

## Amreli Steel... Expansion play!

We reinitiate our coverage on Amreli Steel (ASTL). Our zeal for the coverage is the upcoming expansion in the production capacity in order to meet the upcoming demand following the rise in the construction activity in the country. ASTL expects the expansion of its melting capacity in the coming September 2017 by 75% to 350k tons and rolling capacity to 480k tons at its Dhabeji site.

ASTL deciphers CY18PE of 10x. Our estimated enterprise value for ASTL is Rs90/sh (at the premise of enterprise value of Rs27bn).

### Government Intervention...

The government has revised up regulatory duty on import of iron and steel finished products by 15% in a bid to protect the local industry.

Further, the anti-dumping duty by NTC will help local companies expand their market share and increase profitability. Chinese imported billets will become considerably more expensive.

We see imposition of the duty on the import of re-bars would benefit ASTL with finer margins and provide a boost to profitability.

### Big Bigger Biggest....

We expect steel demand in the local market to grow amid surge in economic activity and CPEC projects. We believe ASTL's expansion will help in capitalizing on increasing demand in the country.

The new re-rolling plant is being set up at Dhabeji with an estimated annual capacity of 480k tonnes, thus cementing the company's position as the country's largest producer of steel re-bars and billets even though some other Lahore based players will catch up the capacity play in coming years.

The expansion would allow ASTL to meet growing demand hence enjoying cost savings giving rise to better margins.

### Paying it off....

Moreover, the expansion plan of the company accounted for 3.4bn, was financed fully through IPO which raised around 3.8bn with the excess money used to retire outstanding debt wherein decrease in benchmark interest rates helped in reduced financial charges, as per our estimation.

We anticipate ASTL to maintain a deleveraged balance sheet going forward further ameliorating the debt/equity ratio and soothing the impact of finance cost in the coming years

**ASTL @ 83.20**  
**52 Week Low 42.65**  
**52 Week High 98.40**  
**Total no. of shares 297.01mn**  
**Market Capitalization Rs 25 bn**  
**Beta 1.08**  
**Annual EPS FY16 4.31**

### Outperforming



**We see scrap prices to stabilize and 2Q financials would be hearty;**

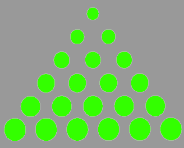
**Our post expansion EPS forecast for ASTL is Rs8.5/sh during FY18;**

**We see ASTL as an investment case based on re-bar demand emanating from retail side.**

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