



International Steels Limited (ISL): Stable demand to drive earnings

September 17, 2021

Aftab Awan, ACCA
aftab.awan@akseerresearch.com

Recommend 'BUY' with revised PT of PKR 118/share

- We revise our earnings estimates and price target (PT) upwards for International Steels Limited (ISL) after incorporating latest annual accounts. Our new EPS estimates for FY22/23 now come at PKR 10.1/12.6, compared to previous estimates of PKR 9.6/10.7 respectively.
- We have also rolled forward our PT to June-22, which comes at PKR 118, offering an upside of 38%, along with a dividend yield of 7%.
- We believe strong demand from 1) expanding Auto sector, 2) consumer appliances and, 3) construction sector to provide impetus to earnings going forward.
- Additionally, significant decline in the short term borrowings bodes well for the company in rising interest rate scenario. This will result in lower finance cost, hence, providing further support to the bottom line.
- Currently, local CRC is available at ~15% discount to imported CRC. We believe that local producers have further room for a price hike.
- National Tariff Commission's (NTC) imposition of Anti-Dumping Duty (ADD) will also support local industry in sustaining its margins.
- We recommend 'BUY' on ISL. The stock is trading at FY22E PE and PBV of 8.5x and 1.8x, respectively.

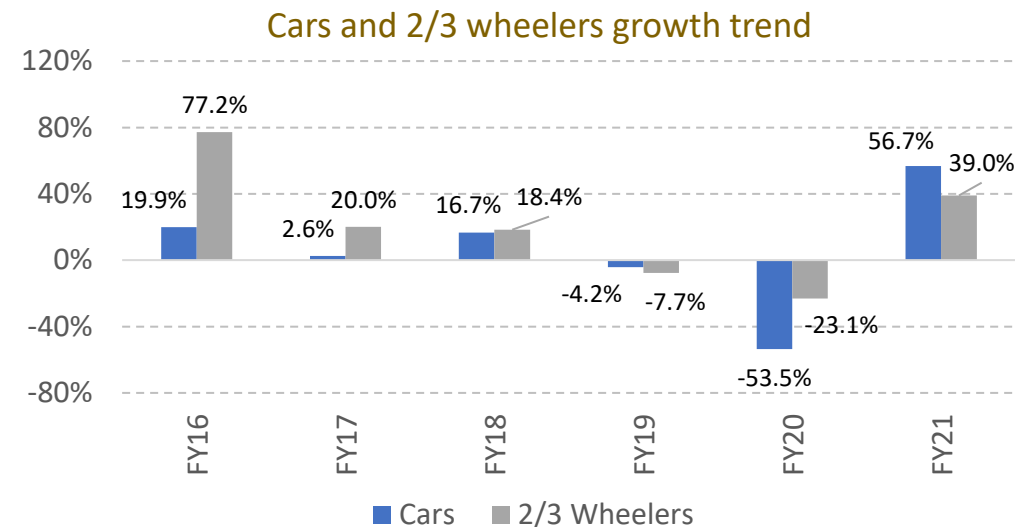
Key Data	
PSX Ticker	ISL
Bloomberg Ticker	ISL: PA
Reuters Ticker	INTE. PSX
Target Price (PKR)	118
Current Price (PKR)	85
Upside/(Downside) (%)	38%
Dividend Yield (%)	7%
Total Return (%)	45%
12-month High (PKR)	103
12-month Low (PKR)	67
Outstanding Shares (mn)	435
Market Cap (PKR mn)	37,153
Year End	June

Key Ratios	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	6.12	1.14	17.16	10.08	12.64	14.58
EPS Growth	-39%	-81%	14x	-41%	25%	15%
DPS	3.00	0.00	10.00	5.90	7.40	8.50
PER	13.9	75.1	5.0	8.5	6.8	5.9
Div. Yield	3.5%	0.0%	11.7%	6.9%	8.7%	10.0%
EV/EBITDA	9.0	13.2	3.9	5.5	4.6	4.0
P/B	2.9	2.9	2.0	1.8	1.6	1.5
ROE	21.6%	3.9%	47.2%	22.2%	25.3%	26.3%

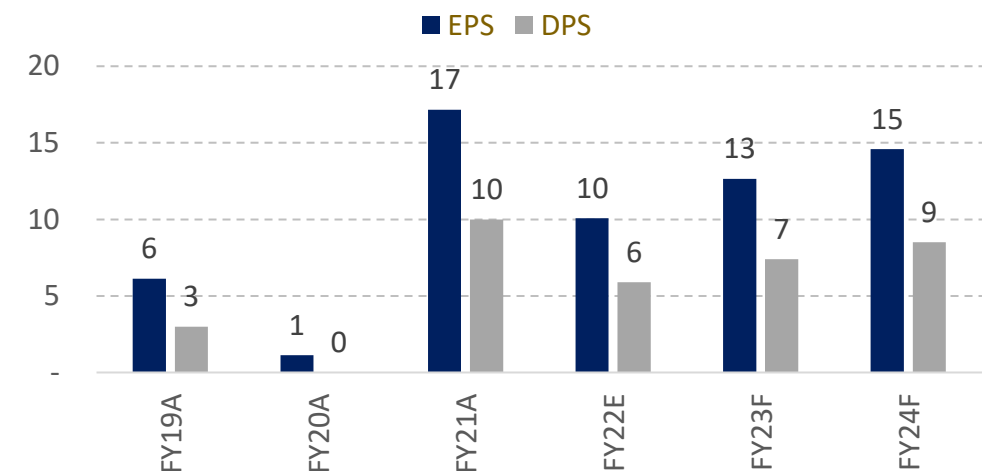
Higher demand to keep earnings upbeat

■ Earnings revised up by 5.2%/17.7%

- We have revised upward our earnings estimates for ISL post strong rebound in FY21 profitability, supporting our stable growth outlook for the company. We expect company’s earnings to grow at a 5-year CAGR of 10%.
- During the outgoing year, ISL posted record net profit of PKR 7.5bn, up 14.1x YoY owing to uptick in demand and inventory gains. Demand mainly emanated from healthy Auto sector sales, wherein 2/3 wheelers volumes grew 39% YoY while cars sales surged 57% YoY during FY21. Similar growth trend was also witnessed in the consumer appliances and construction sector.
- We expect demand to remain intact going forward due to increased urbanization and changing consumer demographics which will keep the autos and appliances growth steady. Lately announced government’s construction package and ongoing housing finance scheme will further supplement earnings.
- The company’s effective management of inventory resulted in significant inventory gains during the year, leading the gross margins to jump 10pps to 19.3%. We foresee downwards normalization in the gross margins to around 11-12%, due to absence of inventory gains going forward.
- Our FY22/23 earnings forecast is PKR 10.1/12.6, compared to our earlier estimates of PKR 9.6/10.7 respectively, (up 5.2%/17.7% YoY).



Source: PAMA & Akseer Research



Source: Company Accounts & Akseer Research

Rising domestic demand to absorb idle capacity, exports to add to profitability

■ De-bottlenecking project

- As per the latest financials, ISL has planned debottlenecking project to enhance the finishing capacity of CRC by 120k tons annually. The project is expected to be completed in August-22 and will help the company meet the growing demand.

■ NTC's provisional Anti-Dumping Duty

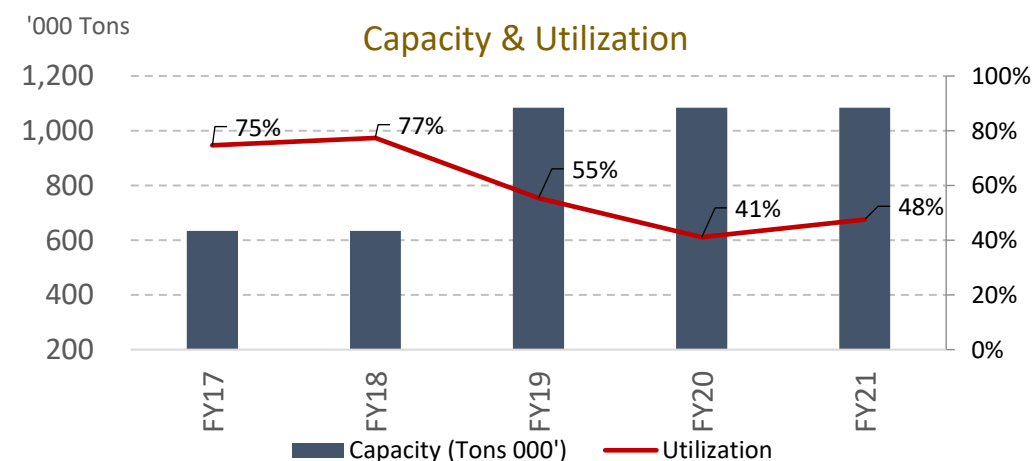
- In August-21, National Tariff Commission (NTC) imposed provisional Anti Dumping Duty (ADD) on flat steel products dumped in Pakistan, from Chinese Taipei, European Union, South Korea and Vietnam, in the range of 6.18% to 17.25%. This duty is initially imposed till December 23rd, 2021 while the commission will make final decision in February-22. We expect the final decision to be in favor of the local players.

■ Focusing on export segment

- ISL's export sales grew 32% YoY to PKR 11.9bn during FY21 mainly because of pandemic related lockdowns in different countries. In spite of double digit jump, exports share in total revenue is still low at 15%. However, we expect the management will continue focusing on export market to increase its global footprint along with solid presence (~40% share) in the domestic market.



Source: Company Accounts & Akseer Research



Source: Company Accounts & Akseer Research

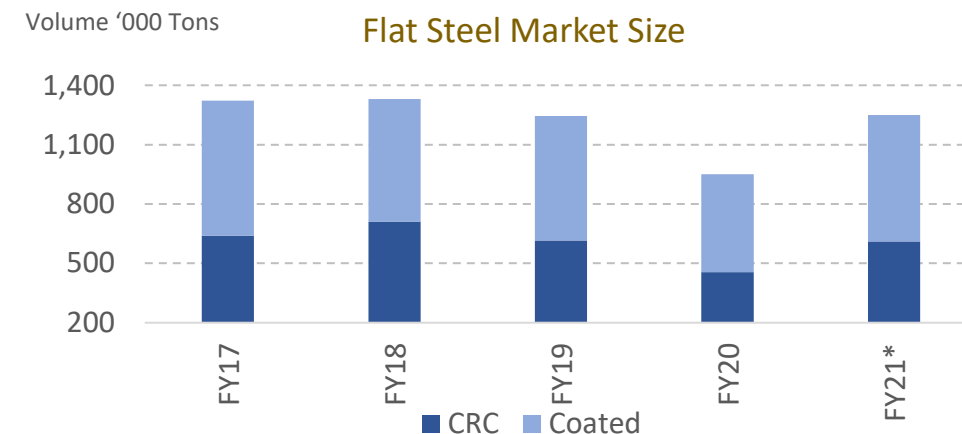
Improving Industry Dynamics

■ Flat steel demand & Supply

- Flat steel industry in Pakistan is dominated by local players including International Steels (ISL) and Aisha Steel Mills (ASL). Total Flat steel market size in Pakistan is around 1.3mn tons and cumulatively, local flat steel producers cater more than 70% of the market with the rest being imported.
- Flat steel is used in Auto industry (2/3 wheelers), Consumer appliances (refrigerators, washing machines, ACs etc) and construction sector (structures, profiles etc).

■ CRC/HRC local price trend

- During FY21, HRC's (raw material for local flat producers) price has more than doubled and currently hover around USD 900/ton. In line with international prices, local steel producers passed on the cost impact to consumers.
- Currently, international CRC price is around USD 1,005/ton. CRC's landed cost in Pakistan with all the duties and charges (including ADD) stands at approx. PKR 230,000/ton, whereas locally manufactured CRC is available at ~PKR 200,000/ton, a discount of 15% to the international price. This suggests local producers have a room for further hike in prices, which will keep the margins on the higher side.



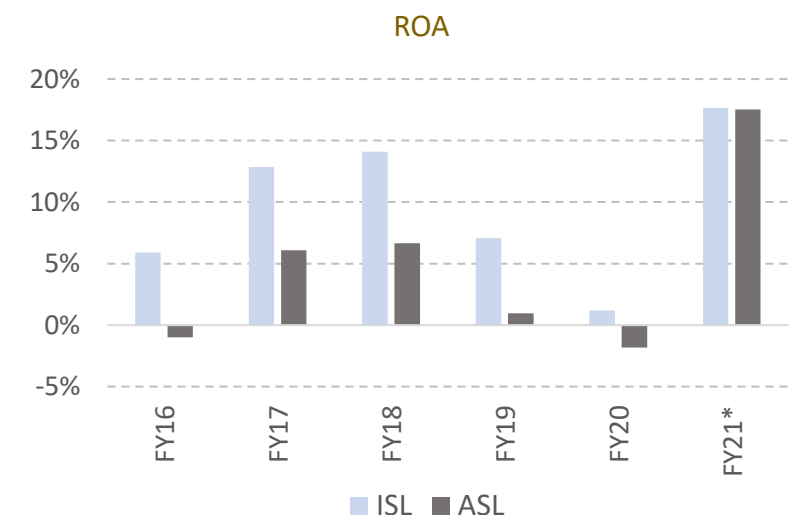
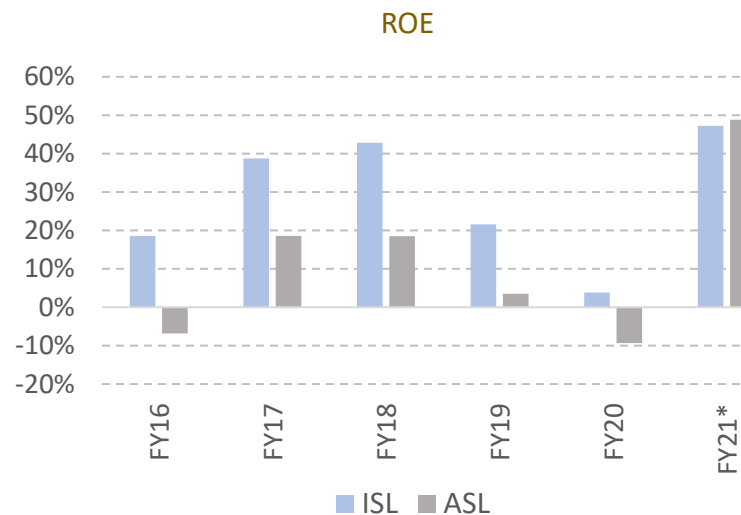
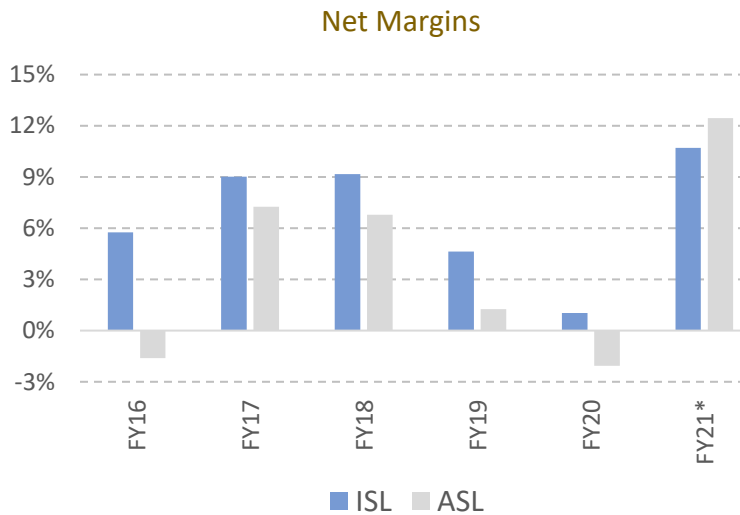
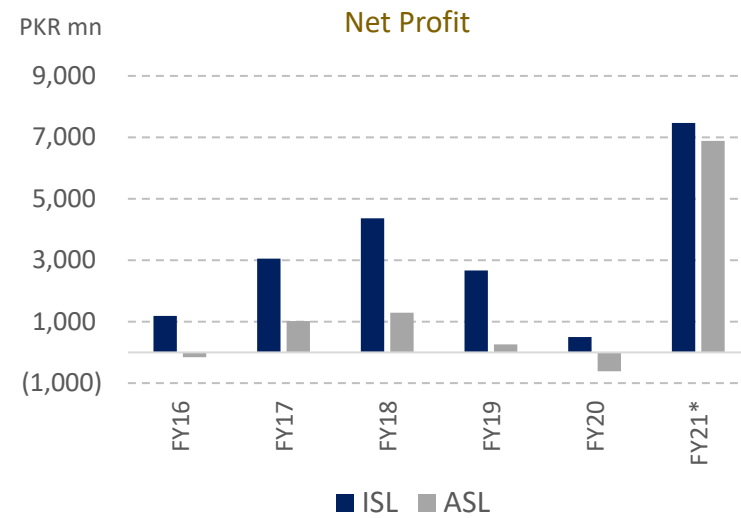
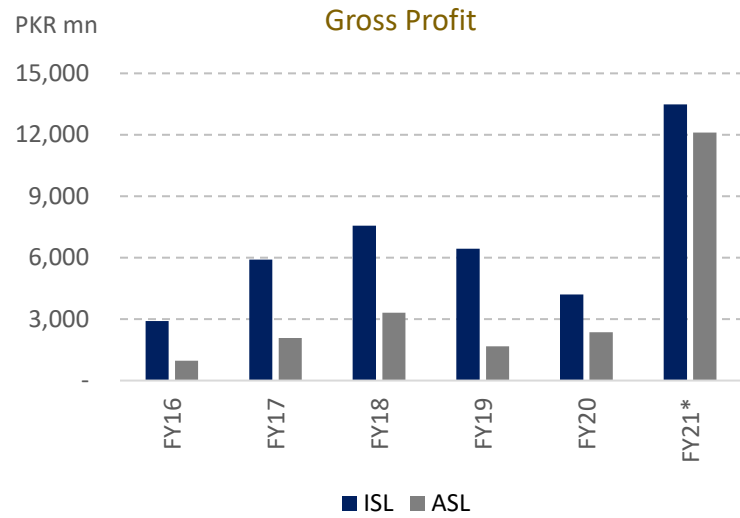
Source: Company Accounts & Akseer Research

* Estimated



Source: Akseer Research

Peer comparison



Source: Company Accounts & Akseer Research

* Estimated for ASL

Risk - Return Profile

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%.

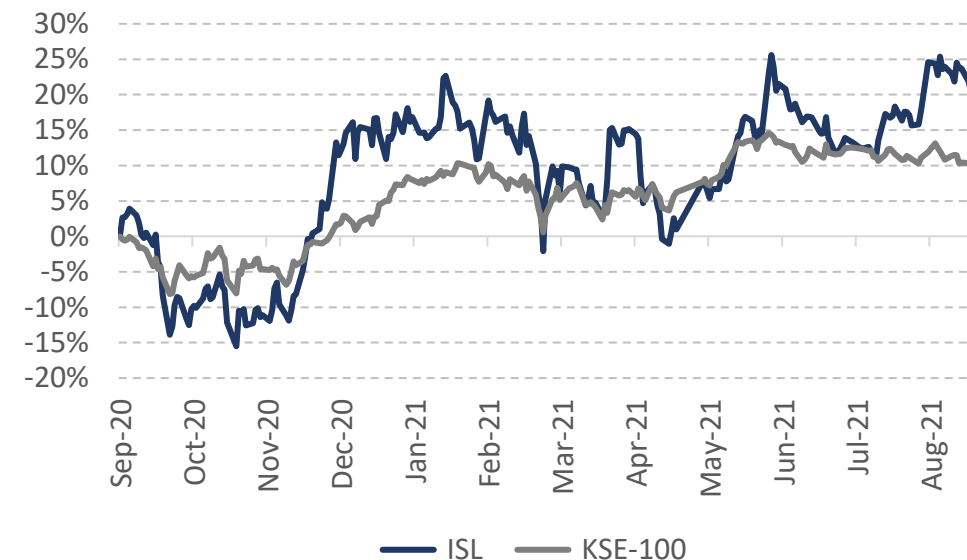
Investment Thesis

- Our investment case on ISL is based on:
 - 1) Strong demand from Auto, Appliances and Construction sector,
 - 2) Higher capacity utilization
 - 3) Import substitution resulting in better volumetric performance.

Risks

- Key risks to our investment thesis are
 - 1) Dumping from countries which are exempted from ADDs,
 - 2) Contraction in HRC-CRC spread in international market, and
 - 3) Prolonged pandemic spread.

Relative price performance



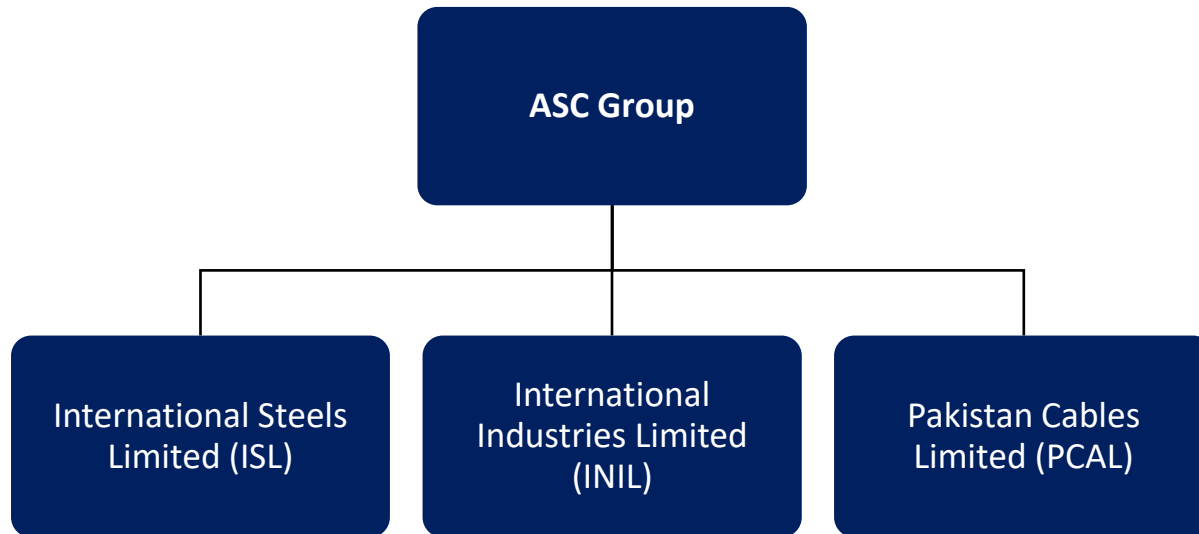
Source: PSX & Akseer Research

Company Overview

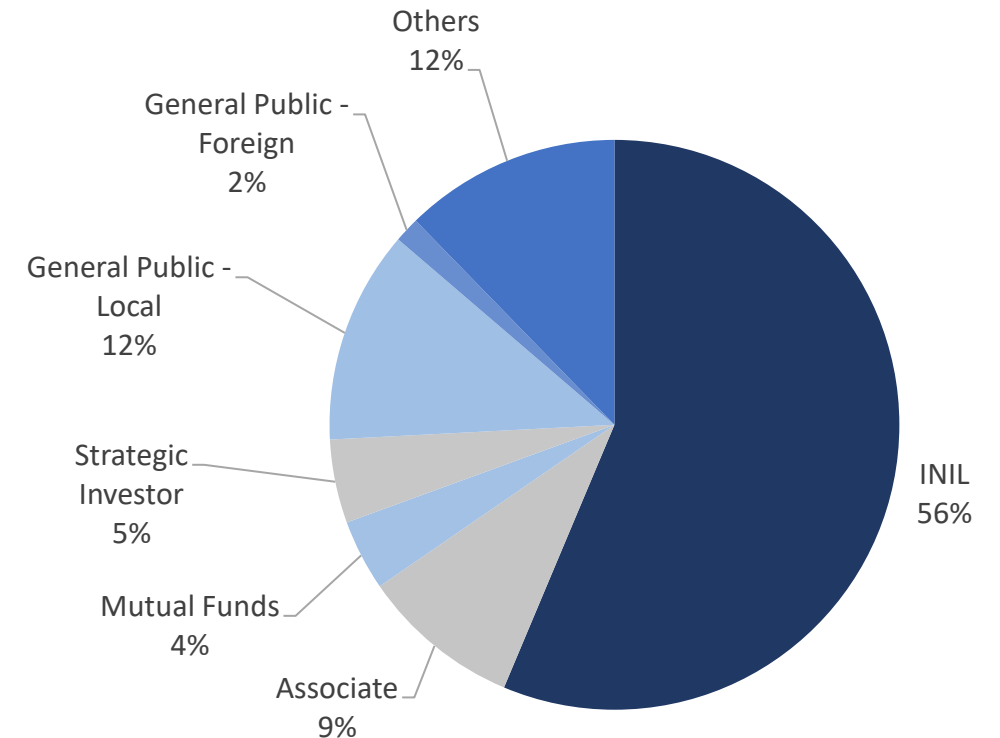
Company Description

- 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.

Group Structure



Shareholding Pattern



Financial Highlights

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
Admin & General	284	263	361.52	447	459	474
Selling & Distribution	701.827	894.33	1063	1133.9	1365.1	1670.4
EBIT	5,463	3,056	12,067	8,228	9,873	11,061
EBITDA	6,541	4,460	13,606	9,638	11,195	12,319
Financial Charges	1,289	2,315	812	1,276	1,408	1,513
Other Income	39	36	316	159	196	292
Other Charges	534	334	1,277	934	915	905
Profit Before Tax	3,679	442	10295	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
Ratios						
EPS	6.1	1.1	17.2	10.1	12.6	14.6
DPS	3.0	0.0	10.0	5.9	7.4	8.5
Payout Ratio	49%	0%	58%	59%	59%	58%
Gross Margin	11.2%	8.8%	19.3%	11.2%	11.5%	11.6%
EBITDA Margin	10.5%	8.7%	18.1%	10.1%	10.3%	10.3%
Net Margin	4.6%	1.0%	10.7%	5.0%	5.4%	5.6%

Source: Company Accounts & Akseer Research

Financial Highlights

Balance Sheet (PKR mn)	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Trade debts	868	1,016	940	1,201	1,402	1,566
Other working capital assets	18,626	21,050	21,287	26,317	30,641	33,630
Cash	403	106	293	1,753	2,341	3,985
Current assets	19,897	22,172	22,520	29,271	34,383	39,181
PPE	19,862	20,688	19,199	17,793	16,913	16,104
Other non current assets	3	1	1	4	6	7
Total assets	39,762	42,861	41,720	47,069	51,302	55,292
Creditors	6,871	10,299	7,865	10,630	12,374	13,803
Short term borrowings	10,191	11,520	6,796	9,312	10,840	12,091
Other liabilities	1,223	1,737	1,695	1,420	1,433	915
Current liabilities	18,286	23,556	16,357	21,362	24,647	26,809
Deferred liabilities	6,367	5,042	3,731	2,359	1,092	353
Other liabilities	2,231	1,538	2,744	2,729	2,720	2,692
Total liabilities	8,598	6,580	6,475	5,088	3,811	3,045
Retained Earnings	7,240	7,122	13,317	15,137	17,417	20,063
Shareholders' equity	11,590	11,472	17,667	19,487	21,767	24,413
Total equity and liabilities	39,762	42,861	41,719	47,069	51,302	55,292
Ratios						
BVPS	29.6	29.3	43.4	47.4	52.5	58.5
ROCE	12.9%	10.6%	27.4%	17.6%	20.5%	22.4%
ROA	7.1%	1.2%	17.7%	9.9%	11.2%	11.9%
ROE	21.6%	3.9%	47.2%	22.2%	25.3%	26.3%

Source: Company Accounts & Akseer Research

Financial Highlights

Cashflow Statement (PKR mn)	FY19A	FY20A	FY21A	FY22F	FY23F	FY24F
Net Income	2,664	495	7,466	4,386	5,499	6,343
Depreciation	1,078	1,405	1,538	1,410	1,323	1,258
Working capital changes	(187)	98	(1,404)	(2,621)	(2,776)	(1,741)
CFO	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 borrowing	1,036	582	(6,061)	949	261	(16)
Interest	(934)	(2,591)	(589)	(906)	(1,000)	(1,075)
FCFE	1,914	350	1,490	4,115	3,863	5,393
Changes in revaluation surplus	346	(34)	(34)	(88)	(56)	(51)
Net cashflows	303	(297)	186	1,461	588	1,644
Cash beginning	100	403	106	293	1,753	2,341
Cash ending	403	106	292	1,753	2,341	3,985

Source: Company Accounts & Akseer Research

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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

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