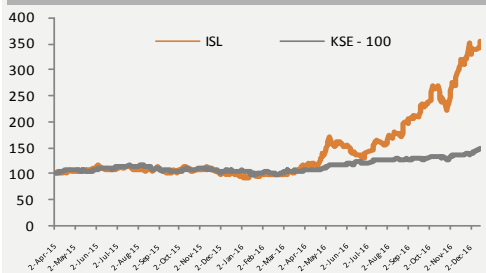


INTERNATIONAL STEELS LIMITED
Jan 23rd, 2017
BUY
Price Target : PKR 146.10/sh
CURRENT MARKET DATA

Current Price	117
Market Cap (PKR mn)	51,251.7
52 wk Hi— Low	117.8 — 24.0
EV/Ebitda (x)	11.53
Outstanding shares (mn)	435.0
Free Float (%)	40%

Sources: PSX
RELATIVE TO KSE—100

Source: PSX
FINANCIAL HIGHLIGHTS 1HFY17E

PKR 'mn'	1HFY17E	1HFY16A	YoY
Net Sales	15,172	8,370	81%
Cost of sales	11,980	8,052	49%
Gross Profit	3,192	318	903%
EBIT	2,782	132	2000%
Financial Charges	283	422	-33%
Profit before taxation	2,500	(290)	N/A
Profit after Tax	1,807	(78)	N/A
Basic EPS	4.15	(0.18)	N/A

Source: Nael Research, Company accounts

Key Ratios (x/%)	FY17E	FY18E	FY19E	FY20E
P/E (x)	14.72	13.06	10.01	8.64
P/B (x)	6.28	4.96	3.90	3.14
EBITDA Margin %	23%	21%	23%	23%

Source: Nael Research, Company accounts
Taha Rehman ^{AC}

taha@naelcapital.com

(+92-21)-32461812-13 (Ext.) 140

ISL: Earnings likely to settle at PKR 2.85/sh in 2QFY17E

- International Steels Ltd. (ISL) is scheduled to announce its 2QFY17E financial results on January 24th, 2017 where we expect the company to post an EPS of PKR 2.85, up by significant 898%YoY.
- Anticipating higher volumetric growth post expansion of CRC & HDGS capacities we expect ISL's revenues to grow by 56%YoY clocking in at PKR 8,586mn in 2QFY17E, whereas sequentially a moderate growth of 30%QoQ is projected.
- Gross margins of the company are expected to swell to ~24% in 2QFY17E from 3% of the same period previous year, owing to increased CRC prices that are likely to mitigate the higher input cost of HRC.
- Gross profits are expected to radically surge by 903%YoY in 1HFY17E settling at PKR 3,192mn.
- For 1HFY17E, the bottom line is forecasted to depict a robust growth clocking in at PKR 1,807mn (EPS: 4.15) against a loss of 78mn (LPS: 0.18) in 1HFY16A.

Investment Perspective: We maintain our stance of "BUY" rating on ISL, reiterating our June'17 Price target of PKR 146.10/share on account of 1) Changes in earning estimates, 2) Higher volumetric growth post expansion, 3) Increased CRC prices & 4) Using actual beta (5yrs) of 0.83.

Financial Highlights 2QFY17E

PKR 'mn'	2QFY17E	2QFY16A	YoY	2QFY17E	1QFY16A	QoQ
Net Sales	8,586	5,508	56%	8,586	6,586	30%
Cost of sales	6,458	5,319	21%	6,458	5,522	17%
Gross Profit	2,128	189	1027%	2,128	1,064	100%
Admin Expenses	58	39	50%	58	44	30%
Distribution Expenses	86	45	90%	86	66	30%
Other operating income	41	23	77%	41	31	30%
Other operating expenses	141	15	832%	141	87	63%
EBIT	1,884	113	1565%	1,884	898	110%
Financial Charges	160	197	-19%	160	123	30%
Profit before taxation	1,724	(84)	N/A	1,724	776	122%
Taxation	483	(208)	N/A	483	210	130%
Profit after Tax	1,241	124	898%	1,241	565	120%
Basic EPS	2.85	0.29	898%	2.85	1.30	120%

Source: Nael Research, Company accounts

Note: Earning estimates are revised assuming the input prices of HRC at USD 483/ton averaging for the quarter (Oct—Dec) and selling prices of CRC and HRC at 71k/ton and 81k/ton respectively.