

## SEARL

## 1QFY23 Result Review: BUY Stance Maintained

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SEARL has announced its 1QFY23 result where it posted a (consolidated) profit after tax of Rs292mn (Diluted EPS: Rs0.75) as compared to a profit after tax of Rs904mn (Diluted EPS: Rs2.32) in the same period last year, down by 67.7% YoY owing to higher input cost due to devaluation of PKR in addition to an increase in finance costs.

The company has posted a revenue of Rs8.21bn against Rs7.68bn in SPLY, recording a growth of 7% YoY. The gross margin has squeezed to 40.2% as compared to 44.4% in SPLY. Furthermore, SG&A expenses and other income have increased by 23.5% and 18.6% respectively. Moreover, finance costs surged by 87.8% YoY to Rs793mn owing to higher interest rates. Lastly, effective taxation has increased to 38.6% as compared to 29.1% during SPLY.

SEARL is currently trading at FY23E PE of 23.96x. Furthermore, the scrip is also trading at a FY23E PB of 0.95x which provides a discount of 29% relative to its 3-year average of 1.33x. We have a **BUY** stance on the scrip with a DCF-based Jun-23 TP of Rs95 which provides an upside potential of 23%. Further, the scrip also provides a dividend yield of 1.3% which makes the total return of 24%.

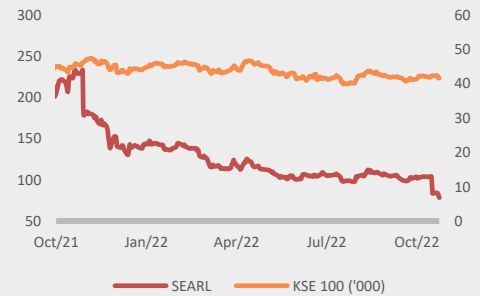
Rupees' millions	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Net Sales	8,213	7,678	7.0% ▲	29,910	26,220	14.1% ▲
Cost of Sales	-4,908	-4,273	14.9% ▲	-16,790	-14,028	19.7% ▲
<b>Gross Profit</b>	<b>3,306</b>	<b>3,405</b>	<b>2.9% ▼</b>	<b>13,119</b>	<b>12,191</b>	<b>7.6% ▲</b>
SG&A Expenses	-2,043	-1,655	23.5% ▲	-7,471	-6,731	11.0% ▲
Other Expenses	-43	-93	54.1% ▼	-300	-326	8.0% ▼
<b>Operating Profit</b>	<b>1,220</b>	<b>1,658</b>	<b>26.4% ▼</b>	<b>5,348</b>	<b>5,134</b>	<b>4.2% ▲</b>
Other Income	48	41	18.6% ▲	430	1,353	68.2% ▼
Finance Cost	-793	-423	87.8% ▲	-2,116	-1,452	45.8% ▲
Profit Before Taxation	475	1,276	62.8% ▼	3,661	5,035	27.3% ▼
Taxation	-183	-372	50.7% ▼	-1,245	-1,288	3.3% ▼
<b>Profit After Taxation</b>	<b>292</b>	<b>904</b>	<b>67.7% ▼</b>	<b>2,416</b>	<b>3,747</b>	<b>35.52% ▼</b>
Earnings Per Share	0.75	2.32	67.7% ▼	6.19	9.61	35.52% ▼
Dividend	0.00	0.00		0.00	2.50	-
Bonus	0%	0%		25%	30%	
Gross Margin	40.2%	44.4%	4.1% ▼	43.9%	46.5%	2.6% ▼
SG&A Expenses to Sales	-24.9%	-21.6%	3.3% ▲	-25.0%	-25.7%	0.7% ▼
Other Expenses to Sales	-0.5%	-1.2%	0.7% ▼	-1.0%	-1.2%	0.2% ▼
Other Income to Sales	0.6%	0.5%	0.1% ▲	1.4%	5.2%	3.7% ▼
Effective Taxation	-38.6%	-29.1%	9.4% ▲	-34.0%	-25.6%	8.4% ▲
Net Margin	3.6%	11.8%	8.2% ▼	8.1%	14.3%	6.2% ▼

Source: ACPL Research, Company Financials

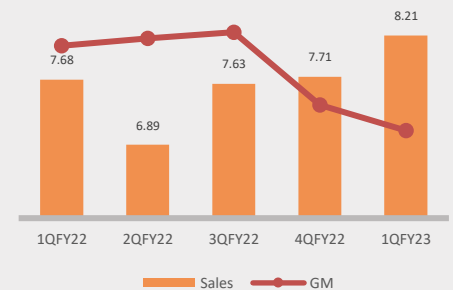
## Key Statistics

Symbol	SEARL
TP - Jun 23	95
LDCP	76.80
Upside	23%
Free Float (Rs. mn)	180
Market Cap. (Rs.mn)	29,957

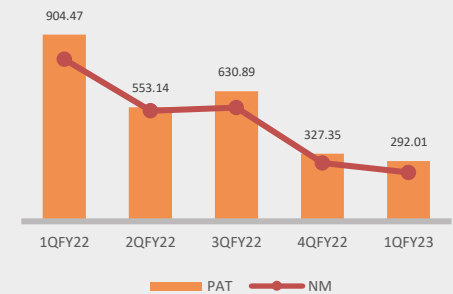
## SEARL vs KSE 100



## 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	32,853	36,085	41,498	47,723
Cost of sales	- 10,769	- 14,028	- 16,790	- 19,629	- 20,375	- 23,431	- 26,946
<b>Gross profit</b>	<b>9,706</b>	<b>12,191</b>	<b>13,119</b>	<b>13,224</b>	<b>15,710</b>	<b>18,067</b>	<b>20,777</b>
Distribution cost	- 4,417	- 5,348	- 6,040	- 6,784	- 7,451	- 8,569	- 9,854
Administrative expenses	- 1,189	- 1,383	- 1,431	- 1,387	- 1,523	- 1,752	- 1,537
Other operating expenses	- 262	- 326	- 300	- 171	- 188	- 216	- 248
<b>Profit from operations</b>	<b>3,838</b>	<b>5,134</b>	<b>5,348</b>	<b>4,882</b>	<b>6,548</b>	<b>7,531</b>	<b>9,137</b>
Other income	506	1,353	430	194	213	245	282
Finance cost	- 685	- 1,452	- 2,116	- 3,173	- 3,097	- 3,022	- 2,980
<b>Profit before income tax</b>	<b>3,659</b>	<b>5,035</b>	<b>3,661</b>	<b>1,903</b>	<b>3,664</b>	<b>4,753</b>	<b>6,439</b>
Income tax expense	- 1,111	- 1,288	- 1,245	- 616	- 1,180	- 1,523	- 2,053
<b>Profit for the year</b>	<b>2,548</b>	<b>3,747</b>	<b>2,416</b>	<b>1,287</b>	<b>2,484</b>	<b>3,230</b>	<b>4,387</b>
EPS	6.41	9.43	6.03	3.21	6.19	8.04	10.92
EBITDA	4,084	5,541	5,967	5,998	7,684	8,686	10,313

## Horizontal Analysis

	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Revenue	13.4%	28.1%	14.1%	9.8%	9.8%	15.0%	15.0%
Cost of sales	13.8%	30.3%	19.7%	16.9%	3.8%	15.0%	15.0%
<b>Gross profit</b>	<b>12.9%</b>	<b>25.6%</b>	<b>7.6%</b>	<b>0.8%</b>	<b>18.8%</b>	<b>15.0%</b>	<b>15.0%</b>
Distribution cost	3.1%	21.1%	12.9%	12.3%	9.8%	15.0%	15.0%
Administrative expenses	7.8%	16.3%	3.5%	-3.1%	9.8%	15.0%	-12.2%
Other operating expenses	49.6%	24.7%	-8.0%	-43.1%	9.8%	15.0%	15.0%
<b>Profit from operations</b>	<b>26.4%</b>	<b>33.8%</b>	<b>4.2%</b>	<b>-8.7%</b>	<b>34.1%</b>	<b>15.0%</b>	<b>21.3%</b>
Other income	115.8%	167.5%	-68.2%	-54.9%	9.8%	15.0%	15.0%
Finance cost	56.1%	111.9%	45.8%	49.9%	-2.4%	-2.4%	-1.4%
<b>Profit before income tax</b>	<b>29.2%</b>	<b>37.6%</b>	<b>-27.3%</b>	<b>-48.0%</b>	<b>92.6%</b>	<b>29.7%</b>	<b>35.5%</b>
Income tax expense	95.9%	16.0%	-3.3%	-50.6%	91.6%	29.1%	34.8%
<b>Profit for the year</b>	<b>12.5%</b>	<b>47.0%</b>	<b>-35.5%</b>	<b>-46.7%</b>	<b>93.0%</b>	<b>30.0%</b>	<b>35.8%</b>
EPS	11.5%	47.2%	-36.1%	-46.8%	93.0%	30.0%	35.8%
EBITDA	25.6%	35.7%	7.7%	0.5%	28.1%	13.0%	18.7%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
GP Margin	%	47.40	46.50	43.86	40.25	43.54	43.54	43.54
NP Margin	%	12.44	14.29	8.08	3.92	6.88	7.78	9.19
OP Margin	%	18.74	19.58	17.88	14.86	18.15	18.15	19.15
ROE	%	15.96	14.36	7.87	4.07	7.42	9.00	11.21
ROCE	%	23.18	14.25	13.23	15.21	22.18	27.31	34.57
ROA	%	10.15	7.62	4.33	2.32	4.54	5.83	7.67
Liquidity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Current	x	2.07	1.65	1.71	0.91	0.80	0.75	0.73
Quick	x	0.18	0.32	0.35	-0.08	-0.18	-0.26	-0.25
Activity Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Inventory Turnover	x	6.42	6.31	5.61	5.25	5.25	5.51	6.18
Inventory Days		108.16	108.17	115.87	116.44	123.22	117.33	104.57
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	65.26	72.04	66.15	53.40
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	%	3.26	2.60	0.00	1.30	1.95	2.60	3.91
Dividend Cover	x	2.56	4.72	0.00	3.21	4.12	4.02	3.64
Retention	%	60.99	78.79	100.00	68.80	75.75	75.14	72.54
Payout	%	39.01	21.21	0.00	31.20	24.25	24.86	27.46
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	3.21	6.19	8.04	10.92
BVPS		40.92	66.88	78.68	81.13	85.84	91.98	100.31
P/E	x	11.98	8.14	12.74	23.96	12.41	9.55	7.03
Sales per share		52.49	67.22	76.68	84.22	92.51	106.39	122.35
P/BV	x	1.88	1.15	0.98	0.95	0.89	0.83	0.77
P/S	x	1.46	1.14	1.00	0.91	0.83	0.72	0.63
Solvency Ratios		FY20A	FY21A	FY22A	FY23E	FY24E	FY25E	FY26E
Total Debt to Equity	x	0.33	0.67	0.62	0.78	0.75	0.71	0.66
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	0.45	0.46	0.46	0.45
L.T Debt to Assets	x	0.01	0.20	0.16	0.16	0.14	0.11	0.09
Interest Cover	x	5.60	3.54	2.53	1.54	2.11	2.49	3.07

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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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

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