

## Muhammad Naumair Jadoon

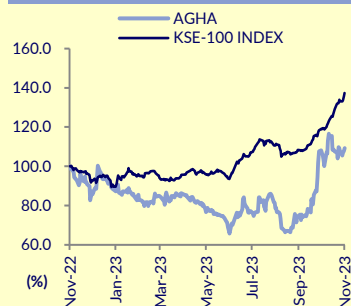
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## Pakistan Engineering

Bloomberg	AGHA PA
Priced on 24 November 2023 KSE100 @ 59,086.4	
12M hi/lo	PKR16.2/9.1
Shares in issue	604.9m
Free float	40.0%
Mkt. cap	USD31.5m
3M ADV	USD0.1m

### AGHA vs KSE100 performance



Source: PSX, Bloomberg

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## Corporate briefing takeaways

- ❑ Agha steel industries conducted FY23 corporate briefing session today moderated by Alfalah CLSA.
- ❑ Talking about financial performance, Company sold 110KT of bars in FY23 with net sales of the company clocking in at PKR20.9bn, gross profit at PKR4.8bn and net profit at PKR0.9bn in FY23.
- ❑ Gross profit ratio improved by 2ppts to 23.4% while EBITDA ratio improved 4.5ppts to 23.5%. However, net profit ratio declined by 2.8ppts to 4.4% due to higher financial expense.
- ❑ Breakup value per share also inched up to PKR27.39/sh.
- ❑ Commenting on upcoming projects, the management has stated that cold commissioning of MiDa plant supplied by Danieli has already been done with hot commissioning expected in couple of months.
- ❑ This plant will help company gain efficiencies by reducing process wastages to just 0.6%. Company claims additional savings of PKR14bn at 100% utilization.
- ❑ MiDa will eliminate the need of fossil fuels in reheating process and will also save 75 million kg of carbon dioxide emissions. With MiDa, Agha steels will be 100 percent green steel manufacturing plant.
- ❑ Management shared that they intend to install 3.5MW solar plant.
- ❑ Company shared that weighted average cost of dollar for MiDa LC settlement hovered around PKR145/USD. So, revaluation surplus will almost double its value in future.
- ❑ Company is also undertaking a 50 cubic meter blast furnace, expected to be commissioned in a year's time. Company will substitute 45KT of scrap with iron ore led hot metal which will be injected directly into re-rolling plant. It will also reduce power needs of electric arc furnace due to continuous process resulting from integration of blast furnace. Project cost is around PKR1bn.
- ❑ Company also has plans to expand the scale of blast furnace later on to at least 500KT. Company will be looking for strategic equity investor for the said investment.
- ❑ Company has also started mining of iron ore on a pilot level and expects to export its first shipment next month. Company plans to become net exporter of steel by replacing imported scrap with indigenous sources of iron.
- ❑ Management expects rebar prices to remain strong in the upcoming future given that scrap prices tend to inch upwards in winter. Moreover, higher grid costs and shortage of steel in market will also feed into higher output prices.
- ❑ Company currently holds around 2 to 2.5 months of scrap inventory and around 20 days of billet and bars inventory.

**Income Statement**

PKR Mn	FY20	FY21	FY22	FY23
Net sales	13,427	19,858	25,648	20,582
Gross profit	3,397	4,503	5,490	4,820
Operating profit	2,914	3,920	4,802	4,189
Profit before tax	1,390	2,553	2,288	1,168
Profit after tax	1,236	2,036	1,855	905

Source: Company Accounts. Alfalah CLSA Research

**Balance Sheet**

PKR Mn	FY20	FY21	FY22	FY23
Trade debts	3,840	4,047	5,272	4,949
Stock in trade	8,627	9,505	12,300	10,440
Total current assets	15,531	17,782	21,802	20,211
Property plant & equipment	13,826	17,066	19,149	21,277
Total non-current assets	14,427	17,629	19,675	21,769
Trade and other payables	1,339	1,011	1,129	829
Short-term debt	11,950	9,829	14,046	13,729
Total current liabilities	14,320	13,889	19,241	19,513
Long-term debt	4,991	6,741	5,513	4,333
Total non-current liabilities	7,478	7,711	6,571	5,896
Total equity	8,160	13,811	15,666	16,570

Source: Company Accounts. Alfalah CLSA Research

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