

## International Steel: Thriving on value added galvanized sale.. **HOLD** *Monday, 9 September 2024*

Transfer of coverage...thriving on galvanized steel sale...

- We like ISL given increased galvanized pipe sales;
- ISL may still have a leadership role in the scattered flat steel industry; sales per ton is going north
- Galvanized pipe prices supported business model;
- ISL enters into solar energy to control cost;
- ISL's long term debt decreases below PKR 1 bn;
- Long term debt to EBITDA is considered good i.e. 0.11.

ISL reported FY24 EPS of PKR 8.4/sh as against FY23 EPS of PKR 8.09/sh.

**ISL has passed on a cumulative cash dividend of PKR 5.5/sh (payout ratio 65.5%).** We have tabulated our model wherein we see there is decrease in actual capacity utilization of cold rolled coil (CRC) to 95.4k tons as against total capacity of 1mn tons.

There was a decrease in the utilization capacity of CRC to mere 10%; galvanized steel capacity increased to 37%. Its basically the sales of Galvanized steel (HDGP) which saved the day for ISL as per company books. ISL sold HDGP of 172.2k tons against the original capacity of 462k tons.

### ISL - valuation table

	FY19	FY20	FY21	FY22	FY23	FY24
<b>EPS</b>	6.1	1.1	17.2	12.4	8.1	8.4
<b>DPS</b>	3.0	0.0	10.0	6.5	5.5	5.5
<b>PER</b>	11.6	62.3	4.1	5.7	8.8	8.5
<b>PBV</b>	2.4	2.4	1.6	1.4	1.4	1.3
<b>Net Margins</b>	4.6%	1.0%	10.7%	5.9%	4.6%	5.3%
<b>Gross Margin</b>	11.2%	8.8%	19.3%	13.5%	13.8%	12.4%
<b>Dividend Yield</b>	4.2%	0.0%	14.1%	9.2%	7.7%	7.7%

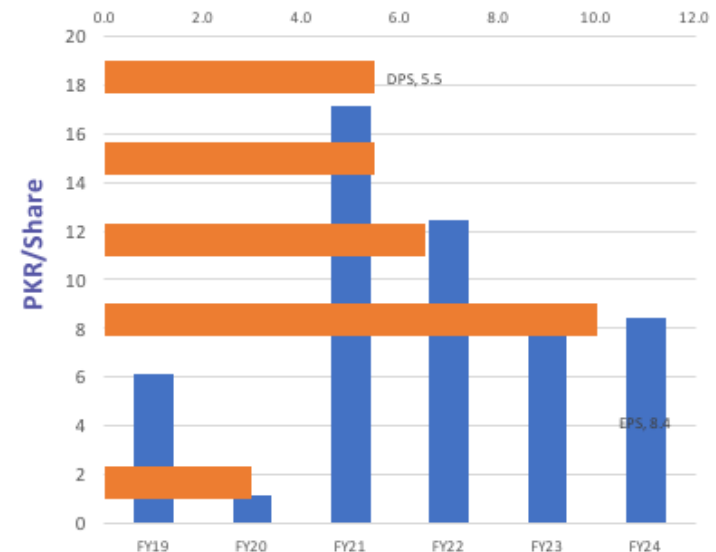
Source: SCS Research

### ISL Snapshot

Market Cap (PKR)	31.76bn
Market Cap (\$)	114.2mn
Market Price (sh)	73.00
Enterprise Value (sh)	72.96
Beta	1.58x
Average Volume	893,540

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### EPS vs DPS



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## ISL: P&L presents a hearty outlook...

Monday, 9 September 2024

### ISL - P&L

PKR in '000	FY19	FY20	FY21	FY22	FY23	FY24
Sales	57,484,354	48,081,937	69,796,240	91,423,698	76,753,334	69,299,633
COGS	51,035,302	43,869,080	56,304,367	79,042,389	66,145,658	60,726,441
Gross Profit	6,449,052	4,212,857	13,491,873	12,381,309	10,607,676	8,573,192
S & D expenses	701,827	894,334	1,062,996	1,611,628	997,224	2,090,474
Admin Expenses	284,404	262,811	361,519	339,808	389,057	472,739
	986,231	1,157,145	1,424,515	1,951,436	1,386,281	2,563,213
EBIT	5,462,821	3,055,712	12,067,358	10,429,873	9,221,395	6,009,979
EBITDA	6,434,802	4,328,368	13,465,656	11,803,208	10,715,760	7,565,101
Finance Cost	1,289,315	2,314,807	811,931	1,322,584	2,264,167	856,088
Other Exp	533,801	334,257	1,276,659	1,307,510	1,921,613	588,930
	1,823,116	2,649,064	2,088,590	2,630,094	4,185,780	1,445,018
Other Income	39,413	35,523	315,833	200,971	155,796	133,384
PBT	3,679,118	442,171	10,294,601	8,000,750	5,191,411	4,698,345
Income tax Expense	1,014,745	52,680	2,828,270	2,588,560	1,672,621	1,043,531
PAT	2,664,373	494,851	7,466,331	5,412,190	3,518,790	3,654,814
EPS	6.12	1.14	17.16	12.44	8.09	8.40
DPS	3.00	-	10.00	6.50	5.50	5.50

Source: Company Reports, SCS Research

## ISL: Sales per ton going north, long-term-debt coming down...

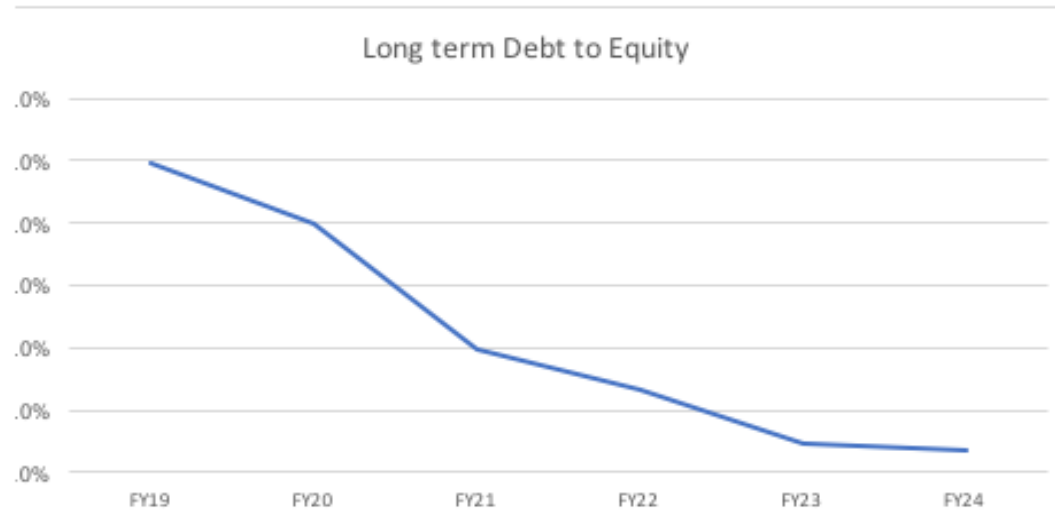
Monday, 9 September 2024

*	FY19	FY20	FY21	FY22	FY23	FY24
Sales per Ton	73,639	85,009	103,778	160,463	308,451	299,994
Cost per Ton	55,795	67,039	72,397	120,821	228,659	226,865

**Source: SCS Research**

Gross sales is taken in calculation

*	FY19	FY20	FY21	FY22	FY23	FY24
Long term Debt to Equity	49%	40%	20%	13%	5%	4%
EBITDA to Sales ratio	11%	9%	19%	13%	14%	11%
Long term Debt to EBITDA	0.99	1.17	0.28	0.24	0.10	0.11



**Source: SCS Research**

### Long-term Debt decreasing .....

ISL long term debt is continuously declining. It is now less than billion Rupee. We will see jump in ISL bottom line partly due to decrease in financial cost.

This is good at a time when we might see decrease in interest rates in coming SBP's Monetary Policy meeting.

In FY24 it declined by 18%. Moreover, ISL intangible assets increased by 32% whereas current assets during FY24 increased with 12% in comparison to FY23.

## ISL: Visible margins on flat steel sales...

Monday, 9 September 2024

### Prices supported business model...

We see prices of CRC and Galvanized remained 'stable' despite tough industry condition. We have taken prices from the benchmark PSM website.

### Industrial slowdown scenario may change...

Though we see a shortage in overall demand of CRC in the general industry wherein there decrease in car and motorcycle sales. Also there is a general slowdown in construction sector which has resulted in a decrease in capacity utilization of CRC. However, we are encouraged by the galvanized pipes sales.

According to Pakistan Steel Mill (PSM) website CRC price is 212,000/ton and HRC price is 235,000/tons. There is still visible margin of PKR 23K/ton.

### Sales decrease amid pressure on margins...

ISL revenue has declined from PKR 76.75 bn posted in FY24 vs PKR 69.29bn in FY23. We have apprised that it is mainly due to decrease in CRC production & lower sales.

The gross profit margin has reduced to 12.37% in FY24 from 13.82% FY23. The profitability remained robust with the net profit margin increased from 4.58% to 5.27% during FY23 to FY24.

Price Comparison	
HRC	212,000
CRC	235,000
Margin	22,000

Source SCS Research

### HRC cost

PKR in bn	FY19	FY20	FY21	FY22	FY23	FY24
Raw Material Consumed	51.92	40.01	52.83	78.79	56.53	56.55

### Export sales...ISL, however, impressed on exports with presence at places such as US.

During FY24, ISL export revenue increased by 34% to reach PKR 16.6 bn as against PKR 12.45 bn in the previous year.

## ISL: Solar energy...

Monday, 9 September 2024

### Super tax impact...

Government of Pakistan imposed super tax\* in FY22. Given the imposition of tax, ISL reported higher Income tax expense during FY22 with the effective tax rate of 48%. In FY24 effective tax rate posted is 29%.”

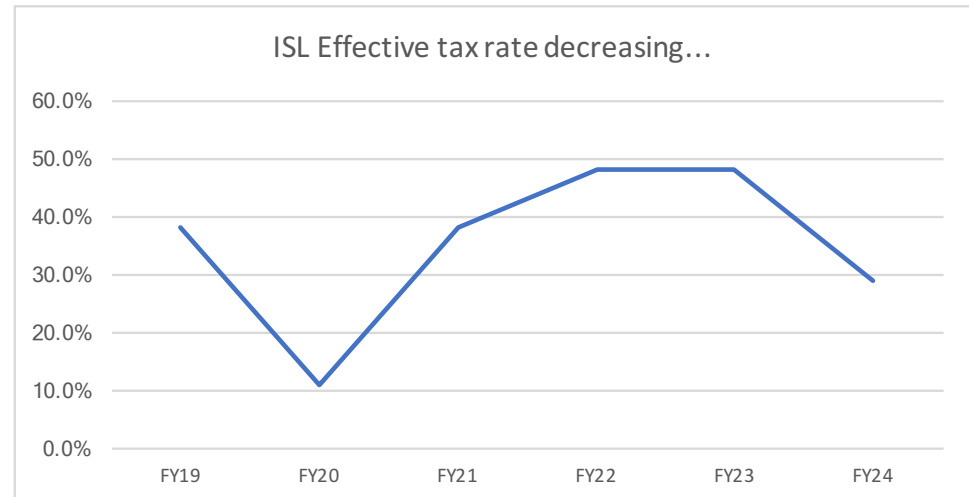
### Power plant...Solar power trend..

ISL is riding on solar trend. The company is in the process of installing 6.4 MW solar power plant at its factory and it is expected to be operational in 1HFY25.

At present, ISL operates on an on-site plant, supplying electricity for its operations and selling surplus to K-Electric (KEL) under a 20 year agreement recognized upon transmission.

ISL loss on power generation has seen an increase from PKR 1.17bn to PKR 2.76bn in FY24.

	FY19	FY20	FY21	FY22	FY23	FY24
Effective tax rate	38%	11%	38%	48%	48%	29%



\*concept of super tax was reintroduced by the government on high earning persons in tax year 2022. Slab-wise rates were prescribed for tax year 2022 with a maximum rate of 4%. With regard to certain specified sectors, an enhanced rate of 10% was prescribed for tax year 2022of 4%.”

## ISL: Future outlook & valuation hinges on economic growth...

Monday, 9 September 2024

We are expecting interest rate will drop from here during the next monetary policy. On the basis of this we expect there will be a general 'positivity' in the country on industrial activity. This in return will be 'positive' for a better capacity utilization of premier industries such as flat steel manufacturer viz. ISL.

We might see 2HFY25 of many companies such as ISL will hold good once there will be more allocations for Public Sector Development Program (PSDP) for approved infrastructure projects.

At present we see there is general slowdown in housing schemes but in future there could be a revival.

There is also a buzz on probable initiation of work on Kalabagh Dam project heard during recent National Assembly proceedings and also the continuation of work on gigantic Diامر Basha Dam which may also hold good for flat steel manufacturers on the construction sites quite alike with long steel producers.

### Valuation...P/S, sales-per-ton & long-term-debt to EBITDA looks positive

ISL yields FY24 PE multiple of 8.4x. KSE 100 is also yielding forward PE multiple of 5x. However, we expect this multiple to re-rate since SBP may announce a rate cuts in the following Monetary Policy meetings till June 2025. We also expect a continuation in 'rate cuts' as per banking treasury expectations to 14% - 15% till June 2025. Hence we may see a target PE multiple of KSE 100 benchmark that could exceed to 7x – 8x in the following months on the 'rate cut' expectations. **HOLD**

Also ISL yield Price-to-Sale (P/S) multiple of 0.5x as well as long-term-debt to EBITDA of 0.11. **Positive**  
 Furthermore, sales-per-ton of ISL has increased as per audited books – **Positive**

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Source: SCS Research

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Following research techniques adopted to calculate target price/recommendation

- Price to earnings & Price to Book, EV-EBITDA multiple
- Discounted Cash flows or Dividend Discount Model or Enterprise Value