

## 2QFY22 EPS clocks in at PKR 3.58, down 30% YoY; DPS 2.0

- ISL announced its 2QFY22 financial results today, where the company posted an EPS of PKR 3.58, down 30% YoY. The result was below our estimates mainly due to lower volumetric sales. This takes ISL's 1HFY22 earnings to PKR 9.7/share, up 52% YoY. Along with the results, company declared an interim cash dividend of PKR 2.0/share.
- The company's net sales stood at PKR 18.8bn, up 5% YoY on the back of higher product prices. Gross margins clocked in at 15.3% as compared to 20% in SPLY, down 4.7ppts YoY mainly due to absence of inventory gains.
- Distribution expense increased by 38% to PKR 217mn, whereas finance cost went up by 106% YoY to PKR 368mn mainly due to increased borrowing coupled with high interest rates.
- On the contrary, effective tax rate remained 24.1% as against 28.8% in same period last year, restricting the decline in bottomline.
- On sequential basis, ISL posted earnings decline of 42% QoQ owing to lower volumetric sales and gross margin contraction by 2.4%.
- We have a 'Buy' stance on ISL. Our Dec-22 price target (PT) of PKR 112/share provides an upside of 61% along with a dividend yield of 11%.

### Key Data

PSX Ticker	ISL
Target Price (PKR)	112
Current Price (PKR)	70
Upside/(Downside) (%)	+ 61%
Dividend Yield (%)	11%
Total Return (%)	+ 72%
12-month High (PKR)	103
12-month Low (PKR)	58
Outstanding Shares (mn)	435
Market Cap (PKR mn)	30,359
Year End	June

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	17,849	18,805	5%	33,516	43,294	29%
Cost of Sales	14,285	15,930	12%	28,560	36,084	26%
<b>Gross Profit</b>	<b>3,564</b>	<b>2,875</b>	<b>-19%</b>	<b>4,956</b>	<b>7,211</b>	<b>45%</b>
Selling & Distribution cost	157	217	38%	359	396	10%
Admin expenses	89	80	-10%	145	165	14%
Other Income	258	147	-43%	310	153	-51%
Other Charges	287	305	6%	356	585	64%
Finance cost	179	368	106%	438	544	24%
<b>Profit Before Taxation</b>	<b>3,110</b>	<b>2,051</b>	<b>-34%</b>	<b>3,968</b>	<b>5,672</b>	<b>43%</b>
Taxation	895	495	-45%	1,193	1,449	21%
<b>Net Income</b>	<b>2,215</b>	<b>1,556</b>	<b>-30%</b>	<b>2,774</b>	<b>4,224</b>	<b>52%</b>
<b>EPS</b>	<b>5.09</b>	<b>3.58</b>	<b>-30%</b>	<b>6.38</b>	<b>9.71</b>	<b>52%</b>
DPS	3.00	2.00		3.00	2.00	

### Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	6.12	1.14	17.16	13.50	11.99	14.28
EPS Growth	-39%	-81%	14x	-21%	-11%	19%
DPS	3.00	0.00	10.00	8.00	7.00	8.30
PER	11.4	61.3	4.1	5.2	5.8	4.9
Dividend Yield	4.3%	0.0%	14.3%	11.5%	10.0%	11.9%
EV/EBITDA	7.8	11.6	3.3	3.6	3.9	3.3
P/B	2.4	2.4	1.6	1.4	1.3	1.2
ROE	21.6%	3.9%	47.2%	29.3%	23.4%	25.3%

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 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0% and weighted average cost of capital of 14.5%.

### Investment Thesis

We have a "BUY" recommendation on the stock based on our PT of PKR 112/share. Our price target indicates an upside of 61% along with a dividend yield of 11%. Our investment case on ISL is based on 1) strong 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	90,630	101,887	113,967
Cost of sales	51,035	43,869	56,304	78,293	90,213	100,762
<b>Gross Profit</b>	<b>6,449</b>	<b>4,213</b>	<b>13,492</b>	<b>12,337</b>	<b>11,674</b>	<b>13,206</b>
SG & A	986	1,157	1,425	1,581	1,825	2,145
<b>Operating Profit</b>	<b>5,463</b>	<b>3,056</b>	<b>12,067</b>	<b>10,756</b>	<b>9,850</b>	<b>11,061</b>
Other income	39	36	316	161	234	373
Other charges	534	334	1,277	1,039	895	896
Finance cost	1,289	2,315	812	1,605	1,842	1,791
<b>Profit before tax</b>	<b>3,679</b>	<b>442</b>	<b>10,295</b>	<b>8,274</b>	<b>7,346</b>	<b>8,747</b>
Taxation	1,015	-53	2,828	2,399	2,130	2,537
<b>Profit after tax</b>	<b>2,664</b>	<b>495</b>	<b>7,466</b>	<b>5,874</b>	<b>5,216</b>	<b>6,211</b>

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	30,056	34,860	39,627
<b>Total Assets</b>	<b>39,762</b>	<b>42,861</b>	<b>41,720</b>	<b>47,854</b>	<b>51,779</b>	<b>55,739</b>
Non-Current liabilities	8,598	6,580	6,475	5,088	3,811	3,045
Current liabilities	18,286	23,556	16,357	21,572	24,659	26,836
<b>Total Liabilities</b>	<b>26,884</b>	<b>30,135</b>	<b>22,832</b>	<b>26,660</b>	<b>28,470</b>	<b>29,881</b>
Equity	11,590	11,472	17,667	20,062	22,232	24,833
<b>Total Equity &amp; liabilities</b>	<b>39,762</b>	<b>42,861</b>	<b>41,719</b>	<b>47,854</b>	<b>51,779</b>	<b>55,738</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,664	495	7,466	5,874	5,216	6,211
Non-cash Charges	1,078	1,405	1,538	1,410	1,323	1,258
<b>Operating Cash flows</b>	<b>3,556</b>	<b>1,997</b>	<b>7,600</b>	<b>4,431</b>	<b>4,062</b>	<b>5,686</b>
<b>FCFF</b>	<b>1,812</b>	<b>2,359</b>	<b>8,140</b>	<b>5,563</b>	<b>4,926</b>	<b>6,507</b>
<b>Net Borrowings</b>	<b>1,036</b>	<b>582</b>	<b>-6,061</b>	<b>1,032</b>	<b>163</b>	<b>-2</b>
FCFE	<b>1,914</b>	<b>350</b>	<b>1,490</b>	<b>5,455</b>	<b>3,781</b>	<b>5,234</b>
Net change in cash	303	-297	186	1,887	680	1,572
<b>Closing cash</b>	<b>403</b>	<b>106</b>	<b>292</b>	<b>2,180</b>	<b>2,860</b>	<b>4,432</b>

Source: Company Accounts, Akseer Research

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