

Mughal Steel...Rejuvenating capacities

We re-initiate our coverage on Mughal Steel (MUGHAL) which shows a 45% growth in topline. MUGHAL reported net sales of Rs 5.39bn from corresponding year. The steel company reported 1Q EPS of Rs 1.22/sh which is also 19% higher vis a vis corresponding last year quarter and also 16% higher from 4QFY17 on sequential basis.

We see some increase in MUGHAL's utilization capacity and hence the company is maintaining above Rs5bn sales per quarter.

Game of billets...

Also, MUGHAL is likely to add advantage on National Tariff Commission (NTC) definitive anti-dumping duty imposition of 27.75% on **CC Billets** for a period of five years, however this imposition will increase the demand of CC Billets locally. MUGHAL is a producer of billet with melting capacity of 642k tons per annum wherein active capacity is liable to increase in FY18 from 340k tons per annum reported in FY17.

We believe, increase in demand in the CC Billets would force rebar manufacturers to increase the manufacturing of in-house CC Billets.

Power generation enhancement...

MUGHAL has already announced to increase its existing power generation capacity of 9.3 MW gas captive power plant by adding another 6 engines of 3.1 MW each gas captive power plant which will increase to a total of 27.9 MW. This in our view would help MUGHAL to overcome under-melting utilization problem.

Re-rolling activation...

Mughal has also announced to conduct BMR of existing bar re-rolling mill which would increase its installed capacity of 150,000MT to 430,000MT.

NTC has also imposed definitive anti-dumping duty of 19.15% on **rebar** for a period of five years as per notice Oct 20, 2017 which is good in general for rebar producers.

FY18 shenanigans...

Increase in capacity of bar re-rolling mills would not only result in sales volume but also in the efficiency and with less wastage thus surging up the margins much better than existing. As per our model, if we assume 60% capacity utilization of active rebar without any existing price changes than MUGHAL could report around Rs1.5bn FY18 net earnings (Rs 990mn reported in FY17) translating into an EPS of Rs5.96/sh.

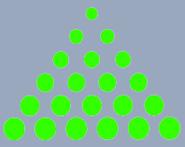
We will continue to update on further developments vis-a-vis enhancement in MUGHAL power generation that could yield increase in future capacities beyond FY18.

Ticker	MUGHAL
Price	58.65
52 weeks low	43.35
53 weeks high	150.43
Beta	1.39
Market Cap (PKR)	14.76 bn
<i>Source: SCS Research</i>	

NTC Notice

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

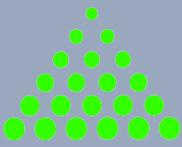
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MUGHAL P&L

	1QFY18	YoY	1QFY17	QoQ	4QFY17
Turnover - net	5,397,103,764	45%	3,713,586,081	-3%	5,536,992,989
Cost of sales	(4,729,114,018)	45%	(3,265,856,207)	-4%	(4,939,983,533)
Gross profit	667,989,746	49%	447,729,874	12%	597,009,456
Other Income	18,060,994	424%	3,443,840	127%	7,960,167
Distribution costs	(42,599,958)	114%	(19,900,087)	-40%	(71,194,026)
Administrative costs	(66,246,705)	31%	(50,678,100)	3%	(64,215,943)
Other Exp	(30,412,167)	59%	(19,163,113)	2%	(29,890,249)
Operating profit	546,791,910	51%	361,432,414	24%	439,669,405
Finance costs	(146,617,526)	61%	(90,918,603)	59%	(92,212,634)
Profit before taxation	400,174,384	48%	270,513,811	15%	347,456,771
Taxation	(94,462,692)	605%	(13,402,881)	13%	(83,629,432)
Profit after taxation	305,711,692	19%	257,110,930	16%	263,827,339
EPS	1.22	19%	1.02	16%	1.05

Source company books & PSX notices



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