

ITTEFAQ IRON INDUSTRIES LIMITED

REP-091

May 08, 2017

Company Information

Ittefaq Iron was incorporated with the name of Ittefaq Sons (Pvt.) Ltd. in 2004 with principal business activity to manufacture steel bars of varied dimensions in a fully automated state of the art unit. Commercial operations of Ittefaq Sons (Pvt.) Ltd was started in 2006. In year 2012 Ittefaq Iron Industries Limited undertook a further business extension by importing and installing a fully automated steel profile manufacturing unit which is one of the biggest steel section manufacturing unit of Pakistan. This Smart unit is capable of producing heavy steel Section for residential and industrial purposes like I-beams, H-beams, Angles and Channels. Manufacturing site of the Company is located on the main Manga Raiwind Road, District Kasur.

Present Issue

The Issue comprises of 41.75mn ordinary shares of face value Rs10 each which comprises 31.82% of the post-IPO paid up capital of the Company. Out of total issue 75% of the total issue size i.e. 31.31mn Ordinary shares will be issued through the Book Building process at a Floor Price of Rs12 per share (including a premium of Rs2 per share). The remaining 25% of the total issue size i.e. 10.43mn Ordinary Shares will be issued to the General Public through retail offer at the Strike Price determined through the Book Building process.

Principal Purpose of Issue

The Company intends to issue 41,75mn ordinary shares at a floor price of PKR 12/share to raise Rs501mn via IPO. The Primary purpose of the Issue is to enhance capital of the Company for facilitating its working capital requirements via equity financing instead of short term debt. 70% of the proceed would be utilize for raw material procurement and the rest is allocated for conversion cost

Steel Demand and Outlook

Pakistan's steel industry currently produces 6.2mntpa. Pakistan per capita steel consumption is ~38kg compared to regional average of ~212kg (considered to be quite low), which indicates potentially higher consumption from both private and public sectors. Demand for steel products is expected to rise further in near future due to initiation of various mega infrastructural projects and power projects under the China-Pakistan Economic Corridor (CPEC), which is expected to boost the annual demand for steel products considerably. As it is expected that in the early stages of economic development, steel consumption is expected to increase at a significant higher rate

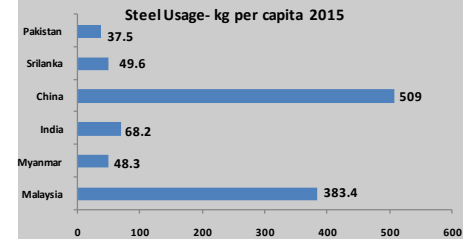
Management expect upcoming infrastructure project, estimated demand would provide room to gain some market share, as management expect their share could be ~273ktpa out of total estimated demand, which translates into expected annual utilization of ~76%.

Investment Hypothesis

Management expect net proceed will deploy during FY18. We expect plant utilization to remain over 75% post FY18. Keeping in view the demand of steel, company's management also highlighted that they are also in a planning phase to install another 15mw furnace having ~55-60kt of melting capacity by the end of CY18, however we await further clarity from management to incorporate this in our working.

We estimate FY17 & FY18 earnings to remain in the region Rs1.1/share and ~Rs2.1/share, at a P/E of ~5.7x (at floor price i.e. Rs12/share) to FY18 estimates, we recommend subscribe on IPO

Recommendation	Subscribe
Floor Price	Rs12.00
Out. Shares (mn)	89.47
Current Issue (mn)	41.75
Rebar Capacity (MT)	120,000
Utilization	44.1%



Source: world steel year book

Research Department

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Ittefaq Iron Industries Limited (Formerly Ittefaq Sons Limited)
Financial Highlights

<i>Rs in mn</i>	1HFY17	FY16	FY15	FY14	FY13	FY12
Income Statement						
Sales	1,964	3,917	3,842	4,110	3,138	3,215
CGS	1,789	3,562	3,490	3,749	2,853	2,917
Gross profit	175	356	352	361	286	298
EBITDA	204	433	440	463	360	383
Operating Profit	148	307	304	311	248	271
Financial Charges	51	149	183	176	157	170
PBT	94	152	115	132	87	100
PAT	72	88	65	87	56	65
Balance Sheet						
Non Current Assets	1,441	1,471	1,596	1,710	1,754	1,744
Current Assets	2,429	2,536	3,142	2,550	2,356	2,072
Total Assets	3,840	4,006	4,738	4,260	4,110	3,816
Total Equity	1,842	1,762	1,671	1,604	1,653	1,598
Total Liabilities	1,998	2,244	3,067	2,656	2,457	2,218
Key Ratios						
EPS-Pre IPO	0.80	0.98	0.73	0.97	0.63	0.73
EPS-Post IPO	0.55	0.67	0.50	0.66	0.43	0.50
Gross Margins	8.9%	9.1%	9.2%	8.8%	9.1%	9.3%
Operating Profit margin	7.5%	7.8%	7.9%	7.6%	7.9%	8.4%
Net Margin	3.7%	2.2%	1.7%	2.1%	1.8%	2.0%
Current Ratio	1.6	1.46	1.21	1.2	1.18	1.24

Source: Co Prospectus

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Disclaimer

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Valuation Methodology

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method (P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

Rating

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price

Risk

- Exchange Rate Fluctuation
- Possible imposition of dumping duty on corrugated boxes
- Delay in expansion