

**International Steels Limited**  
Result Review

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

Pakistan Research

**FY22 EPS clocks in at PKR 12.4, down 28% YoY; DPS 4.5**

- ISL announced its FY22 financial results today, where the company posted an EPS of PKR 12.4, down 28% YoY. The result came in slightly below our expectation due to lower volumetric sales. Along with the result, ISL announced a final dividend of PKR 4.5/share, in addition to an interim dividend of PKR 2.0/share, taking the cumulative pay out to PKR 6.5/share in FY22.
- The company's top line stood at PKR 91.4bn, up 31% YoY on the back of higher product prices during the year. Gross margins clocked in at 13.5% as compared to 19.3% in SPLY mainly due to higher cost of production and devaluation of currency.
- Selling and distribution expenses increased by 52% to PKR 1.6bn due to increase in topline. Similarly finance costs surged by 63% YoY to PKR 1.3bn on the back of increased borrowing coupled with higher interest rates, restricting the earnings growth.
- Effective tax rate stood at 32.4% in FY22 against 27.5% in same period last year. This increased tax expense is due to the imposition of super tax on FY22 earnings.
- On quarterly basis, ISL posted earnings decline of 98% YoY to 0.1/share. This decline can mainly be attributed to higher selling expense (+94% YoY), finance cost (+93% YoY) and increase in tax expense (ETR 94% Vs 22% in SPLY).
- We have a 'Buy' stance on ISL. Our Dec-22 price target (PT) of PKR 100/share provides an upside of 67% along with a dividend yield of 8.4%.

**Key Data**

PSX Ticker	ISL
Target Price (PKR)	100
Current Price (PKR)	60
Upside/(Downside) (%)	+ 67%
Dividend Yield (%)	8.4%
Total Return (%)	+ 75%
12-month High (PKR)	103
12-month Low (PKR)	53
Outstanding Shares (mn)	435
Market Cap (PKR mn)	26,030
Year End	June

Source: Company Accounts, Akseer Research

**Financial Highlights (PKR mn)**

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	18,878	20,866	11%	69,796	91,424	31%
Cost of Sales	14,439	17,999	25%	56,304	79,042	40%
<b>Gross Profit</b>	<b>4,439</b>	<b>2,867</b>	<b>-35%</b>	<b>13,492</b>	<b>12,381</b>	<b>-8%</b>
Selling & Distribution cost	447	869	94%	1,063	1,612	52%
Admin expenses	85	100	17%	362	340	-6%
Other Income	(49)	26	-154%	316	201	-36%
Other Charges	667	552	-17%	1,277	1,308	2%
Finance cost	216	417	93%	812	1,323	63%
<b>Profit Before Taxation</b>	<b>2,975</b>	<b>955</b>	<b>-68%</b>	<b>10,295</b>	<b>8,001</b>	<b>-22%</b>
Taxation	660	898	36%	2,828	2,589	-8%
<b>Net Income</b>	<b>2,314</b>	<b>57</b>	<b>-98%</b>	<b>7,466</b>	<b>5,412</b>	<b>-28%</b>
<b>EPS</b>	<b>5.32</b>	<b>0.13</b>	<b>-98%</b>	<b>17.16</b>	<b>12.44</b>	<b>-28%</b>
<b>DPS</b>	<b>7.00</b>	<b>4.50</b>	<b>-36%</b>	<b>10.00</b>	<b>6.50</b>	<b>-35%</b>

**Key Financial Ratios**

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24F
EPS	6.1	1.1	17.2	12.4	11.9	14.7
EPS Growth	-39%	-81%	14x	-28%	-4%	23%
DPS	3.0	0.0	10.0	6.5	5.0	6.6
PER	9.8	52.6	3.5	4.8	5.0	4.1
Dividend Yield	5.0%	0.0%	16.7%	10.9%	8.4%	11.0%
EV/EBITDA	7.1	10.6	3.0	3.5	3.4	2.8
P/B	2.0	2.0	1.4	1.2	1.1	0.9
ROE	21.6%	3.9%	47.2%	26.8%	22.6%	24.4%

Source: Company Accounts, Akseer Research

**Shahir Shahid**  
[shahir.shahid@alphacapital.com.pk](mailto: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 100/share. Our price target indicates an upside of 67% along with a dividend yield of 8.4%. 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	FY22A	FY23E	FY24F
Net sales	57,484	48,082	69,796	91,424	101,668	111,959
Cost of sales	51,035	43,869	56,304	79,042	90,034	98,520
<b>Gross Profit</b>	<b>6,449</b>	<b>4,213</b>	<b>13,492</b>	<b>12,381</b>	<b>11,634</b>	<b>13,439</b>
SG & A	986	1,157	1,425	1,951	1,667	1,876
<b>Operating Profit</b>	<b>5,463</b>	<b>3,056</b>	<b>12,067</b>	<b>10,430</b>	<b>9,967</b>	<b>11,562</b>
Other income	39	36	316	201	215	248
Other charges	534	334	1,277	1,308	866	900
Finance cost	1,289	2,315	812	1,323	1,566	1,361
<b>Profit before tax</b>	<b>3,679</b>	<b>442</b>	<b>10,295</b>	<b>8,001</b>	<b>7,749</b>	<b>9,549</b>
Taxation	1,015	-53	2,828	2,589	2,557	3,151
<b>Profit after tax</b>	<b>2,664</b>	<b>495</b>	<b>7,466</b>	<b>5,412</b>	<b>5,192</b>	<b>6,398</b>

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	28,145	32,555	35,837
<b>Total Assets</b>	<b>39,762</b>	<b>42,861</b>	<b>41,720</b>	<b>46,816</b>	<b>51,213</b>	<b>54,550</b>
Non-Current liabilities	8,598	6,580	6,475	5,163	3,972	3,300
Current liabilities	18,286	23,556	16,357	20,213	22,785	23,263
<b>Total Liabilities</b>	<b>26,884</b>	<b>30,135</b>	<b>22,832</b>	<b>25,376</b>	<b>26,757</b>	<b>26,563</b>
Equity	11,590	11,472	17,667	20,252	23,269	26,796
<b>Total Equity &amp; liabilities</b>	<b>39,762</b>	<b>42,861</b>	<b>41,720</b>	<b>46,816</b>	<b>51,213</b>	<b>54,550</b>

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
<b>Operating Cash flows</b>	<b>3,556</b>	<b>1,997</b>	<b>7,600</b>	<b>2,402</b>	<b>5,998</b>	<b>6,583</b>
<b>FCFF</b>	<b>1,812</b>	<b>2,359</b>	<b>8,140</b>	<b>2,400</b>	<b>5,671</b>	<b>6,016</b>
<b>Net Borrowings</b>	<b>1,036</b>	<b>582</b>	<b>-6,061</b>	<b>356</b>	<b>-983</b>	<b>-1,404</b>
FCFE	<b>1,914</b>	<b>350</b>	<b>1,490</b>	<b>1,844</b>	<b>3,606</b>	<b>3,700</b>
Net change in cash	303	-297	186	71	1,430	789
<b>Closing cash</b>	<b>403</b>	<b>106</b>	<b>292</b>	<b>364</b>	<b>1,794</b>	<b>2,583</b>

Source: Company Accounts, Akseer Research

**Disclaimer**

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital Securities as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

**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%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

**Research Dissemination Policy**

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

**Analyst Certification**

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**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](mailto:info@akseerresearch.com)

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

3<sup>rd</sup> Floor Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal

T: +92-21-38694242

E: [info@alfaadhi.net](mailto:info@alfaadhi.net)