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## Pakistan Engineering

### Higher tax to diminish profitability in 4QFY22

#### Higher interest rate to lead to exorbitant finance cost

AFS steel universe is likely to see earnings compression in 4QFY22 primarily due to super tax. Higher finance cost and lower offtake are also likely to put pressure on profitability. We expect Mughal and Agha to post 4QFY22 EPS of PKR 1.29 and 0.44, respectively.

**MUGHAL:** Mughal is likely to report earnings of PKR0.43bn (EPS: PKR1.29) in 4QFY22 as against PKR0.92bn (EPS: PKR2.75) in 3QFY22, down 48%/53% QoQ/YoY. Net sales are expected to increase by 17% QoQ/YoY to PKR17.7bn because of higher steel prices. Weighted average prices rose by PKR20K/66K QoQ/YoY in 4QFY22. This was partially compensated by lower volumes both in ferrous and non-ferrous segment. Ferrous/Non-Ferrous segment margins are likely to remain at 10%/24% in 4QFY22 compared to 6%/28% in preceding quarter. Finance cost is also likely to inch up to PKR0.98bn in 4QFY22, up 28%/144% QoQ/YoY. Lastly, effective tax rate of 64% this quarter due to super tax is expected to significantly diminish profitability compared to 3QFY22 where the company booked tax reversal of PKR98mn. Lastly, we do not expect Mughal to pay dividend this quarter.

#### Mughal Financial Estimates (PKR Mn)

	4QFY22E	3QFY22	4QFY21	QoQ	YoY	FY22E	FY21	YoY
Net Sales	17,690	15,139	15,154	17%	17%	64,911	44,972	44%
Cost of Sales	15,224	13,312	13,259	14%	15%	54,941	38,280	44%
Gross Profit	2,466	1,827	1,898	35%	30%	9,970	6,691	49%
Operating Profit	2,220	1,557	1,715	43%	29%	9,009	5,899	53%
EBIT	2,118	1,522	1,639	39%	29%	8,627	5,532	56%
PBT	1,120	741	1,231	51%	-9%	5,862	4,161	41%
PAT	434	839	921	-48%	-53%	4,804	3,429	40%
EPS	1.29	2.50	2.74			14.31	10.22	

Source: Company Accounts, Alfalah CLSA Research

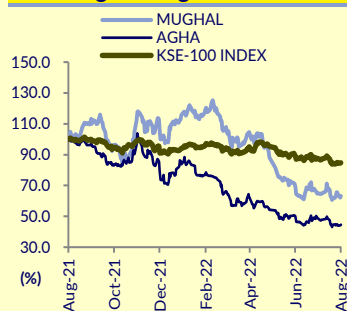
**AGHA:** Agha is expected to post earnings of PKR0.26bn (EPS: PKR0.44) in 4QFY22 down 53%/40% QoQ/YoY. Net sales are likely to increase to PKR6.55bn up 7%/52% QoQ/YoY. Increase in net sales is primarily due to the price effect. Non-institutional sales witnessed a decline in the outgoing quarter. Higher retention price is expected to result in upsurge of gross profit margin to 25% in 4QFY22 compared to 23% in preceding quarter. Finance cost may also increase 13% QoQ to PKR0.75bn. Tax expense is likely to increase to PKR0.41bn in 4QFY22 compared to PKR0.1bn in 3QFY22, this will put significant dent in profitability of the quarter. Lastly, we don't expect the company to pay any dividend.

#### Agha Financial Estimates (PKR Mn)

	4QFY22E	3QFY22	4QFY21	QoQ	YoY	FY22E	FY21	YoY
Net Sales	6,548	6,144	4,299	7%	52%	25,259	19,858	27%
Cost of Sales	4,955	4,716	2,986	5%	66%	19,395	15,356	26%
Gross Profit	1,592	1,428	1,313	11%	21%	5,863	4,502	30%
Operating Profit	1,436	1,312	1,221	9%	18%	5,195	3,920	33%
EBIT	1,424	1,323	1,244	8%	14%	4,912	3,962	24%
PBT	674	659	743	2%	-9%	2,754	2,553	8%
PAT	264	561	438	-53%	-40%	2,004	2,036	-2%
EPS	0.44	0.93	0.60			3.32	3.37	

Source: Company Accounts, Alfalah CLSA Research

#### AFS's Engineering vs KSE100



Source: PSX, Bloomberg

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