

# SEARL

## 9MFY23 Result Review: BUY Stance Maintained

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SEARL has announced its 9MFY23 result where it posted a (consolidated) profit after tax of Rs0.94mn (Diluted EPS: Rs2.41) as compared to a profit after tax of Rs2.09bn (Diluted EPS: Rs5.35) in the same period last year, down by 54.92% YoY owing to higher input cost due to devaluation of PKR in addition to higher finance costs.

The company has posted a revenue of Rs26.42bn against Rs22.20bn in SPLY, recording a growth of 19.1% YoY. The gross margin has squeezed to 41% as compared to 44.7% in SPLY. Furthermore, SG&A expenses have increased by 24.4% to Rs6.72bn as compared to Rs5.40bn SPLY. Finance costs have surged by 84.3% YoY to Rs2.72bn owing to higher interest rates. Lastly, effective taxation has increased to 38.8% as compared to 32.4% during SPLY.

SEARL is currently trading at FY23E PE of 18.61x. Furthermore, the scrip is also trading at a FY23E PB of 0.67x which provides a discount of 29% relative to its 3-year average of 0.95x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs65 which provides an upside potential of 18%. Further, the scrip also provides a dividend yield of 1.8% which makes the total return of 20%.

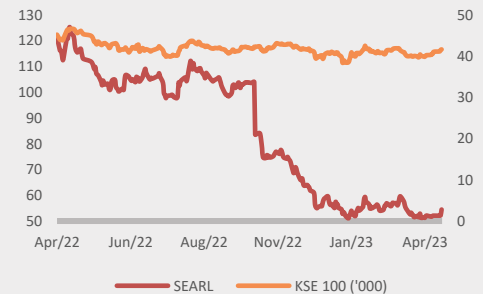
Rupees' millions	3QFY23	3QFY22	YoY	9MFY23	9MFY22	YoY
Net Sales	9,569	7,629	25.4% ▲	26,425	22,196	19.1% ▲
Cost of Sales	-5,825	-4,195	38.9% ▲	-15,579	-12,277	26.9% ▲
<b>Gross Profit</b>	<b>3,745</b>	<b>3,434</b>	<b>9.0% ▲</b>	<b>10,846</b>	<b>9,920</b>	<b>9.3% ▲</b>
SG&A Expenses	-2,420	-1,944	24.5% ▲	-6,717	-5,399	24.4% ▲
Other Expenses	-29	-93	68.2% ▼	-128	-242	47.2% ▼
<b>Operating Profit</b>	<b>1,295</b>	<b>1,398</b>	<b>7.4% ▼</b>	<b>4,001</b>	<b>4,279</b>	<b>6.5% ▼</b>
Other Income	129	154	16.4% ▼	255	286	11.1% ▼
Finance Cost	-1,043	-555	87.8% ▲	-2,717	-1,475	84.3% ▲
Profit Before Taxation	381	997	61.8% ▼	1,538	3,091	50.2% ▼
Taxation	-146	-366	60.2% ▼	-597	-1,002	40.4% ▼
<b>Profit After Taxation</b>	<b>235</b>	<b>631</b>	<b>62.7% ▼</b>	<b>941</b>	<b>2,089</b>	<b>54.92% ▼</b>
<b>Earnings Per Share</b>	<b>0.60</b>	<b>1.62</b>	<b>62.7% ▼</b>	<b>2.41</b>	<b>5.35</b>	<b>54.92% ▼</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>0.00</b>	<b>0.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>0%</b>	<b>0%</b>	
Gross Margin	39.1%	45.0%	5.9% ▼	41.0%	44.7%	3.6% ▼
SG&A Expenses to Sales	-25.3%	-25.5%	0.2% ▼	-25.4%	-24.3%	1.1% ▲
Other Expenses to Sales	-0.3%	-1.2%	0.9% ▼	-0.5%	-1.1%	0.6% ▼
Other Income to Sales	1.3%	2.0%	0.7% ▼	1.0%	1.3%	0.3% ▼
Effective Taxation	-38.2%	-36.7%	1.5% ▲	-38.8%	-32.4%	6.4% ▲
<b>Net Margin</b>	<b>2.5%</b>	<b>8.3%</b>	<b>5.8% ▼</b>	<b>3.6%</b>	<b>9.4%</b>	<b>5.8% ▼</b>

Source: ACPL Research, Company Financials

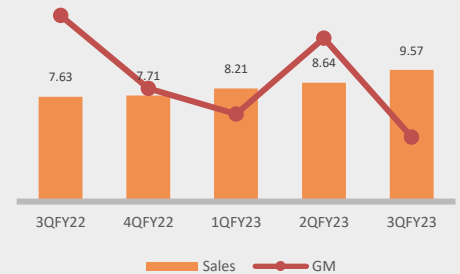
### Key Statistics

Symbol	SEARL
TP - Dec 23	65
LDGP	54.45
Upside	18%
Free Float (Rs. mn)	176
Market Cap. (Rs.mn)	21,239

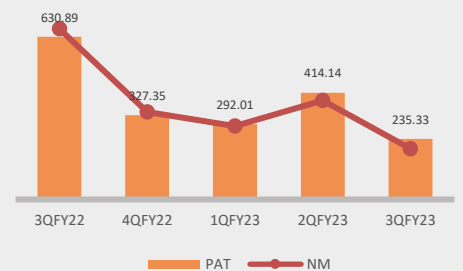
### SEARL vs KSE 100



### Sales (Rs'bn) vs Gross Margin



### PAT (Rs'mn) vs Net Margin



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	20,475	26,220	29,910	35,234	41,153	47,243	53,291
Cost of sales	- 10,769	- 14,028	- 16,790	- 20,773	- 23,128	- 26,550	- 29,949
<b>Gross profit</b>	<b>9,706</b>	<b>12,191</b>	<b>13,119</b>	<b>14,461</b>	<b>18,025</b>	<b>20,693</b>	<b>23,342</b>
Distribution cost	- 4,417	- 5,348	- 6,040	- 7,459	- 9,096	- 10,442	- 11,778
Administrative expenses	- 1,189	- 1,383	- 1,431	- 1,497	- 2,250	- 2,583	- 2,380
Other operating expenses	- 262	- 326	- 300	- 170	- 454	- 521	- 588
<b>Profit from operations</b>	<b>3,838</b>	<b>5,134</b>	<b>5,348</b>	<b>5,334</b>	<b>6,226</b>	<b>7,148</b>	<b>8,595</b>
Other income	506	1,353	430	340	397	455	514
Finance cost	- 685	- 1,452	- 2,116	- 3,627	- 3,424	- 3,234	- 3,089
<b>Profit before income tax</b>	<b>3,659</b>	<b>5,035</b>	<b>3,661</b>	<b>2,047</b>	<b>3,199</b>	<b>4,369</b>	<b>6,020</b>
Income tax expense	- 1,111	- 1,288	- 1,245	- 779	- 905	- 1,230	- 1,687
<b>Profit for the year</b>	<b>2,548</b>	<b>3,747</b>	<b>2,416</b>	<b>1,268</b>	<b>2,294</b>	<b>3,139</b>	<b>4,333</b>
EPS	6.41	9.43	6.03	2.93	5.72	7.83	10.81
EBITDA	4,084	5,541	5,967	6,451	7,362	8,303	9,771

## Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	13.4%	28.1%	14.1%	17.8%	16.8%	14.8%	12.8%
Cost of sales	13.8%	30.3%	19.7%	23.7%	11.3%	14.8%	12.8%
<b>Gross profit</b>	<b>12.9%</b>	<b>25.6%</b>	<b>7.6%</b>	<b>10.2%</b>	<b>24.6%</b>	<b>14.8%</b>	<b>12.8%</b>
Distribution cost	3.1%	21.1%	12.9%	23.5%	21.9%	14.8%	12.8%
Administrative expenses	7.8%	16.3%	3.5%	4.6%	50.2%	14.8%	-7.8%
Other operating expenses	49.6%	24.7%	-8.0%	-43.2%	166.3%	14.8%	12.8%
<b>Profit from operations</b>	<b>26.4%</b>	<b>33.8%</b>	<b>4.2%</b>	<b>-0.3%</b>	<b>16.7%</b>	<b>14.8%</b>	<b>20.3%</b>
Other income	115.8%	167.5%	-68.2%	-21.0%	16.8%	14.8%	12.8%
Finance cost	56.1%	111.9%	45.8%	71.4%	-5.6%	-5.6%	-4.5%
<b>Profit before income tax</b>	<b>29.2%</b>	<b>37.6%</b>	<b>-27.3%</b>	<b>-44.1%</b>	<b>56.3%</b>	<b>36.6%</b>	<b>37.8%</b>
Income tax expense	95.9%	16.0%	-3.3%	-37.5%	16.3%	35.9%	37.1%
<b>Profit for the year</b>	<b>12.5%</b>	<b>47.0%</b>	<b>-35.5%</b>	<b>-47.5%</b>	<b>80.9%</b>	<b>36.8%</b>	<b>38.1%</b>
EPS	11.5%	47.2%	-36.1%	-51.5%	95.7%	36.8%	38.1%
EBITDA	25.6%	35.7%	7.7%	8.1%	14.1%	12.8%	17.7%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	47.40	46.50	43.86	41.04	43.80	43.80	43.80
NP Margin	%	12.44	14.29	8.08	3.60	5.57	6.64	8.13
OP Margin	%	18.74	19.58	17.88	15.14	15.13	15.13	16.13
ROE	%	15.96	14.36	7.87	4.01	6.88	8.80	11.15
ROCE	%	23.18	14.25	13.23	16.86	21.82	27.19	34.41
ROA	%	10.15	7.62	4.33	2.56	4.76	6.54	8.85
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	2.07	1.65	1.71	0.85	0.70	0.62	0.59
Quick	x	0.18	0.32	0.35	-0.52	-0.72	-0.84	-0.80
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	6.42	6.31	5.61	5.46	5.45	5.53	6.15
Inventory Days		108.16	108.17	115.87	113.49	119.13	117.43	105.64
Receivables Days		21.17	55.92	59.64	59.64	59.64	59.64	59.64
Payables Days		114.75	132.39	110.82	110.82	110.82	110.82	110.82
Operating Cycle		14.58	31.70	64.69	62.31	67.95	66.25	54.46
Investment Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
DPS		2.50	2.00	0.00	1.00	1.50	2.00	3.00
Div. Yield	%	4.59	3.67	0.00	1.84	2.75	3.67	5.51
Dividend Cover	x	2.56	4.72	0.00	2.93	3.82	3.92	3.60
Retention	%	60.99	78.79	100.00	65.82	73.80	74.47	72.26
Payout	%	39.01	21.21	0.00	34.18	26.20	25.53	27.74
No. of Shares	('m)	390.07	390.07	390.07	390.07	390.07	390.07	390.07
EPS		6.41	9.43	6.03	2.93	5.72	7.83	10.81
BVPS		40.92	66.88	78.68	81.09	85.45	91.41	99.63
P/E	x	8.50	5.77	9.03	18.61	9.51	6.95	5.04
Sales per share		52.49	67.22	76.68	90.33	105.50	121.12	136.62
P/BV	x	1.33	0.81	0.69	0.67	0.64	0.60	0.55
P/S	x	1.04	0.81	0.71	0.60	0.52	0.45	0.40
Solvency Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Total Debt to Equity	x	0.33	0.67	0.62	0.60	0.56	0.51	0.47
L.T Debt to Equity	x	0.02	0.37	0.29	0.29	0.23	0.18	0.13
Total Debt to Assets	x	0.21	0.36	0.34	0.38	0.39	0.38	0.37
L.T Debt to Assets	x	0.01	0.20	0.16	0.18	0.16	0.13	0.10
Interest Cover	x	5.60	3.54	2.53	1.47	1.82	2.21	2.78

Source: ACPL Research, Company Financials

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

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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

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