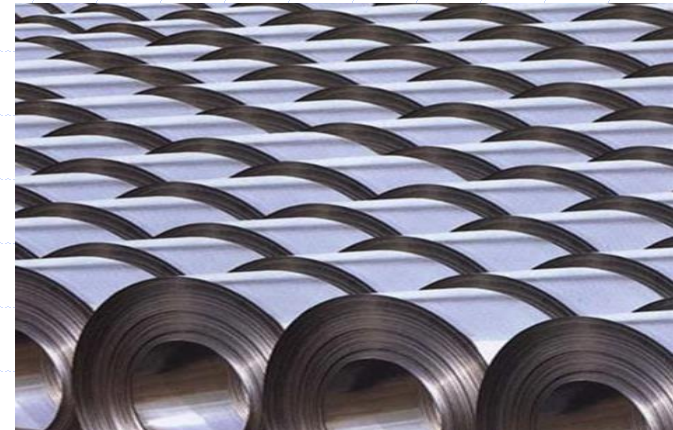


STEEL SECTOR OVERVIEW

March 2019

SECTOR | CONTENTS OUTLINE

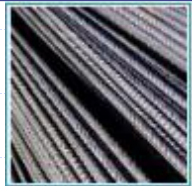
- ❑ Specific Terms & Products
- ❑ Raw Material
 - Iron Ore | Price trend
 - Steel scrap | Price trend
- ❑ Global | Steel Production | CY18
 - Top Producing Countries
- ❑ Global | Steel Consumption
- ❑ Pakistan Steel Industry
 - Imported Quantity and Price
 - Production and Import Mix
 - Per Capita Consumption (Pakistan & Regional economies)
 - Duty Structure
 - Industry Players



STEEL | SPECIFIC TERMS & PRODUCTS

- Crude Steel is steel in its first solid (or usable) form: ingots, semi-finished products – billets, blooms, slabs. **Production** refers to Crude steel.
- **Consumption** refers to Finished steel products – long (rebars) flat products (galvanized sheets) and tubes.

Long Products



**Re-
inforcing
Bars**



**Structural
Section**



**Merchant
Bars**



**Wire
Rod**



**Engineering
Steels**



T Iron

Flat Products



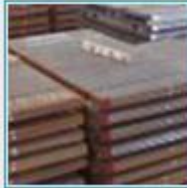
**Hot
Rolled
Coil**



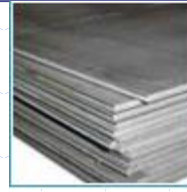
**Cold
Rolled
Coil**



**Hot Dipped
Galvanised
Coil**



**Hot
Rolled
Plate**



**Cold
Rolled
Sheet**



**Tin
Plate**



**Coated
Sheet**

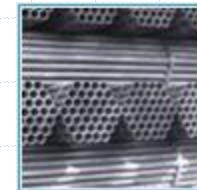


**Coated
Steel
Coil**

Tubes & Pipes



**Stainless
Tubes**



**Welded
Tubes**

Long Products are predominantly produced in Pakistan from imported raw material and scrap

Flat Products are largely imported in finished shape in Pakistan

Tubes and pipes are produced locally and also imported in Pakistan

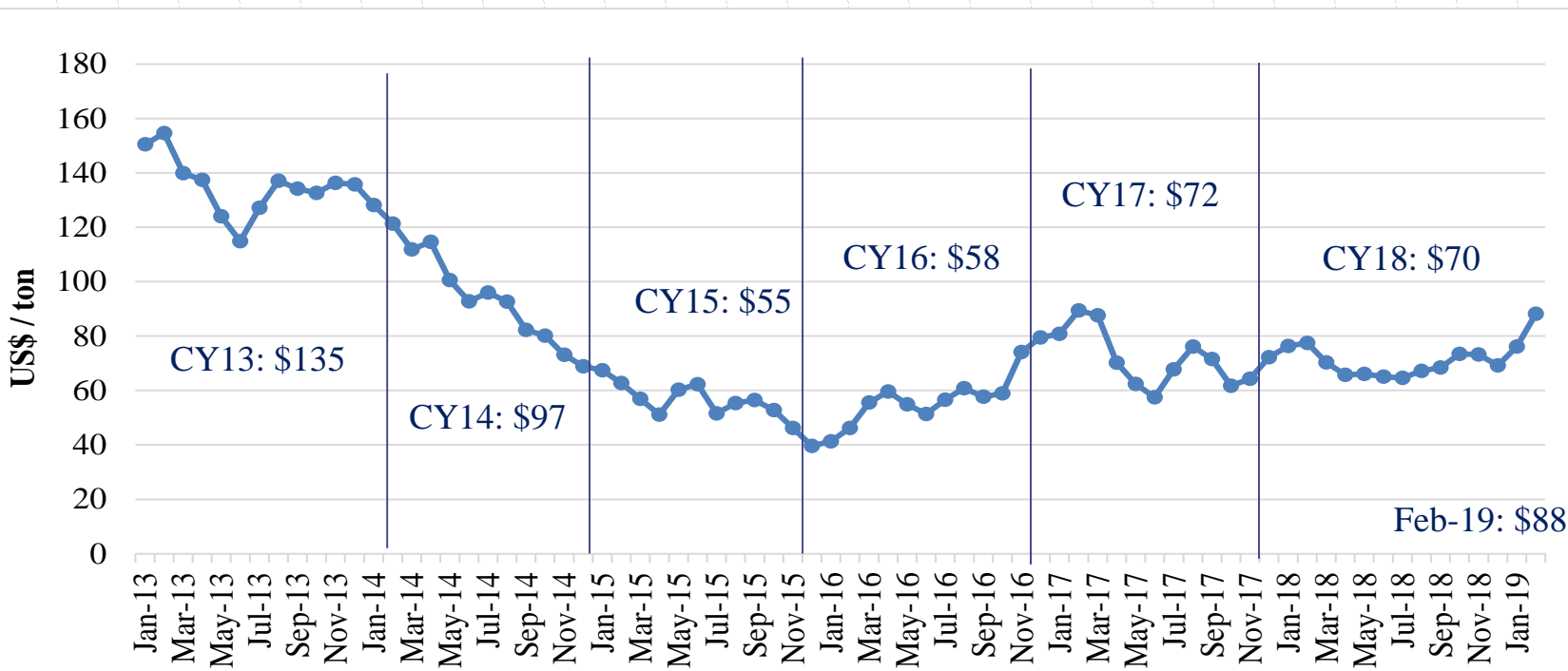
STEEL SECTOR | BIRD'S EYE VIEW

- ❑ Raw Material
 - Iron Ore | Price trend
 - Steel scrap | Price trend

- ❑ Global | Steel Production | CY18
 - Top Producing Countries

- ❑ Global | Steel Consumption

Iron Ore Price | Trend Analysis



- Over the last few years, prices remained subdued. Increase in last two years was witnessed as Chinese ore production has been cut as the content is lower-grade and more costly than foreign supplies which made producers suffered amid a strict environmental clampdown
- Hike in Jan-19 is consequent to Vale's dam disaster (Brazil). The global iron-ore market is in the grip of a supply shock after the deadly dam burst put as much as 70-million tons of annual supply at risk.
- Prices are likely to increase in medium term on account of event at Vale's site; evident from increase in price in Feb-19

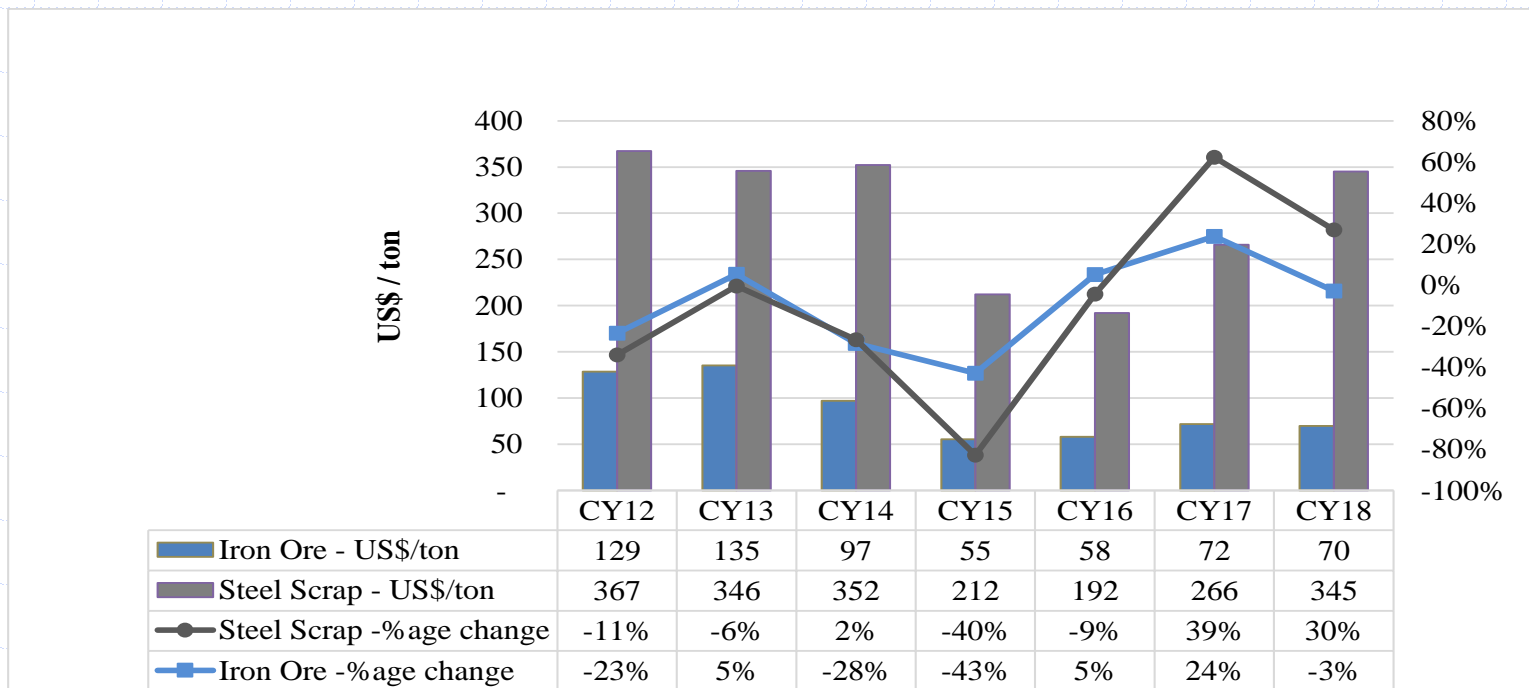
Sources:

<https://www.indexmundi.com/commodities/?commodity=iron-ore>

<https://www.hellenicshippingnews.com/china-wont-come-to-the-rescue-in-global-iron-ore-supply-crisis/>

<https://www.reuters.com/article/fortescue-results/update-3-australias-fortescue-beats-estimates-as-iron-ore-pricing-improves-idUSL3N20E5T3>

Scrap Price | Trend Analysis



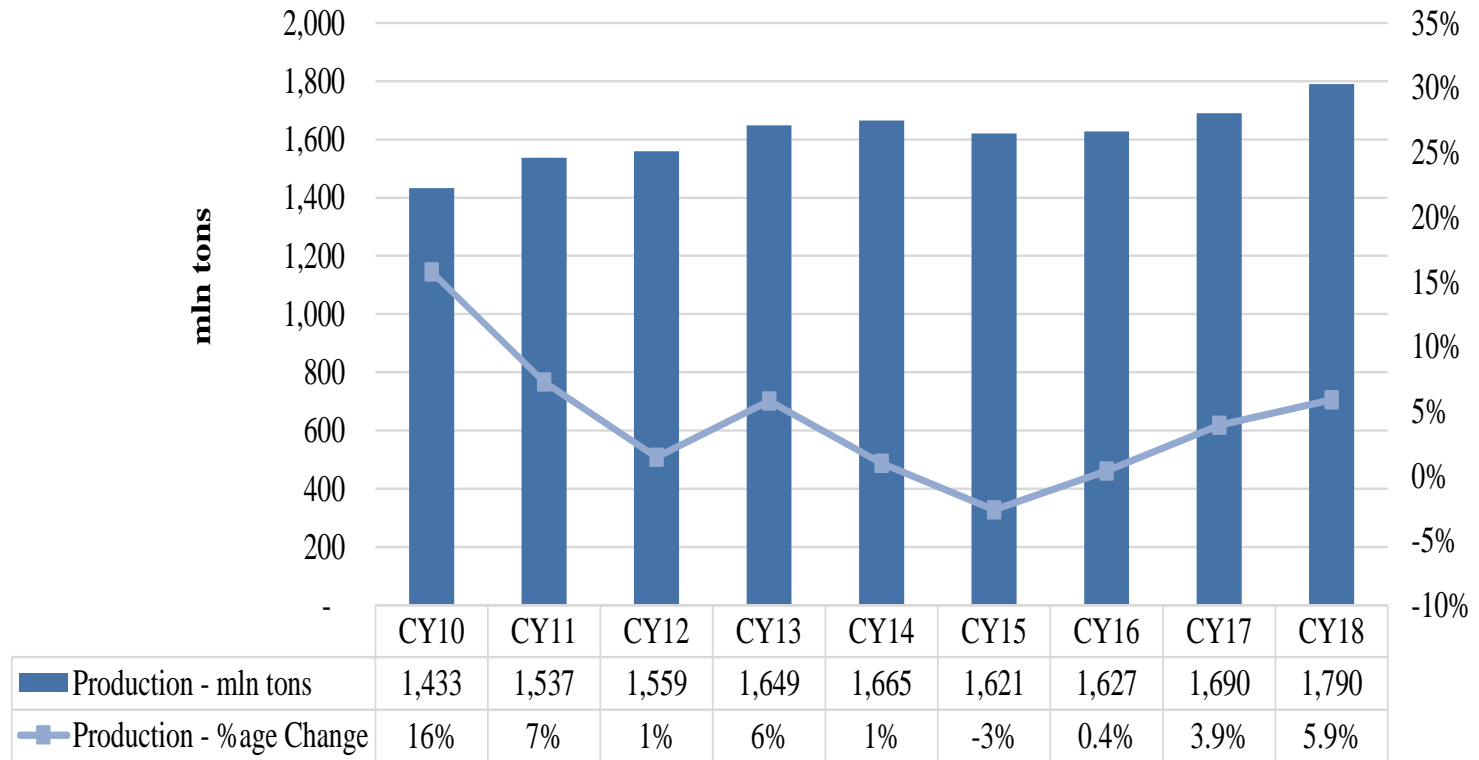
- Over last few years, price differential between steel scrap and iron ore had been fluctuating. Post Oct-17, price differential widened due to 1) mounting environmental pressures on sintering and blast furnaces have incentivized mills to use more scrap in basic oxygen furnace. 2) US government's Section 232 probe into steel imports has boosted sentiment. If US mills lift their utilization rates, this will result in fewer scrap exports. Mills have therefore, frontloaded demand for scrap in anticipation of potential tightening of the market from 2QCY18 onwards.
- Analysts are of the view that scrap value is currently over-valued and will be adjusted. With current scrap prices, iron-ore should theoretically be valued at around \$106/ MT. With strong positive price co-relation of both, it is statistically probable to expect a convergence using linear regression.

Sources:

<https://www.indexmundi.com/commodities/?commodity=iron-ore>; <https://blogs.platts.com/2018/03/08/iron-ore-steel-mills-price-diverges-scrap/>

Steel Production | Trend Analysis | CY18

Global Figures



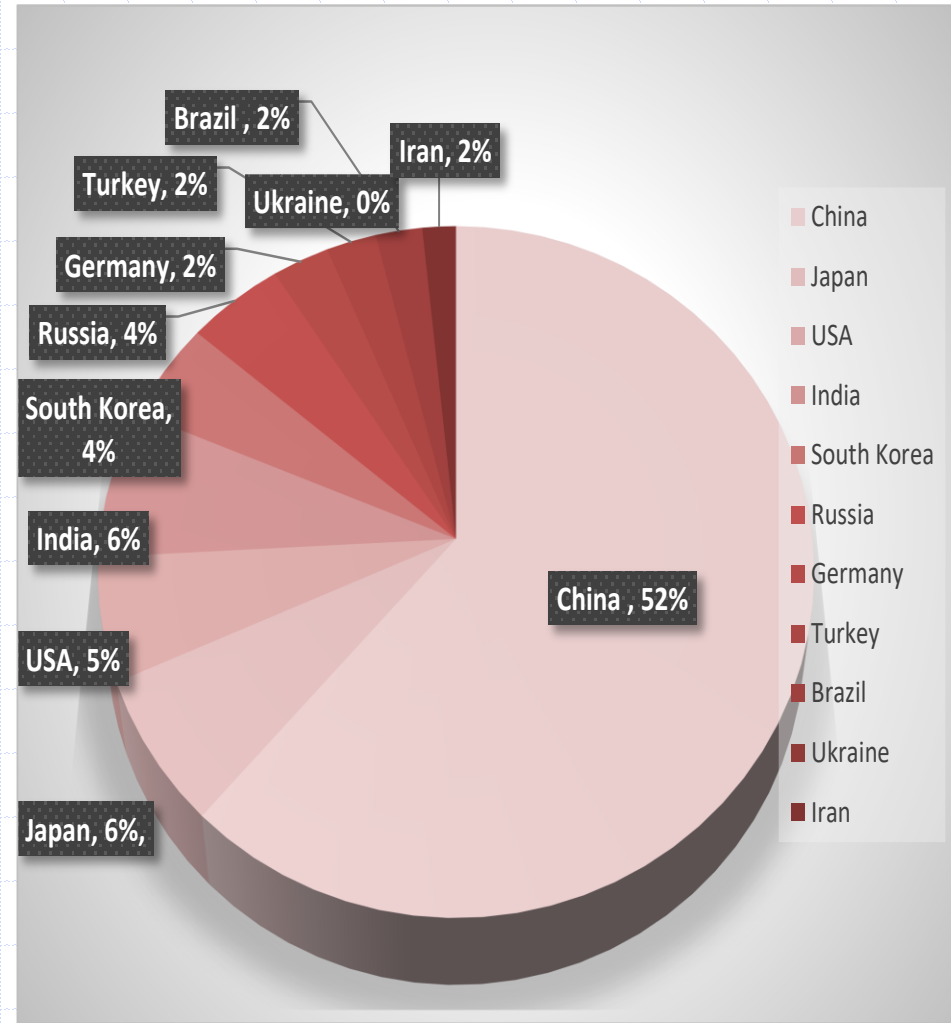
- Global steel production stood at 1,790mln tons, up 5.9% YoY with largest contribution from Asia of 1,257mln tons
- China and India contributed to Asia's production of 928mln and 106mln tons respectively while Japan secured third place at 104mln tons

Steel Production | Top Producing Countries | CY18

- Top-10 represents 83% of the steel produced in the world
- China secures highest place with 52% share in world wide production
- Iran recently joined league and replaced Ukraine (CY17: 21.3)

Top-10 steel producing countries

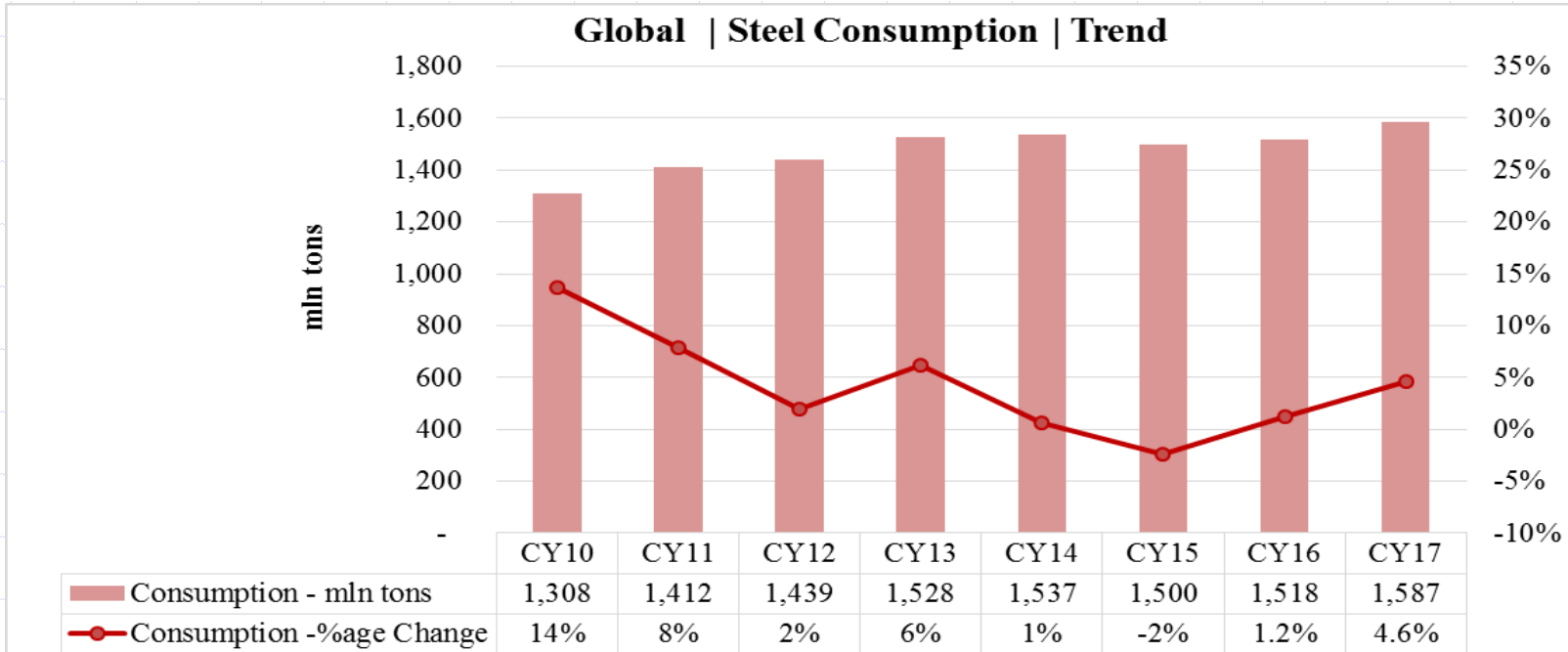
Rank	Country	CY18	CY17
1	China	928.3	870.9
2	India	106.5	101.5
3	Japan	104.3	104.7
4	United States	86.7	81.6
5	South Korea	72.5	71.0
6	Russia	71.7	71.5
7	Germany	42.4	43.3
8	Turkey	37.3	37.5
9	Brazil	34.7	34.4
10	Iran	25.0	21.2



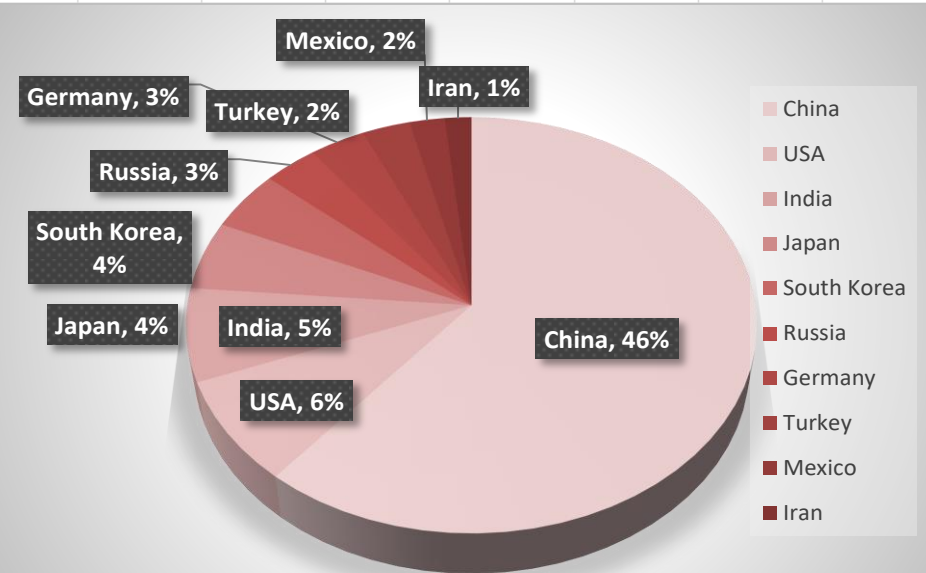
Source: <https://www.worldsteel.org/en/dam/jcr:2c14934a-092a-4013-a839-a85a2fe99f510/December%20steel%20production%20202018.pdf>

Steel Consumption | Top Consuming Countries | CY17

Global Figures



- Top-10 countries represents 76% of the world's steel consumption
- China secures highest place at 46%
- Second and third place secured by USA and India by contribution of 6% and 5% respectively



STEEL INDUSTRY | PAKISTAN

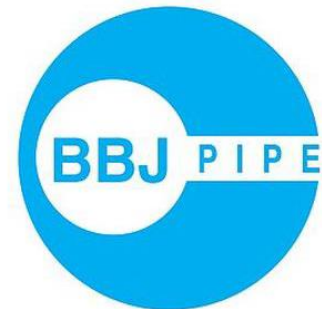
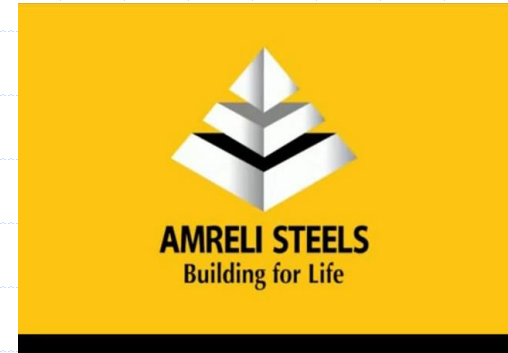


□ Pakistan Steel Industry

- Imported Quantity and Price
- Production and Import Mix
- Per Capita Consumption (Pakistan & Regional economies)
- Duty Structure
- Comparison sheets of Rated Steel Players

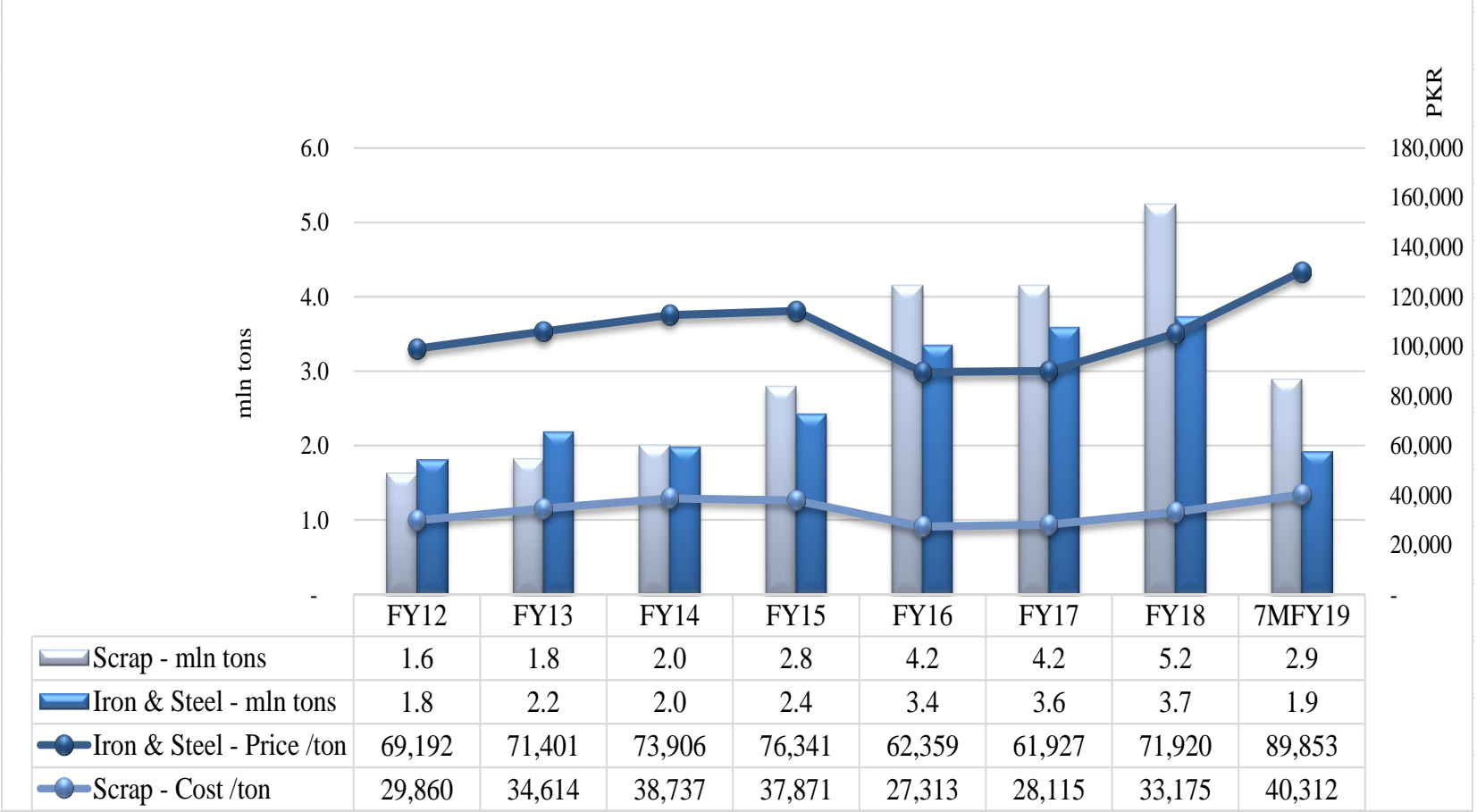


Crescent Steel & Allied Products Limited



Scrap Iron & Steel | Imported Quantity & Price | Trend

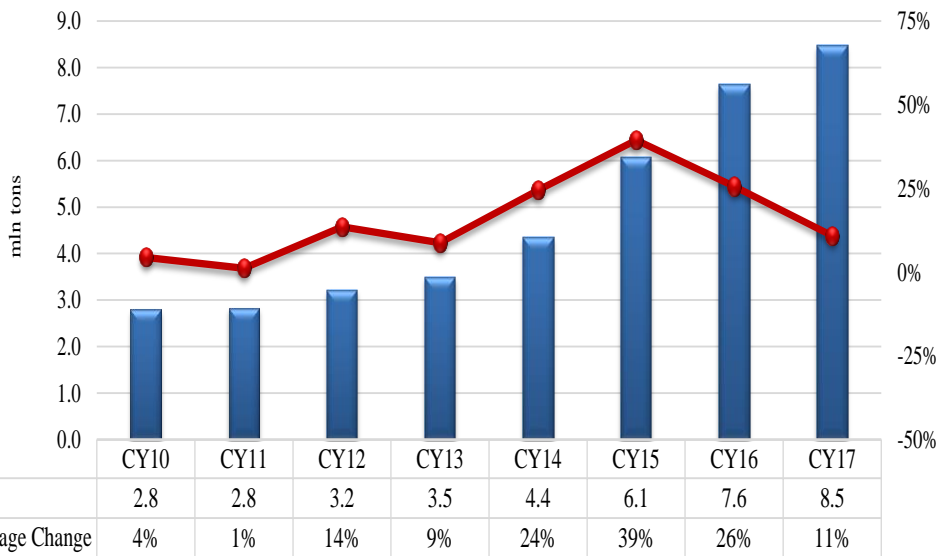
Pakistan



- Imported steel scrap witnessed uptick to 5.2mln tons in FY18 – up 26% YoY
- Significant increase witnessed in prices on account of global increase in scrap prices and depreciation of Pak rupee against US dollar

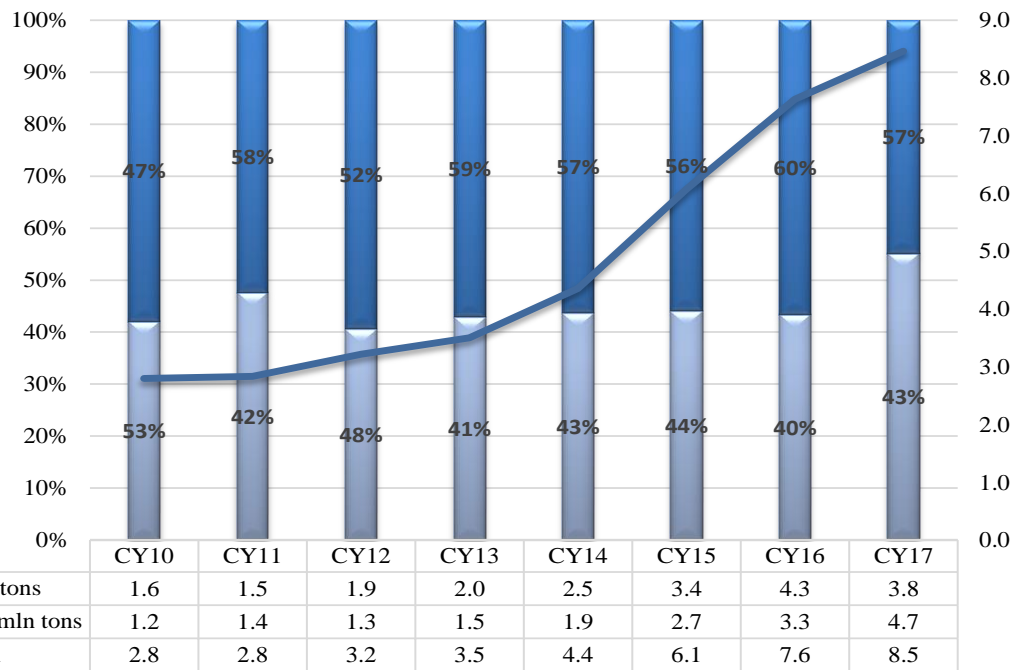
Steel Consumption | Production & Import Mix | CY17

Pakistan



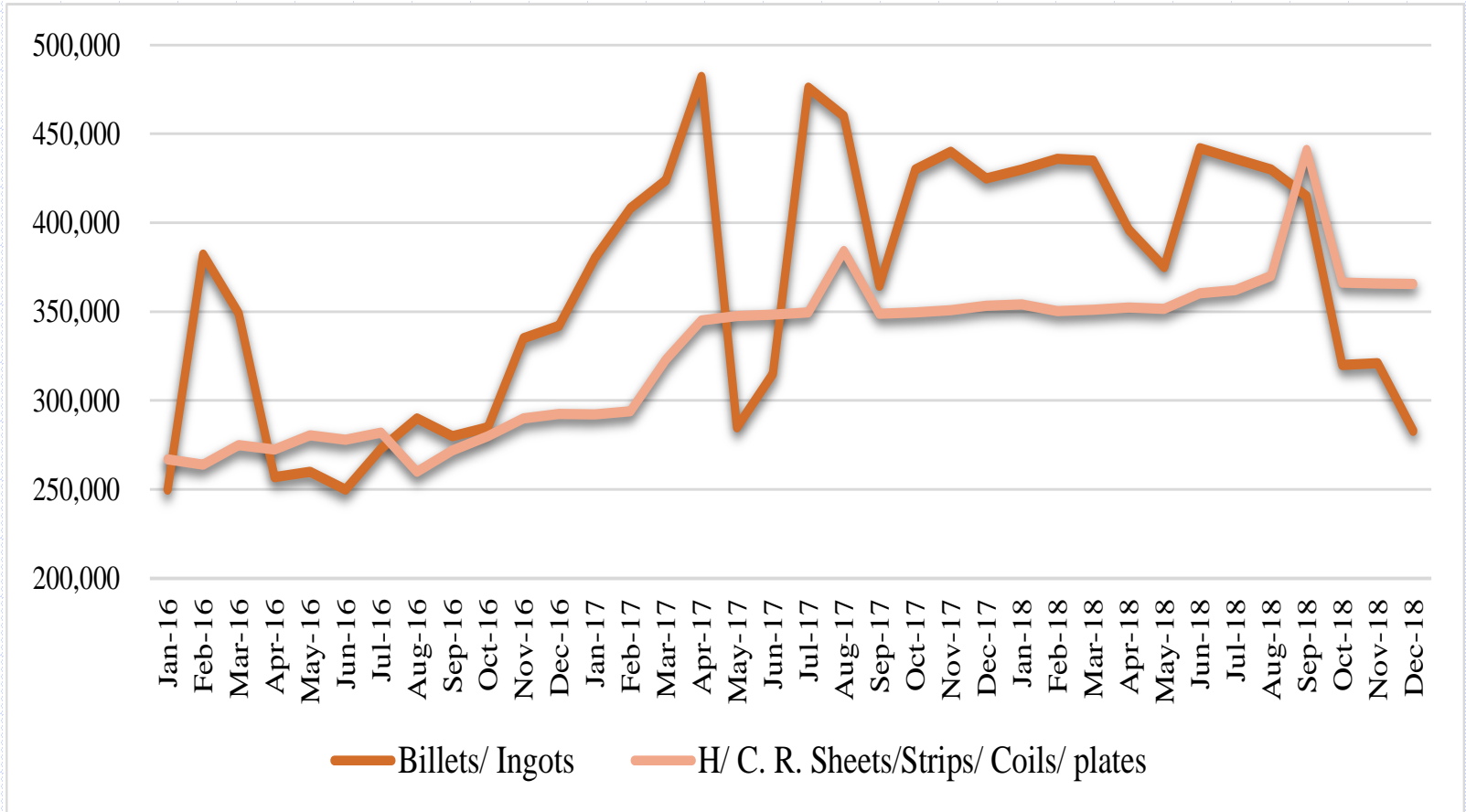
- Pakistan – net importer of steel – imported 3.8mln MT in CY17
- Production enhanced to 4.7mln MT as industry players have enhanced capacities amid infrastructure demand in past

This consumption refers to long products, flat products and tubular products.



Steel Product's Production Data | Trend Analysis

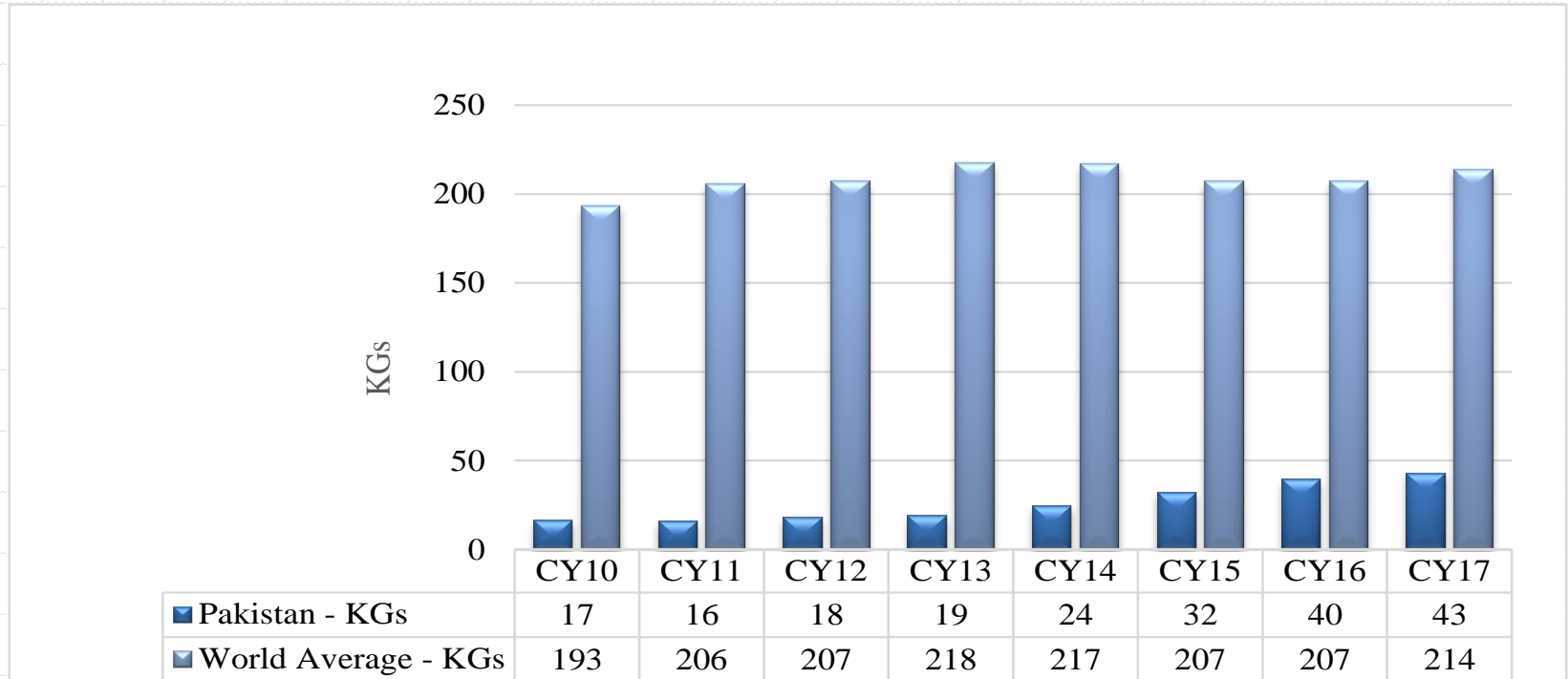
Pakistan



- Pakistan's production of billets and ingots (long products) has witnessed volatility in last few years as it takes into account the demand dynamics
- Demand dynamics are fluctuated in scenarios of dumping of billets and rebars
- Production of H/ C.R. Sheets (flat products) achieved level of 350,000 in Apr-17 and remained at sustained level; cyclical peaks witnessed period of July to August

Per Capita Steel Consumption | Trend Analysis

Pakistan



- Pakistan's per capita steel consumption stands at 43KGs; significantly lower than world's average of 214KG
- Lower per capita consumption is on account of lesser trend of high end buildings for offices, apartments etc.
- India's per capita consumption stands at 65.2KG
- World's highest per capita steel consumption is of South Korea at 1,123.7KG

Steel Industry | Duty Structure

Duty Structure - Post NTC Action				
	Custom	Regulatory	Total	
Scrap	4%	5%	9%	
Billets	24%	15%	39%	
Rebar	19%	30%	49%	
Hot Rolled Coil	10%	30%	40%	
Cold Rolled Coil	10%	13-19%	23-29%	

- Regulatory duty on steel products is increased recently
- RD on billets and rebar is deliberately increased to reduce dumping of same from China and Russia
- Resultantly, some local industry player's margins will be secured



Pakistan Steel Industry | Long Products | Rated Universe

Rating Universe	PACRA : A/ A1			VIS : A/A1			PACRA : A-/ A2			VIS : A-/A2			VIS : BBB- / A3			PACRA : BB/ B		
	Amreli Steel			Agha Steels			Mughal Steel			Frontier Foundry Steel (Pvt.)			Razaque Steels (Pvt.) Ltd			Bilal Steel		
Performance Indicators	1HFY19	FY18	FY17	1QFY19	FY18	FY17	1HFY19	FY18	FY17	1HFY19	FY18	FY17	FY18	FY17	FY16	FY18	FY17	FY16
Revenues	12,317	15,501	13,284	1,645	10,688	9,943	14,076	22,226	18,803	5,767	7,021	4,653	3,224	1,995	2,443	3,049	2,693	1,895
Gross Profit	1,525	2,758	2,468	375	2,693	2,713	1,615	2,794	1,942	586	757	210	209	126	120	250	231	163
Operating Profit	1,004	1,971	1,806	-	-	-	1,346	2,235	1,536	373	448	100	-	-	-	165	145	95
Finance Cost	490	476	252	225	1,456	1,515	374	550	249	-	-	-	-	-	-	91	68	42
Net Profit	516	1,585	1,074	225	1,456	1,515	713	1,290	991	325	261	68	103	42	73	75	78	50
EBITDA	1,309	2,375	2,091	-	-	-	1,443	2,422	1,695	-	-	-	-	-	-	278	266	216
Balance Sheet																		
Total Debt	12,183	11,380	5,189	12,252	12,414	5,752	9,970	8,669	8,046	1,772	1,719	351	1,037	126	253	926	896	646
<i>Short Term</i>	9,271	8,399	4,165	8,310	7,944	3,871	8,052	7,840	8,014	1,616	1,605	333	1,037	126	253	926	896	646
<i>Long Term</i>	2,912	2,981	1,024	3,942	4,470	1,881	1,918	829	32	156	114	18	-	-	-	-	-	-
Equity	12,743	12,880	11,146	6,381	5,480	4,699	7,626	7,466	6,637	2,530	2,191	1,432	561	458	435	1,235	1,179	1,101
Ratios																		
GP Margin	12%	18%	19%	23%	25%	27%	12%	13%	10%	10%	11%	5%	6%	6%	5%	8%	9%	9%
Operating Margin	8%	13%	14%	-	-	-	10%	10%	8%	6%	6%	2%	-	-	-	5%	5%	5%
Net Margin	4%	10%	8%	14%	14%	15%	5%	6%	5%	6%	4%	1%	3%	2%	3%	2%	3%	3%
EBITDA Margin	11%	15%	16%	-	-	-	10%	11%	9%	0%	0%	0%	-	-	-	9%	10%	11%
Leveraging	49%	47%	32%	66%	69%	55%	57%	54%	55%	41%	44%	20%	65%	22%	37%	43%	43%	37%
EBITDA/ Gross Interest	2.7	5.0	8.3	-	-	-	4.0	4.4	6.8	4.4	4.4	4.4	-	-	-	3.07	3.91	5.14
FCFO/ Gross Interest	2.3	4.2	7.1	-	-	-	3.3	3.5	5.6	3.5	3.5	3.5	-	-	-	2.41	3.37	4.21

Short to Medium term outlook: **Negative**

Factors for outlook:

- Slow down in large infrastructural projects
- Industry players commencing capacity expansions which amid low demand may result in supply glut in upcoming year
- Rise in commodity prices - iron ore and steel scrap; expected future rise will further slim margins of industry players
- Hike in key policy rate is burdening profitability of producers and consumers of steel

Bibliography

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