



STEEL
SECTOR OVERVIEW

January 2016

STEEL | SPECIFIC TERMS & PRODUCTS

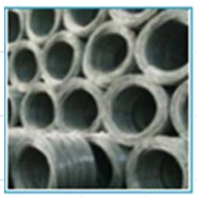
- Crude Steel is steel in its first solid (or usable) form: ingots, semi-finished products – billets, blooms, slabs. Production refers to Crude steel.
- Consumption refers to Finished steel products – long (rebars) flat products (galvanized sheets) and tubes.

Long Products


Re-inforcing Bars


Structural Section


Merchant Bars


Wire Rod

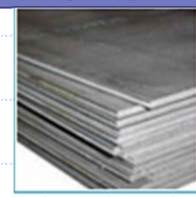

Engineer-ing Steels


Forgings

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

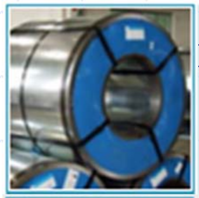
Flat Products

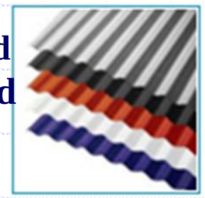

Hot Rolled Coil


Cold Rolled Sheet

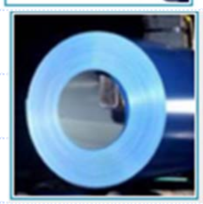

Cold Rolled Coil


Tin Plate


Hot Dipped Galvanised Coil


Coated Sheet

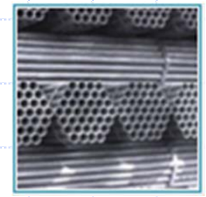

Hot Rolled Plate


Coated Steel Coil

Flat Products are largely imported in finished shape in Pakistan

Tubes & Pipes


Stainless Tubes


Welded Tubes

Tubes and pipes are produced locally and also imported in Pakistan

INDUSTRY SNAPSHOT

G L O B A L

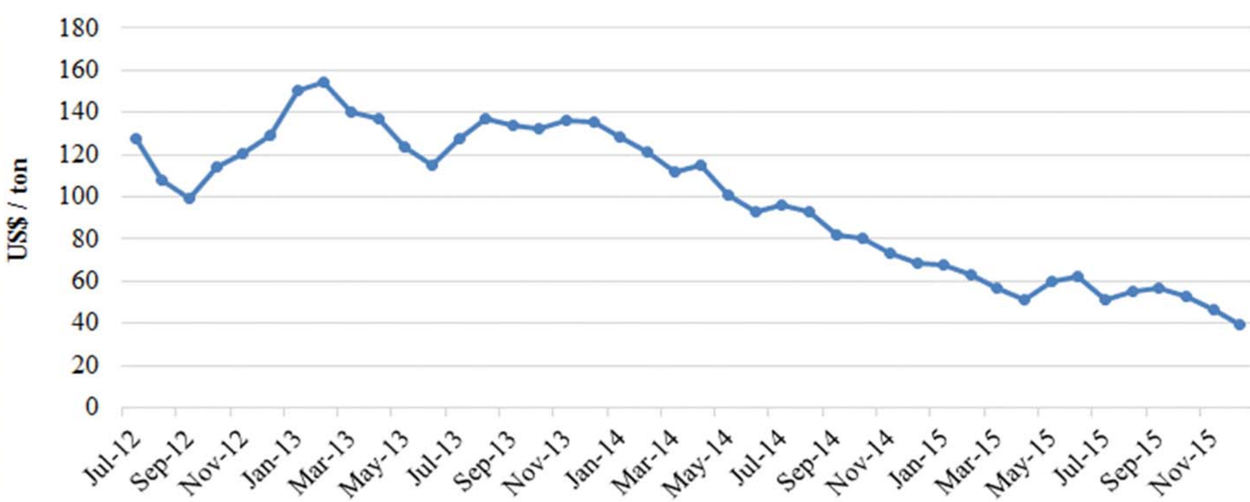
- Demand for steel, after witnessing good growth in last few years, had muted growth (1%) in 2014. The trend continued in 2015 with a slight YoY drop (~2%) in demand. This change is largely driven by slowdown in major steel consuming markets – China and Europe.
- Demand slowdown has led to significant drop in key raw material – iron ore and steel scrap – prices (~60% drop in iron ore price in last 2 years).
- Despite reduction in prices, demand woes are likely to cloud dynamics of steel industry – expected to have largely similar consumption in 2016 (~1500mln tons)

P A K I S T A N

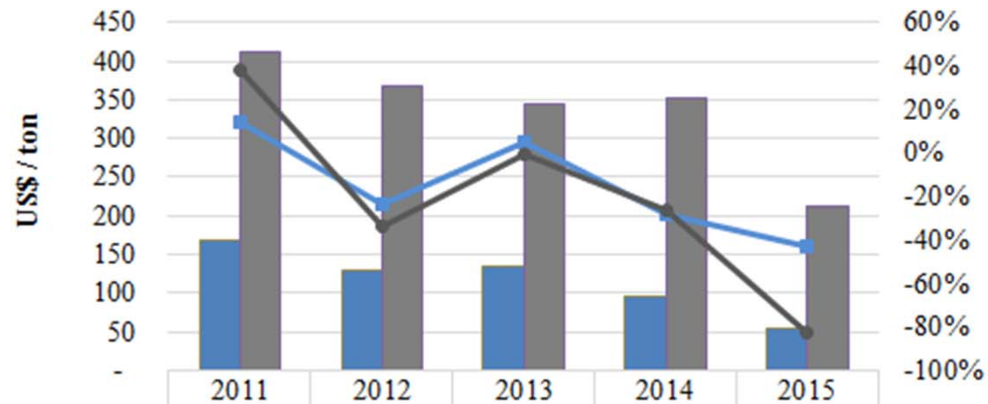
- Pakistan's total demand for steel products clocked in at 4.4mln tons.
- Pakistan's steel production, comprising public and private manufacturers – is reported at 1.9mln tons in 2014 while the deficit was met through imports.
- Pakistan steel industry is supply deficit and the sector is largely fragmented.
- Key steel manufacturers include Public – Pakistan Steel Mills (capacity: 1.1mln tons) and Private – Amreli Steels (0.2mln tons), Mughal Steels (0.6mln tons), International Industries, Aisha Steels.
- Going forward, local demand is expected to remain high – a factor of higher PSDP spending and infrastructure projects.
- Low raw material – mainly scrap – prices will further spur local demand. Hence, Pakistan will be at odds compared to international market.
- Presently, the local manufacturers' business margins are healthy.

Global | Steel Raw Material | Price Trend

Iron Ore | Price Trend [1]



Raw Materials | Iron Ore & Steel Scrap | Price Trend [1, 2]



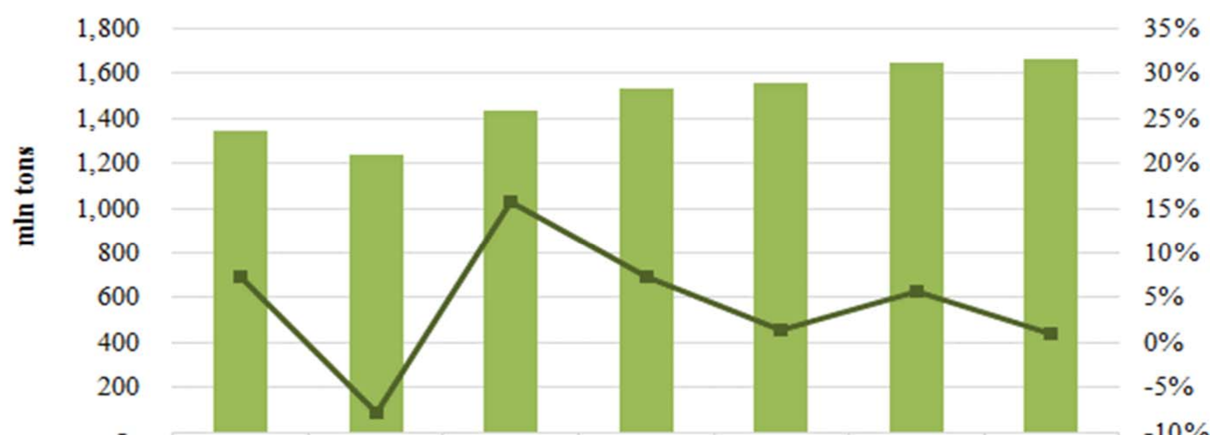
	2011	2012	2013	2014	2015
Iron Ore - US$/ton	168	129	135	97	55
Steel Scrap - US$/ton	411	367	346	352	212
Steel Scrap -%age change	24%	-11%	-6%	2%	-40%
Iron Ore -%age change	14%	-23%	5%	-28%	-43%

Global Iron Ore Production - 2014:
2,000mln tons

World largest producers:
Australia: 723mln ton
Brazil: 399mln tons

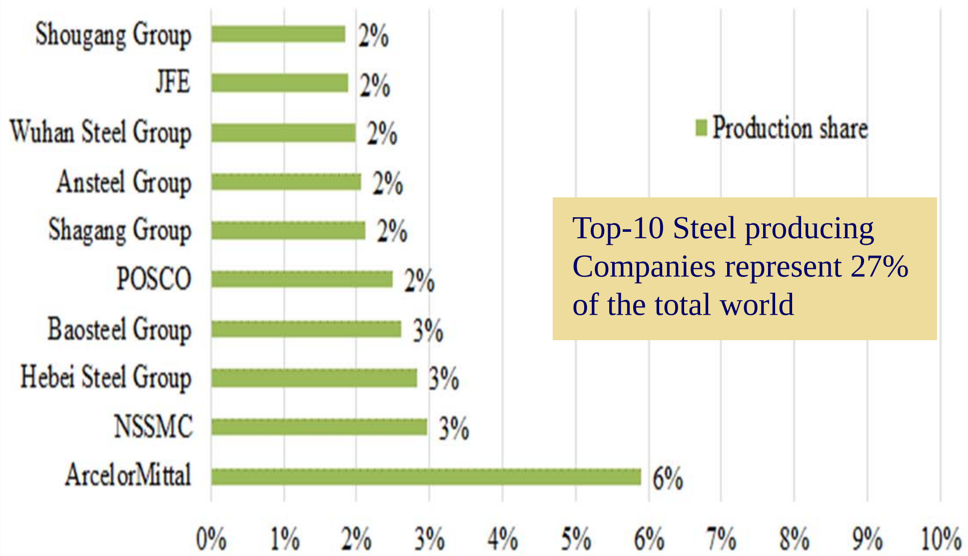
Global | Steel Production

Global | Steel Production | Trend [3]



	2008	2009	2010	2011	2012	2013	2014
Production - mln tons	1,343	1,238	1,433	1,537	1,559	1,649	1,665
Production - %age Change	7%	-8%	16%	7%	1%	6%	1%

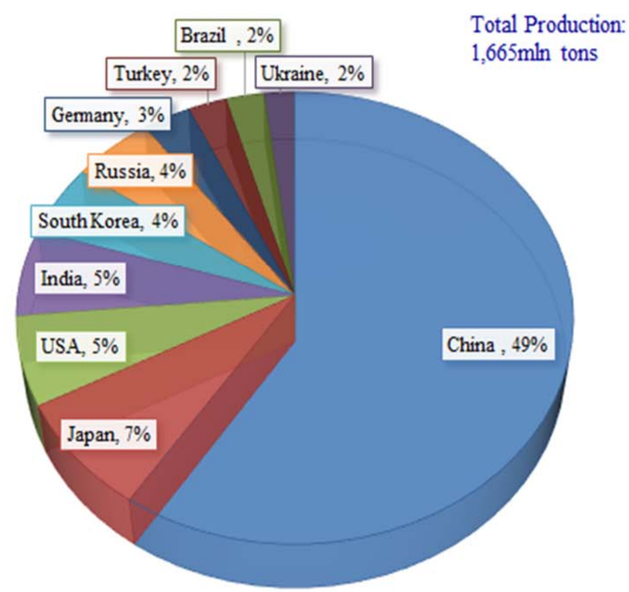
Global | Top-10 | Steel Producing Companies [4]



Top-10 Steel producing Companies represent 27% of the total world

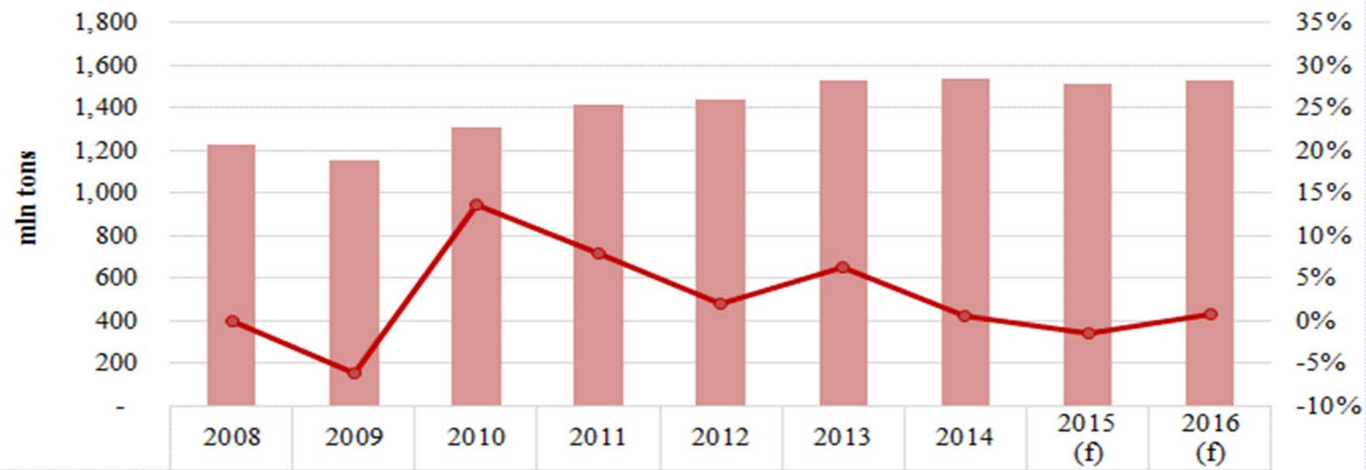
GLOBAL STEEL | TOP PRODUCING COUNTRIES | 2014 [4]

Top-10 countries production represents 83% of the world's production



Global | Steel Consumption

Global | Steel Consumption | Trend [3]



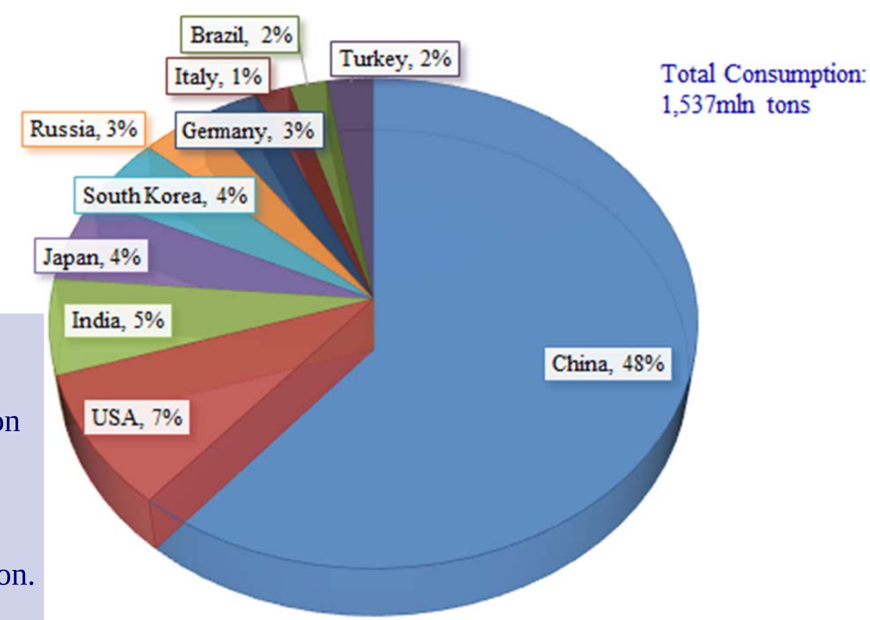
	2008	2009	2010	2011	2012	2013	2014	2015 (f)	2016 (f)
Consumption - mln tons	1,226	1,151	1,308	1,412	1,439	1,528	1,537	1,513	1,523
Consumption -%age Change	-	-6%	14%	8%	2%	6%	1%	-2%	1%

mln tons

Steel Demand Forecast [4]	2014	2015 (f)	2016 (f)
World	**1,537**	**1,513**	**1,523**
China	709	686	672
USA	107	104	105
India	76	82	88
Japan	68	64	66
South Korea	56	55	56
Top-5 Countries' Share in Global Steel Consumption	**66%**	**65%**	**65%**

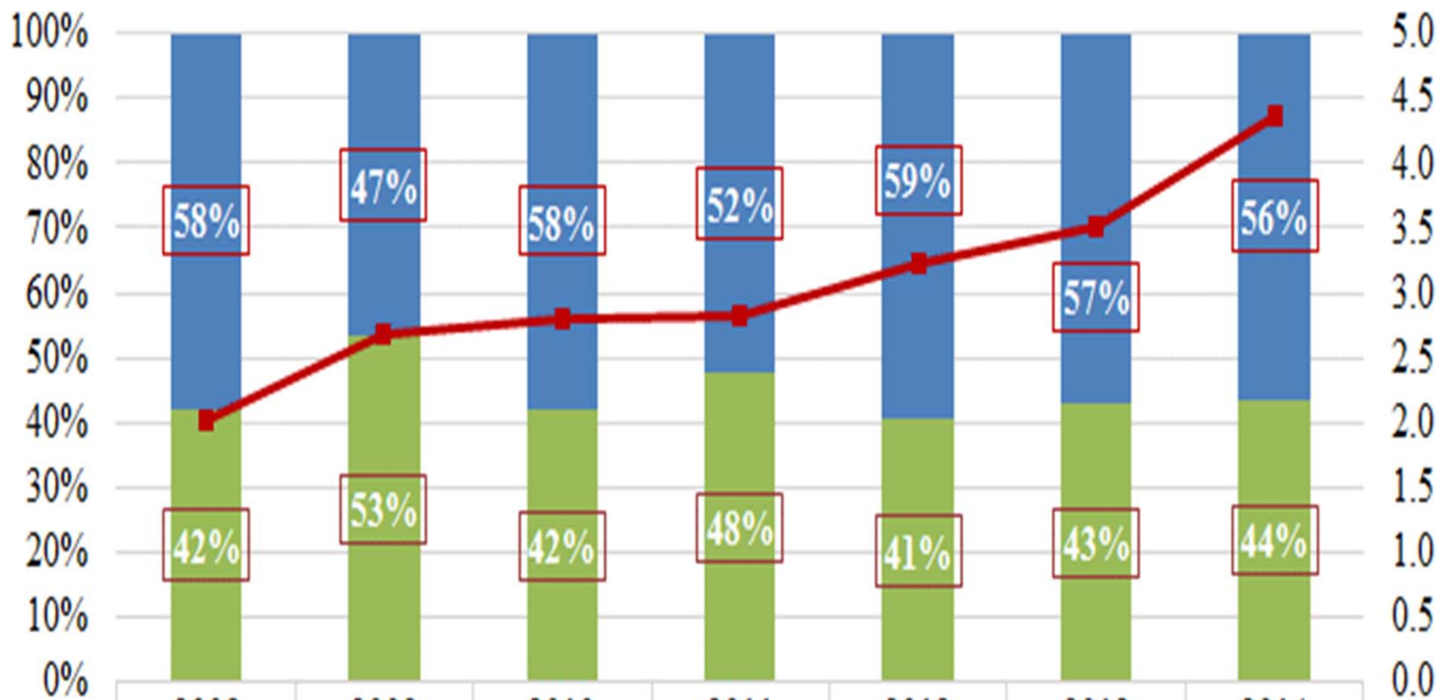
Top-10 Countries consumption represents 78% of the world's Consumption.

GLOBAL STEEL | TOP-10 CONSUMING COUNTRIES | 2014 [4]



Pakistan | Steel Consumption | Trend

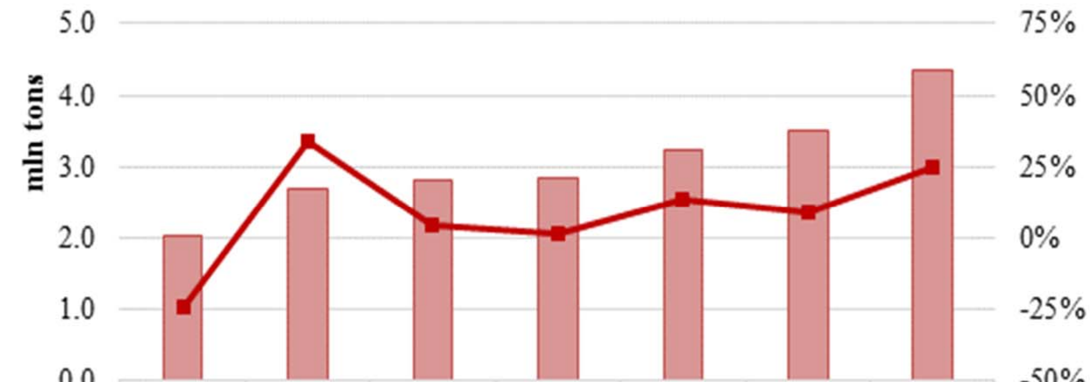
Pakistan Steel | Domestic Production & Import Mix [3]



	2008	2009	2010	2011	2012	2013	2014
Import - mln tons	1.2	1.3	1.6	1.5	1.9	2.0	2.5
Production - mln tons	0.8	1.4	1.2	1.4	1.3	1.5	1.9
Consumption - mln tons	2.0	2.7	2.8	2.8	3.2	3.5	4.4

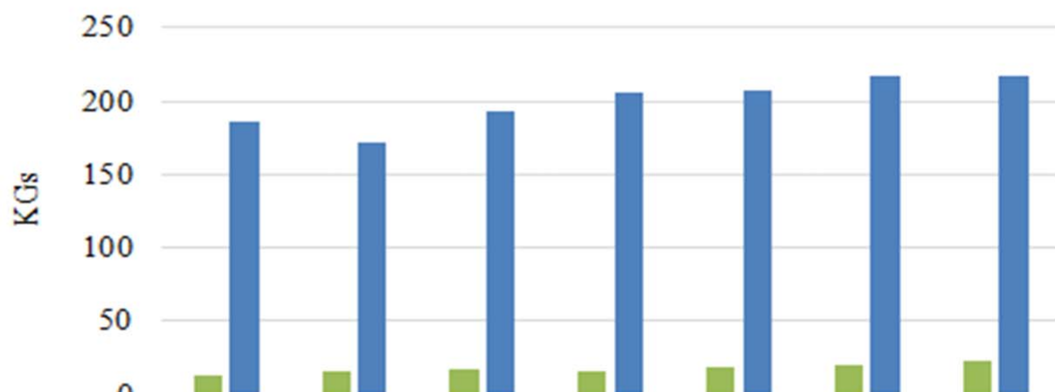
Pakistan | Steel Consumption | Trend [3]

Pakistan | Steel Consumption | Trend



	2008	2009	2010	2011	2012	2013	2014
Consumption	2.0	2.7	2.8	2.8	3.2	3.5	4.4
Consumption - %age Change	-25%	34%	4%	1%	14%	9%	24%

Steel | Per Capita Consumption | Trend



	2008	2009	2010	2011	2012	2013	2014
Pakistan - KGs	12	16	17	16	18	19	24
World Average - KGs	185	172	193	206	207	218	217

Pakistan | Steel Industry | Duty Structure

Duty Structure - FY16			
	Custom	Regulatory	Total
Scrap	2%	5%	7%
Billets	5%	15%	20%
Rebar	5%	15%	20%
Hot Rolled Coil	-	5%	5%
Cold Rolled Coil	-	5%	5%

Long Steel Product| Peer Comparison [5]

PKR mln

	Amreli Steels			Mughal Steels		
Performance Indicators	**FY15**	**FY14**	**FY13**	**FY15**	**FY14**	**FY13**
Revenues	14,414	11,962	10,622	12,241	5,973	3,929
Gross Profit	2,514	1,372	1,162	1,284	728	375
Operating Profit	2,004	1,018	839	1,106	637	128
Finance Cost	648	624	606	350	218	152
Net Profit	1,011	252	108	721	391	120
EBITDA	2,242	1,302	1,055	1,129	597	670
Balance Sheet						
Total Debt	4,757	4,943	5,782	2,161	3,057	1,388
Short Term	2,654	2,231	3,404	2,046	2,803	1,071
Long Term	2,103	2,712	2,378	114	255	317
Sponsor's Loan	-	-	-	837	1,358	1,322
Equity	5,871	4,839	4,605	3,642	1,803	949
Ratios						
GP Margin	17%	11%	11%	10%	12%	10%
Operating Margin	14%	9%	8%	9%	11%	3%
Net Margin	7%	2%	1%	6%	7%	3%
EBITDA Margin	16%	11%	10%	9%	10%	17%
Leveraging	45%	51%	56%	37%	63%	59%
Capacity						
Melting	200,000	200,000	200,000	366,000	294,000	78,000
Rebars	180,000	180,000	180,000	688,000	688,000	688,000

Bibliography

- [1] http://www.indexmundi.com/commodities/?commodity=iron-ore
- [1,2] http://minerals.usgs.gov/minerals/pubs/commodity/iron_&_steel_scrap/myb1-2014-fescr.pdf
- [3] World Steel Association – Steel Statistical Year book 2015
- [4] World Steel Association – World Steel in Figures 2015
- [5] Company financial statements

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