

ISL - FY21 EPS expected at PKR 17.74 up 14.6x YoY, 4QFY21 EPS at PKR 5.90

- ISL's board meeting is scheduled on 24th August, 2021 to consider FY21 financial results. We expect the company to post earnings of PKR 17.74/share, up 14.6x YoY in FY21 as against an EPS of PKR 1.14 in FY20.
- Along with the result, ISL is expected to announce a final dividend of PKR 4.5/share, in addition to already announced interim dividend of PKR 3.0/share, taking the cumulative pay out to PKR 7.5/share in FY21.
- The company's top line is likely to increase by 1.2x YoY, mainly due to higher volumes led by revival of economic activities after COVID-19.
- Gross margins (GMs) are likely to clock in at 19% during FY21 as against 9% in FY20. The improvement in GMs can mainly be attributed to inventory gains booked during the year.
- Finance cost is anticipated to decline by 61% YoY and settle at PKR 0.9bn, driven by interest rate cuts and decline in short-term borrowing.
- On quarterly basis, ISL is likely to post an EPS of PKR 5.90 as against an LPS of PKR 0.37 in SPLY. Noticeable surge in sales and improved margins post recovery from COVID-19 led to the profitable bottomline.
- The stock is fairly valued at current price, with our Dec-21 PT of PKR 92/share and a dividend yield of 8%.

Key Data

PSX Ticker	ISL
Target Price (PKR)	92
Current Price (PKR)	92
Upside/(Downside) (%)	0%
Dividend Yield (%)	8%
Total Return (%)	+ 8%
12-month High (PKR)	103
12-month Low (PKR)	67
Outstanding Shares (mn)	435
Market Cap (PKR mn)	40,203
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21E	YoY	FY20	FY21E	YoY
Net Sales	9,589	21,364	123%	48,082	72,281	50%
Cost of Sales	8,776	16,767	91%	43,869	58,632	34%
Gross Profit	813	4,597	465%	4,213	13,650	224%
Selling & Distribution cost	162	280	72%	894	896	0%
Admin expenses	65	148	129%	263	424	61%
Other Income	(69)	16	NM	36	380	970%
Other Charges	171	329	92%	334	938	181%
Finance cost	568	304	-46%	2,315	900	-61%
Profit Before Taxation	(222)	3,551	NM	442	10,871	23.6x
Taxation	(62)	985	NM	(53)	3,153	NM
Net Income	(161)	2,566	NM	495	7,719	14.6x
EPS	(0.37)	5.90	NM	1.14	17.74	14.6x
DPS	0.00	4.50		0.00	4.50	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
EPS	10.03	6.12	1.14	17.74	9.44	11.00
EPS Growth	43%	-39%	-81%	14.6x	-47%	17%
DPS	4.50	3.00	0.00	7.50	4.00	4.70
PER	9.2	15.1	81.2	5.2	9.8	8.4
Dividend Yield	4.9%	3.2%	0.0%	8.1%	4.3%	5.1%
EV/EBITDA	7.9	9.5	13.9	4.0	6.2	5.4
P/B	9.2	15.1	81.2	5.2	9.8	8.4
ROE	42.8%	21.6%	3.9%	51.5%	22.3%	22.9%

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 12.3%.

Investment Thesis

We have a "HOLD" recommendation on the stock based on our PT of PKR 92/share. Our price target indicates no upside along with a dividend yield of 8%. Our investment case on ISL is based on the fact that despite impressive earnings, we expect the volumetric growth to stabilize going forward as rebound in demand post COVID-19 shock will normalize.

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) slow recovery from covid-19 related slowdown.

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)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net sales	47,621	57,484	48,082	72,281	91,820	105,593
Cost of sales	40,048	51,035	43,869	58,632	82,131	94,578
Gross Profit	7,573	6,449	4,213	13,650	9,689	11,015
SG & A	720	986	1,157	1,320	1,313	1,402
Operating Profit	6,853	5,463	3,056	12,330	8,376	9,613
Other income	151	39	36	380	155	307
Other charges	662	534	334	938	961	1,111
Finance cost	539	1,289	2,315	900	1,787	2,067
Profit before tax	5,803	3,679	442	10,871	5,783	6,742
Taxation	1,438	1,015	-53	3,153	1,677	1,955
Profit after tax	4,365	2,664	495	7,719	4,106	4,787

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	18,263	19,862	20,688	19,719	18,912	18,171
Other LT assets	3	3	1	1	1	1
Non-Current Assets	18,265	19,865	20,689	19,720	18,914	18,172
Current assets	17,327	19,897	22,172	24,254	32,532	37,622
Total Assets	35,592	39,762	42,861	43,974	51,446	55,794
Non-Current liabilities	8,477	8,598	6,580	6,434	5,206	3,953
Current liabilities	15,291	18,286	23,556	20,304	26,686	29,590
Total Liabilities	23,768	26,884	30,135	26,738	31,892	33,543
Equity	10,883	11,590	11,472	16,046	18,412	21,155
Total Equity & liabilities	35,593	39,762	42,861	43,974	51,446	55,794

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	4,365	2,664	495	7,719	4,106	4,787
Non-cash Charges	858	1,078	1,412	1,416	1,354	1,299
Operating Cash flows	46	3,556	2,005	8,536	403	3,325
FCFF	-5,028	1,812	2,359	8,728	1,125	4,235
Net Borrowings	6,575	1,036	582	-3,070	2,609	-97
FCFE	1,141	1,914	350	5,018	2,466	2,670
Net change in cash	47	303	-297	1,810	677	581
Closing cash	100	403	106	1,916	2,593	3,174

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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Rating	Expected Total Return
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Hold	Between -5% and +15%
Sell	Less than or equal to -5%

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