

## 1QFY23 EPS clocks in at PKR 1.03, down 83% YoY

- ISL announced its 1QFY23 financial results today, where the company reported net earnings of PKR 1.03/share, down 83% YoY as against an EPS of PKR 6.1 in the SPLY. This decline in earnings mainly came from lower volumetric sales, gross margin contraction amid absence of inventory gains and higher production cost.
- The company's net sales declined by 32% YoY, and settled at PKR 16.5bn mainly due to lower volumetric sales amid demand contraction. Similarly, gross margin also contracted by 4.2% YoY to 13.5% during the quarter owing to higher input costs and currency devaluation.
- Selling & distribution expenses declined by 64% YoY to PKR 65mn as compared to PKR 180mn in SPLY owing to decrease in topline. On the contrary, other charges increased by 1.8x to PKR 775mn possibly due to exchange losses booked during the quarter.
- Finance cost also recorded an increase of 3.9x YoY to PKR 863mn due to higher interest rates and increased borrowings.
- Effective tax rate remained 9.3% as against 26.3% in SPLY which restricted the bottomline erosion to some extent.
- On sequential basis, ISL's earnings increased by 6.9x 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 77% along with a dividend yield of 7.5%.

### Key Data

PSX Ticker	ISL
Target Price (PKR)	94
Current Price (PKR)	53
Upside/(Downside) (%)	+ 77%
Dividend Yield (%)	7.5%
Total Return (%)	+ 85%
12-month High (PKR)	88
12-month Low (PKR)	53
Outstanding Shares (mn)	435
Market Cap (PKR mn)	23,077
Year End	June

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	1QFY22	1QFY23	YoY
Net Sales	24,489	16,544	-32%
Cost of Sales	20,154	14,304	-29%
<b>Gross Profit</b>	<b>4,335</b>	<b>2,240</b>	<b>-48%</b>
Selling & Distribution cost	180	65	-64%
Admin expenses	85	68	-20%
Other Charges	280	775	177%
Finance cost	176	863	390%
<b>Profit Before Taxation</b>	<b>3,621</b>	<b>494</b>	<b>-86%</b>
Taxation	954	46	-95%
<b>Net Income</b>	<b>2,668</b>	<b>448</b>	<b>-83%</b>
EPS	6.13	1.03	-83%
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	46.6	3.1	4.3	5.7	4.5	3.8
Dividend Yield	0.0%	18.9%	12.3%	7.5%	10.0%	11.3%
EV/EBITDA	9.9	2.8	4.0	3.3	2.9	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

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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 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 77% along with a dividend yield of 7.5%. 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
<b>Gross Profit</b>	<b>4,213</b>	<b>13,492</b>	<b>12,381</b>	<b>11,350</b>	<b>11,135</b>	<b>12,424</b>
SG & A	1,157	1,425	1,951	2,829	1,935	1,997
<b>Operating Profit</b>	<b>3,056</b>	<b>12,067</b>	<b>10,430</b>	<b>8,521</b>	<b>9,200</b>	<b>10,427</b>
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
<b>Profit Before Tax</b>	<b>442</b>	<b>10,295</b>	<b>8,001</b>	<b>6,061</b>	<b>7,667</b>	<b>9,125</b>
Taxation	-53	2,828	2,589	2,000	2,530	3,011
<b>Profit After Tax</b>	<b>495</b>	<b>7,466</b>	<b>5,412</b>	<b>4,061</b>	<b>5,137</b>	<b>6,114</b>

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
<b>Total Assets</b>	<b>42,861</b>	<b>41,721</b>	<b>55,905</b>	<b>48,350</b>	<b>50,372</b>	<b>52,650</b>
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
<b>Total Liabilities</b>	<b>30,135</b>	<b>22,832</b>	<b>34,309</b>	<b>24,558</b>	<b>23,735</b>	<b>22,489</b>
Equity	11,472	17,667	19,185	21,506	24,337	27,841
<b>Total Equity &amp; liabilities</b>	<b>42,861</b>	<b>41,721</b>	<b>55,905</b>	<b>48,350</b>	<b>50,372</b>	<b>52,650</b>

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
<b>Operating Cash flows</b>	<b>1,997</b>	<b>7,601</b>	<b>-2,953</b>	<b>14,537</b>	<b>5,270</b>	<b>6,868</b>
<b>FCFF</b>	<b>2,359</b>	<b>8,140</b>	<b>-5,366</b>	<b>15,422</b>	<b>4,400</b>	<b>5,752</b>
Net Borrowings	582	-6,061	9,568	-11,320	-1,524	-2,040
<b>FCFE</b>	<b>350</b>	<b>1,491</b>	<b>3,308</b>	<b>2,655</b>	<b>2,034</b>	<b>3,040</b>
Net Change in Cash	-297	186	604	790	-258	450
<b>Closing cash</b>	<b>106</b>	<b>293</b>	<b>896</b>	<b>1,686</b>	<b>1,428</b>	<b>1,878</b>

Source: Company Accounts, Akseer Research

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