

2QFY23 EPS likely at PKR 1.1, down 68% YoY

- ISL's board meeting is scheduled on January 27, 2023 to consider 2QFY23 financial results. We expect the company to post net earnings of PKR 1.1/share, down 68% YoY as against an EPS of PKR 3.6 in the SPLY. This decline in earnings can mainly be attributed to lower volumetric sales, gross margin contraction amid higher production cost and increase in finance cost. This will take 1HFY23 earnings to PKR 2.2/share, down 78% YoY. Along with the result, we expect ISL to announce an interim dividend of PKR 1.0/share.
- The company's net sales are likely to decline by 8% YoY, and settle at PKR 17.3bn mainly due to lower volumetric sales. Similarly, gross margin is likely to contract by 2.2% to 13.1% during the quarter owing to higher input costs and currency devaluation.
- Finance cost is anticipated to increase to PKR 973mn as compared to PKR 368mn in SPLY, up 164% YoY due to higher interest rates.
- We have a "SELL" call on ISL. Our Dec-23 PT of PKR 42/share indicates an upside of 3% along with a dividend yield of 7.3%.

Key Data

PSX Ticker	ISL
Target Price (PKR)	42
Current Price (PKR)	41
Upside/(Downside) (%)	3%
Dividend Yield (%)	7.3%
Total Return (%)	11%
12-month High (PKR)	71
12-month Low (PKR)	37
Outstanding Shares (mn)	435
Market Cap (PKR mn)	17,887
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Net Sales	18,805	17,268	-8%	43,294	33,812	-22%
Cost of Sales	15,930	15,004	-6%	36,084	29,308	-19%
Gross Profit	2,875	2,265	-21%	7,211	4,504	-38%
Selling & Distribution cost	217	303	40%	396	368	-7%
Admin expenses	80	125	55%	165	192	17%
Other Charges	305	147	-52%	585	923	58%
Finance cost	368	973	164%	544	1,836	237%
Profit Before Taxation	2,051	742	-64%	5,672	1,236	-78%
Taxation	495	245	-51%	1,449	291	-80%
Net Income	1,556	497	-68%	4,224	945	-78%
EPS	3.58	1.14	-68%	9.71	2.17	-78%
DPS	2.00	1.00		2.00	1.00	

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	1.1	17.2	12.4	7.1	9.0	12.4
EPS Growth	-81%	14x	-28%	-43%	27%	37%
DPS	0.0	10.0	6.5	3.0	4.1	6.0
PER	36.1	2.4	3.3	5.8	4.6	3.3
Dividend Yield	0.0%	24.3%	15.8%	7.3%	10.0%	14.6%
EV/EBITDA	8.6	2.3	3.6	2.9	2.6	2.1
P/B	1.4	0.9	0.8	0.8	0.7	0.6
ROE	3.9%	47.2%	26.7%	13.8%	16.1%	20.1%

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 17.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23.0% and weighted average cost of capital of 17.8%.

Investment Thesis

We have a "SELL" recommendation on the stock based on our Dec-23 PT of PKR 42/share. Our price target indicates an upside of 3% along with a dividend yield of 7.3%. Our investment case on ISL is based on overall decline in demand from Auto, Appliances and Construction sector.

Risks

Key upside risks to our investment thesis are: 1) Higher than anticipated demand from Auto, Appliances and Construction sector 2) Removal of import restriction by government and 3) decline in interest rates.

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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Sales	48,082	69,796	91,424	76,052	78,162	86,021
Cost of Sales	43,869	56,304	79,042	66,264	68,695	75,016
Gross Profit	4,213	13,492	12,381	9,788	9,467	11,006
SG & A	1,157	1,425	1,951	1,415	1,935	1,797
Operating Profit	3,056	12,067	10,430	8,373	7,532	9,209
Other Income	36	316	201	285	370	466
Other Charges	334	1,277	1,308	1,217	564	671
Finance Cost	2,315	812	1,323	2,809	1,472	977
Profit Before Tax	442	10,295	8,001	4,631	5,865	8,027
Taxation	-53	2,828	2,589	1,528	1,935	2,649
Profit After Tax	495	7,466	5,412	3,103	3,930	5,378

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	20,688	19,199	20,813	19,673	19,783	19,960
Other LT assets	1	1	177	461	681	902
Non-Current Assets	20,689	19,200	20,990	20,134	20,465	20,862
Current assets	22,172	22,520	34,915	24,804	25,054	26,610
Total Assets	42,861	41,720	55,905	44,939	45,519	47,472
Non-Current liabilities	6,580	6,475	5,096	4,096	3,432	3,462
Current liabilities	23,556	16,357	29,213	17,573	16,659	15,793
Total Liabilities	30,135	22,832	34,309	21,670	20,091	19,255
Equity	11,472	17,667	19,185	20,983	23,129	25,897
Total Equity & liabilities	42,861	41,720	55,905	44,939	45,519	47,472

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	495	7,466	5,412	3,103	3,930	5,378
Non-cash Charges	1,405	1,538	1,517	1,417	1,381	1,391
Operating Cash flows	1,997	7,601	-2,953	15,143	5,929	5,261
FCFF	2,359	8,140	-5,366	16,464	5,204	4,128
Net Borrowings	582	-6,061	9,568	-12,596	-1,711	-1,669
FCFE	350	1,491	3,308	1,986	2,506	1,804
Net Change in Cash	-297	186	604	556	735	-786
Closing cash	106	293	896	1,453	2,188	1,402

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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