

ISL has announced its 3QFY23 result where it posted a profit after tax of Rs1.52bn (EPS: Rs3.48) as compared to a profit after tax of Rs1.13bn (EPS: Rs2.60) in the same period last year, up by 34% YoY an improvement in margins due to higher domestic steel prices.

The company has posted a revenue of Rs23.90bn against Rs27.26bn in SPLY, recording a decline of 12.3% YoY owing to lower volumetric takeoff. The gross margin has improved to 13.3% as compared to 8.4% during SPLY amid a fall in steel scrap prices.

Moreover, SG&A expenses went down by 6.9% YoY to Rs392mn as compared to Rs421mn during SPLY. Furthermore, other expenses surged by 93.2% to Rs328bn while finance costs increased by 9.3% YoY amounting to Rs395mn due to higher interest rates.

ISL is currently trading at FY23 P/E of 8.89x. The scrip is also trading at FY23 P/B of 0.99x which offers a discount of 23% relative to its historical 3-year average of 1.29x. We maintain our **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs50 which provides an upside potential of 16%.

Rupees' millions	3QFY23	3QFY22	YoY	9MFY23	9MFY22	YoY
Net Sales	23,898	27,263	12.3% ▼	57,824	70,557	18.0% ▼
Cost of Sales	-20,724	-24,959	17.0% ▼	-51,675	-61,043	15.3% ▼
Gross Profit	3,174	2,304	37.8% ▲	6,149	9,514	35.4% ▼
SG&A Expenses	-392	-421	6.9% ▼	-693	-982	29.4% ▼
Other Expenses	-328	-170	93.2% ▲	-1,444	-755	91.2% ▲
Operating Profit	2,454	1,713	43.3% ▲	4,013	7,777	48.4% ▼
Other Income	55	22	150.2% ▲	117	175	33.1% ▼
Finance Cost	-395	-361	9.3% ▲	-2,047	-906	126.0% ▲
Profit Before Taxation	2,114	1,374	53.9% ▲	2,083	7,046	70.4% ▼
Taxation	-598	-242	147.2% ▲	-506	-1,691	129.9% ▼
Profit After Taxation	1,516	1,132	34.0% ▲	1,577	5,355	70.6% ▼
Earnings Per Share	3.48	2.60	34.0% ▲	3.62	12.31	70.6% ▼
Dividend	0.00	0.00		0.00	2.00	
Bonus	0.00	0.00		0.00	0.00	
Right	0.00	0.00		0.00	0.00	
Gross Margin	13.3%	8.4%	4.8% ▲	10.6%	13.5%	2.8% ▼
SG&A Expenses to Sales	-1.6%	-1.5%	0.1% ▲	-1.2%	-1.4%	0.2% ▼
Other Income to Sales	0.2%	0.1%	0.1% ▲	0.2%	0.2%	0.0% ▼
Ex. Gain / (Loss) to Sales	-1.6%	-1.5%	0.1% ▲	-1.2%	-1.4%	0.2% ▼
Effective Taxation	-28.3%	-17.6%	10.7% ▲	-24.3%	-24.0%	0.3% ▲
Net Margin	6.3%	4.2%	2.2% ▲	2.7%	7.6%	4.9% ▼

Source: ACPL Research, Company Financials

Key Statistics

Symbol	ISL
TP - Dec 23	50
LDPC	43
Upside (%)	16
Free Float ('mn)	152
Market Cap. (Rs.'mn)	18,705

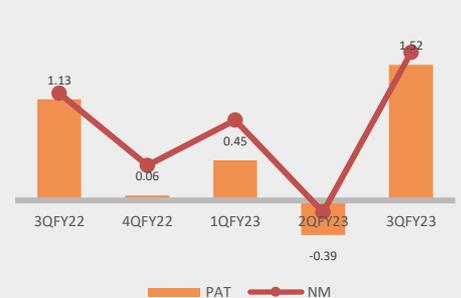
ISL vs KSE 100



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	77,101	100,955	127,510	156,469
Cost of sale	43,869	56,304	79,042	68,901	91,434	116,063	143,128
Gross profit	4,213	13,492	12,381	8,200	9,521	11,447	13,341
Selling and promotion expenses	894	1,063	1,612	580	1,359	1,716	2,106
Administration expenses	263	362	340	344	450	638	782
Other operating expenses	334	1,277	1,308	1,925	1,937	2,447	3,002
Operating Profit	2,721	10,791	9,122	5,351	5,775	6,647	7,451
Other operating income	36	316	201	156	204	258	316
Finance cost	2,315	812	1,323	2,719	1,285	1,127	1,186
Profit before taxation	442	10,295	8,001	2,788	4,694	5,777	6,581
Taxation	-	53	2,828	677	1,264	1,537	1,729
Profit after taxation	495	7,466	5,412	2,111	3,430	4,241	4,851
EPS	1.14	17.16	12.44	4.85	7.89	9.75	11.15

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Net sales	-12.7%	45.2%	31.0%	-15.7%	30.9%	26.3%	22.7%
Cost of sale	-9.8%	28.3%	40.4%	-12.8%	32.7%	26.9%	23.3%
Gross profit	-34.7%	220.3%	-8.2%	-33.8%	16.1%	20.2%	16.5%
Selling and promotion expenses	27.4%	18.9%	51.6%	-64.0%	134.2%	26.3%	22.7%
Administration expenses	-7.6%	37.6%	-6.0%	1.1%	30.9%	41.7%	22.7%
Other operating expenses	-37.4%	281.9%	2.4%	47.2%	0.6%	26.3%	22.7%
Operating Profit	-44.5%	302.9%	-16.1%	-40.9%	8.6%	15.5%	12.5%
Other operating income	-9.9%	789.1%	-36.4%	-22.4%	30.9%	26.3%	22.7%
Finance cost	79.5%	-64.9%	62.9%	105.6%	-52.7%	-12.3%	5.2%
Profit before taxation	-88.0%	2228.2%	-22.3%	-65.2%	68.4%	23.1%	13.9%
Taxation	-105.2%	-5468.8%	-8.5%	-73.8%	86.6%	21.6%	12.5%
Profit after taxation	-81.4%	1408.8%	-27.5%	-61.0%	62.5%	23.6%	14.4%
EPS	-81.4%	1408.8%	-27.5%	-61.0%	62.5%	23.6%	14.4%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	8.76	19.33	13.54	10.64	9.43	8.98	8.53
OP Margin	%	1.03	10.70	5.92	2.73	3.40	3.32	3.10
NP Margin	%	5.73	15.91	10.20	7.14	5.92	5.42	4.96
ROE	%	3.87	47.24	26.74	9.65	15.37	18.33	20.24
ROCE	%	14.29	43.79	34.93	14.94	15.36	16.61	17.57
ROA	%	2.35	33.41	18.85	5.97	9.07	9.60	9.13

Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	0.94	1.38	1.20	1.72	1.61	1.50	1.41
Acid-test	x	0.22	0.17	0.13	0.50	0.36	0.37	0.42

Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	3	3	3	3	3	4	4
Inventory Days		126	111	139	129	119	109	99
Receivables Days		6	8	5	4	4	4	4
Payables Days		74	43	30	40	50	60	70
Operating Cycle		59	73	114	94	74	54	34

Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
EPS	Rs.	1.14	17.16	12.44	4.84	7.90	9.73	11.16
DPS	Rs.	0.00	10.00	10.00	4.00	6.50	8.00	9.00
Div. Yield	%	0.00	23.26	23.26	9.30	15.12	18.60	20.93
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	50.60	52.14	54.06	56.25
Payout	%	0.00	58.26	80.37	82.71	82.33	82.19	80.63
Retention	%	100.00	41.74	19.63	17.29	17.67	17.81	19.37
No. of Shares	'm	435	435	435	435	435	435	435
P/E	x	37.80	2.51	3.46	8.89	5.45	4.42	3.85
Sales per share		110.53	160.45	210.17	177.24	232.08	293.13	359.70
P/BV		1.71	1.15	1.01	0.99	0.96	0.93	0.89
Price to Sales		0.39	0.27	0.20	0.24	0.19	0.15	0.12

Gearing Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Debt to Equity	x	1.42	0.63	1.00	0.50	0.44	0.46	0.47
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	2.02	4.67	6.08	6.58

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

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

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

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