

3QFY22 EPS expected at PKR 1.8, down 67% YoY

- ISL's board meeting is scheduled on April 21, 2022 to consider 3QFY22 financial results. We expect the company to post earnings decline of 67% YoY to PKR 1.8/share as against PKR 5.47/share in SPLY. This decline in earnings mainly emanate from lack of inventory gains booked in corresponding period last year. This takes ISL's 9MFY22 earnings to PKR 11.5/share, down 3% YoY.
- Net sales are likely to grow by 36% YoY to PKR 23.7bn on account of higher product prices and increased volumetric sales. On the contrary, we expect gross margin to clock in at 9% as against 24% in SPLY owing to absence of inventory gains.
- Selling and Admin expenses are expected to decline by 16% and 39% YoY, respectively, whereas we expect finance cost to increase by 2.5x YoY to PKR 553mn, on the back of increased borrowings and higher interest rates.
- Furthermore, we expect effective tax rate to remain 29% during 3QFY22.
- We have a "BUY" stance on ISL. Our Dec-22 PT of PKR 114/share indicates an upside of 71% along with a dividend yield of 9.0%.

Key Data

PSX Ticker	ISL
Target Price (PKR)	114
Current Price (PKR)	67
Upside/(Downside) (%)	+ 71%
Dividend Yield (%)	9%
Total Return (%)	+ 80%
12-month High (PKR)	103
12-month Low (PKR)	55
Outstanding Shares (mn)	435
Market Cap (PKR mn)	28,936
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates

	3QFY21	3QFY22E	YoY	9MFY21	9MFY22	YoY
Net Sales	17,402	23,726	36%	50,918	67,020	32%
Cost of Sales	13,305	21,624	63%	41,865	57,708	38%
Gross Profit	4,097	2,102	-49%	9,053	9,312	3%
Selling & Distribution cost	257	217	-16%	616	613	0%
Admin expenses	131	80	-39%	276	245	-11%
Other Charges	253	290	15%	609	875	44%
Finance cost	158	553	250%	596	1,097	84%
Profit Before Taxation	3,352	1,109	-67%	7,320	6,781	-7%
Taxation	974	321	-67%	2,168	1,770	-18%
Net Income	2,378	1,556	-35%	5,152	5,011	-3%
EPS	5.47	1.81	-67%	11.84	11.52	-3%

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	6.12	1.14	17.16	14.45	12.20	14.78
EPS Growth	-39%	-81%	14x	-16%	-16%	21%
DPS	3.00	0.00	10.00	6.00	5.00	6.70
PER	10.9	58.5	3.9	4.6	5.5	4.5
Dividend Yield	4.5%	0.0%	15.0%	9.0%	7.5%	10.1%
EV/EBITDA	7.6	11.3	3.2	3.2	3.4	2.8
P/B	2.2	2.3	1.5	1.3	1.1	1.0
ROE	21.6%	3.9%	47.2%	30.4%	22.1%	23.6%

Source: Company Accounts, Akseer Research

Shahir Shahid
shahir.shahid@alphacapital.com

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 14.6%.

Investment Thesis

We have a "BUY" recommendation on the stock based on our PT of PKR 114/share. Our price target indicates an upside of 71% along with a dividend yield of 9%. 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	77,688	90,213	100,762
Gross Profit	6,449	4,213	13,492	12,942	11,674	13,206
SG & A	986	1,157	1,425	1,581	1,825	2,145
Operating Profit	5,463	3,056	12,067	11,361	9,850	11,061
Other Income	39	36	316	161	365	697
Other Charges	534	334	1,277	1,068	901	911
Finance Cost	1,289	2,315	812	1,600	1,838	1,791
Profit Before Tax	3,679	442	10,295	8,854	7,476	9,055
Taxation	1,015	-53	2,828	2,568	2,168	2,626
Profit After Tax	2,664	495	7,466	6,286	5,308	6,429

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	31,182	37,072	42,734
Total Assets	39,762	42,861	41,720	48,980	53,991	58,846
Non-Current liabilities	8,598	6,580	6,475	5,088	3,811	3,045
Current liabilities	18,286	23,556	16,357	21,416	24,658	26,836
Total Liabilities	26,884	30,135	22,832	26,504	28,470	29,881
Equity	11,590	11,472	17,667	21,343	24,445	27,939
Total Equity & liabilities	39,762	42,861	41,720	48,980	53,991	58,846

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	2,664	495	7,466	6,286	5,308	6,429
Non-cash Charges	1,078	1,405	1,538	1,410	1,323	1,258
Operating Cash flows	3,556	1,997	7,600	5,652	4,054	5,905
FCFF	1,812	2,359	8,140	6,780	4,915	6,726
Net Borrowings	1,036	582	-6,061	959	236	-2
FCFE	1,914	350	1,490	6,603	3,846	5,453
Net Change in Cash	303	-297	186	3,905	1,615	2,487
Closing cash	403	106	292	4,198	5,812	8,299

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 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

Alpha Capital (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