



## Mughal Steel ^ Tax Implications ~ Duties

### Proposal ^ Duties could increase on scrap & billets

- ✚ Proposal is to increase duty on imported scrap and billets by 5% which will increase the production cost
- ✚ Imposition of this duty will discourage the local players in steel sector along with those who are coming on board (Amreli – probable IPO)
- ✚ Corporate tax if reduced ^ Beneficial for entity
- ✚ Imposition of duty will have negative impact on companies profitability ~ we expect if duty increased by 5% this would have a per share impact of Rs1.8 ^ this could also see a pass through impact to a certain extent

### Upcoming Projects ^ will absorb the negativities of increased duty

- ✚ Multan Metro Bus Project ^ Contract amounting to Rs1bn this would have an EPS impact of Re0.40
- ✚ Contracts to supply iron & steel to various sectors amounting to Rs1.20bn having an EPS impact of Re0.46
- ✚ Contract with Sino-hydro for supply of steel bars at Tarbela Extension after being approved for supply of material for the project by GoP
- ✚ These Projects will go to dilute the effect of increased duty hence no such margin contraction for MUGHAL in near future

### Valuation CY15 ~ CY15E EPS of Rs6.20 | Dividend

**yield 4%:** We expect company to report an EPS of Rs6.2/sh along with a final dividend of Rs2/sh this would make a yield of 4%. Whilst MUGHAL currently yield PE of 7.7x. We remain positive on MUGHAL as we believe that this increment of duty would partially pass on and rest will be diluted with upcoming projects.

- ✚ **Proposal is being made to increase the duty ^ but we believe that this would even be rejected as this will discourage the players and upcoming companies in the sector**
- ✚ **Government is focusing on higher Infra-structure development this imposition will adversely affect the aim**
- ✚ **We also believe that this proposal can be rejected in upcoming budget ^ If done so then this will boost the company's profit**

#### Analyst

Ali Sufyan (ACCA Affiliate)

Tel: 35290460

UAN: 111-111-721

[www.scstrade.com](http://www.scstrade.com)

Supervised by: Faisal Shaji (Research Head)