

Pakistan

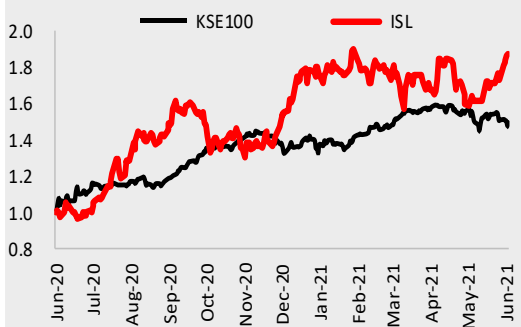
ISL PA Outperform

Price (LDCP)	Rs	99.0
Jun-22 Target Price	Rs	123.1
Upside/Downside	%	24.4
12M Target Price	Rs	122.4
- Discounted Cashflows		
Sector		ENGINEERING
Market cap	Rs bn	43.1
30-day avg turnover	\$ m	1.4
Market cap	\$ m	276.0
Freet float	m	152.3
Shares issued	m	435.0

Investment fundamentals

Year end Dec		2020A	2021E	2022E	2023E
Net Revenues	mn	48,082	70,808	83,723	92,903
EBITDA	m	4,483	13,495	13,686	13,351
EBITDA growth	m	-32%	201%	1%	-2%
PBT	m	442	10,230	9,501	8,973
Recurring prof.	%	442	10,230	9,501	8,973
Net Profit	m	495	7,218	6,745	6,371
EPS reported	Rs	1.1	16.6	15.5	14.6
Revenue Growth	%	(16.4)	47.3	18.2	11.0
EPS growth	%	(81.4)	1,358.6	(6.5)	(5.6)
PE	x	87.0	6.0	6.4	6.8
DPS	Rs	-	6.6	6.2	5.9
Div. Yield	%	-	6.7	6.3	6.0
ROA	%	1.2	16.8	14.7	12.5
ROE	%	4.3	50.3	35.1	27.6
EV/EBITDA	x	13.3	3.4	3.5	3.4
Net D/E	x	(0.3)	(0.0)	(0.2)	(0.2)
Price to Book	x	3.8	2.5	2.0	1.7
Price to Sales	x	0.9	0.6	0.5	0.5

ISL KSE 100 Relative Performance



Source: Bloomberg, Foundation Research, June 2021
(all figures are in Rs unless noted)

Analysts

Usman Arif usman.arif@fs.com.pk
+92 21 3561 2290-94 Ext 339

Foundation Securities (Pvt) Ltd
Thursday, June 17, 2021

International Steels Ltd

Higher margins to support pricing power

Event

- Recovery in international margins amid increased demand from private sector and declining market share of private importers would enhance pricing power of the company. Aforementioned factors along with favorable regulatory regime and significant share of exports is expected to improve company's profitability. Thus, we retain our "Outperform" stance on the scrip with June-22 Target price of Rs123.1/sh.

Impact

- Government regulatory incentives to boost profitability:** ISL is expected to benefit from (1) government decision to end regulatory duty on HRC imports, (2) Anti-dumping duty protection on imports from China, Ukraine, and Canada and (3) increased regulatory checks to curb under invoicing practice. To highlight, in FY22 budget government has ended concessionary regulatory duty of 5% imposed on HRC imports (translating into Rs4.7/sh positive impact). Furthermore, NTC has also initiated sunset review of Anti-Dumping Duty (ADD) imposed on flat steel products and is expected to announce its results during second half of FY22. However, we have assumed end of ADD during FY22.

- Demand from private sector to remain robust:** Extension in construction package and strong demand from private sector due to lower borrowing cost resulted in increased demand for flat steel products. Furthermore, demand from automobile sector has also witnessed significant growth as two wheelers/three wheelers demand increased by 43% YoY in 11MFY21.

- Strong cash flows to lower working capital requirement:** Strong liquidity position of ISL would allow it to efficiently manage its working capital needs in a manner that would result in lower financing cost. Furthermore, we expect ISL cash conversion cycle to clock at 45/36 days in FY22/23 as compared to 70/59 days in FY19/20.

- Restricted imports due to higher HRC-CRC margins to support pricing power:** We expect ISL to retain its pricing power going forward due to (1) sustainability of Intl margins leading towards higher CRC prices for private importers, (2) enhanced screening of private importers and (3) constrained global supply due to supply chain issues. To highlight, share of private importers also declined due to increased volatility in international prices.

Earnings Revision

- We have revised our EPS estimates for FY21/22/23 by ↑98/80/45% and our TP by 17.1% from Rs105.1/sh to Rs123.1/sh given higher than expected core margins.

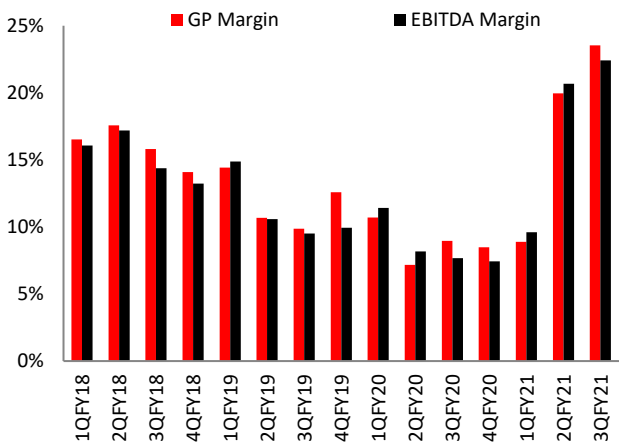
Price Catalyst

- June- 22 TP: Rs123.1/sh based on DCF methodology.
- Catalyst: (1) volumetric growth, (2) increased intl margins, (3) import substitution and (4) decline in working capital requirement.
- Risks: (1) Negative outcome of ADD review petition and (2) increased dumping.

Outlook

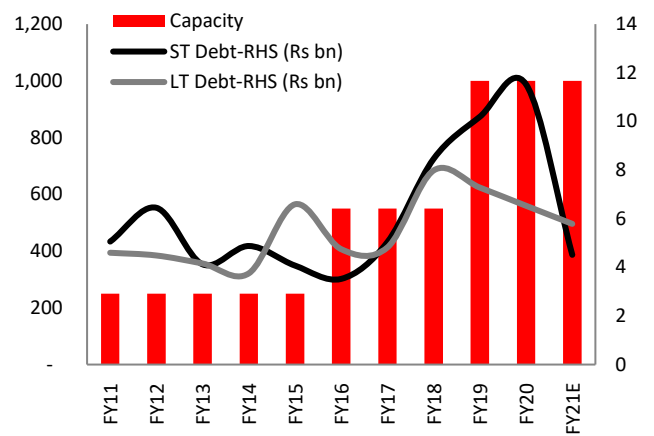
- We have an 'Outperform' stance on scrip with June-22 TP of 123.1sh.

Fig 1: Margins making new high due to ↑ Intl margins



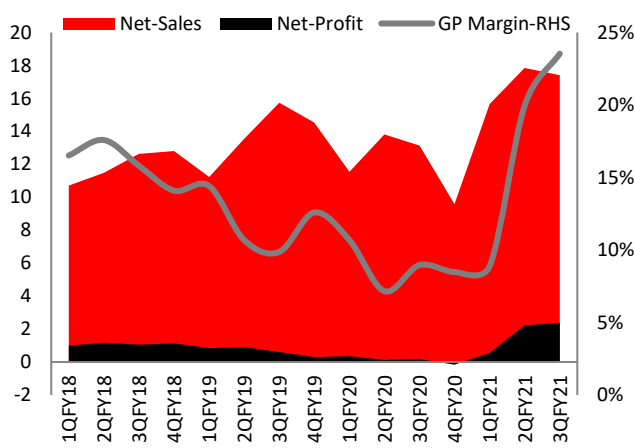
Source: Company acc, Foundation Research, June 2021

Fig 2: ST debt declined due to lower WC requirement



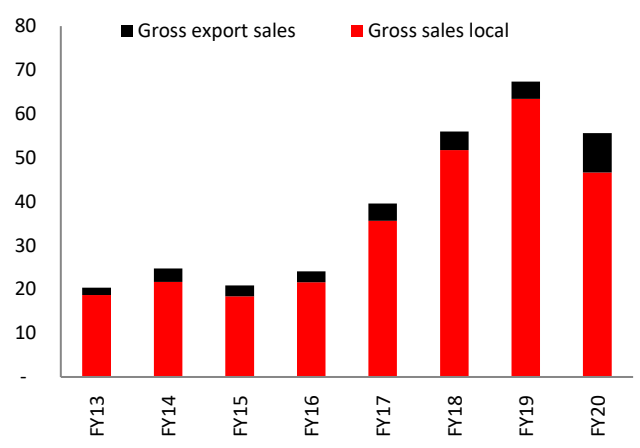
Source: Company acc, Foundation Research, June 2021

Fig 3: Profitability to improve amid ↑ margins (Rs mn)



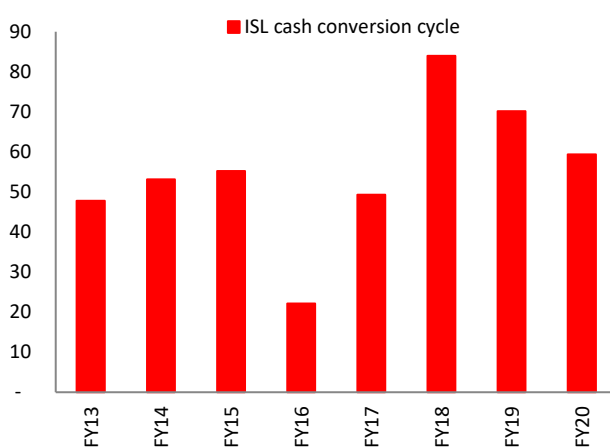
Source: Company acc, Foundation Research, June 2021

Fig 4: Increasing exports to provide dollar hedge (Rs bn)



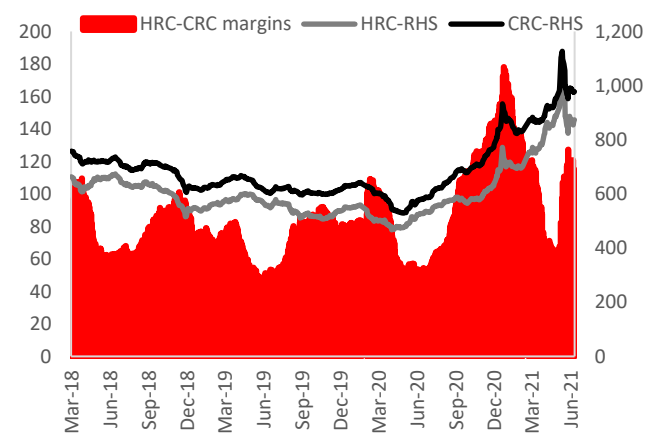
Source: Company acc, Foundation Research, June 2021

Fig 5: Decreasing cash conversion cycle (days)



Source: Company acc, Foundation Research, June 2021

Fig 6: Margins to remain on ↑ side due to ↑ demand



Source: Company acc, Foundation Research, June 2021

Table 1: International Steels Ltd (ISL PA, 'Outperform', Target price Rs123.13/sh.)

Balance Sheet						Profit & Loss					
		FY20A	FY21E	FY22E	FY23E		FY20A	FY21E	FY22E	FY23E	
PP&E	m	20,638	19,366	18,617	18,119	Net Sales	m	48,082	70,808	83,723	92,903
Inventory	m	15,132	13,589	17,599	19,786	Cost of sales	m	43,869	57,996	70,468	80,098
Cash & ST invest	m	106	6,082	7,324	9,665	Gross Profit	m	4,213	12,812	13,255	12,806
Other assets	m	6,985	3,814	5,211	5,495	Dist expense	m	894	898	948	1,064
Total assets	m	42,861	42,850	48,752	53,065	Admin expense	m	263	368	393	457
Total debt	m	18,050	11,798	13,092	12,933	Other charges	m	334	882	715	675
Other Liabilities	m	12,085	12,569	13,216	13,949	Other Income	m	36	402	218	451
Total Liabilities	m	30,135	24,368	26,308	26,882	EBIT	m	2,757	11,066	11,417	11,060
Paid-up capital	m	4,350	4,350	4,350	4,350	Finance cost	m	2,315	836	1,917	2,087
Reserves	m	8,376	14,133	18,094	21,833	PBT	m	442	10,230	9,501	8,973
SH' Equity	m	12,726	18,483	22,444	26,183	Taxation	m	(53)	3,012	2,755	2,602
Liabilities + Equity	m	42,861	42,850	48,752	53,065	PAT	m	495	7,218	6,745	6,371
						EPS (rep)	x	1.1	16.6	15.5	14.6
						EPS growth YoY	%	-81%	1359%	-7%	-6%
						DPS	x	-	6.6	6.2	5.9
Q' performance						Key ratios					
		1QFY21A	2QFY21A	3QFY21A	4QFY21E		FY20A	FY21E	FY22E	FY23E	
Net Sales	m	15,666	17,849	17,402	19,890	BVPS	x	29.3	42.5	51.6	60.2
Cost of sales	m	14,275	14,285	13,305	16,131	EPS	x	1.1	16.6	15.5	14.6
Gross Profit	m	1,392	3,564	4,097	3,759	PE	x	87.0	6.0	6.4	6.8
Dist expense	m	201	157	257	282	PBv	x	3.8	2.5	2.0	1.7
Admin expense	m	56	89	131	92	GP margins	%	8.8%	18.1%	15.8%	13.8%
Other charges	m	69	287	253	273	EBITDA margins	%	9.3%	19.1%	16.3%	14.4%
Other Income	m	51	258	55	38	Net margin	%	1.0%	10.2%	8.1%	6.9%
EBIT	m	1,116	3,289	3,510	3,150	ROE	x	4.3%	50.3%	35.1%	27.6%
Finance cost	m	259	179	158	240	ROA	x	1.2%	16.8%	14.7%	12.5%
PBT	m	857	3,110	3,352	2,910	Earnings yield	%	1.1%	16.8%	15.7%	14.8%
Taxation	m	298	895	974	844	Payout ratio	%	0%	40%	40%	40%
PAT	m	559	2,215	2,378	2,066	Dividend yield	%	0%	7%	6%	6%
EPS(rep)		1.3	5.1	5.5	4.7	EV/EBITDA	x	13.3	3.4	3.5	3.4

Source: Company data, Foundation Research, June 2021

All figures in PKR unless noted

About the Company

International Steels Limited ('the Company') was incorporated on 03 September 2007 as a public unlisted company limited by shares under the Companies Ordinance, 1984 and is domiciled in the province of Sindh. The net assets of the Steel Project Undertaking amounted to Rs. 4,177.167 million were determined as at 23 August 2010 (day immediately preceding the completion date) in accordance with the Scheme of Arrangement and net assets of the Steel Project Undertaking were transferred to the Company on 24 August 2010 and 417,716,700 shares of Rs. 10 each of the Company there against were issued to International Industries Limited ('the Holding Company'). The Company was listed on the Pakistan Stock Exchange (formerly Karachi Stock Exchange) on 01 June 2011. The primary activities of the Company are manufacturing of cold rolled steel coils and galvanized coils. The Company commenced commercial operations on 01 January 2011.

Auditors: A.F. Ferguson & Co.

Table 2: International Steels Limited key personnel

Key Personnel	Name	Designation
Board of Directors	Dr. Amjad Waheed	Chairman
	Mr. Fuad Azim Hashimi	Director
	Mr. Haroun Rashid	Director
	Mr. Kamal A. Chinoy	Director
	Mr. Koji Fukushima	Director
	Mr. Mustapha A. Chinoy	Director
	Mr. Nihal Cassim	Director
	Mr. Babar Badat	Director
	Ms. Nausheen Ahmad	Director
Management	Mr. Yousuf H. Mirza	Chief Executive Officer
	Mr. Mujtaba Hussain	Chief Financial Officer
	Mr. Mohammad Irfan Bhatti	Company Secretary

Source; Company Accounts, Foundation research, June 2021

Table 3: ISL pattern of shareholding and free float as at Dec 2021

Pattern of shareholders	Holding	Shares
Associated companies	266	61.1%
General public local	53	12.1%
Banks, Insurance, NBFCs, companies etc	33	7.7%
Directors & spouse and other family members	18	4.1%
Modarbas and Mutual Funds	18	4.0%
General public foreign	6	1.4%
Others	41	9.5%
Free Float	152	35.0%

Source; Company Accounts, Foundation research, June 2021

Abbreviation

CAGR	Compound Annual Growth Rate
BVPS	Book value per share
FY	Fiscal year
EBITDA	Earnings before interest tax depreciation and amortization
EBIT	Earnings before interest and tax
EPS	Earnings per share
EV	Enterprise Value
HRC	Hot Rolled Coil
CRC	Cold Rolled Coil
LT	Long term
ST	Short Term
PAT	Profit before tax
PBT	Profit after tax
PB	Price-to-Book
PE	Price-to-Earnings
PP&E	Property, plant and equipment
TP	Target Price
SH	Shareholding
ROA	Return on Asset
ROE	Return on Equity
YoY	Year-on-Year
Bn	Billion
Mn	Million
GP	Gross Profit
LDCP	Last Day Closing Price
WCR	Working capital requirement
DOL	Degree of operating leverage
DFL	Degree of financial leverage

Important disclosures:

Disclaimer: This report has been prepared by FSL. The information and opinions contained herein have been compiled or arrived at based upon information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified and no guaranty, representation or warranty, express or implied is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as, an offer, or solicitation of an offer, to buy or sell any securities or other financial instruments. FSL may, to the extent permissible by applicable law or regulation, use the above material, conclusions, research or analysis before such material is disseminated to its customers. Not all customers will receive the material at the same time. FSL, their respective directors, officers, representatives, employees, related persons may have a long or short position in any of the securities or other financial instruments mentioned or issuers described herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale of any such securities or other financial instruments from time to time in the open market or otherwise, either as principal or agent. FSL may make markets in securities or other financial instruments described in this publication, in securities of issuers described herein or in securities underlying or related to such securities. FSL may have recently underwritten the securities of an issuer mentioned herein. This document may not be reproduced, distributed or published for any purposes.

Research Dissemination Policy: Foundation Securities (Pvt.) Ltd. endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as mail, fax and/or email. Nevertheless, not all clients may receive the material at the same time.

Target price risk disclosures: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.