

Company to post 1QFY23 EPS of PKR 1.9, down 68% YoY

- ISL's board meeting is scheduled on October 24, 2022 to consider 1QFY23 financial results. We expect the company to post net earnings of PKR 1.9/share, down 68% YoY as against an EPS of PKR 6.1 in the SPLY. This decline in earnings can mainly be attributed to lower volumetric sales, gross margin contraction amid absence of inventory gains and higher production cost.
- The company's net sales are likely to decline by 13% YoY, and settle at PKR 21.2bn mainly due to lower volumetric sales. Similarly, gross margin is likely to contract by 5.5% to 12.2% during the quarter owing to higher input costs and currency devaluation.
- Selling & distribution expenses are expected to increase by 2.3x YoY to PKR 597mn on account of higher freight charges. Similarly, finance cost is anticipated to increase by 2.1x YoY to PKR 540mn due to higher interest rates and increased borrowings.
- Effective tax rate is expected at 33% as against 26% in SPLY, further deteriorating the bottomline growth.
- On sequential basis, ISL's earnings are expected to post an increase of 13.8x QoQ due to low base effect as ISL booked enormous tax expense owing to super tax during preceding quarter.
- We have a "BUY" stance on ISL. Our Jun-23 PT of PKR 94/share indicates an upside of 74% along with a dividend yield of 7.4%.

Key Data

PSX Ticker	ISL
Target Price (PKR)	94
Current Price (PKR)	54
Upside/(Downside) (%)	+ 74%
Dividend Yield (%)	7.4%
Total Return (%)	+ 82%
12-month High (PKR)	88
12-month Low (PKR)	53
Outstanding Shares (mn)	435
Market Cap (PKR mn)	23,425
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QFY22	1QFY23E	YoY
Net Sales	24,489	21,213	-13%
Cost of Sales	20,154	18,628	-8%
Gross Profit	4,335	2,585	-40%
Selling & Distribution cost	180	597	232%
Admin expenses	85	110	31%
Other Charges	280	147	-48%
Finance cost	176	540	207%
Profit Before Taxation	3,621	1,263	-65%
Taxation	954	417	-56%
Net Income	2,668	846	-68%
EPS	6.13	1.95	-68%
DPS	-	-	

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	1.1	17.2	12.4	9.3	11.8	14.1
EPS Growth	-81%	14x	-28%	-25%	26%	19%
DPS	0.0	10.0	6.5	4.0	5.3	6.0
PER	47.3	3.1	4.3	5.8	4.6	3.8
Dividend Yield	0.0%	18.6%	12.1%	7.4%	9.8%	11.1%
EV/EBITDA	9.9	2.8	4.1	3.3	3.0	2.4
P/B	1.8	1.2	1.1	1.0	0.9	0.8
ROE	3.9%	47.2%	26.7%	17.9%	20.4%	21.5%

Source: Company Accounts, Akseer Research

Aftab Awan
aftab.awan@alphacapital.com.pk

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 13.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19.0% and weighted average cost of capital of 14.6%.

Investment Thesis

We have a "BUY" recommendation on the stock based on our Jun-23 PT of PKR 94/share. Our price target indicates an upside of 74% along with a dividend yield of 7.4%. Our investment case on ISL is based on 1) 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)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Sales	48,082	69,796	91,424	90,366	96,081	103,037
Cost of Sales	43,869	56,304	79,042	79,017	84,946	90,613
Gross Profit	4,213	13,492	12,381	11,350	11,135	12,424
SG & A	1,157	1,425	1,951	2,829	1,935	1,997
Operating Profit	3,056	12,067	10,430	8,521	9,200	10,427
Other Income	36	316	201	285	385	432
Other Charges	334	1,277	1,308	586	661	730
Finance Cost	2,315	812	1,323	2,159	1,257	1,004
Profit Before Tax	442	10,295	8,001	6,061	7,667	9,125
Taxation	-53	2,828	2,589	2,000	2,530	3,011
Profit After Tax	495	7,466	5,412	4,061	5,137	6,114

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	28,216	29,906	31,788
Total Assets	42,861	41,720	55,905	48,350	50,371	52,649
Non-Current liabilities	6,580	6,475	5,096	4,096	3,432	3,462
Current liabilities	23,556	16,357	29,213	20,462	20,303	19,027
Total Liabilities	30,135	22,832	34,309	24,558	23,735	22,489
Equity	11,472	17,667	19,185	21,506	24,337	27,841
Total Equity & liabilities	42,861	41,721	55,905	48,350	50,371	52,649

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	495	7,466	5,412	4,061	5,137	6,114
Non-cash Charges	1,405	1,538	1,517	1,417	1,381	1,391
Operating Cash flows	1,997	7,601	-2,953	14,537	5,270	6,868
FCFF	2,359	8,140	-5,366	15,422	4,400	5,752
Net Borrowings	582	-6,061	9,568	-11,320	-1,524	-2,040
FCFE	350	1,491	3,308	2,655	2,034	3,040
Net Change in Cash	-297	186	604	790	-258	450
Closing cash	106	293	896	1,686	1,428	1,878

Source: Company Accounts, Akseer Research

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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 (Formerly: Alfa Adhi Securities (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.pk