

SEARL

1QFY22 Result Review: BUY Stance Maintained

Equity Research | Pharmaceuticals | Thursday, 4 November, 2021

SEARL has announced its 1QFY22 result where it posted (consolidated) profit after tax of Rs904mn (EPS: Rs2.84) as compared to a profit after tax of Rs648mn (EPS: Rs2.04) in the same period last year, up by 39.5% YoY.

The company has posted a revenue of Rs7.68bn against Rs5.56bn in SPLY, recording a growth of 38% YoY. We note that this growth is attributed to the increase in volumetric growth.

The gross margin has been squeezed to 44.4% as compared to 46.0% in SPLY on account of higher input costs.

Finance cost has been increased by 55% YoY to Rs426mn as compared to Rs272mn in SPLY on account of higher working capital requirement.

SEARL is currently trading at FY22E PE of 14.64x. Furthermore, the scrip is also trading at a FY22E PB of 2.52x which provides a discount of 27% relative to its 3-year average of 27x. We have a **BUY** stance on the script with a DCF based Jun-22 TP of Rs220 which provides an Upside potential of 25%. Further, the scrip also provides a dividend yield of 2% which makes the total return of 27%.

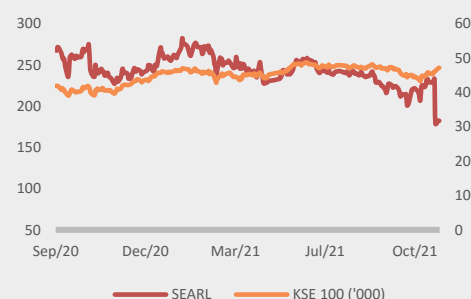
Rupees' millions	1QFY22	1QFY21	YoY	FY21	FY20	YoY
Net Sales	7,678	5,562	38.0% ▲	26,220	20,475	28.1% ▲
Cost of Sales	-4,273	-3,002	42.3% ▲	-14,028	-10,769	30.3% ▲
Gross Profit	3,405	2,560	33.0% ▲	12,191	9,706	25.6% ▲
SG&A Expenses	-1,655	-1,331	24.3% ▲	-6,731	-5,606	20.1% ▲
Other Expenses	-93	-72	27.6% ▲	-326	-262	24.7% ▲
Operating Profit	1,658	1,157	43.3% ▲	5,134	3,838	33.8% ▲
Other Income	41	43	4.8% ▼	1,353	506	167.5% ▲
Finance Cost	-423	-272	55.1% ▲	-1,452	-685	111.9% ▲
Profit Before Taxation	1,276	927	37.7% ▲	5,035	3,659	37.6% ▲
Taxation	-372	-279	33.4% ▲	-1,288	-1,111	16.0% ▲
Profit After Taxation	904	648	39.5% ▲	3,747	2,548	47.0% ▲
Earnings Per Share	2.84	2.04	39.4% ▲	11.79	8.01	47.2% ▲
Dividend	0.00	0.00		2.50	2.50	-
Bonus	0%	0%		30%	0%	
Gross Margin	44.4%	46.0%	1.7% ▼	46.5%	47.4%	0.9% ▼
SG&A Expenses to Sales	-21.6%	-23.9%	2.4% ▼	-25.7%	-27.4%	1.7% ▼
Other Expenses to Sales	-1.2%	-1.3%	0.1% ▼	-1.2%	-1.3%	0.0% ▼
Other Income to Sales	0.5%	0.8%	0.2% ▼	5.2%	2.5%	2.7% ▲
Effective Taxation	-29.1%	-30.1%	0.9% ▼	-25.6%	-30.4%	4.8% ▼
Net Margin	11.8%	11.7%	0.1% ▲	14.3%	12.4%	1.8% ▲

Source: ACPL Research, Company Financials

Key Statistics

Symbol	SEARL
TP - Jun 22	220.00
LDCP	177.00
Upside	25%
Free Float (Rs. mn)	140
Market Cap. (Rs.mn)	56,103

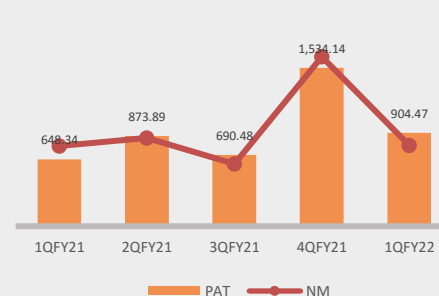
SEARL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

M. Fawad Naveed

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

Email: fawad@abbasiandcompany.com

Financial Projections

Rupees' millions	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	18,062	20,475	26,220	30,173	33,321	36,898	40,973
Cost of sales	- 9,462	- 10,769	- 14,028	- 16,636	- 18,578	- 20,811	- 23,387
Gross profit	8,600	9,706	12,191	13,537	14,744	16,087	17,586
Distribution cost	- 4,285	- 4,417	- 5,348	- 5,050	- 5,569	- 6,158	- 6,828
Administrative expenses	- 1,103	- 1,189	- 1,383	- 1,660	- 1,833	- 2,029	- 2,254
Other operating expenses	- 175	- 262	- 326	- 376	- 415	- 459	- 510
Profit from operations	3,037	3,838	5,134	6,452	6,927	7,440	7,995
Other income	234	506	1,353	302	333	369	410
Finance cost	- 439	- 685	- 1,452	- 1,561	- 1,468	- 1,189	- 924
Profit before income tax	2,832	3,659	5,035	5,193	5,792	6,620	7,480
Income tax expense	- 567	- 1,111	- 1,288	- 1,347	- 1,495	- 1,699	- 1,909
Profit for the year	2,265	2,548	3,747	3,846	4,298	4,921	5,571
EPS	7.26	8.17	12.01	12.32	13.77	15.77	17.85
EBITDA	3,251	4,084	5,610	6,933	7,417	7,938	8,501

Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	10.2%	13.4%	28.1%	15.1%	10.4%	10.7%	11.0%
Cost of sales	17.3%	13.8%	30.3%	18.6%	11.7%	12.0%	12.4%
Gross profit	3.2%	12.9%	25.6%	11.0%	8.9%	9.1%	9.3%
Distribution cost	14.5%	3.1%	21.1%	-5.6%	10.3%	10.6%	10.9%
Administrative expenses	2.3%	7.8%	16.3%	20.0%	10.4%	10.7%	11.0%
Other operating expenses	-10.4%	49.6%	24.7%	15.1%	10.4%	10.7%	11.0%
Profit from operations	-8.4%	26.4%	33.8%	25.7%	7.4%	7.4%	7.5%
Other income	49.9%	115.8%	167.5%	-77.7%	10.4%	10.7%	11.0%
Finance cost	102.5%	56.1%	111.9%	7.5%	-5.9%	-19.0%	-22.3%
Profit before income tax	-13.0%	29.2%	37.6%	3.1%	11.5%	14.3%	13.0%
Income tax expense	5.4%	95.9%	16.0%	4.6%	10.9%	13.7%	12.4%
Profit for the year	-16.6%	12.5%	47.0%	2.6%	11.8%	14.5%	13.2%
EPS	-16.6%	11.5%	47.2%	2.6%	11.8%	14.5%	13.2%
EBITDA	-6.4%	25.6%	37.4%	23.6%	7.0%	7.0%	7.1%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	47.61	47.40	46.50	44.86	44.25	43.60	42.92
NP Margin	%	12.54	12.44	14.29	12.75	12.90	13.34	13.60
OP Margin	%	16.81	18.74	19.58	21.38	20.79	20.16	19.51
ROE	%	16.76	15.96	19.36	17.54	17.68	18.44	19.16
ROCE	%	22.20	23.13	21.47	25.86	29.20	32.66	36.13
ROA	%	10.65	10.15	10.37	9.95	10.80	12.50	14.08
Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.89	2.07	1.02	1.09	1.00	0.94	0.90
Quick	x	0.15	0.18	-0.43	-0.01	0.07	0.06	0.09
Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Inventory Turnover	x	6.24	6.42	6.22	6.63	8.15	9.15	10.46
Inventory Days		111.58	108.16	109.60	99.81	80.30	70.71	61.14
Receivables Days		15.92	21.17	10.00	7.00	7.00	7.00	7.00
Payables Days		135.79	113.59	150.00	200.00	200.00	200.00	200.00
Operating Cycle		-8.29	15.75	-30.40	-93.19	-112.70	-122.29	-131.86
Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
DPS		2.50	2.50	2.00	4.00	6.00	8.00	10.00
Div. Yield	%	1.41	1.41	1.13	2.26	3.39	4.52	5.65
Dividend Cover	x	2.87	3.20	5.89	3.02	2.25	1.93	1.75
Retention	%	65.19	68.79	83.04	66.92	55.59	48.29	42.90
Payout	%	34.81	31.21	16.96	33.08	44.41	51.71	57.10
No. of Shares	('m)	312.05	312.05	312.05	312.05	312.05	312.05	312.05
EPS		7.18	8.01	11.79	12.09	13.51	15.47	17.51
BVPS		43.32	51.15	62.01	70.26	77.91	85.53	93.19
P/E	x	24.64	22.10	15.01	14.64	13.10	11.44	10.11
Sales per share		57.88	65.61	84.02	96.69	106.78	118.24	131.30
P/BV	x	4.09	3.46	2.85	2.52	2.27	2.07	1.90
P/S	x	3.06	2.70	2.11	1.83	1.66	1.50	1.35
Solvency Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Total Debt to Equity	x	0.29	0.33	0.89	0.70	0.59	0.43	0.30
L.T Debt to Equity	x	0.00	0.02	0.56	0.50	0.45	0.33	0.22
Total Debt to Assets	x	0.18	0.21	0.48	0.40	0.36	0.29	0.22
L.T Debt to Assets	x	0.00	0.01	0.30	0.28	0.27	0.22	0.17
Interest Cover	x	6.92	5.60	3.54	4.13	4.72	6.26	8.65

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

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com