

ISL has announced its 1QFY23 result where it posted a profit after tax of Rs448mn (EPS: Rs1.03) as compared to a profit after tax of Rs2.67bn (EPS: Rs6.13) in the same period last year, down by 83.2% YoY owing to lower CRC-HRC margins, higher finance costs, and an increase in other expenses.

The company has posted a revenue of Rs16.54bn against Rs24.49bn in SPLY, recording a decline of 32.4% YoY owing to lower volumetric takeoff. The gross margin has plunged to 13.5% as compared to 17.7% during SPLY amid lower than expected CRC-HRC spreads and depreciation of PKR. SG&A expenses went up by 49.7% YoY to Rs133mn as compared to Rs264mn during SPLY.

Furthermore, effective taxation has been decreased to 9.3% as compared to 26.3% SPLY. Lastly, finance costs increased by 390.3% YoY amounting to 863mn due to higher interest rates.

ISL is trading at a FY23E P/E of 7.92x. Moreover, the scrip is also trading at FY23 P/B of 1.38x which offers a discount of 24% relative to its historical 3-year average of 1.82x. We maintain our **BUY** stance on the scrip with a DCF based Jun-23 TP of Rs 70 which provides an upside potential of 34%. Further, the scrip also provides a dividend yield of 6% which makes the total return of 40%.

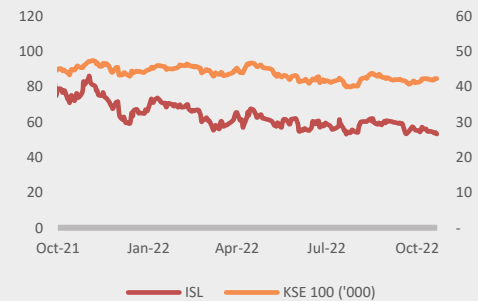
Rupees' millions	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Net Sales	16,544	24,489	32.4% ▼	91,424	69,796	31.0% ▲
Cost of Sales	-14,304	-20,154	29.0% ▼	-79,042	-56,304	40.4% ▲
Gross Profit	2,240	4,335	48.3% ▼	12,381	13,492	8.2% ▼
SG&A Expenses	-133	-264	49.7% ▼	-1,951	-1,425	37.0% ▲
Other Expenses	-775	-280	176.7% ▲	-1,308	-1,277	2.4% ▲
Operating Profit	1,332	3,791	64.9% ▼	9,122	10,791	15.5% ▼
Other Income	25	6	311.4% ▲	201	316	36.4% ▼
Finance Cost	-863	-176	390.3% ▲	-1,323	-812	62.9% ▲
Profit Before Taxation	494	3,621	86.3% ▼	8,001	10,295	22.3% ▼
Taxation	-46	-954	95.2% ▼	-2,589	-2,828	191.5% ▼
Profit After Taxation	448	2,668	83.2% ▼	5,412	7,466	27.5% ▼
Earnings Per Share	1.03	6.13	83.2% ▼	12.44	17.16	27.5% ▼
Dividend	0.00	0.00	-	6.50	10.00	35.0% ▼
Bonus	0.00	0.00		0.00	0.00	
Right	0.00	0.00		0.00	0.00	
Gross Margin	13.5%	17.7%	4.2% ▼	13.5%	19.3%	5.8% ▼
SG&A Expenses to Sales	-0.8%	-1.1%	0.3% ▼	-2.1%	-2.0%	0.1% ▲
Other Income to Sales	0.2%	0.0%	0.1% ▲	0.2%	0.5%	0.2% ▼
Ex. Gain / (Loss) to Sales	-0.8%	-1.1%	0.3% ▼	-2.1%	-2.0%	0.1% ▲
Effective Taxation	-9.3%	-26.3%	17.0% ▼	-32.4%	-27.5%	4.9% ▲
Net Margin	2.7%	10.9%	8.2% ▼	5.9%	10.7%	4.8% ▼

Source: ACPL Research, Company Financials

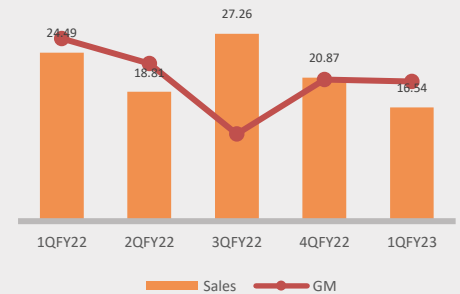
Key Statistics

Symbol	ISL
TP - Jun 23	70.00
LDCP	52.59
Upside (%)	34
Free Float ('mn)	152
Market Cap. (Rs.'mn)	22,876

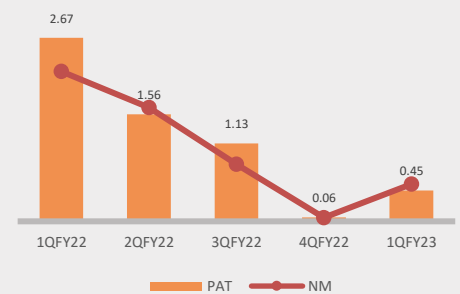
ISL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

Muhammad Salman

Phone: (+92) 42 38302028; Ext: 116
Email: salman@abbasiandcompany.com

Financial Projections

Rupees' millions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	48,082	69,796	91,424	99,358	109,866	130,051	140,280
Cost of sale	43,869	56,304	79,042	90,206	97,067	116,698	125,081
Gross profit	4,213	13,492	12,381	9,152	12,799	13,353	15,198
Selling and promotion expenses	894	1,063	1,612	261	1,486	1,759	1,897
Administration expenses	263	362	340	270	299	650	701
Other operating expenses	334	1,277	1,308	3,110	2,340	2,770	2,988
Operating Profit	2,721	10,791	9,122	5,510	8,675	8,174	9,613
Other operating income	36	316	201	99	110	130	140
Finance cost	2,315	812	1,323	1,633	1,641	1,611	1,776
Profit before taxation	442	10,295	8,001	3,977	7,144	6,693	7,977
Taxation	-	53	2,828	1,083	1,923	1,780	2,096
Profit after taxation	495	7,466	5,412	2,894	5,221	4,913	5,880
EPS	1.14	17.16	12.44	6.65	12.00	11.29	13.52

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	-12.7%	45.2%	31.0%	8.7%	10.6%	18.4%	7.9%
Cost of sale	-9.8%	28.3%	40.4%	14.1%	7.6%	20.2%	7.2%
Gross profit	-34.7%	220.3%	-8.2%	-26.1%	39.8%	4.3%	13.8%
Selling and promotion expenses	27.4%	18.9%	51.6%	-83.8%	468.5%	18.4%	7.9%
Administration expenses	-7.6%	37.6%	-6.0%	-20.5%	10.6%	117.6%	7.9%
Other operating expenses	-37.4%	281.9%	2.4%	137.8%	-24.8%	18.4%	7.9%
Operating Profit	-44.5%	302.9%	-16.1%	-39.8%	56.6%	-5.5%	17.4%
Other operating income	-9.9%	789.1%	-36.4%	-50.6%	10.6%	18.4%	7.9%
Finance cost	79.5%	-64.9%	62.9%	23.4%	0.5%	-1.8%	10.2%
Profit before taxation	-88.0%	2228.2%	-22.3%	-50.3%	79.6%	-6.3%	19.2%
Taxation	-105.2%	-5468.8%	-8.5%	-58.1%	77.5%	-7.4%	17.7%
Profit after taxation	-81.4%	1408.8%	-27.5%	-46.5%	80.4%	-5.9%	19.7%
EPS	-81.4%	1408.8%	-27.5%	-46.5%	80.4%	-5.9%	19.7%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	8.76	19.33	13.54	9.21	11.65	10.27	10.83
OP Margin	%	1.03	10.70	5.92	2.91	4.75	3.77	4.19
NP Margin	%	5.73	15.91	10.20	5.65	8.00	6.39	6.95
ROE	%	3.87	47.24	26.74	13.21	23.03	20.74	23.79
ROCE	%	14.29	43.79	35.41	15.30	22.49	19.85	21.83
ROA	%	2.35	33.41	18.97	8.31	14.71	12.96	14.20

Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	1.09	0.94	1.38	1.18	1.65	1.67	1.64
Acid-test	x	0.20	0.22	0.17	0.11	-0.03	-0.11	-0.26

Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	3	3	3	3	3	3	3
Inventory Days		110	126	111	139	139	139	139
Receivables Days		6	6	8	5	4	4	4
Payables Days		42	74	43	30	30	30	30
Operating Cycle		74	59	73	114	114	114	114

Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
EPS	Rs.	1.14	17.16	12.44	6.64	12.01	11.28	13.52
DPS	Rs.	0.00	10.00	10.00	5.50	9.50	9.00	11.00
Div. Yield	%	0.00	19.02	19.02	10.46	18.06	17.11	20.92
Dividend Cover	x	2.00	1.72	1.24	1.24	1.24	1.24	1.24
BVPS	Rs.	29.25	43.42	49.65	50.95	53.31	55.52	58.18
Payout	%	0.00	58.26	80.37	82.80	79.12	79.76	81.34
Retention	%	100.00	41.74	19.63	17.20	20.88	20.24	18.66
No. of Shares	'm	435	435	435	435	435	435	435
P/E	x	46.23	3.06	4.23	7.92	4.38	4.66	3.89
Sales per share		110.53	160.45	210.17	228.41	252.56	298.97	322.48
P/BV		2.41	1.62	1.42	1.38	1.32	1.27	1.21
Price to Sales		0.48	0.33	0.25	0.23	0.21	0.18	0.16

Gearing Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Debt to Equity	x	1.42	0.63	1.00	0.52	0.48	0.52	0.55
L.T. Debt to Equity	x	0.51	0.27	0.19	0.09	0.01	0.00	0.00
Interest Cover	x	1.19	13.68	7.05	3.42	5.37	5.13	5.50

Source: ACPL Research, Company Financials

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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- II. Dividend Discount Model
- III. Relative Valuation Model
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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

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RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com