



25 October 2017

South Kaveh Steel Co

Crude Steel is still rising

- CIS Slab, Bloom & Billet Price FOB Black have increased considerably.** According to Metal Bulletin Report, crude steel traded at highest prices in 2017. The latest prices are traded on Slab, Billet & Bloom, were 505 & 510 \$/Ton respectively.
- China's Policies help to stabilize Steel Price.** China's sharp growth in steel production over last decade was mainly through coal consuming plants that led to air pollutions in most of its cities. Also over-supply of steel has been a barrier to rising prices and economic growth. All of these issues, caused that Chinese policy makers to take new approaches for controlling steel supply. As the result steel manufacturing from Low quality sources of scrap was banned. It could be a new driver for rising Iron Ore price and consequently for steel price.
- The shadow of financial Cost.** Kaveh has a heavy loan that rips off it's profit to a considerable extent. Our forecast is that financial expenses continue to tighten the profitability for the next years. However, if the Billet price stabilize above at this levels, the current market valuation will become justified.
- IRR/USD exchange rate is boosting to new high levels.** The Dollar exchange rate has a significant effect on company. Despite the central bank's control on free dollar market and recent stability in this market, we believe that this period will not last furthermore. Accordingly we predict that IRR/USD exchange rate will achieve 40,000- 45000 in next 3 years.

Recommendation: ★ ★ ★ ★ ★

Hold

Initiated

Target Price: IRR 2,782

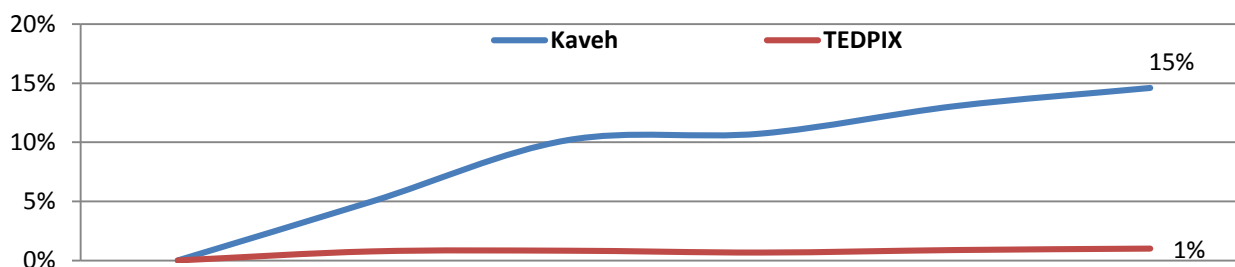
Target price is for 8 Month

Produced by: Kardan Investment Bank

Stock data

Sector	Materials
Industry	Metals & Mining
Sub Industry	Steel
Market Price	IRR 2,030
Market Cap	Bn IRR 14,000
Investment Style	Large Cap/ Value Stock
Research Risk Level	Low
EPS ttm	IRR 123
EPS Estimate (1396)	IRR 366
EPS Budget	IRR 202
52W Range (IRR)	1,760-2030
Trailing P/E	17
Forward P/E	7.6
EV/EBITDA	8.8
free float (%)	4

Khuzestan Steel Co 12 months performance comparison with TEDPIX



Key forecasts	1394A	1395A	Budget 1396	1396E	1397E	1398E	1399E	1400E
Revenue (IRR Bn)	5,788,249	8,905,078	16,600,000	16,459,080	20,370,156	30,150,241	45,609,684	46,722,115
Gross margin (IRR Bn)	20%	25%	21%	28%	30%	34%	23%	20%
Net income (IRR Bn)	259,013	420,942	1,288,778	2,562,317	4,051,676	7,471,061	6,861,454	6,105,969
EPS (IRR)	43	60	184	366	579	1,067	980	872
DPS (IRR)	47	2	18	146	232	427	686	785
Profit margin (%)	4%	5%	8%	16%	20%	25%	15%	13%

IMPORTANT DISCLOSURE: Kardan Investment Bank occasionally does and seeks to do business with companies covered in its research reports. Also may have positions in its assets under management. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should not consider this report as the only factor in making their investment decision.



Discounted Dividend Model Valuation

	1394	1395	Budget 1396	1396	1397	1398	1399	1400	
Milion Rials	Sales	5,788,249	8,905,078	16,600,000	16,459,080	20,370,156	30,150,241	45,609,684	46,722,115
Milion Rials	Cost of goods sold	(4,644,197)	(6,704,670)	(13,075,815)	(11,875,888)	(14,260,416)	(20,041,215)	(35,077,834)	(37,355,522)
Milion Rials	Gross profit	1,144,052	2,200,408	3,524,185	4,583,192	6,109,740	10,109,026	10,531,851	9,366,593
Milion Rials	Administrative expenses	(142,934)	(269,343)	(550,399)	(323,218)	(365,237)	(465,137)	(930,275)	(1,079,119)
Milion Rials	Operating expenses or other	(80,821)	0	573	(4,830)	0	0	0	0
Milion Rials	Operating income	920,297	1,931,065	2,974,359	4,255,144	5,744,503	9,643,888	9,601,576	8,287,474
Milion Rials	Financial expenses	(626,021)	(1,485,026)	(1,623,328)	(1,630,574)	(1,630,574)	(2,110,574)	(2,069,623)	(2,069,623)
Milion Rials	Non operational expenses or other	37,239	(25,097)	(62,253)	(62,253)	(62,253)	(62,253)	(670,499)	(111,882)
Milion Rials	Income before tax	331,515	420,942	1,288,778	2,562,317	4,051,676	7,471,061	6,861,454	6,105,969
Milion Rials	Tax	(72,502)	0	0	0	0	0	0	0
Milion Rials	Net income(loss) to be continue	259,013	420,942	1,288,778	2,562,317	4,051,676	7,471,061	6,861,454	6,105,969
Milion Rials	Net income	259,013	420,942	1,288,778	2,562,317	4,051,676	7,471,061	6,861,454	6,105,969
Rials	Earning per share	43	60	184	366	579	1,067	980	872
Percent	Dividend ratio	109%	3%	10%	40%	40%	40%	70%	90%
Rials	Dividends per share	47	2	18	146	232	427	686	785
Milion Rials	Capital	6,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000

Required rate of return on equity	28.2%
Systematic Risk (β)	1.13
Risk free rate	18%
Equity Risk premium	9%
Long-term growth rate (g)	8%
Target P/E	5.3
EV/ EBITDA	8.8

	1396	1397	1398	1399	1400	
Rials	Earnings per share	366	579	1,067	980	872
Percent	Dividend Ratio	40%	100%	100%	90%	90%
Rials	Dividend per share	146	579	1,067	882	785
Rials	Terminal Value (P/E)					4,664
Rials	Outflow		-210	-1,210		
Rials	Total	146	368	-143	882	5,449
Rials	Present value	2,171				
Number	Number of Shares Outstanding	7,000,000,000				
Million Rials	The total value of Equity	16,505,447				

Rolling Forward to Annual Shareholders meeting (Dividend Date)

Number	Number of months still Dividend Date	8
Rials	Value per share at the current time	2,358 Rls