

STEEL SECTOR - OVERVIEW

September 2019

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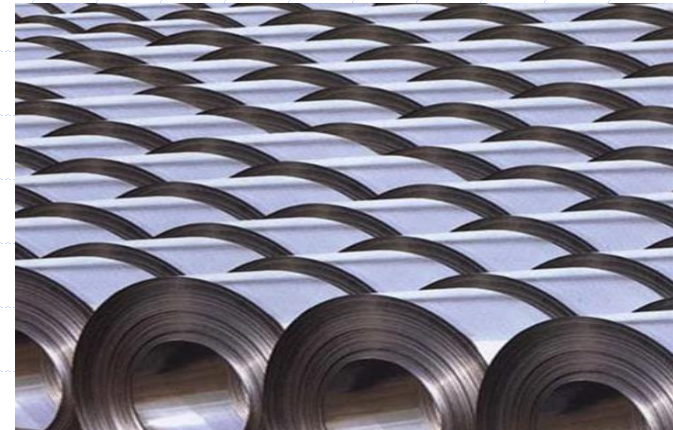
Imported Quantity and Price

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STEEL | SPECIFIC TERMS & PRODUCTS

Semi Finished Products



Billets



Blooms



Slabs

- **Raw Material** refers to Iron Ore and Scrap – used in manufacturing crude steel.
- **Crude Steel** is steel in its first solid (or usable) form: ingots, semi-finished products – billets, blooms, slabs.
- **Production** refers to Crude steel (produced from raw material).
- Either Scrap or semi-finished products are imported in Pakistan - reheated and utilized in manufacturing steel products.



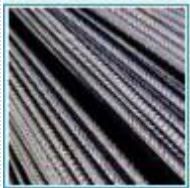
Ingots



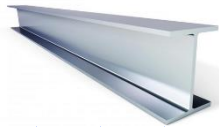
STEEL | SPECIFIC TERMS & PRODUCTS

- **Consumption** refers to Finished steel products – long (rebars) flat products (galvanized sheets).

Long Products



Re-inforcing Bars



Girders



Merchant Bars



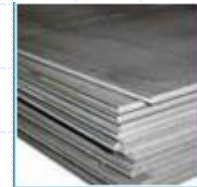
T - Iron

Long Products are predominantly produced in Pakistan from imported raw material and semi finished products.

Flat Products



Hot Rolled Coil



Cold Rolled Sheet



Cold Rolled Coil



Tin Plate



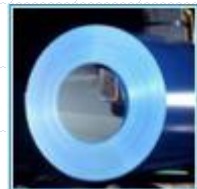
Hot Dipped Galvanised Coil



Coated Sheet



Hot Rolled Plate



Coated Steel Coil

Flat Products are largely imported but galvanised in Pakistan.

STEEL SECTOR | BIRD'S EYE VIEW

☐ Raw Material

Iron Ore | Price trend

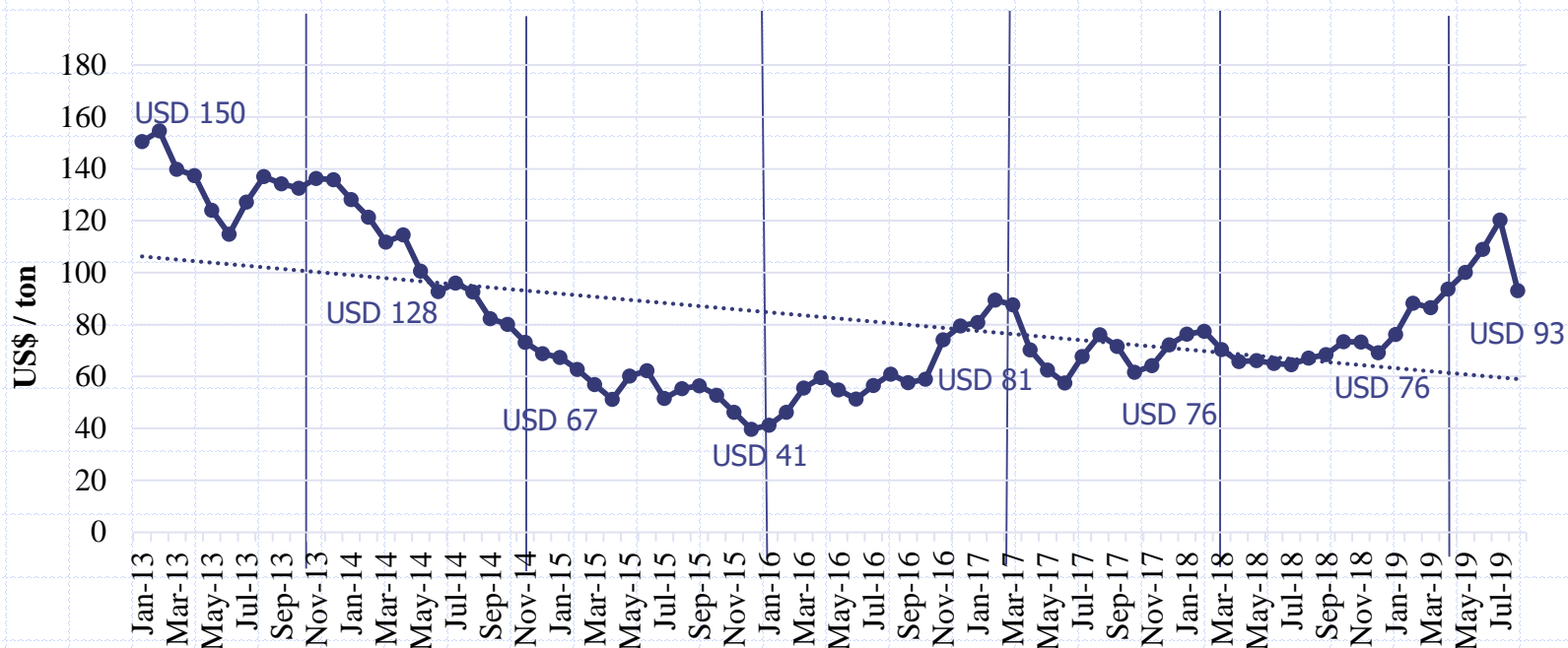
Steel scrap | Price trend

☐ 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.
- Prices increased post Jan-19 on account of event at Vale's site (Brazil) whereby 70mln tons of annual supply was deemed to be at risk. However in July'19, it sustained to USD 93 per ton which reflects that market is absorbing the void created in Jan-19 - a positive sentiment.

Sources:

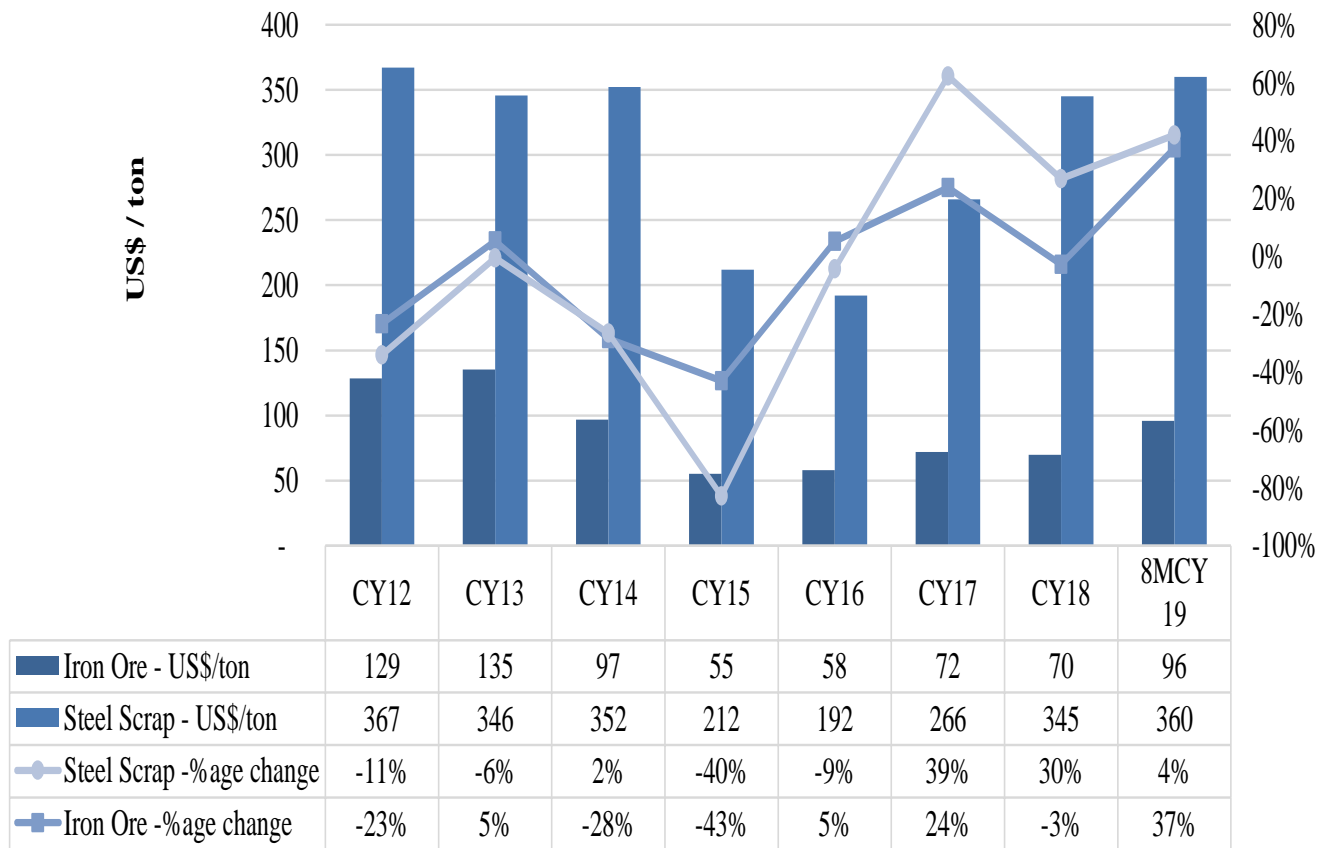
<https://www.indexmundi.com/commodities/?commodity=iron-ore>

<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

Global Figures



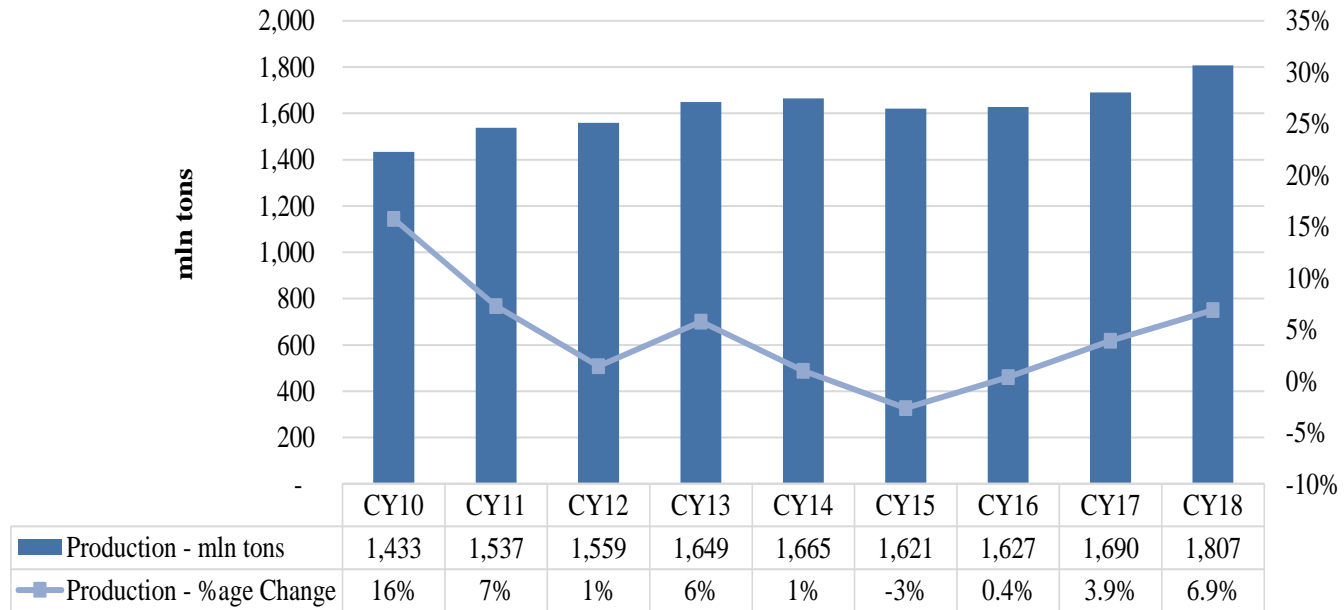
Sources:

<http://www.scrapregister.com/scrap-prices/united-states/260>

https://minerals.usgs.gov/minerals/pubs/commodity/iron_&_steel_scrap/

Steel Production | Trend Analysis | CY18

Global Figures



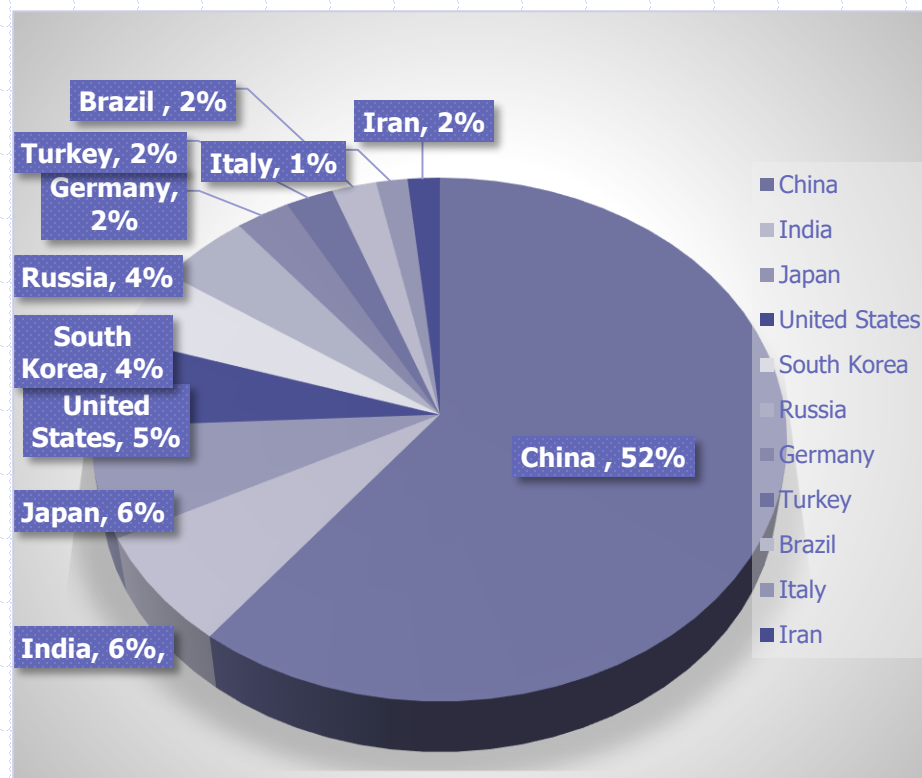
- Global steel production stood at 1,807mln tons, up 6.9% YoY with largest contribution from Asia of 1,269mln tons followed by the European Union at 167mln tons.
- The growth exceeded beyond the average world GDP growth (2018: 3%).
- China and India contributed to Asia's production of 928mln and 106mln 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 51% share in world wide production
- Pakistan with a total production of 32mln tons stands at the 32nd number with a share of ~2%

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	34.5
10	Italy	25.0	24.1



Source: <https://www.worldsteel.org/en/dam/jcr:2c14934a-092a-4013-a839-85a2fe99f510/December%20steel%20production%202018.pdf>

Steel Production | Top 10 Steel Making Companies | CY18

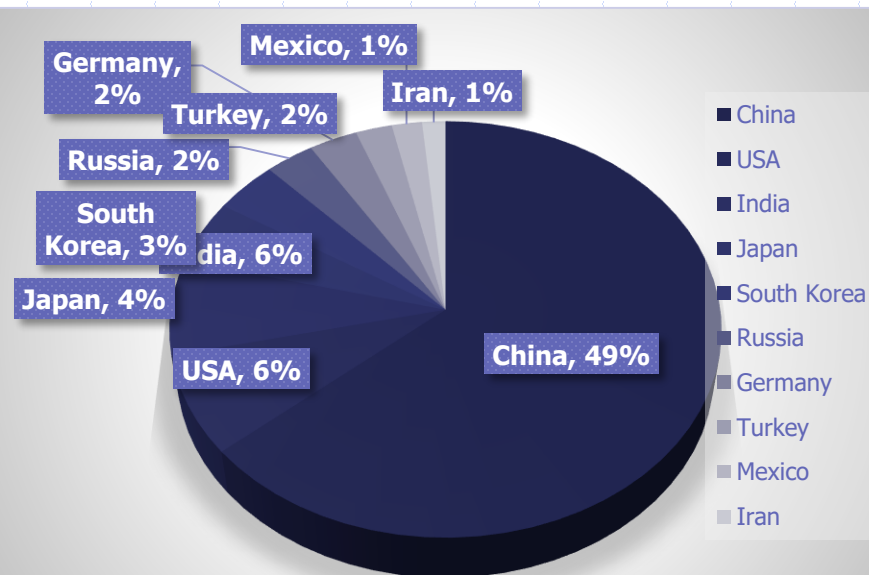
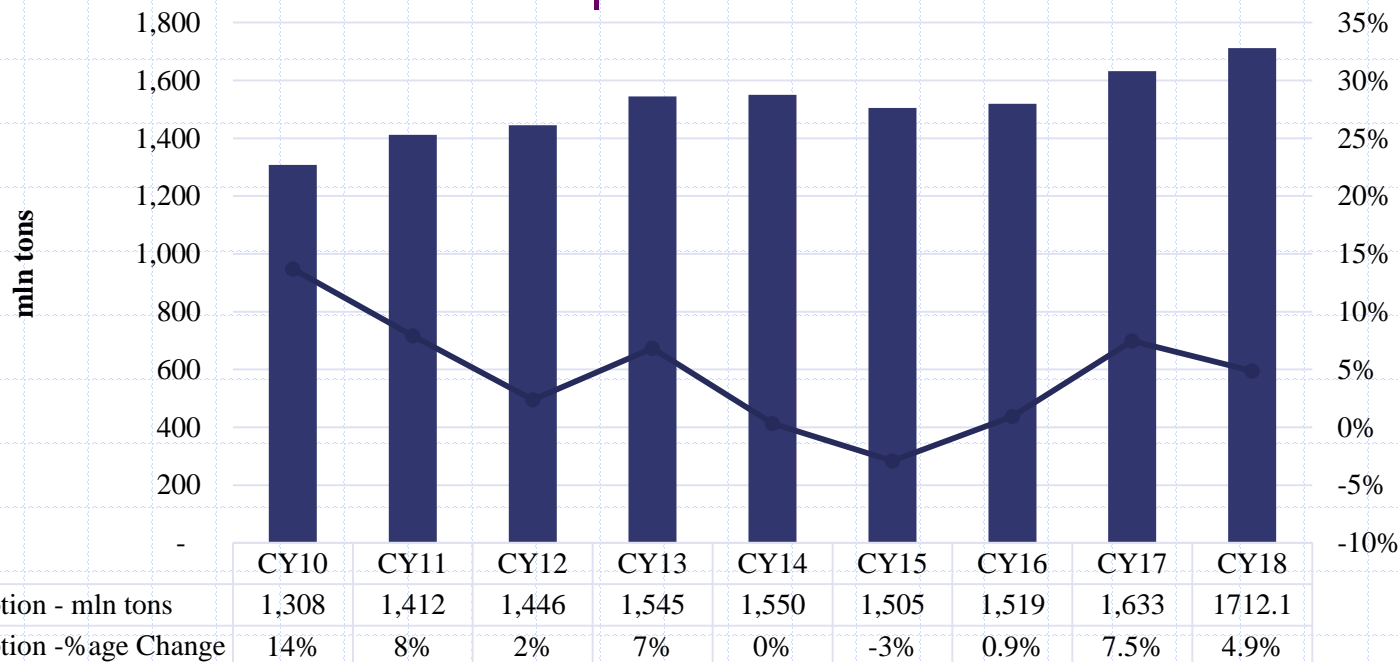
Global Figures

<i>Rank</i>	<i>Company Name</i>	<i>Tonage</i>	<i>Country Origin</i>
1	Arcerol Mittal	96.42	Luxembourg
2	China Baowu Group	67.43	China
3	Nippon Steel Corporation	49.22	Japan
4	HBIS Group	46.8	China
5	POSCO	42.86	South Korea
6	Shangang Group	40.66	China
7	Ansteel Group	37.36	China
8	JFE Steel Corporation	29.15	Japan
9	Jianlong Group	27.88	China
10	Shougang Group	27.34	China

Global Steel Consumption | Top Consuming Countries | CY18

Global Figures

- Top-10 countries represents 76% of the world's steel consumption
- China secures highest place at 49%
- Second and third place secured by USA and India by contribution of 6% each.



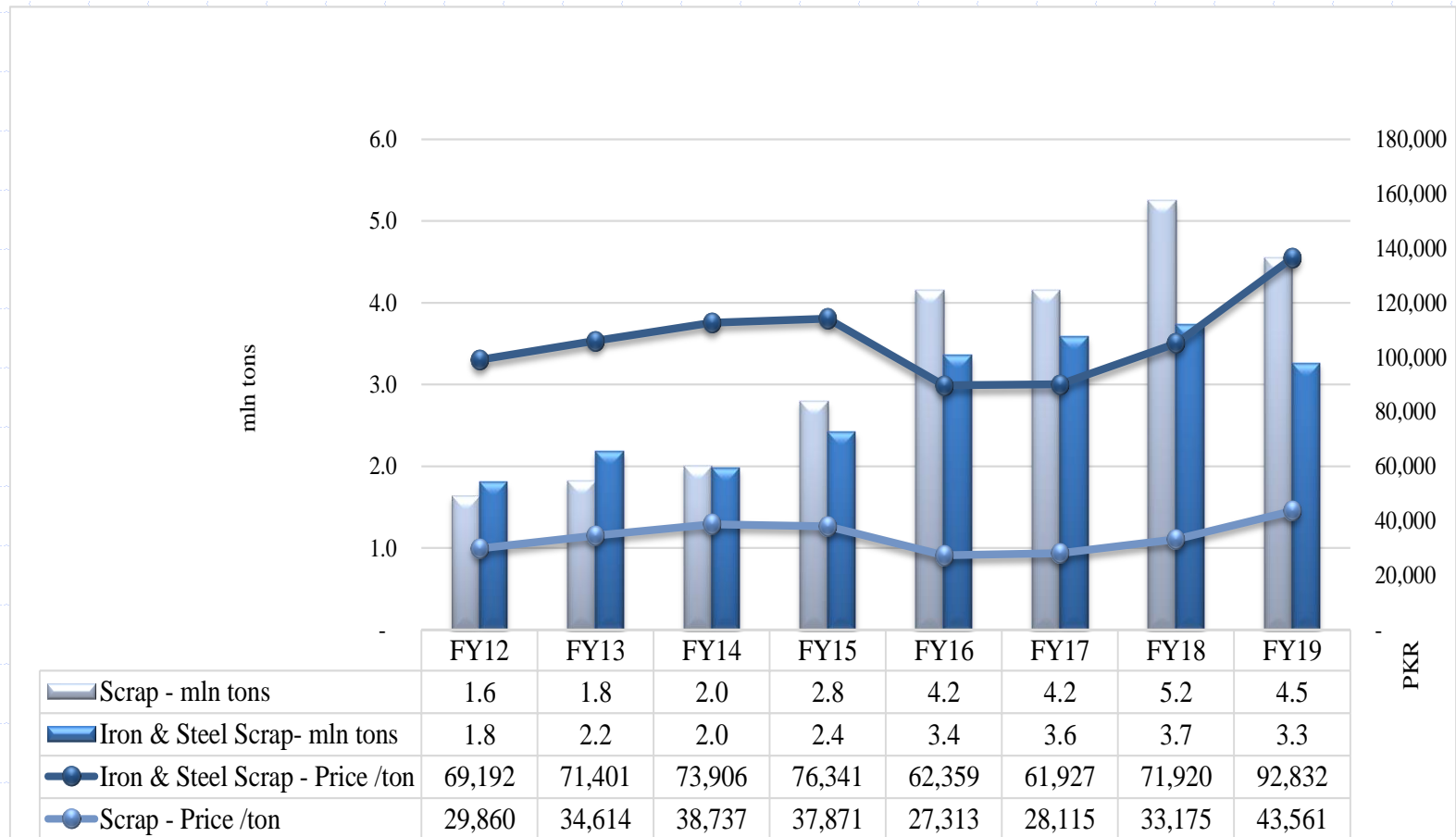
STEEL INDUSTRY | PAKISTAN

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

Scrap Iron & Steel | Imported Quantity & Price | Trend

Pakistan



- During FY19, imported steel scrap witnessed a decline of 16% YOY standing at 4.5mln tons.
- Significant increase witnessed in prices on account of global increase in scrap prices and depreciation of Pak rupee against US dollar
- Going forward, trend is expected to remain same in the medium term

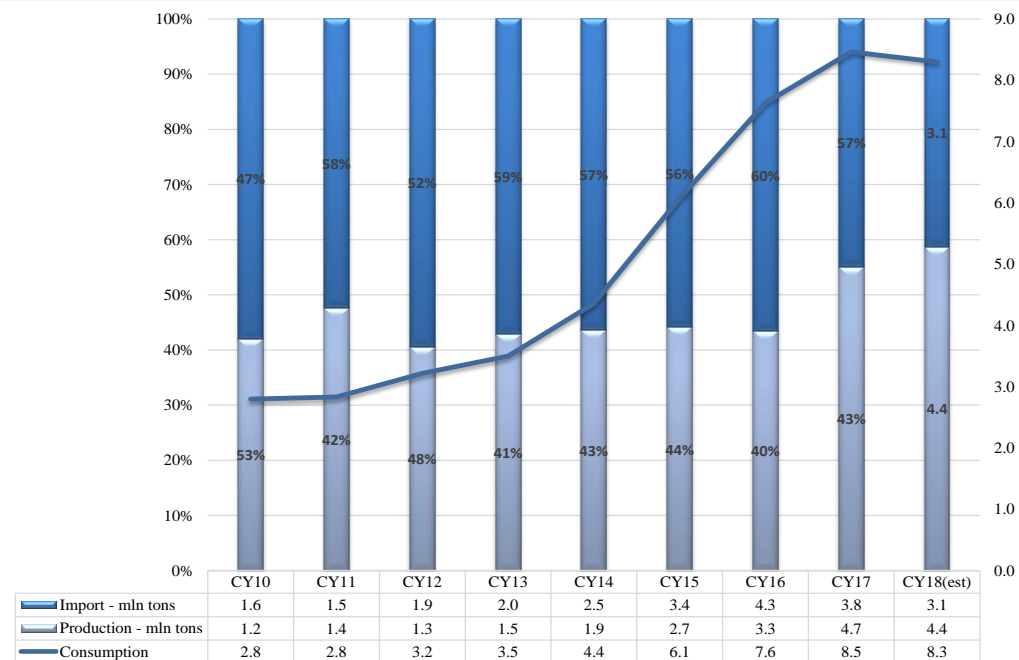
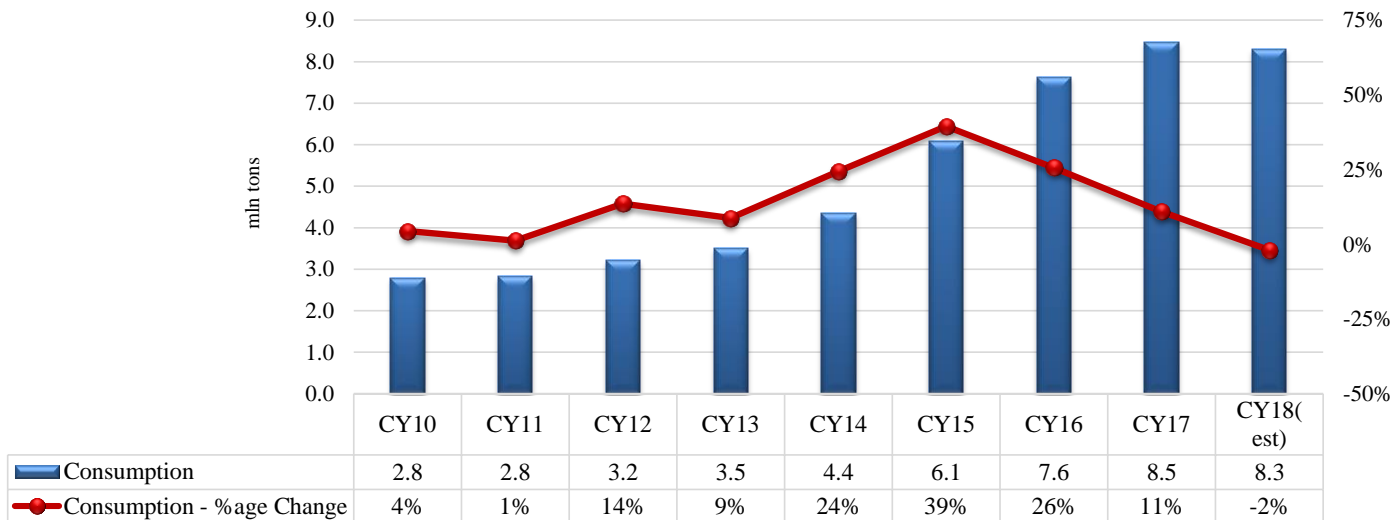
Steel Consumption | Production & Import Mix | CY18

Pakistan

- Pakistan – net importer of steel – imported an estimated of 3.1mln MT in CY18.
- Estimated production declined to 4.4mln MT as there has been slowdown in the demand.

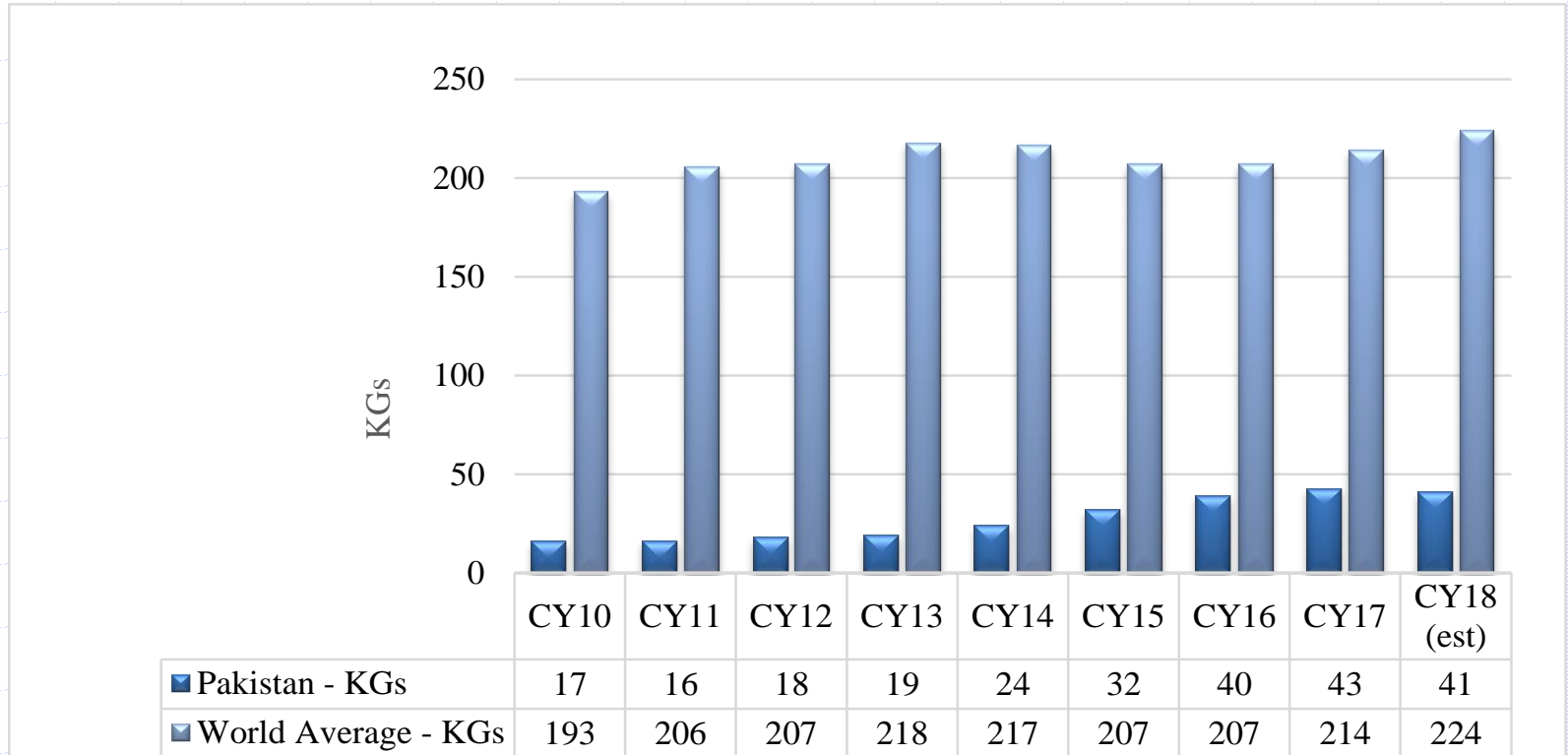
**estimated means deduced from global figures*

Source: Steel Statistical Yearbook 2018
Pakistan Bureau of Statistics



Per Capita Steel Consumption | Trend Analysis

Pakistan



- Pakistan's per capita steel consumption stands at an estimated 41KGs; significantly lower than world's average of 224KG.
- Lower per capita consumption is on account of lesser trend of high end buildings for offices, apartments etc.
- Expensive acquisition of raw material along with increasing interest rates has halted country wide consumption.

Steel Industry | Duty Structure

Duty Structure - Post NTC Action			
	Custom	Regulatory	Total
Scrap	4%	5%	9%
Billets	5%	39%	44%
Rebar	5%	49%	54%
Hot Rolled Coil	10%	30%	40%
Cold Rolled Coil	10%	5%	15%

- Regulatory duty on steel products is increased
- RD on billets and rebar is deliberately increased manifolds to reduce dumping of same from China and Russia
- Resultantly, it will assist in securing margins of local players

Duty Structure			
	Custom	Regulatory	Total
Scrap	2%	5%	7%
Billets	5%	15%	20%
Rebar	5%	30%	35%
Hot Rolled Coil	10%	30%	40%
Cold Rolled Coil	10%	5%	15%



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		PACRA: BB/B		
	Amreli Steel			Agha Steels			Mughal Steel			Frontier Foundry Steel			Razaque Steels		Bilal Steel		Aitamad Steel		
Performance Indicators	9MFY19	FY18	FY17	1QFY19	FY18	FY17	9MFY19	FY18	FY17	1HFY19	FY18	FY17	FY18	FY17	FY18	FY17	9MFY19	FY18	FY17
Revenues	18,723	15,501	13,284	1,645	10,688	9,943	20,938	22,226	18,803	5,767	7,021	4,653	3,224	1,995	3,049	2,693	2,330	1,511	586
Gross Profit	1,840	2,758	2,468	375	2,693	2,713	2,436	2,794	1,942	586	757	210	209	126	250	231	155	88	25
Operating Profit	1,030	1,971	1,806	-	-	-	2,003	2,235	1,536	373	448	100	-	-	165	145	132	61	14
Finance Cost	860	476	252	225	1,456	1,515	585	550	249	-	-	-	-	-	91	68	33	21	13
Net Profit	224	1,585	1,074	225	1,456	1,515	1,075	1,290	991	325	261	68	103	42	75	78	99	41	2
EBITDA	1,561	2,375	2,091	-	-	-	2,163	2,422	1,695	-	-	-	-	-	278	266	99	108	22
Balance Sheet																			
Total Debt	13,464	11,380	5,189	12,252	12,414	5,752	11,266	8,669	8,046	1,772	1,719	351	1,037	126	926	896	861	556	251
Short Term	10,305	8,399	4,165	8,310	7,944	3,871	8,866	7,840	8,014	1,616	1,605	333	1,037	126	926	896	175	174	70
Long Term	3,159	2,981	1,024	3,942	4,470	1,881	2,400	829	32	156	114	18	-	-	-	-	686	382	181
Equity	12,450	12,880	11,146	6,381	5,480	4,699	7,988	7,466	6,637	2,530	2,191	1,432	561	458	1,235	1,179	341	241	201
Ratios																			
GP Margin	10%	18%	19%	12%	25%	27%	12%	13%	10%	10%	11%	5%	6%	6%	8%	9%	7%	6%	4%
Operating Margin	6%	13%	14%	10%	-	-	10%	10%	8%	6%	6%	2%	-	-	5%	5%	6%	4%	2%
Net Margin	1%	10%	8%	5%	14%	15%	5%	6%	5%	6%	4%	1%	3%	2%	2%	3%	4%	3%	3%
EBITDA Margin	9%	15%	16%	-	-	-	10%	11%	9%	0%	0%	0%	-	-	9%	10%	-	-	-
Leveraging	52%	47%	32%	66%	69%	55%	59%	54%	55%	41%	44%	20%	65%	22%	43%	43%	72%	70%	56%
EBITDA/ Gross Interest	1.8	5.0	8.3	-	-	-	3.8	4.4	6.8	4.4	4.4	4.4	-	-	3.07	3.91	3.0	5.2	1.8
FCFO/ Gross Interest	1.5	4.2	7.1	-	-	-	3.5	3.5	5.6	3.5	3.5	3.5	-	-	2.41	3.37	3.0	5.2	1.8

Pakistan Steel Industry | Flat Products | Rated Universe

Rating Universe	VIS : AA-/ A1			VIS : A+/ A1			VIS : A/A2			VIS : A-/ A2			PACRA : BBB-/ A3		
	International Ind.			International Steels			Crescent Steel & Allied products			Aisha Steel			BBJ Pipes		
Performance Indicators	9MFY19	FY18	FY17	9MFY19	FY18	FY17	9MFY19	FY18	FY17	9MFY19	FY18	FY17	FY19	FY18	FY17
Revenues	18,482	25,001	16,707	40,522	47,621	33,733	3,358	7,044	10,209	1,355	18,904	14,076	4,408	7,468	3,766
Gross Profit	1,910	3,305	2,930	4,620	7,573	5,906	176	811	1,859	880	3,314	2,087	334	547	257
Operating Profit	988	1,708	1,581	3,951	6,192	4,932	(107)	1,203	1,579	696	2,995	1,831	216	382	156
Finance Cost	683	442	224	1,010	539	456	184	231	187	1,347	1,079	949	214	174	98
Net Profit	1,358	1,582	1,842	2,360	4,365	3,044	(9)	752	1,012	151	1,284	1,020	(66)	132	42
EBITDA	1,937	2,306	2,104	4,630	1,437	1,243	17	714	1,354	1,073	3,146	2,214	215	457	223
Balance Sheet															
Total Debt	12,645	10,459	7,187	14,103	16,432	9,858	1,787	1,781	2,980		10,393	7,717	2,029	2,427	1,475
Short Term	10,780	8,310	5,899	7,599	8,462	5,039	1,588	1,458	2,517	14,462	5,045	2,435	2,029	2,427	1,475
Long Term	1,865	2,149	1,288	6,504	7,970	4,818	198	323	463	6,928	5,348	5,282	-	-	-
Equity	9,192	8,894	7,859	12,227	11,825	8,554	6,513	6,724	6,820	8,340	8,491	6,700	2,359	2,425	2,282
Ratios															
GP Margin	10%	13%	18%	11%	16%	18%	5%	12%	18%	65%	18%	15%	8%	7%	7%
Operating Margin	5%	7%	9%	10%	13%	15%	-3%	17%	15%	51%	16%	13%	5%	5%	4%
Net Margin	7%	6%	11%	6%	9%	9%	0%	11%	10%	11%	7%	7%	-1%	2%	1%
EBITDA Margin	10%	9%	13%	11%	3%	4%	1%	10%	13%	79%	17%	16%	5%	6%	6%
Leveraging	58%	54%	48%	54%	58%	54%	22%	21%	30%	0%	55%	54%	46%	50%	39%
EBITDA/ Gross Interest		-	-	-	-	-	-	-	-		-	-		2.62	2.27
FCFO/ Gross Interest		-	-	-	-	-	-	-	-		-	-		1.54	1.67

Steel Sector | Outlook

Short to Medium term outlook: **Negative**

Factors for outlook:

- Slow down in large infrastructural projects country wide
- Industry players achieving capacity expansions
- Increasing trend in raw material prices globally coupled with Rupee depreciation has put pressure on margins
- Surge in electricity rates has increased operating costs of players
- Hike in interest rate is burdening profitability of industry players

Bibliography

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