

## SEARL

## 9MFY22 Result Review: BUY Stance Maintained

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SEARL has announced its 9MFY22 result where it posted a (consolidated) profit after tax of Rs2.089bn (EPS: Rs6.51) as compared to a profit after tax of Rs2.21bn (EPS: Rs6.90) in the same period last year, down by 5% YoY.

The company has posted a revenue of Rs22.196bn against Rs19.994bn in SPLY, recording a growth of 11% YoY. We note that this growth is attributed to the increase in volumetric growth.

The gross margin has been squeezed to 44.7% as compared to 46.1% in SPLY because of higher input costs.

Finance cost has been increased by 16.3% YoY to Rs1.47bn as compared to Rs1.26bn in SPLY on higher working capital requirement.

SEARL is currently trading at FY22E PE of 11.77x. Furthermore, the scrip is also trading at a FY22E PB of 1.24x which provides a discount of 39% relative to its 3-year average of 2.03x. We have a **BUY** stance on the scrip with a DCF-based Dec-22 TP of Rs140 which provides an Upside potential of 25%. Further, the scrip also provides a dividend yield of 3% which makes the total return of 28%.

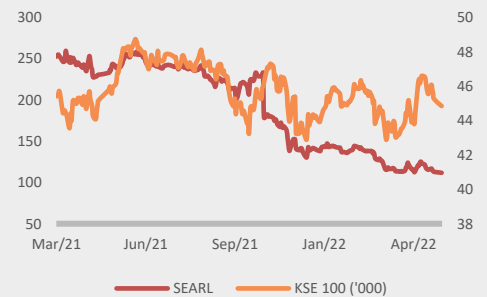
Rupees' millions	3QFY22	3QFY21	YoY	9MFY22	9MFY21	YoY
Net Sales	7,629	7,616	0.2% ▲	22,196	19,994	11.0% ▲
Cost of Sales	-4,195	-4,198	0.1% ▼	-12,277	-10,771	14.0% ▲
<b>Gross Profit</b>	<b>3,434</b>	<b>3,418</b>	<b>0.5% ▲</b>	<b>9,920</b>	<b>9,224</b>	<b>7.5% ▲</b>
SG&A Expenses	-1,944	-1,853	4.9% ▲	-5,399	-4,880	10.6% ▲
Other Expenses	-93	-62	48.7% ▲	-242	-250	3.2% ▼
<b>Operating Profit</b>	<b>1,398</b>	<b>1,502</b>	<b>6.9% ▼</b>	<b>4,279</b>	<b>4,094</b>	<b>4.5% ▲</b>
Other Income	154	69	124.8% ▲	286	306	6.2% ▼
Finance Cost	-555	-619	10.3% ▼	-1,475	-1,268	16.3% ▲
Profit Before Taxation	997	952	4.7% ▲	3,091	3,131	1.3% ▼
Taxation	-366	-261	40.0% ▲	-1,002	-919	9.1% ▲
<b>Profit After Taxation</b>	<b>631</b>	<b>690</b>	<b>8.6% ▼</b>	<b>2,089</b>	<b>2,213</b>	<b>5.6% ▼</b>
<b>Earnings Per Share</b>	<b>1.97</b>	<b>2.13</b>	<b>7.4% ▼</b>	<b>6.51</b>	<b>6.90</b>	<b>5.8% ▼</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	45.0%	44.9%	0.1% ▲	44.7%	46.1%	1.4% ▼
SG&A Expenses to Sales	-25.5%	-24.3%	1.1% ▲	-24.3%	-24.4%	0.1% ▼
Other Expenses to Sales	-1.2%	-0.8%	0.4% ▲	-1.1%	-1.3%	0.2% ▼
Other Income to Sales	2.0%	0.9%	1.1% ▲	1.3%	1.5%	0.2% ▼
Effective Taxation	-36.7%	-27.5%	9.3% ▲	-32.4%	-29.3%	3.1% ▲
<b>Net Margin</b>	<b>8.3%</b>	<b>9.1%</b>	<b>0.8% ▼</b>	<b>9.4%</b>	<b>11.1%</b>	<b>1.7% ▼</b>

Source: ACPL Research, Company Financials

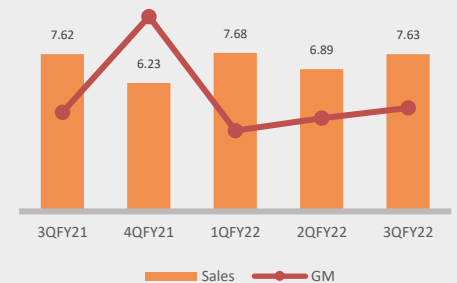
## Key Statistics

Symbol	SEARL
TP - Dec 22	140.00
LDPCP	111.69
Upside	25%
Free Float (Rs. mn)	140
Market Cap. (Rs.mn)	34,076

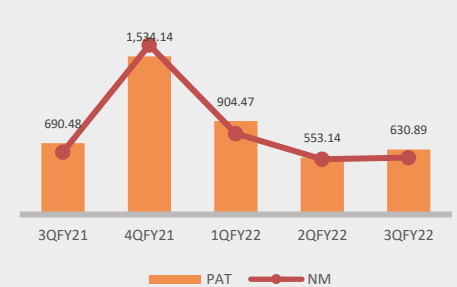
## SEARL vs KSE 100



## 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	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	18,062	20,475	26,220	29,890	34,075	38,846	44,672
Cost of sales	- 9,462	- 10,769	- 14,028	- 16,440	- 18,741	- 21,365	- 24,570
<b>Gross profit</b>	<b>8,600</b>	<b>9,706</b>	<b>12,191</b>	<b>13,451</b>	<b>15,334</b>	<b>17,481</b>	<b>20,103</b>
Distribution cost	- 4,285	- 4,417	- 5,348	- 5,978	- 6,815	- 7,769	- 8,934
Administrative expenses	- 1,103	- 1,189	- 1,383	- 1,420	- 1,959	- 2,622	- 3,015
Other operating expenses	- 175	- 262	- 326	- 359	- 409	- 466	- 536
<b>Profit from operations</b>	<b>3,037</b>	<b>3,838</b>	<b>5,134</b>	<b>5,694</b>	<b>6,151</b>	<b>6,623</b>	<b>7,617</b>
Other income	234	506	1,353	269	307	350	402
Finance cost	- 439	- 685	- 1,452	- 1,874	- 1,745	- 1,448	- 1,171
<b>Profit before income tax</b>	<b>2,832</b>	<b>3,659</b>	<b>5,035</b>	<b>4,089</b>	<b>4,712</b>	<b>5,525</b>	<b>6,848</b>
Income tax expense	- 567	- 1,111	- 1,288	- 1,040	- 1,193	- 1,391	- 1,715
<b>Profit for the year</b>	<b>2,265</b>	<b>2,548</b>	<b>3,747</b>	<b>3,048</b>	<b>3,520</b>	<b>4,134</b>	<b>5,134</b>
EPS	<b>7.18</b>	<b>8.01</b>	<b>11.79</b>	<b>9.49</b>	<b>10.96</b>	<b>12.87</b>	<b>15.98</b>
EBITDA	<b>3,251</b>	<b>4,084</b>	<b>5,541</b>	<b>6,625</b>	<b>7,097</b>	<b>7,586</b>	<b>8,596</b>

## Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	10.2%	13.4%	28.1%	14.0%	14.0%	14.0%	15.0%
Cost of sales	17.3%	13.8%	30.3%	17.2%	14.0%	14.0%	15.0%
<b>Gross profit</b>	<b>3.2%</b>	<b>12.9%</b>	<b>25.6%</b>	<b>10.3%</b>	<b>14.0%</b>	<b>14.0%</b>	<b>15.0%</b>
Distribution cost	14.5%	3.1%	21.1%	11.8%	14.0%	14.0%	15.0%
Administrative expenses	2.3%	7.8%	16.3%	2.7%	38.0%	33.8%	15.0%
Other operating expenses	-10.4%	49.6%	24.7%	9.9%	14.0%	14.0%	15.0%
<b>Profit from operations</b>	<b>-8.4%</b>	<b>26.4%</b>	<b>33.8%</b>	<b>10.9%</b>	<b>8.0%</b>	<b>7.7%</b>	<b>15.0%</b>
Other income	49.9%	115.8%	167.5%	-80.1%	14.0%	14.0%	15.0%
Finance cost	102.5%	56.1%	111.9%	29.1%	-6.9%	-17.0%	-19.1%
<b>Profit before income tax</b>	<b>-13.0%</b>	<b>29.2%</b>	<b>37.6%</b>	<b>-18.8%</b>	<b>15.3%</b>	<b>17.2%</b>	<b>23.9%</b>
Income tax expense	5.4%	95.9%	16.0%	-19.3%	14.6%	16.6%	23.3%
<b>Profit for the year</b>	<b>-16.6%</b>	<b>12.5%</b>	<b>47.0%</b>	<b>-18.6%</b>	<b>15.5%</b>	<b>17.5%</b>	<b>24.2%</b>
EPS	<b>-16.6%</b>	<b>11.5%</b>	<b>47.2%</b>	<b>-19.5%</b>	<b>15.5%</b>	<b>17.5%</b>	<b>24.2%</b>
EBITDA	<b>-6.4%</b>	<b>25.6%</b>	<b>35.7%</b>	<b>19.6%</b>	<b>7.1%</b>	<b>6.9%</b>	<b>13.3%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	47.61	47.40	46.50	45.00	45.00	45.00	45.00
NP Margin	%	12.54	12.44	14.29	10.20	10.33	10.64	11.49
OP Margin	%	16.81	18.74	19.58	19.05	18.05	17.05	17.05
ROE	%	16.76	15.96	14.36	10.80	11.47	12.31	13.81
ROCE	%	22.20	23.18	14.22	19.99	22.28	24.09	26.88
ROA	%	10.65	10.15	7.61	7.45	8.55	10.08	12.16
Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.89	2.07	1.66	1.10	1.02	1.00	1.05
Quick	x	0.15	0.18	0.32	-0.31	-0.44	-0.65	-0.78
Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Inventory Turnover	x	6.24	6.42	6.31	6.08	6.43	6.43	6.45
Inventory Days		111.58	108.16	108.17	109.24	103.25	103.25	102.83
Receivables Days		15.92	21.17	55.92	20.63	20.63	20.63	20.63
Payables Days		135.79	114.75	132.39	132.39	132.39	132.39	132.39
Operating Cycle		-8.29	14.58	31.70	-2.52	-8.52	-8.52	-8.94
Investment Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
DPS		2.50	2.50	2.00	3.00	3.50	4.00	5.00
Div. Yield	%	2.24	2.24	1.79	2.69	3.13	3.58	4.48
Dividend Cover	x	2.87	3.20	5.89	3.16	3.13	3.22	3.20
Retention	%	65.19	68.79	83.04	68.39	68.06	68.92	68.71
Payout	%	34.81	31.21	16.96	31.61	31.94	31.08	31.29
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	9.49	10.96	12.87	15.98
BVPS		43.32	51.15	83.60	90.43	98.33	107.60	119.12
P/E	x	15.55	13.94	9.47	11.77	10.19	8.68	6.99
Sales per share		57.88	65.61	84.02	95.79	109.20	124.48	143.16
P/BV	x	2.58	2.18	1.34	1.24	1.14	1.04	0.94
P/S	x	1.93	1.70	1.33	1.17	1.02	0.90	0.78
Solvency Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Total Debt to Equity	x	0.29	0.33	0.67	0.56	0.47	0.36	0.26
L.T Debt to Equity	x	0.00	0.02	0.37	0.34	0.31	0.24	0.17
Total Debt to Assets	x	0.18	0.21	0.36	0.39	0.35	0.29	0.23
L.T Debt to Assets	x	0.00	0.01	0.20	0.23	0.23	0.19	0.15
Interest Cover	x	6.92	5.60	3.54	3.04	3.53	4.57	6.51

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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