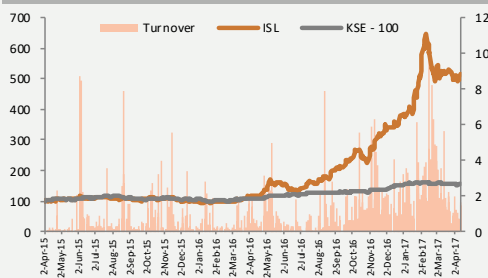


**INTERNATIONAL STEELS LIMITED (ISL)**
**April 17<sup>th</sup>, 2017**
**HOLD**
**Price Target : PKR 143.65/sh**
**CURRENT MARKET DATA**

Current Price	129
Market Cap (PKR mn)	56,115
52 wk Hi— Low	165.4 — 29.18
EV/Ebitda (x)	11.53
Outstanding shares (mn)	435.0
Free Float (%)	40%

Sources: PSX

**RELATIVE TO KSE—100**


Source: PSX

**EARNINGS HIGHLIGHTS 9MFY17E**

PKR 'mn'	9MFY17E	9MFY16A	YoY
Net Sales	24,297	14,820	64%
Cost of sales	19,672	13,514	46%
Gross Profit	4,625	1,306	254%
EBIT	4,043	1,003	303%
Financial Charges	406	599	-32%
Profit before taxation	3,637	404	801%
Profit after Tax	2,205	347	536%
<b>Basic EPS</b>	<b>5.07</b>	<b>0.80</b>	<b>536%</b>

Source: Nael Research, Company accounts

Key Ratios (x/%)	FY17E	FY18E	FY19E	FY20E
P/E (x)	16.10	15.10	10.95	9.46
P/B (x)	6.87	5.54	4.33	3.48
EBITDA Margin %	23%	20%	23%	23%

Source: Nael Research, Company accounts

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**Earnings likely to settle at PKR 2.40/sh in 3QFY17E**

- International Steels Ltd. (ISL) is scheduled to announce its 3QFY17E financial results tomorrow— April 18<sup>th</sup>, 2017 where we expect the company to post an EPS of PKR 2.40, up by significant 145%YoY.
- We expect higher volumetric growth post expansions of CRC & HDGS capacities and ISL's revenues to grow by 41%YoY clocking in at PKR 9bn in 3QFY17E, whereas sequentially a moderate growth of 5%QoQ is projected.
- Gross margins of the company are expected drop by 1ppts to ~20% in 3QFY17E from 21% of the previous quarter, wedged by rising trend of HRC prices.
- Gross profits are expected to depict a modest growth of 81%YoY in 3QFY17E settling at PKR 1.7bn.
- PBT is likely to climb 801%YoY in 9MFY17E on the back of higher other income and lower finance cost in comparison to the previous period.
- For 9MFY17E, the bottom line is forecasted to depict a robust growth clocking in at PKR 2.2bn (EPS: 5.07) against PKR 347mn (EPS: 0.80) in 9MFY16A.

**Investment Perspective:** We switch our stance to **"HOLD"** rating on ISL after the recent rally in the stock, recapping our June'17E Price target of PKR 143.65/sh incorporating 1) Commissioning of new capacity addition (CRC), 2) Higher volumetric growth post expansion and 3) Increased CRC prices.

**Financial Highlights 3QFY17E**

PKR 'mn'	3QFY17E	3QFY16A	YoY	3QFY17E	2QFY17A	QoQ
Net Sales	9,077	6,450	41%	9,077	8,635	5%
Cost of sales	7,285	5,462	33%	7,285	6,865	6%
Gross Profit	1,791	988	81%	1,791	1,770	1%
Admin Expenses	47	50	-7%	47	44	5%
Distribution Expenses	91	49	85%	91	86	5%
Other operating income	43	32	37%	43	22	100%
Other operating expenses	100	51	97%	100	114	-12%
EBIT	1,598	870	84%	1,598	1,547	3%
Financial Charges	169	176	-4%	169	114	48%
Profit before taxation	1,428	694	106%	1,428	1,433	0%
Taxation	386	269	44%	386	836	-54%
Profit after Tax	1,043	425	145%	1,043	597	75%
<b>Basic EPS</b>	<b>2.40</b>	<b>0.98</b>	<b>145%</b>	<b>2.40</b>	<b>1.37</b>	<b>75%</b>

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—March) and selling prices of CRC and HDGS at 71k/ton and 81k/ton respectively.