

INTERNATIONAL STEELS LIMITED

 Jan 19th, 2017

BUY

Price Target : PKR 127/sh

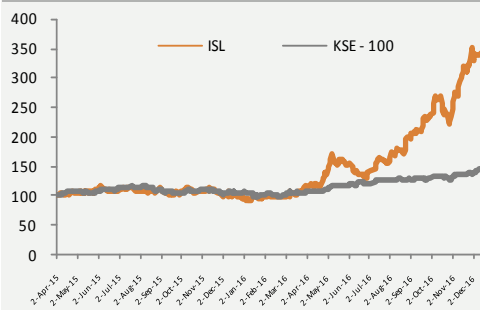
COMPANY DATA

52-week Price Range (PKR)	24.08— 106.8
No. of Shares Outstanding (mn)	435.0
Market Cap (PKRmn)	46,488.4
Market Cap (USDmn)	443.57
EV/ Ebitda (x)	10.38
Free Float (%)	40 %
Year End	Jun
KATS Code	ISL

Source: KSE

Key Ratios (x/%)	FY17E	FY18E	FY19E	FY20E
P/E (x)	13.66	12.24	9.37	7.98
P/B (x)	5.78	4.60	3.64	2.92
EBITDA Margin %	23%	21%	23%	23%

Source: Company Accounts, Nael Research

RELATIVE TO KSE – 100


Source: KSE

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Anti—Dumping Investigation against dumped Cold Rolled Coils (CRC) resulting in positivity!

- We revise our estimates on ISL maintaining ‘BUY’ rating:** Our Jun-17 DCF based price target of PKR 127/sh implies 19% upside potential from current price levels of PKR 106.8/sh, and 3% upside from the previous target of PKR 123/sh.
- Imposition of Anti—Dumping Duty by NTC:** National Tariff Commission on account of an application lodged earlier by ASL (Aisha Steel Ltd.) for investigation on the injury caused to the local producers against CRC dumped from China & Ukraine finally results in anti dumping imposition for the protection of domestic industry
- Investment Risk:** Key risks to our investment thesis are 1) Price volatility of HRC & CRC 2) Surge in steel scrap prices 3) Decline in local demand/ Demise of the Automobile Industry 4) FTA with China & 5) Privatization of PSM.

Imposition of Anti—Dumping duty on CRC by NTC: National Tariff Commission on account of an application lodged earlier by ASL (Aisha Steel Ltd.), for investigation on the injury caused to the local producers against CRC (Cold Rolled Coils/Sheets) dumped from China & Ukraine finally results in an anti-dumping imposition for the protection of domestic industry for next 5 years.

After due assessment and investigation by NTC, it appeared that due to increased volume of imports of CRC material injury was witnessed by domestic producers in terms of profitability, price undercutting, decline in the market share, capacity utilization and etc. Hence, an anti dumping duty of 19% is finally imposed on the CRC imports by NTC.

We envisage ISL as our major beneficiary in our steel universe, being a largest producer of Cold Rolled Coils in the industry. Incorporating following changes in our assumptions we have revised the estimates for ISL maintaining “BUY” rating on the scrip:

- Increase in market share owing to recent capacity expansion for CRC to 550k tons per annum, from 250k tons in FY16A (+120% addition).
- Assuming a price hike in steel products by PKR 2000/tonne we expect an additional impact of 2.7% upside in revenues from our previous forecast of PKR 27,196mn in FY17E.
- The aforementioned assumptions result in an annualized impact of PKR 1.15/sh in the earning estimates for FY17E.

Financial Highlights

PKR MN	FY16A	FY17E	FY18E	FY19E
Sales	20,499	27,928	32,712	37,234
COGS	17,586	21,813	26,052	28,838
GP	2,913	6,116	6,660	8,396
EBIT	2,386	5,512	5,978	7,502
PBT	1,654	4,793	5,349	6,988
NP	1,179	3,403	3,797	4,962
EPS	2.71	7.82	8.73	11.41

Source: Company Accounts, Nael Research

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Disclosure Related to Author

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Stock Recommendation	Return
BUY	> 15%
HOLD	> -15% to < 15%
SELL	< -15%

