

SEARL

9MFY21 Result Review: BUY Stance Maintained

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SEARL has announced its 9MFY21 result where it posted (consolidated) profit after tax of Rs2.2bn (EPS: Rs8.98) as compared to a profit after tax of Rs1.8bn (EPS: Rs7.18) in the same period last year, up by 25.1% YoY.

The company has posted the revenue of Rs19.9bn against Rs15.1bn in SPLY, recording a growth of 32.4% YoY. We note that this growth is attributed to the increase in volumetric growth.

The gross margin has been squeezed to 46.1% as compared to 47.9% in SPLY on account of higher input costs.

Finance cost has been increased by 151.7% YoY to Rs1.3bn as compared to Rs504mn in SPLY on account of higher working capital requirement.

SEARL is currently trading at FY21E PE of 17.70x. Furthermore, the scrip is also trading at a FY21E PB of 3.06x which provides a discount of 41% relative to its 5-year average of 5.18x. We have a **BUY** stance on the script with a DCF based Dec-21 TP of Rs320 which provides an Upside potential of 33%.

Rupees' millions	3QFY21	3QFY20	YoY	9MFY21	9MFY20	YoY
Net Sales	7,616	5,214	46.1% ▲	19,994	15,103	32.4% ▲
Cost of Sales	-4,198	-2,790	50.5% ▲	-10,771	-7,864	37.0% ▲
Gross Profit	3,418	2,424	41.0% ▲	9,224	7,239	27.4% ▲
SG&A Expenses	-1,853	-1,418	30.7% ▲	-4,880	-4,386	11.3% ▲
Other Expenses	-62	-71	12.0% ▼	-250	-194	28.9% ▲
Operating Profit	1,502	936	60.5% ▲	4,094	2,659	54.0% ▲
Other Income	69	135	49.0% ▼	306	372	17.8% ▼
Finance Cost	-619	-165	273.9% ▲	-1,268	-504	151.7% ▲
Profit Before Taxation	952	905	5.2% ▲	3,131	2,527	23.9% ▲
Taxation	-261	-280	6.7% ▼	-919	-769	19.5% ▲
Profit After Taxation	690	625	10.5% ▲	2,213	1,758	25.9% ▲
Earnings Per Share	2.77	2.54	8.9% ▲	8.98	7.18	25.1% ▲
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	

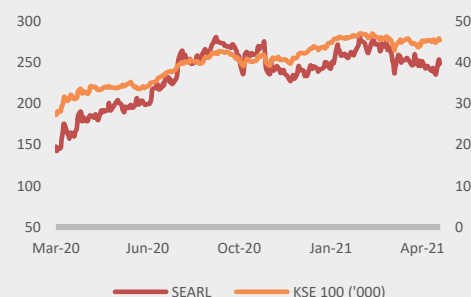
	3QFY21	3QFY20	YoY	9MFY21	9MFY20	YoY
Gross Margin	44.9%	46.5%	1.6% ▼	46.1%	47.9%	1.8% ▼
SG&A Expenses to Sales	-24.3%	-27.2%	2.8% ▼	-24.4%	-29.0%	4.6% ▼
Other Expenses to Sales	-0.8%	-1.4%	0.5% ▼	-1.3%	-1.3%	0.0% ▼
Other Income to Sales	0.9%	2.6%	1.7% ▼	1.5%	2.5%	0.9% ▼
Effective Taxation	-27.5%	-30.9%	3.5% ▼	-29.3%	-30.4%	1.1% ▼
Net Margin	9.1%	12.0%	2.9% ▼	11.1%	11.6%	0.6% ▼

Source: ACPL Research, Company Financials

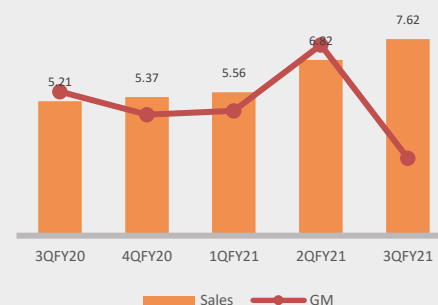
Key Statistics

Symbol	SEARL
TP - Dec 21	320.00
LDCP	240.00
Upside	33%
Free Float (Rs. mn)	96
Market Cap. (Rs.mn)	50,982

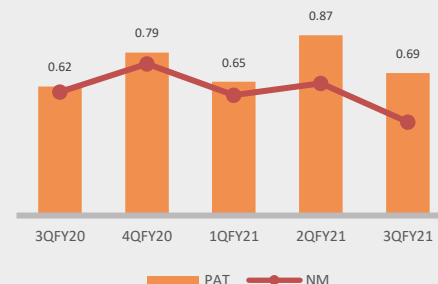
SEARL vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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Financial Projections

Rupees' millions	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	9,048	11,291	13,310	16,396	18,062	20,475	26,535	29,853	33,636
Cost of sales	- 4,645	- 5,415	- 6,291	- 8,065	- 9,462	- 10,769	- 14,133	- 15,646	- 17,578
Gross profit	4,403	5,876	7,018	8,331	8,600	9,706	12,402	14,207	16,058
Distribution cost	- 1,966	- 2,635	- 3,140	- 3,742	- 4,285	- 4,417	- 4,909	- 5,513	- 6,199
Administrative expenses	- 261	- 422	- 933	- 1,078	- 1,103	- 1,189	- 1,459	- 1,642	- 1,850
Other operating expenses	- 172	- 267	- 206	- 195	- 175	- 262	- 403	- 454	- 511
Profit from operations	2,004	2,551	2,740	3,315	3,037	3,838	5,630	6,599	7,498
Other income	98	216	276	156	234	506	504	567	639
Finance cost	- 192	- 113	- 135	- 217	- 439	- 685	- 1,645	- 1,640	- 1,635
Profit before income tax	1,910	2,655	2,880	3,254	2,832	3,659	4,489	5,526	6,501
Income tax expense	- 456	- 621	- 487	- 538	- 567	- 1,111	- 1,171	- 1,433	- 1,677
Profit for the year	1,454	2,034	2,393	2,717	2,265	2,548	3,319	4,092	4,824
EPS	6.06	8.47	9.97	11.32	9.44	10.62	13.82	17.05	20.10
EBITDA	2,064	2,627	2,848	3,471	3,251	4,084	6,106	7,099	8,026

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	18.9%	24.8%	17.9%	23.2%	10.2%	13.4%	29.6%	12.5%	12.7%
Cost of sales	10.2%	16.6%	16.2%	28.2%	17.3%	13.8%	31.2%	10.7%	12.3%
Gross profit	29.7%	33.5%	19.4%	18.7%	3.2%	12.9%	27.8%	14.6%	13.0%
Distribution cost	13.5%	34.1%	19.1%	19.2%	14.5%	3.1%	11.1%	12.3%	12.5%
Administrative expenses	-0.3%	61.6%	120.8%	15.6%	2.3%	7.8%	22.8%	12.5%	12.7%
Other operating expenses	27.4%	55.3%	-22.8%	-5.2%	-10.4%	49.6%	54.0%	12.5%	12.7%
Profit from operations	58.5%	27.3%	7.4%	21.0%	-8.4%	26.4%	46.7%	17.2%	13.6%
Other income	-16.4%	119.9%	27.4%	-43.2%	49.9%	115.8%	-0.4%	12.5%	12.7%
Finance cost	-11.1%	-41.3%	19.7%	60.4%	102.5%	56.1%	140.2%	-0.3%	-0.3%
Profit before income tax	63.7%	39.1%	8.5%	13.0%	-13.0%	29.2%	22.7%	23.1%	17.7%
Income tax expense	57.5%	36.0%	-21.5%	10.4%	5.4%	95.9%	5.4%	22.4%	17.0%
Profit for the year	65.8%	40.0%	17.7%	13.5%	-16.6%	12.5%	30.2%	23.3%	17.9%
EPS	71.3%	45.7%	17.8%	14.1%	-16.6%	11.5%	30.2%	23.3%	17.9%
EBITDA	-37.4%	27.3%	8.4%	21.9%	-6.4%	25.6%	49.5%	16.3%	13.1%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
GP Margin	%	48.66	52.04	52.73	50.81	47.61	47.40	46.74	47.59	47.74
NP Margin	%	16.05	18.01	17.98	16.57	12.54	12.44	12.51	13.71	14.34
OP Margin	%	22.15	22.60	20.59	20.22	16.81	18.74	21.22	22.10	22.29
ROE	%	27.32	25.11	24.44	23.72	16.76	15.96	17.63	18.65	19.07
ROCE	%	33.24	29.42	27.19	28.75	22.20	23.13	24.28	26.73	30.91
ROA	%	17.33	17.70	17.64	15.75	10.65	10.15	9.36	10.89	12.02
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Current	x	2.02	2.40	2.09	1.68	1.89	2.07	0.95	1.05	1.00
Quick	x	0.15	0.20	0.16	0.10	0.15	0.18	-0.52	-0.39	-0.20
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Inventory Turnover	x	8.09	8.19	8.74	7.55	6.24	6.42	6.27	5.87	6.44
Inventory Days		87.83	92.92	88.33	98.25	111.58	108.16	109.27	118.71	108.41
Receivables Days		8.30	13.27	10.38	7.09	15.92	21.17	10.00	10.00	10.00
Payables Days		121.54	142.03	116.36	139.11	135.79	113.59	150.00	150.00	150.00
Operating Cycle		-25.41	-35.85	-17.65	-33.78	-8.29	15.75	-30.73	-21.29	-31.59
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
DPS		2.00	5.00	10.00	5.00	2.50	2.50	3.00	4.00	6.00
Div. Yield	%	0.83	2.08	4.17	2.08	1.04	1.04	1.25	1.67	2.50
Dividend Cover	x	2.86	1.67	0.98	2.24	3.73	4.17	4.52	4.18	3.29
Retention	%	65.03	40.01	-1.89	55.34	73.22	75.99	77.88	76.08	69.57
Payout	%	34.97	59.99	101.89	44.66	26.78	24.01	22.12	23.92	30.43
No. of Shares	('m)	240.04	240.04	240.04	240.04	240.04	240.04	240.04	240.04	240.04
EPS		5.72	8.33	9.81	11.19	9.34	10.41	13.56	16.72	19.72
BVPS		22.15	33.75	40.79	47.71	56.32	66.50	78.42	91.39	105.37
P/E	x	41.96	28.79	24.45	21.44	25.70	23.05	17.70	14.35	12.17
Sales per share		37.69	47.04	55.45	68.30	75.25	85.30	110.54	124.37	140.13
P/BV	x	10.84	7.11	5.88	5.03	4.26	3.61	3.06	2.63	2.28
P/S	x	6.37	5.10	4.33	3.51	3.19	2.81	2.17	1.93	1.71
Solvency Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E
Total Debt to Equity	x	0.27	0.15	0.17	0.22	0.29	0.33	0.91	0.78	0.68
L.T Debt to Equity	x	0.14	0.06	0.02	0.00	0.00	0.02	0.58	0.50	0.43
Total Debt to Assets	x	0.17	0.10	0.12	0.15	0.18	0.21	0.48	0.46	0.43
L.T Debt to Assets	x	0.09	0.04	0.02	0.00	0.00	0.01	0.31	0.29	0.27
Interest Cover	x	10.42	22.60	20.28	15.29	6.92	5.60	3.42	4.02	4.59

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
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
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