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Mughal Iron & Steel (MUGHAL): Power impact

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MUGHAL: Power impact...

- We continue our coverage on Mughal Steel (MUGHAL). The manufacturer delivers rebars in different grades.
- MUGHAL is able to generate around 22MW which will increase volumetric production of billets and rebars after procurement of six engine. These are gas fired electric generators of 3.1MW each & part of phase 1 expansion. This will result in growth in top line for 2HFY18.
- Monthly production hits all time high i.e. 10k tons of 60 grade, 4k tons of Mughal supreme and 8k tons of girder and thus we see production of rebars in 2HFY18 to touch ~120 to 130k tons with re-rolling capacity utilization of 55%.
- Melting capacity was under-utilized due to power shortage ~ as reported in accounts. Previously MUGHAL was procuring around 60 to 65% of billets locally ~ 60% of billets are manufactured internally which saves 3 to 5k per ton as against outsourced billets. Hence we see primary margins will slightly improve in 2HFY18.
- Current prices of outsourced billet is ~ Rs72k per ton & previously it was Rs63k per ton. Billets are in high demand across the country and National Tariff Commission (NTC) has also imposed anti dumping duty on CC Billets thus securing the local steel manufacturers.

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Ticker	MUGHAL
Price	73.60
52 week low	43.35
52 week high	94
Beta	1.4
Market Cap (PKR)	18.52bn
FY17 Cash Dividend	Rs.2.6/sh
<i>Source: SCS Research</i>	

References

Phase 1 Expansion:
<https://www.psx.com.pk/newsattachment/103985.pdf>

NTC Notice:

ADC NO 36/2015/NTC/CCB
ADC NO 48/2016/NTC/Rebar

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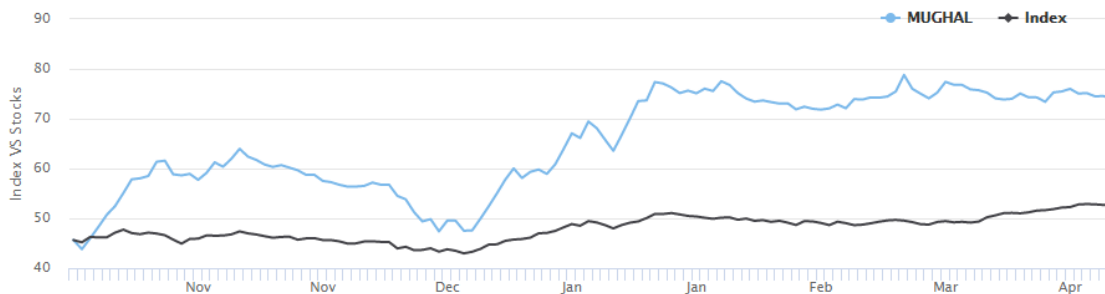
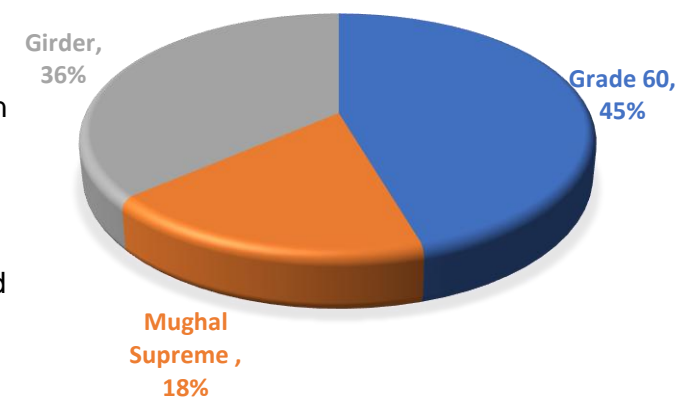
P&L - reported and estimated

(Amount Rs mn)	1QFY18A	2QFY18A	3QFY18E	4QFY18E	FY18E
Sales	5,397	5,788	6,300	6,587	24,071
Gross Profit	668	759	905	946	3,277
GP Margin	12%	13%	14%	14%	14%
Net Profit	306	315	446	405	1,471
NP Margin	6%	5%	7%	6%	6%
Basic EPS Rs/sh	1.22	1.25	1.77	1.61	5.85

Source: SCS Research

- Long bar manufacturers will enjoy healthy margins, the ones having active melting capacity.
- MUGHAL has a good market share of rebars i.e. *60 grade, Mughal supreme* and girder. The company has also passes on the impact of recent rupee devaluation in prices. Currently prices of girder is Rs93k/ton, Mughal supreme is Rs94k/ton and *grade 60* is Rs97-98k/ton, we see margins will maintain in 2HFY18 due to power availability.
- We revisited our model with price updates of rebars, billets, scrap with rupee devaluation and updated production, however, removal of Regulatory Duty is not been incorporated in our model. We see a growth in top line and better margins in 2HFY18 and thus MUGHAL could report an EPS of Rs1.77/sh in 3QFY18 and full year EPS of Rs5.58/sh with an expected dividend of Rs3/sh in FY18.
- Proposal of removal of regulatory duty from steel product including scrap & rebars has been submitted by commerce division. If removal of regulatory duty is approved we see neutral impact for local rebar manufacturers as there is still a price differential between local & imported rebars.
- Cement dispatches has reached 4.7mn tons in month of March which is highest ever record of dispatches in Pakistan. Construction activities are going on very actively across the country which drives the demand dynamics of long steel products.

SALES MIX



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