

# Day Break

Tuesday, 23 January 2018

## COMPANY UPDATE

### International Steels Limited

Engineering

<b>Recommendation</b>	<b>NEUTRAL</b>
Target Price:	131.3
Last Closing: 22-Jan-18	121.7
Upside:	7.9
Valuation Methodology:	Discounted Cash Flow (DCF)

Time Horizon: Dec-18

#### Market Data

Bloomberg Tkr.	ISL PA
Shares (mn)	435.0
Free Float Shares (mn)	174.0
Free Float Shares (%)	40.0%
Market Cap (PKRbn   USDmn)	52.9   477.8
Exchange	KSE 100
<b>Price Info.</b>	90D 180D 365D
Abs. Return	7.3 (5.1) 8.4
Lo	88.3 88.3 88.3
Hi	121.7 148.3 165.4

#### Key Company Financials

Period End: Jun

PKRbn	FY17A	FY18E	FY19F	FY20F
Total Revenue	33.7	42.3	50.7	62.6
Net Income	3.0	3.5	5.6	5.4
EPS (PKR)	7.0	8.0	13.0	12.3
DPS (PKR)	3.5	4.0	6.5	4.9
Total Assets	26.4	28.8	32.3	36.7
Total Equity	8.6	10.3	13.1	16.3

#### Key Financial Ratios

ROE (%)	35.6	33.8	43.0	32.8
P/E (x)	17.4	15.2	9.4	9.9
P/B (x)	6.2	5.1	4.0	3.2
DY (%)	2.9	3.3	5.3	4.0

#### Relative Price Performance



#### About the Company

International Steels Limited (ISL) was incorporated in 2007 with the vision to be the foremost manufacturer of flat steel products in Pakistan. The \$165 million investment, with equity contributions from Sumitomo Corporation, JFE-Japan and the International Finance

Source: Bloomberg, PSX & IGI Research

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## Engineering

### ISL: Better pricing to increase margin despite rise in HRC prices

- International Steels Limited's (ISL) board meeting is scheduled for today, 23 Jan-18 to announce its financial result for 1HFY18, where we expect the Company to report earnings of PKR 1.9bn (EPS PKR 4.5), up by +67.3%YoY.
- Sales revenue likely to increase by +37.4%YoY in 1HFY18 to PKR 20.9bn as compared to PKR 15.2bn posted in 1HFY17
- We recommend "HOLD" call on ISL with our Dec-18 target price of PKR 131/share, offering +7.9% upside from its last closing.

#### 1HFY18 Earnings expected to clock in at PKR 4.5/share up by +67%YoY

International Steels Limited's (ISL) board meeting is scheduled today 23 Jan-18 to announce its financial result for 1HFY18, where we expect the Company to report earnings of PKR 1.9bn (EPS PKR 4.5), up by +67.3%YoY as compared to PKR 1.2bn (EPS PKR 2.7), posted in same period last year. Increase in earnings can be attributed to lower tax expense, down by 27%YoY. Sales revenue likely to increase by +37.4%YoY in 1HFY18 to PKR 20.9bn as compared to PKR 15.2bn posted in 1HFY17. Increase in revenue to be on the back of volumetric growth and inventory gains.

On quarterly basis 2QFY18 earnings are expected to decline by 4.7%QoQ to PKR 936.7mn (EPS PKR 2.2) as compared to 1QFY18 PKR 1.0bn (PKR EPS 2.31), mainly on account of lower sale volumes posted in said quarter. Gross margins are likely to increase by 495bps to 17.0% on account of better pricing.

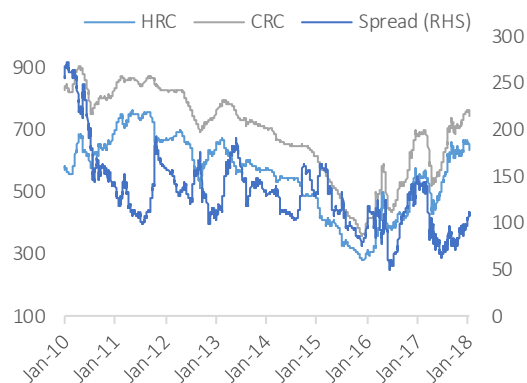
#### Favorable duties increase pricing power of local manufacturers

After increasing price by PKR ~5000/mts, during 2QFY18, on account of rupee depreciation and sharp rebound in international prices, management further increased prices of HDGC and color coated coils by PKR 2,350/mts effective from Jan-18 to maintain premium over CRC price. Prior increase in CRC prices only shows demand factor that allow the management to enjoy consumer preference over imported coils, on the back of duty structure which turned the consumer choice over to imported coils.

#### Capacity Expansion near to commissioning

ISL capacity expansion, which is expected to be completed by the end of 4QFY18, will increase total capacity of CRC to 1mn Mts per annum. Moreover this will lead to debottlenecking of Galvanized coil as well. Currently company is operating on its optimum level of ~90%, whereas we believe demand will remain on upward trajectory on account of growth stemming from automobiles and construction activities.

**International prices USD/tons**



Source: Company Financials, IGI Research

**Recommendation**

We maintain **“HOLD”** call on ISL with our Dec-18 target price of PKR 131/share, offering +7.9% upside from its last closing. The company is currently trading at a FY18E P/E of 15x.

**Exhibit**

**Financial Highlights**

PKR'mn	1HFY18	1HFY17	YoY	2QFY18	QoQ
Net Sales	20,909	15,221	37.4%	10,201	-4.7%
Gross Profit	3,505	2,834	24%	1,736	-1.9%
Admin Expense	111	89	25%	57	6.2%
Distribution. Expense	224	152	48%	121	16.4%
Other Income	52	53	-2%	26	0.0%
Finance Cost	231	237	-2%	118	4.8%
Pre-tax Profits	2,735	2,206	24%	1,338	-4.2%
Post-tax Profits	1,940	1,160	67%	937	-6.6%
EPS	4.46	2.67		2.15	

**Key Ratios**

Gross Margins (%)	16.76%	18.62%		17.02%	
Net Margins (%)	9.28%	7.62%		9.18%	
Tax Rate (%)	29.09%	42.78%		30.00%	

SOURCE: Company Accounts, IGI Research

No Shares : 435 mn

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Recommendation	Rating System
Buy	If target price on aforementioned security(ies) is more than 10%, from its last closing price(s)
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**Time Horizon:** Dec – 2018

**Valuation Methodology:** The analyst(s) has used following valuation methodology to arrive at the target price of the said security (ies):

DCF (Discounted Cash Flow)

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**Basic Definitions and Terminologies used:** **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment. **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

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