

INTERNATIONAL STEELS LIMITED

 Jan 24th, 2017

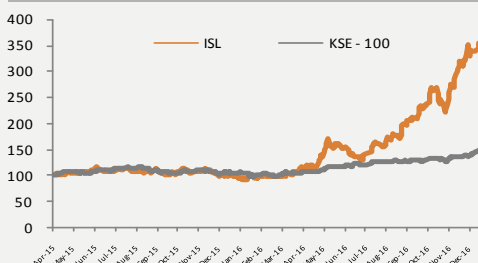
BUY

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	15,221	8,370	82%
Cost of sales	12,387	8,052	54%
Gross Profit	2,834	318	791%
EBIT	2,445	132	1746%
Financial Charges	237	422	-44%
Profit before taxation	2,209	(290)	N/A
Profit after Tax	1,163	(78)	N/A
Basic EPS	2.67	(0.18)	N/A

Source: Nael Research, Company accounts

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Earnings clocked at PKR 2.67/sh in 1HFY17A, below our expectations due to higher effective tax rate charge of 58%

- International Steels Ltd. (ISL) announced its 2QFY17A financial results on January 24th, 2017 where the company posted earnings of PKR 1.37/sh up by 380%YoY in comparison to PKR 0.29/sh of 2QFY16A.
- Achieving higher volumetric growth owing to expansion of CRC & HDGS capacities ISL's revenues grew by 57%YoY clocking in at PKR 8,635mn closely in line with our projected sales of PKR 8,586mn in 2QFY17A, whereas sequentially a moderate growth of 31%QoQ was witnessed.
- Gross margins swelled to ~20% in 2QFY17A from 3% of the same period previous year, owing to increased CRC prices, massive turnover growth and lower cost as percentage of sales.
- Gross profits surged massively by 791%YoY in 1HFY17A settling at PKR 2,834mn.
- The company recorded PBT of PKR 1,433mn marginally below our projected estimate of PKR 1,724mn for 2QFY17.

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 during the period.

Financial Highlights 2QFY17E

PKR 'mn'	2QFY17E	2QFY16A	YoY	2QFY17E	1QFY16A	QoQ
Net Sales	8,635	5,508	57%	8,635	6,586	31%
Cost of sales	6,865	5,319	29%	6,865	5,522	24%
Gross Profit	1,770	189	837%	1,770	1,064	66%
Admin Expenses	44	39	15%	44	44	0%
Distribution Expenses	86	45	91%	86	66	32%
Other operating income	22	23	-6%	22	31	-31%
Other operating expenses	114	15	651%	114	87	31%
EBIT	1,547	113	1267%	1,547	898	72%
Financial Charges	114	197	-42%	114	123	-7%
Profit before taxation	1,433	(84)	N/A	1,433	776	85%
Taxation	836	(208)	N/A	836	210	298%
Profit after Tax	597	124	380%	597	565	6%
Basic EPS	1.37	0.29	380%	1.37	1.30	6%

Source: Nael Research, Company accounts