

International Steels Limited

Result Preview

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

Pakistan Research

FY22 EPS likely to clock in at PKR 12.7, down 26% YoY; DPS at 2.0

- ISL's board meeting is scheduled on August 18, 2022 to consider FY22 financial results. We expect the company to post an EPS of PKR 12.7, down 26% YoY. This decline in earnings mainly emanates from higher production cost and lack of excessive inventory gains booked in the corresponding period last year. Along with the result, ISL is expected to announce a final cash dividend of PKR 2.0/share, taking the cumulative pay out to PKR 4.0/share during FY22.
- Net sales are expected to grow by 42% YoY to PKR 99.3bn on account of higher product prices. On the contrary, gross margin is likely to contract by 6.5% to 12.8% during the year owing to higher input costs and currency devaluation.
- Selling & distribution expenses to increase by 2%, however admin expenses and other charges are expected to decline by 9% and 27% YoY, respectively. We expect finance cost to increase by 84% YoY to PKR 1.5bn, on the back of increased borrowings and higher interest rates.
- ISL's effective tax rate during FY22 is expected at 39%, compared to 27.5% in FY21. Significant increase in tax expense is due to 10% super tax imposed on FY22 earnings which will restrict the growth in earnings.
- On a quarterly basis, ISL's earnings are expected at PKR 0.4/share, down 93% YoY, owing to higher effective tax rate, limiting earnings growth in 4Q.
- We have a "BUY" stance on ISL. Our Dec-22 PT of PKR 101/share indicates an upside of 64% along with a dividend yield of 8.1%.

Key Data

| | |
|-------------------------|--------|
| PSX Ticker | ISL |
| Target Price (PKR) | 101 |
| Current Price (PKR) | 62 |
| Upside/(Downside) (%) | + 64% |
| Dividend Yield (%) | 8.1% |
| Total Return (%) | + 72% |
| 12-month High (PKR) | 103 |
| 12-month Low (PKR) | 53 |
| Outstanding Shares (mn) | 435 |
| Market Cap (PKR mn) | 26,913 |
| Year End | June |

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

| | 4QFY21 | 4QFY22E | YoY | FY21 | FY22E | YoY |
|-------------------------------|--------------|--------------|-------------|---------------|---------------|-------------|
| Net Sales | 18,878 | 28,712 | 52% | 69,796 | 99,270 | 42% |
| Cost of Sales | 14,439 | 25,537 | 77% | 56,304 | 86,580 | 54% |
| Gross Profit | 4,439 | 3,175 | -28% | 13,492 | 12,689 | -6% |
| Selling & Distribution cost | 447 | 344 | -23% | 1,063 | 1,086 | 2% |
| Admin expenses | 85 | 91 | 7% | 362 | 331 | -9% |
| Other Charges | 667 | 172 | -74% | 1,277 | 928 | -27% |
| Finance cost | 216 | 590 | 173% | 812 | 1,495 | 84% |
| Profit Before Taxation | 2,975 | 2,014 | -32% | 10,295 | 9,059 | -12% |
| Taxation | 660 | 1,843 | 179% | 2,828 | 3,533 | 25% |
| Net Income | 2,314 | 171 | -93% | 7,466 | 5,526 | -26% |
| EPS | 5.3 | 0.4 | -93% | 17.2 | 12.7 | -26% |
| DPS | 7.0 | 2.0 | | 10.0 | 4.0 | |

Source: Company Accounts, Akseer Research

Key Financial Ratios

| | FY19A | FY20A | FY21A | FY22E | FY23F | FY24F |
|----------------|-------|-------|-------|-------|-------|-------|
| EPS | 6.1 | 1.1 | 17.2 | 12.7 | 11.9 | 14.9 |
| EPS Growth | -39% | -81% | 14x | -26% | -6% | 25% |
| DPS | 3.0 | 0.0 | 10.0 | 4.0 | 5.0 | 6.7 |
| PER | 10.1 | 54.4 | 3.6 | 4.9 | 5.2 | 4.2 |
| Dividend Yield | 4.8% | 0.0% | 16.2% | 6.5% | 8.1% | 10.8% |
| EV/EBITDA | 7.3 | 10.8 | 3.1 | 3.2 | 3.4 | 2.8 |
| P/B | 2.1 | 2.1 | 1.4 | 1.2 | 1.0 | 0.9 |
| ROE | 21.6% | 3.9% | 47.2% | 26.6% | 21.4% | 23.6% |

Source: Company Accounts, Akseer Research

Shahir Shahid
shahir.shahid@alphacapital.com.pk

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 13.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0% and weighted average cost of capital of 15.3%.

Investment Thesis

We have a "BUY" recommendation on the stock based on our PT of PKR 101/share. Our price target indicates an upside of 64% along with a dividend yield of 8.1%. Our investment case on ISL is based on 1) 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 | 99,270 | 101,668 | 111,959 |
| Cost of Sales | 51,035 | 43,869 | 56,304 | 86,580 | 90,034 | 98,520 |
| Gross Profit | 6,449 | 4,213 | 13,492 | 12,689 | 11,634 | 13,439 |
| SG & A | 986 | 1,157 | 1,425 | 1,417 | 1,667 | 1,876 |
| Operating Profit | 5,463 | 3,056 | 12,067 | 11,272 | 9,967 | 11,562 |
| Other Income | 39 | 36 | 316 | 210 | 239 | 350 |
| Other Charges | 534 | 334 | 1,277 | 928 | 865 | 905 |
| Finance Cost | 1,289 | 2,315 | 812 | 1,495 | 1,615 | 1,361 |
| Profit Before Tax | 3,679 | 442 | 10,295 | 9,059 | 7,725 | 9,646 |
| Taxation | 1,015 | -53 | 2,828 | 3,533 | 2,549 | 3,183 |
| Profit After Tax | 2,664 | 495 | 7,466 | 5,526 | 5,176 | 6,463 |

Source: Company Accounts, Akseer Research

| Balance sheet (PKR mn) | | | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| | FY19A | FY20A | FY21A | FY22E | FY23F | FY24F |
| PPE | 19,862 | 20,688 | 19,199 | 18,667 | 18,652 | 18,705 |
| Other LT assets | 3 | 1 | 1 | 4 | 6 | 7 |
| Non-Current Assets | 19,865 | 20,689 | 19,200 | 18,671 | 18,658 | 18,713 |
| Current assets | 19,897 | 22,172 | 22,520 | 31,155 | 33,745 | 37,043 |
| Total Assets | 39,762 | 42,861 | 41,720 | 49,826 | 52,404 | 55,756 |
| Non-Current liabilities | 8,598 | 6,580 | 6,475 | 5,163 | 3,972 | 3,300 |
| Current liabilities | 18,286 | 23,556 | 16,357 | 22,021 | 22,790 | 23,263 |
| Total Liabilities | 26,884 | 30,135 | 22,832 | 27,185 | 26,762 | 26,563 |
| Equity | 11,590 | 11,472 | 17,667 | 21,454 | 24,454 | 28,003 |
| Total Equity & liabilities | 39,762 | 42,861 | 41,720 | 49,826 | 52,404 | 55,756 |

Source: Company Accounts, Akseer Research

| Cashflow statement (PKR mn) | | | | | | |
|-----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | FY19A | FY20A | FY21A | FY22E | FY23F | FY24F |
| Net Income | 2,664 | 495 | 7,466 | 5,526 | 5,176 | 6,463 |
| Non-cash Charges | 1,078 | 1,405 | 1,538 | 1,443 | 1,422 | 1,424 |
| Operating Cash flows | 3,556 | 1,997 | 7,600 | 2,402 | 5,998 | 6,583 |
| FCFF | 1,812 | 2,359 | 8,140 | 2,400 | 5,671 | 6,016 |
| Net Borrowings | 1,036 | 582 | -6,061 | 356 | -983 | -1,404 |
| FCFE | 1,914 | 350 | 1,490 | 1,844 | 3,606 | 3,700 |
| Net Change in Cash | 303 | -297 | 186 | 71 | 1,430 | 789 |
| Closing cash | 403 | 106 | 292 | 364 | 1,794 | 2,583 |

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.

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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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Contact Details**Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal
 T: +92-21-34320359 -60
 E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)

3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
 KCH Society, Block 7 & 8, Near Virtual University, Karachi
 T: +92-21-38694242
 E: info@alfaadhi.net.pk