

ISL - FY21 EPS clocks in at PKR 17.16 up 14.1x YoY, 4QFY21 EPS at PKR 5.32

- ISL's announced its financial results for FY21 today, wherein the company reported an EPS of PKR 17.16/share, up 14.1x YoY. The result was slightly below our expectation of PKR 17.76/share, mainly due to higher-than-expected operating expenses.
- Along with the result, ISL announced a final dividend of PKR 7.0/share, in addition to already announced interim dividend of PKR 3.0/share, taking the cumulative pay out to PKR 10.0/share in FY21.
- The company's top line increased by 45% YoY and settled at PKR 69.8bn, due to higher volumes led by revival of economic activities post pandemic related lockdowns.
- Gross margins (GMs) clocked 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 declined by 65% YoY to PKR 812mn, driven by interest rate cuts and decline in short-term borrowing.
- On quarterly basis, ISL posted an EPS of PKR 5.32 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 6%.

Key Data

PSX Ticker	ISL
Target Price (PKR)	92
Current Price (PKR)	98
Upside/(Downside) (%)	-6%
Dividend Yield (%)	6%
Total Return (%)	0%
12-month High (PKR)	103
12-month Low (PKR)	67
Outstanding Shares (mn)	435
Market Cap (PKR mn)	42,665
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY20	4QFY21	YoY	FY20	FY21	YoY
Net Sales	9,589	18,878	97%	48,082	69,796	45%
Cost of Sales	8,776	14,439	65%	43,869	56,304	28%
Gross Profit	813	4,439	446%	4,213	13,492	220%
Selling & Distribution cost	162	447	175%	894	1,063	19%
Admin expenses	65	85	32%	263	362	38%
Other Income	(69)	(49)	NM	36	316	789%
Other Charges	171	667	290%	334	1,277	282%
Finance cost	568	216	-62%	2,315	812	-65%
Profit Before Taxation	(222)	2,975	NM	442	10,295	22.3x
Taxation	(62)	660	NM	(53)	2,828	NM
Net Income	(161)	2,314	Nm	495	7,466	14.1x
EPS	(0.37)	5.32	NM	1.14	17.16	14.1x
DPS	0.00	7.00		0.00	10.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21A	FY22F	FY23F
EPS	10.03	6.12	1.14	17.16	9.35	10.69
EPS Growth	43%	-39%	-81%	14.1x	-46%	14%
DPS	4.50	3.00	0.00	10.00	5.40	6.20
PER	9.8	16.0	86.2	5.7	10.5	9.2
Dividend Yield	4.6%	3.1%	0.0%	10.2%	5.5%	6.3%
EV/EBITDA	8.2	9.9	14.5	4.5	6.7	6.0
P/B	9.8	16.0	86.2	5.7	10.5	9.2
ROE	42.8%	21.6%	3.9%	52.2%	24.3%	25.1%

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 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 6%. 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	69,796	91,820	105,593
Cost of sales	40,048	51,035	43,869	56,304	82,131	94,578
Gross Profit	7,573	6,449	4,213	13,492	9,689	11,015
SG & A	720	986	1,157	1,425	1,313	1,402
Operating Profit	6,853	5,463	3,056	12,067	8,376	9,613
Other income	151	39	36	316	78	111
Other charges	662	534	334	1,277	960	1,106
Finance cost	539	1,289	2,315	812	1,767	2,067
Profit before tax	5,803	3,679	442	10,295	5,728	6,551
Taxation	1,438	1,015	-53	2,828	1,661	1,900
Profit after tax	4,365	2,664	495	7,466	4,067	4,651

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	22,159	30,542	34,846
Total Assets	35,592	39,762	42,861	41,879	49,456	53,018
Non-Current liabilities	8,477	8,598	6,580	6,434	5,206	3,953
Current liabilities	15,291	18,286	23,556	19,549	26,684	29,590
Total Liabilities	23,768	26,884	30,135	25,983	31,890	33,543
Equity	10,883	11,590	11,472	14,706	16,424	18,379
Total Equity & liabilities	35,593	39,762	42,861	41,879	49,456	53,018

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	4,365	2,664	495	7,466	4,067	4,651
Non-cash Charges	858	1,078	1,412	1,416	1,354	1,299
Operating Cash flows	46	3,556	2,005	8,737	-92	3,192
FCFF	-5,028	1,812	2,359	8,879	616	4,102
Net Borrowings	6,575	1,036	582	-3,466	3,005	-97
FCFE	1,141	1,914	350	4,824	2,366	2,537
Net change in cash	47	303	-297	528	-31	-205
Closing cash	100	403	106	634	603	398

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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