

2QFY22 EPS expected at PKR 4.4, down 14% YoY; DPS at PKR 4.0

- ISL's board meeting is scheduled on January 31, 2022 to consider 2QFY22 financial results. We expect the company to post earnings of PKR 4.4/share, down 14% YoY. This decline is attributable to contraction in gross margins led by absence of inventory gains during the quarter. This will take ISL's 1HFY22 earnings to PKR 10.5/share, up 65% YoY. Along with the results, we expect the company to declare an interim cash dividend of PKR 4.0/share.
- Net sales are likely to record 54% YoY growth to PKR 27bn on account of higher product prices and increased volumetric sales. On the contrary, we expect gross margin to clock in at 13.3% as against 20% in SPLY owing to absence of inventory gains.
- Other operating charges are expected at PKR 266mn, down 7% YoY, whereas finance cost during 2Q is expected to increase by 57% YoY to PKR 281mn, on the back of higher borrowings and interest rates.
- Furthermore, we expect effective tax rate in this quarter to be around 29%.
- We have a "BUY" stance on ISL. Our Dec-22 PT of PKR 112/share indicates an upside of 63% along with a dividend yield of 11.6%.

Key Data

PSX Ticker	ISL
Target Price (PKR)	112
Current Price (PKR)	69
Upside/(Downside) (%)	+ 63%
Dividend Yield (%)	11.6%
Total Return (%)	+ 75%
12-month High (PKR)	103
12-month Low (PKR)	58
Outstanding Shares (mn)	435
Market Cap (PKR mn)	29,924
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY21	2QFY22E	YoY	1HFY21	1HFY22E	YoY
Net Sales	17,849	27,403	54%	33,516	51,892	55%
Cost of Sales	14,285	23,751	66%	28,560	43,905	54%
Gross Profit	3,564	3,652	2%	4,956	7,988	61%
Selling & Distribution cost	157	306	94%	359	485	35%
Admin expenses	89	110	24%	145	195	34%
Other Charges	287	266	-7%	356	546	53%
Finance cost	179	281	57%	438	457	4%
Profit Before Taxation	3,110	2,698	-13%	3,968	6,319	59%
Taxation	895	782	-13%	1,193	1,736	45%
Net Income	2,215	1,916	-14%	2,774	4,583	65%
EPS	5.09	4.40	-14%	6.38	10.54	65%
DPS	3.00	4.00		3.00	4.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	6.12	1.14	17.16	13.50	11.99	14.28
EPS Growth	-39%	-81%	14x	-21%	-11%	19%
DPS	3.00	0.00	10.00	8.00	7.00	8.30
PER	11.2	60.5	4.0	5.1	5.7	4.8
Dividend Yield	4.4%	0.0%	14.5%	11.6%	10.2%	12.1%
EV/EBITDA	7.8	11.5	3.3	3.6	3.8	3.3
P/B	2.3	2.4	1.6	1.4	1.3	1.2
ROE	21.6%	3.9%	47.2%	29.3%	23.4%	25.3%

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 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0% and weighted average cost of capital of 14.5%.

Investment Thesis

We have a "BUY" recommendation on the stock based on our PT of PKR 112/share. Our price target indicates an upside of 63% along with a dividend yield of 11.6%. 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, and 2) Contraction in HRC-CRC spread in international market.

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	90,630	101,887	113,967
Cost of Sales	51,035	43,869	56,304	78,293	90,213	100,762
Gross Profit	6,449	4,213	13,492	12,337	11,674	13,206
SG & A	986	1,157	1,425	1,581	1,825	2,145
Operating Profit	5,463	3,056	12,067	10,756	9,850	11,061
Other Income	39	36	316	161	234	373
Other Charges	534	334	1,277	1,039	895	896
Finance Cost	1,289	2,315	812	1,605	1,842	1,791
Profit Before Tax	3,679	442	10,295	8,274	7,346	8,747
Taxation	1,015	-53	2,828	2,399	2,130	2,537
Profit After Tax	2,664	495	7,466	5,874	5,216	6,211

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	30,056	34,860	39,627
Total Assets	39,762	42,861	41,720	47,854	51,779	55,739
Non-Current liabilities	8,598	6,580	6,475	5,088	3,811	3,045
Current liabilities	18,286	23,556	16,357	21,572	24,659	26,836
Total Liabilities	26,884	30,135	22,832	26,660	28,470	29,881
Equity	11,590	11,472	17,667	20,062	22,232	24,833
Total Equity & liabilities	39,762	42,861	41,719	47,854	51,779	55,738

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,664	495	7,466	5,874	5,216	6,211
Non-cash Charges	1,078	1,405	1,538	1,410	1,323	1,258
Operating Cash flows	3,556	1,997	7,600	4,431	4,062	5,686
FCFF	1,812	2,359	8,140	5,563	4,926	6,507
Net Borrowings	1,036	582	-6,061	1,032	163	-2
FCFE	1,914	350	1,490	5,455	3,781	5,234
Net Change in Cash	303	-297	186	1,887	680	1,572
Closing cash	403	106	292	2,180	2,860	4,432

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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