

International Steels Limited
Key Takeaways

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

Pakistan Research

ISL - Corporate Briefing Key Takeaways

- International Steels Limited (ISL) conducted its corporate briefing session today where the company discussed its Annual financial performance. Key takeaways are below:
- ISL posted NPAT of PKR 7.5bn (EPS PKR17.16) during FY21 mainly on account of higher volumetric sales and inventory gains. The management informed that approximately PKR 1.9bn were booked as inventory gains during the year.
- ISL has implemented Just in Time (JIT) inventory system to effectively manage inventory levels and currently holds 2-2.5 months inventory which previously was 4-5 months.
- The management is working on a technical proposal for the HRC mill and planning to venture with an international partner.
- Regarding the resumption of Pakistan Steel Mill's operations having 500k tons of HRC capacity, the management updated that it will not impact the local industry as the HRC produced by Pakistan Steel Mill has different specification compared to what domestic cold rolled mills require at present.
- Auto industry is importing CRC/GC with no customs/regulatory duty under SRO 655. Only additional customs duty of ~2% is applicable. This has resulted in loss of sales for local flat steel industry.
- ISL mostly procures HRC from Japan followed by some procurement from Taiwan and African countries.
- The management is of the view that increase in local steel prices will not be in tandem with rise in international steel prices due to 1) loss of sales to local pipe industry which used to be a major segment, and 2) dumping of cheap products from FATA/PATA areas (produced tax free) into the country.
- Currently, the company's electricity requirement is 20MW, which could be divided into CRC and GL at 80%/20% ratio.

Key Data

PSX Ticker	ISL
Target Price (PKR)	118
Current Price (PKR)	79
Upside/(Downside) (%)	50%
Dividend Yield (%)	8%
Total Return (%)	57%
12-month High (PKR)	103
12-month Low (PKR)	67
Outstanding Shares (mn)	435
Market Cap (PKR mn)	34,187
Year End	June

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 50% along with a dividend yield of 8%. Our investment case on ISL is based on strong demand from Auto, Appliances and Construction sector, higher capacity utilization and 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, incorporated in 2007, is a subsidiary of International Industries Limited. The primary activity of the company is to manufacture cold rolled, galvanized and colour 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
Gross Profit	6,449	4,213	13,492	9,809	11,697	13,206
SG & A	986	1,157	1,425	1,581	1,825	2,145
Operating Profit	5,463	3,056	12,067	8,228	9,873	11,061
Other income	39	36	316	159	196	292
Other charges	534	334	1,277	934	915	905
Finance cost	1,289	2,315	812	1,276	1,408	1,513
Profit before tax	3,679	442	10,295	6,178	7,746	8,934
Taxation	1,015	-53	2,828	1,791	2,246	2,591
Profit after tax	2,664	495	7,466	4,386	5,499	6,343

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	29,271	34,383	39,181
Total Assets	39,762	42,861	41,720	47,069	51,302	55,292
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
Total Liabilities	26,884	30,135	22,832	26,450	28,458	29,854
Equity	11,590	11,472	17,667	19,487	21,767	24,413
Total Equity & liabilities	39,762	42,861	41,719	47,069	51,302	55,292

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,664	495	7,466	4,386	5,499	6,343
Non-cash Charges	1,078	1,405	1,538	1,410	1,323	1,258
Operating Cash flows	3,556	1,997	7,600	3,174	4,046	5,860
FCFF	1,812	2,359	8,140	4,073	4,602	6,484
Net Borrowings	1,036	582	-6,061	949	261	-16
FCFE	1,914	350	1,490	4,115	3,863	5,393
Net change in cash	303	-297	186	1,461	588	1,644
Closing cash	403	106	292	1,753	2,341	3,985

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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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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