

## ISL: EPS expected at PKR 3.4, up 1.6x YoY; down 36% QoQ

- ISL's board meeting is scheduled on October 26, 2021 to consider 1QFY22 financial results. We expect the company to post net earnings of PKR 3.4/share, up 1.6x YoY as against an EPS of PKR 1.29 in the SPLY.
- The company's top line is likely to grow by 74% YoY, and settle at PKR 27.3bn mainly due to higher volumes led by revival of economic activities and increase in the CRC prices of 85% YoY during the quarter.
- Gross margins (GMs) are likely to clock in at 11% during 1QFY22 as against 8.9% in the SPLY. The improvement in GMs can mainly be attributed to inventory gains booked during the period.
- Finance cost is anticipated to increase by 23% YoY to PKR 319mn, whereas other expenses are expected to settle at PKR 233mn, up 2.4x YoY due to surge in the WPPF and WWF being linked with high profitability.
- Effective tax rate is expected to remain around 29% as against 34.8% in 1QFY21, further supporting the bottomline growth.
- On sequential basis, ISL's earnings are expected to post decline of 36% QoQ due to low base effect as ISL booked hefty inventory gains leading to higher GMs in 4QFY21. Just to recall, ISL's gross margin came in at 23.5% in the previous quarter. Furthermore, lower effective tax rate of 22.2% in preceding quarter also contributed to bottomline growth.
- Our June-22 price target (PT) of PKR 118/share provides an upside of 60% along with a dividend yield of 8%.
- We have a 'Buy' stance on the stock which is trading at FY22 PE and PBV of 7.3x and 1.6x, respectively.

### Key Data

PSX Ticker	ISL
Target Price (PKR)	118
Current Price (PKR)	74
Upside/(Downside) (%)	+ 60%
Dividend Yield (%)	8%
Total Return (%)	+ 68%
12-month High (PKR)	103
12-month Low (PKR)	67
Outstanding Shares (mn)	435
Market Cap (PKR mn)	32,055
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	1QFY21	1QFY22E	YoY	4QFY21	QoQ
Net Sales	15,666	27,279	74%	18,878	44%
Cost of Sales	14,275	24,278	70%	14,439	68%
<b>Gross Profit</b>	<b>1,392</b>	<b>3,001</b>	<b>116%</b>	<b>4,439</b>	<b>-32%</b>
Selling & Distribution cost	201	283	41%	447	-37%
Admin expenses	56	112	99%	85	31%
Other Income	51	40	-22%	(49)	-182%
Other Charges	69	233	239%	667	-65%
Finance cost	259	319	23%	216	48%
<b>Profit Before Taxation</b>	<b>857</b>	<b>2,093</b>	<b>144%</b>	<b>2,975</b>	<b>-30%</b>
Taxation	298	607	103%	660	-8%
<b>Net Income</b>	<b>559</b>	<b>1,486</b>	<b>166%</b>	<b>2,314</b>	<b>-36%</b>
<b>EPS</b>	<b>1.29</b>	<b>3.42</b>	<b>166%</b>	<b>5.32</b>	<b>-36%</b>
DPS	0.00	0.00		7.00	

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	6.12	1.14	17.16	10.08	12.64	14.59
EPS Growth	-39%	-81%	14x	-41%	25%	15%
DPS	3.00	0.00	10.00	6.00	7.00	8.50
PER	12.0	64.8	4.3	7.3	5.8	5.1
Dividend Yield	4.1%	0.0%	13.6%	8.1%	9.5%	11.5%
EV/EBITDA	8.1	12.0	3.5	4.9	4.1	3.5
P/B	2.5	2.5	1.7	1.6	1.4	1.3
ROE	21.6%	3.9%	47.2%	22.2%	25.2%	26.1%

Source: Company Accounts, Akseer Research

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### Valuation Basis

Our PT for International Steel Limited (ISL) has been computed using Free cash flow to firm (FCFF) method. We have used a risk free rate of 11.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17.0% and weighted average cost of capital of 13.1%.

### Investment Thesis

We have a "BUY" recommendation on the stock based on our PT of PKR 118/share. Our price target indicates an upside of 60% along with a dividend yield of 8%. Our investment case on ISL is based on 1) strong demand from Auto, Appliances and Construction sector, 2) higher capacity utilization, and 3) import substitution resulting in better volumetric performance.

### Risks

Key downside risks to our investment thesis are: 1) Dumping from countries exempted from ADDs, 2) Contraction in HRC-CRC spread in international market and 3) Prolonged pandemic spread.

### Company Description

International Steels Limited is the largest flat steel manufacturer and exporter in Pakistan. ISL, incorporated in 2007, is a subsidiary of International Industries Limited (INIL). The primary activity of the company is to manufacture cold rolled, galvanized and color coated steel coils and sheets.

### Financial Highlights - ISL

Income Statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net sales	57,484	48,082	69,796	87,407	102,029	113,967
Cost of sales	51,035	43,869	56,304	77,598	90,331	100,762
<b>Gross Profit</b>	<b>6,449</b>	<b>4,213</b>	<b>13,492</b>	<b>9,809</b>	<b>11,697</b>	<b>13,206</b>
SG & A	986	1,157	1,425	1,581	1,825	2,145
<b>Operating Profit</b>	<b>5,463</b>	<b>3,056</b>	<b>12,067</b>	<b>8,228</b>	<b>9,873</b>	<b>11,061</b>
Other income	39	36	316	159	193	297
Other charges	534	334	1,277	934	915	905
Finance cost	1,289	2,315	812	1,276	1,408	1,513
<b>Profit before tax</b>	<b>3,679</b>	<b>442</b>	<b>10,295</b>	<b>6,178</b>	<b>7,743</b>	<b>8,939</b>
Taxation	1,015	-53	2,828	1,791	2,246	2,592
<b>Profit after tax</b>	<b>2,664</b>	<b>495</b>	<b>7,466</b>	<b>4,386</b>	<b>5,498</b>	<b>6,347</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	19,862	20,688	19,199	17,793	16,913	16,104
Other LT assets	3	1	1	4	6	7
Non-Current Assets	19,865	20,689	19,200	17,798	16,919	16,112
Current assets	19,897	22,172	22,520	29,228	34,512	39,313
<b>Total Assets</b>	<b>39,762</b>	<b>42,861</b>	<b>41,720</b>	<b>47,026</b>	<b>51,431</b>	<b>55,424</b>
Non-Current liabilities	8,598	6,580	6,475	5,088	3,811	3,045
Current liabilities	18,286	23,556	16,357	21,362	24,647	26,809
<b>Total Liabilities</b>	<b>26,884</b>	<b>30,135</b>	<b>22,832</b>	<b>26,450</b>	<b>28,458</b>	<b>29,854</b>
Equity	11,590	11,472	17,667	19,443	21,896	24,545
<b>Total Equity &amp; liabilities</b>	<b>39,762</b>	<b>42,861</b>	<b>41,719</b>	<b>47,025</b>	<b>51,431</b>	<b>55,424</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,664	495	7,466	4,386	5,498	6,347
Non-cash Charges	1,078	1,405	1,538	1,410	1,323	1,258
<b>Operating Cash flows</b>	<b>3,556</b>	<b>1,997</b>	<b>7,600</b>	<b>3,174</b>	<b>4,044</b>	<b>5,864</b>
<b>FCFF</b>	<b>1,812</b>	<b>2,359</b>	<b>8,140</b>	<b>4,073</b>	<b>4,600</b>	<b>6,487</b>
<b>Net Borrowings</b>	1,036	582	-6,061	949	261	-16
FCFE	<b>1,914</b>	<b>350</b>	<b>1,490</b>	<b>4,115</b>	<b>3,861</b>	<b>5,397</b>
Net change in cash	303	-297	186	1,417	760	1,648
<b>Closing cash</b>	<b>403</b>	<b>106</b>	<b>292</b>	<b>1,710</b>	<b>2,470</b>	<b>4,118</b>

Source: Company Accounts, Akseer Research

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