

International Steels Limited

Result Review

PSX: ISL Bloomberg: ISL: PA Reuters: INTE. PSX

Pakistan Research

2QFY23 LPS clocks in at PKR 0.89

- ISL announced its 2QFY23 financial results today where the company reported net loss of PKR 388mn (LPS PKR 0.89) as against PKR 1.6bn in the SPLY. The result is significantly lower than our expectation owing to more than estimated contraction in gross margins. This takes 1HFY23 EPS to PKR 0.14, down 99% YoY.
- The company's net sales declined by 8% YoY and settled at PKR 17.3bn, in line with our expectation, on account of lower volumetric sales. Similarly, gross margin contracted by 11.1% to 4.2% during the quarter due to higher input costs and currency devaluation.
- On the contrary, selling & distribution expenses declined by 62% YoY to PKR 83mn as compared to PKR 217mn in SPLY owing to normalised freight charges in our view.
- Finance cost increased to PKR 789mn as compared to PKR 368mn in SPLY, up 114% YoY due to higher interest rates.
- We have a "SELL" call on ISL. Our Dec-23 PT of PKR 42/share indicates a downside of 2% along with a dividend yield of 5.8%.

Key Data

PSX Ticker	ISL
Target Price (PKR)	42
Current Price (PKR)	43
Upside/(Downside) (%)	-2%
Dividend Yield (%)	5.8%
Total Return (%)	3%
12-month High (PKR)	71
12-month Low (PKR)	37
Outstanding Shares (mn)	435
Market Cap (PKR mn)	18,788
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Sales	18,805	17,382	-8%	43,294	33,926	-22%
Cost of Sales	15,930	16,646	4%	36,084	30,951	-14%
Gross Profit	2,875	736	-74%	7,211	2,975	-59%
Selling & Distribution cost	217	83	-62%	396	148	-63%
Admin expenses	80	85	6%	165	153	-7%
Other Charges	305	340	12%	585	1,116	91%
Finance cost	368	789	114%	544	1,652	203%
Profit Before Taxation	2,051	(526)	NM	5,672	(32)	NM
Taxation	495	(138)	NM	1,449	(92)	NM
Net Income	1,556	(388)	NM	4,224	61	-99%
EPS	3.58	-0.89	NM	9.71	0.14	-99%
DPS	2.00	0.00		2.00	0.00	

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	1.1	17.2	12.4	3.2	8.9	12.2
EPS Growth	-81%	14x	-28%	-74%	177%	37%
DPS	0.0	10.0	6.5	1.0	4.0	5.0
PER	38.0	2.5	3.5	13.4	4.8	3.5
Dividend Yield	0.0%	23.2%	15.0%	2.3%	9.3%	11.6%
EV/EBITDA	8.8	2.4	3.6	4.3	2.9	2.3
P/B	1.5	1.0	0.9	0.8	0.8	0.7
ROE	3.9%	47.2%	26.7%	6.4%	16.5%	20.3%

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 17.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23.0% and weighted average cost of capital of 17.8%.

Investment Thesis

We have a "SELL" recommendation on the stock based on our Dec-23 PT of PKR 42/share. Our price target indicates a downside of 2% along with a dividend yield of 5.8%. Our investment case on ISL is based on overall decline in demand from Auto, Appliances and Construction sector.

Risks

Key upside risks to our investment thesis are: 1) Higher than anticipated demand from Auto, Appliances and Construction sector 2) Removal of import restriction by government and 3) decline in interest rates.

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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Sales	48,082	69,796	91,424	76,052	78,162	86,021
Cost of Sales	43,869	56,304	79,042	68,764	68,695	75,016
Gross Profit	4,213	13,492	12,381	7,288	9,467	11,006
SG & A	1,157	1,425	1,951	1,415	1,935	1,797
Operating Profit	3,056	12,067	10,430	5,873	7,532	9,209
Other Income	36	316	201	285	305	347
Other Charges	334	1,277	1,308	1,237	560	665
Finance Cost	2,315	812	1,323	2,832	1,494	977
Profit Before Tax	442	10,295	8,001	2,089	5,783	7,914
Taxation	-53	2,828	2,589	689	1,908	2,611
Profit After Tax	495	7,466	5,412	1,400	3,875	5,302

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	20,688	19,199	20,813	19,673	19,783	19,960
Other LT assets	1	1	177	461	681	902
Non-Current Assets	20,689	19,200	20,990	20,134	20,465	20,862
Current assets	22,172	22,520	34,915	24,568	24,213	26,124
Total Assets	42,861	41,720	55,905	44,702	44,678	46,986
Non-Current liabilities	6,580	6,475	5,096	4,096	3,432	3,462
Current liabilities	23,556	16,357	29,213	18,170	16,663	15,793
Total Liabilities	30,135	22,832	34,309	22,267	20,095	19,255
Equity	11,472	17,667	19,185	20,150	22,284	25,412
Total Equity & liabilities	42,861	41,720	55,905	44,702	44,678	46,986

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	495	7,466	5,412	1,400	3,875	5,302
Non-cash Charges	1,405	1,538	1,517	1,417	1,381	1,391
Operating Cash flows	1,997	7,601	-2,953	13,029	6,289	5,180
FCFF	2,359	8,140	-5,366	14,365	5,578	4,047
Net Borrowings	582	-6,061	9,568	-12,346	-1,961	-1,669
FCFE	350	1,491	3,308	122	2,616	1,723
Net Change in Cash	-297	186	604	-438	889	-431
Closing cash	106	293	896	458	1,347	916

Source: Company Accounts, Akseer Research

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Valuation Methodology

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.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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