financed with a Debt to Equity ratio of 80:20. Initial product capacity will be 18k MT which is expected to come online in FY24.
- As per our estimates, incremental impact on the earnings of ASTL is likely to be Rs1.6/share (15%-20% of FY24 Earnings) from this Aluminum segment.
- For our estimates, we have assumed Aluminum scrap LME (raw material) price of US\$1,430/MT with a primary margin of US\$770/MT.
- ASTL is looking for both options either to go for exports or tap local market but we have assumed 100% exports in our projections due to higher export potential. In order to arrive at the selling price we incorporate a 1% discount on LME Aluminum price which is considered as a global benchmark for pricing of the commodity and comes close to US\$2200/ton.
- The manufacturing process of Aluminum is not very energy intensive vs. long steel rebar which consume more energy. Conversion cost (cost of conversion from scrap to end product) is estimated at US\$250/MT.
- Globally, similar manufacturing facilities have a conversion losses of 3-10%. Conservatively, we have incorporated a conversion loss of 10%. While the waste scrap could also be sold for which we have assumed a 90% discount on the Aluminum scrap price.
- We have assumed plant capacity utilization of ~70-75% for the first two years which is likely to improve gradually.
- Given high container and sea freight cost, we have assumed gross margins of ~12% which could improve going ahead once global supply situation improve.

# Amreli Steels Ltd. Financial Projections

Amreli Steels Ltd. Profit & Loss Statement					
Rsmn	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	26,532	39,218	62,220	70,541	77,240
Gross Profit	1,976	4,542	7,119	5,989	6,647
Distribution expenses	682	946	1,244	1,411	1,420
Admin Expenses	503	555	568	580	591
Other Expenses	94	124	265	200	194
Other Income	8	46	26	1	1
Finance Cost	2,299	1,649	1,932	1,621	1,480
Profit before tax	(1,780)	1,384	3,135	2,178	2,964
Tax	(654)	16	663	454	766
Profit after tax	(1,127)	1,368	2,472	1,724	2,197
<b>EPS/LPS (Rs)</b>	<b>(3.79)</b>	<b>4.61</b>	<b>8.32</b>	<b>5.81</b>	<b>7.40</b>

Source: Company Accounts, Topline Research

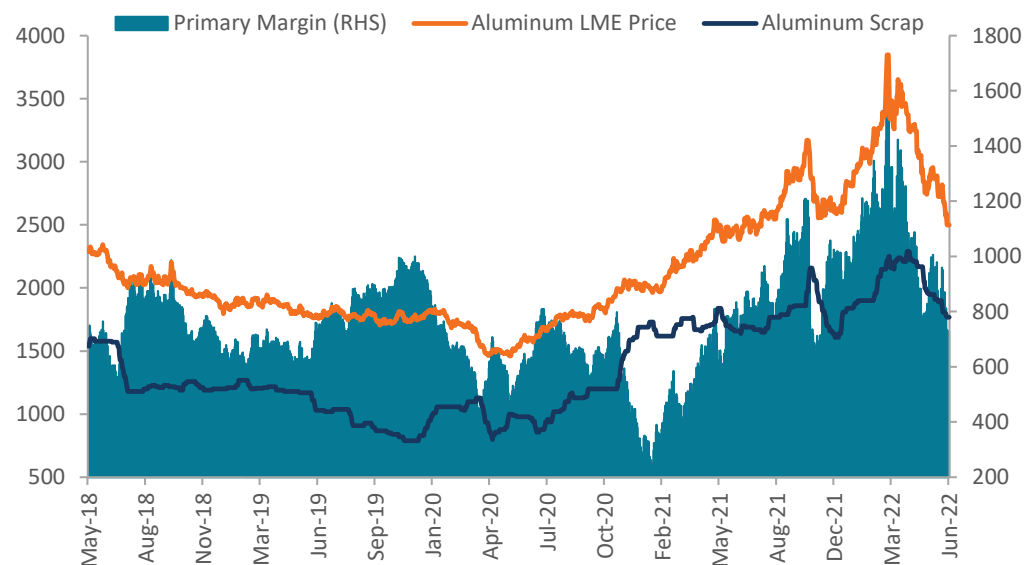
ASTL: Key Numbers					
	FY20A	FY21A	FY22E	FY23F	FY24F
EPS/LPS	(3.79)	4.61	8.32	5.81	7.40
Earnings Growth	NM	NM	81%	-30%	27%
PE at Rs23.33	MN	5.06	2.80	4.02	3.15
Dividend Yield	0%	0%	0%	0%	0%
ROE	NM	10%	16%	10%	11%
PBV	0.6	0.5	0.4	0.4	0.4

Source: Company Accounts, Topline Research

- Company is likely to use straight line depreciation method for the project with life of 20-year. We have also incorporated the working capital requirement with net cash cycle of three months.
- ASTL would be insulated from any major duties as the company is likely to enjoy duty exemption on raw materials consumed for exports, we believe.
- The full and final tax would be only 1% for exports which could results in lower effective tax rate going forward for the company.
- The development will help ASTL to diversify its portfolio and improve bottom-line. The management of ASTL is also eying to even enhance this Aluminum capacity in future.
- To recall, Mughal Iron & Steel (MUGHAL) another listed steel company is already involved in the manufacturing of copper with a capacity of 8k MT and planning to enhance its copper capacity by 10k MT. MUGHAL has also planned add Aluminum manufacturing facility with a capacity of 38k MT in FY23.
- ASTL is trading at FY23 PE of 4x which is inline with market FY23 PE. We do not expect any dividend payment in FY23.

# Sensitivity and Scenario Analysis

Aluminum London Metal Exchange LME Price Trend (US\$/MT)



Source: Bloomberg, Topline Research

Scenario Analysis Aluminum Segment for FY24

	Best Case	Base Case	Worst Case
PKR/US\$ (Average)	236	226	216
Capacity Utilization	75%	70%	65%
Sales Volume (MT)	13,500	12,600	11,700
Discount on LME Price	0%	1%	2%
Primary Margin (US\$/MT)	795	770	745
Conversion loss	9%	10%	11%
other Variable cost (US\$/MT)	225	250	275
Price Discount of Leftover on Scrap	85%	90%	95%
Impact on EPS	2.82	1.60	0.95

Source: Company Accounts, Topline Research

Sensitivity Analysis of Incremental Earnings from Aluminum Segment for FY24

		Primary Margin (US\$/MT)				
1.60		720	745	770	795	820
Capacity Utilization	60%	0.92	1.12	1.32	1.52	1.72
	65%	1.02	1.24	1.46	1.68	1.90
	70%	1.13	1.36	1.60	1.83	2.07
	75%	1.24	1.49	1.74	1.99	2.24
	80%	1.34	1.61	1.88	2.15	2.42

Source: Topline Research

Sensitivity Analysis of Incremental Earnings from Aluminum Segment for FY24

		Conversion Losses				
1.60		12%	11%	10%	9%	8%
Other Variable Cost (US\$/MT)	300	0.85	0.98	1.12	1.26	1.39
	275	1.09	1.22	1.36	1.49	1.63
	250	1.33	1.46	1.60	1.73	1.87
	225	1.57	1.70	1.84	1.97	2.11
	200	1.81	1.94	2.08	2.21	2.35

Source: Topline Research

# Financial Projection and Assumptions

ASTL: Aluminum Project Profit & Loss Statement					
Rsmn	FY24F	FY25F	FY26F	FY27F	FY28F
Net sales	6,244	6,839	7,660	8,546	9,501
Gross Profit	763	951	1,089	1,241	1,384
EBITDA	801	988	1,126	1,279	1,422
Finance Cost	226	182	167	170	174
Profit before tax	537	769	922	1,071	1,210
Tax	63	69	77	86	95
Profit after tax	475	700	845	986	1,115
<b>EPS Impact (Rs)</b>	<b>1.60</b>	<b>2.35</b>	<b>2.83</b>	<b>3.29</b>	<b>3.70</b>

Source: Topline Research

Key Ratios					
	FY24F	FY25F	FY26F	FY27F	FY28F
Earning growth	NM	47%	21%	17%	13%
Revenue Growth	NM	10%	12%	12%	11%
Gross Margin	12%	14%	14%	15%	15%
Net Margin	8%	10%	11%	12%	12%
Effective tax rate	12%	9%	8%	8%	8%

Source: Topline Research

Assumptions					
	FY24F	FY25F	FY26F	FY27F	FY28F
Aluminum Capacity (MT)	18,000	18,000	18,000	18,000	18,000
Aluminum Capacity Utilization	70%	75%	80%	85%	90%
Sales Volume Total (MT)	12,600	13,500	14,400	15,300	16,200
Aluminum Selling Price (US\$/MT)	2,200	2,145	2,145	2,145	2,145
Discount on LME Aluminum Price	1%	1%	1%	1%	1%
Realized Aluminum Selling Price (US\$/MT)	2,178	2,124	2,124	2,124	2,124
Primary Margin (US\$/MT) (4 Year Avg.)	770	770	770	770	770
Aluminum Scrap Price (US\$/MT)	1,430	1,375	1,375	1,375	1,375
Container Cost (US\$/MT)	20	15	15	15	15
Sea Freight (US\$/MT)	60	45	40	35	35
Aluminum Scrap Landed Price (US\$/MT)	1,510	1,435	1,430	1,425	1,425
Conversion loss	10%	10%	10%	10%	10%
Price Discount of Leftover on Scrap	90%	90%	90%	90%	90%
Aluminum Scrap Leftover Price (US\$/MT)	143	138	138	138	138
other Variable cost (US\$/MT)	250	250	250	250	250
6M KIBOR	13%	11%	10%	10%	10%
PKR/US\$ (Average)	226	237	249	261	274

Source: Topline Research

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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

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Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

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