

3QFY22 EPS clocks in at PKR 2.60, down 52% YoY;

- ISL announced its 3QFY22 financial results today, where the company posted an EPS of PKR 2.60, down 52% YoY. The result was above our estimates mainly due to lower than estimated financial charges, other charges and effective tax rate. This takes ISL's 9MFY22 earnings to PKR 12.31/share, up 4% YoY.
- The company's net sales stood at PKR 27.3bn, up 57% YoY on the back of higher product prices. Gross margins clocked in at 8.4% as compared to 23.5% in SPLY mainly due to absence of inventory gains.
- Distribution expense increased by 35% to PKR 346mn, whereas finance cost went up by 129% YoY to PKR 361mn mainly due to increased borrowing coupled with high interest rates.
- Effective tax rate stood at 18.0% in 3QFY22 against 29.0% in same period last year, augmenting the earnings growth.
- On sequential basis, ISL posted earnings decline of 27% QoQ owing to lower volumetric sales and gross margin contraction by 6.8%.
- We have a 'Buy' stance on ISL. Our Dec-22 price target (PT) of PKR 114/share provides an upside of 77% along with a dividend yield of 9%.

Key Data

PSX Ticker	ISL
Target Price (PKR)	114
Current Price (PKR)	65
Upside/(Downside) (%)	+ 77%
Dividend Yield (%)	9%
Total Return (%)	+ 86%
12-month High (PKR)	103
12-month Low (PKR)	55
Outstanding Shares (mn)	435
Market Cap (PKR mn)	28,062
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	3QFY21	3QFY22	YoY	9MFY21	9MFY22	YoY
Net Sales	17,402	27,263	57%	50,918	70,557	39%
Cost of Sales	13,305	24,959	88%	41,865	61,043	46%
Gross Profit	4,097	2,304	-44%	9,053	9,514	5%
Selling & Distribution cost	257	346	35%	616	743	21%
Admin expenses	131	75	-43%	276	240	-13%
Other Income	55	22	-60%	364	175	-52%
Other Charges	253	170	-33%	609	755	24%
Finance cost	158	361	129%	596	906	52%
Profit Before Taxation	3,352	1,374	-59%	7,320	7,046	-4%
Taxation	974	242	-75%	2,168	1,691	-22%
Net Income	2,378	1,556	-35%	5,152	5,355	4%
EPS	5.47	2.60	-52%	11.84	12.31	4%
DPS	0.00	0.00		3.00	2.00	

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	6.12	1.14	17.16	13.50	11.99	14.28
EPS Growth	-39%	-81%	14x	-21%	-11%	19%
DPS	3.00	0.00	10.00	8.00	7.00	8.30
PER	11.4	61.3	4.1	5.2	5.8	4.9
Dividend Yield	4.3%	0.0%	14.3%	11.5%	10.0%	11.9%
EV/EBITDA	7.8	11.6	3.3	3.6	3.9	3.3
P/B	2.4	2.4	1.6	1.4	1.3	1.2
ROE	21.6%	3.9%	47.2%	29.3%	23.4%	25.3%

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 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 77% 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	319	602
Other charges	534	334	1,277	1,068	899	907
Finance cost	1,289	2,315	812	1,600	1,838	1,791
Profit before tax	3,679	442	10,295	8,854	7,432	8,965
Taxation	1,015	-53	2,828	2,568	2,155	2,600
Profit after tax	2,664	495	7,466	6,286	5,277	6,365

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	41,719	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	5,277	6,365
Non-cash Charges	1,078	1,405	1,538	1,410	1,323	1,258
Operating Cash flows	3,556	1,997	7,600	4,943	4,022	5,841
FCFF	1,812	2,359	8,140	6,071	4,884	6,662
Net Borrowings	1,036	582	-6,061	959	236	-2
FCFE	1,914	350	1,490	5,894	3,814	5,389
Net change in cash	303	-297	186	3,196	1,583	2,467
Closing cash	403	106	292	3,489	5,072	7,539

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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