

## SEARL

## FY21 Result Review: BUY Stance Maintained

Equity Research | Pharmaceuticals | Monday, 4 October, 2021

SEARL has announced its FY21 result where it posted (consolidated) profit after tax of Rs3.7bn (EPS: Rs15.33) as compared to a profit after tax of Rs2.5bn (EPS: Rs10.41) in the same period last year, up by 47% YoY.

The company has posted a revenue of Rs26.2bn against Rs20.5bn in SPLY, recording a growth of 28% YoY. We note that this growth is attributed to the increase in volumetric growth.

The gross margin has been squeezed to 46.5% as compared to 47.4% in SPLY on account of higher input costs.

Finance cost has been increased by 111.9% YoY to Rs1.5bn as compared to Rs685mn in SPLY on account of higher working capital requirement.

SEARL is currently trading at FY22E PE of 12.06x. Furthermore, the scrip is also trading at a FY22E PB of 2.17x which provides a discount of 30% relative to its 3-year average of 30x. We have a **BUY** stance on the script with a DCF based Jun-22 TP of Rs275 which provides an Upside potential of 35%.

Rupees' millions	4QFY21	4QFY20	YoY	FY21	FY20	YoY
Net Sales	6,225	5,372	15.9% ▲	26,220	20,475	28.1% ▲
Cost of Sales	-3,258	-2,905	12.2% ▲	-14,028	-10,769	30.3% ▲
<b>Gross Profit</b>	<b>2,968</b>	<b>2,467</b>	<b>20.3% ▲</b>	<b>12,191</b>	<b>9,706</b>	<b>25.6% ▲</b>
SG&A Expenses	-1,851	-1,220	51.7% ▲	-6,731	-5,606	20.1% ▲
Other Expenses	-76	-68	12.5% ▲	-326	-262	24.7% ▲
<b>Operating Profit</b>	<b>1,040</b>	<b>1,179</b>	<b>11.8% ▼</b>	<b>5,134</b>	<b>3,838</b>	<b>33.8% ▲</b>
Other Income	1,048	134	681.3% ▲	1,353	506	167.5% ▲
Finance Cost	-184	-181	1.5% ▲	-1,452	-685	111.9% ▲
Profit Before Taxation	1,904	1,132	68.2% ▲	5,035	3,659	37.6% ▲
Taxation	-370	-342	8.1% ▲	-1,288	-1,111	16.0% ▲
<b>Profit After Taxation</b>	<b>1,534</b>	<b>790</b>	<b>94.2% ▲</b>	<b>3,747</b>	<b>2,548</b>	<b>47.0% ▲</b>
Earnings Per Share	6.35	3.24	96.2% ▲	15.33	10.41	47.2% ▲
Dividend	2.00	2.50	20.0% ▼	2.00	2.50	20.0% ▼
Bonus	30%	0%		30%	0%	

Closing Period: 22 Oct 2021 – 28 Oct 2021

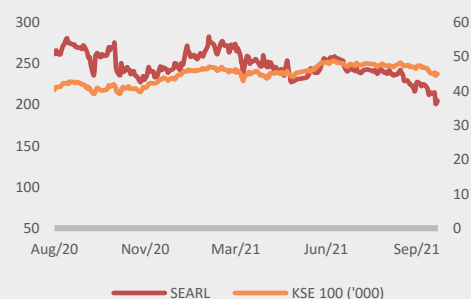
Gross Margin	47.7%	45.9%	1.7% ▲	46.5%	47.4%	0.9% ▼
SG&A Expenses to Sales	-29.7%	-22.7%	7.0% ▲	-25.7%	-27.4%	1.7% ▼
Other Expenses to Sales	-1.2%	-1.3%	0.0% ▼	-1.2%	-1.3%	0.0% ▼
Other Income to Sales	16.8%	2.5%	14.3% ▲	5.2%	2.5%	2.7% ▲
Effective Taxation	-19.4%	-30.2%	10.8% ▼	-25.6%	-30.4%	4.8% ▼
<b>Net Margin</b>	<b>24.6%</b>	<b>14.7%</b>	<b>9.9% ▲</b>	<b>14.3%</b>	<b>12.4%</b>	<b>1.8% ▲</b>

Source: ACPL Research, Company Financials

## Key Statistics

Symbol	SEARL
TP - Jun 22	275.00
LDCP	204.50
Upside	35%
Free Float (Rs. mn)	108
Market Cap. (Rs.mn)	52,768

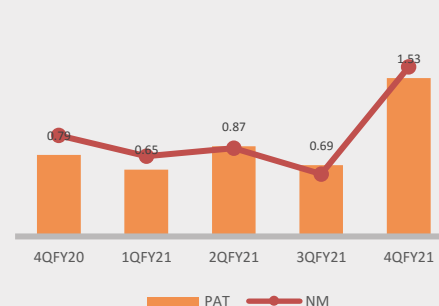
## SEARL vs KSE 100



## 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	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	18,062	20,475	26,220	30,449	34,941	38,435	42,278
Cost of sales	- 9,462	- 10,769	- 14,028	- 16,661	- 19,103	- 21,013	- 23,115
<b>Gross profit</b>	<b>8,600</b>	<b>9,706</b>	<b>12,191</b>	<b>13,788</b>	<b>15,837</b>	<b>17,421</b>	<b>19,163</b>
Distribution cost	- 4,285	- 4,417	- 5,348	- 5,787	- 6,643	- 7,307	- 8,038
Administrative expenses	- 1,103	- 1,189	- 1,383	- 1,675	- 1,922	- 2,114	- 2,325
Other operating expenses	- 175	- 262	- 326	- 379	- 435	- 479	- 526
<b>Profit from operations</b>	<b>3,037</b>	<b>3,838</b>	<b>5,134</b>	<b>5,948</b>	<b>6,838</b>	<b>7,522</b>	<b>8,274</b>
Other income	234	506	1,353	1,218	1,398	1,537	1,691
Finance cost	- 439	- 685	- 1,452	- 1,561	- 1,468	- 1,189	- 924
<b>Profit before income tax</b>	<b>2,832</b>	<b>3,659</b>	<b>5,035</b>	<b>5,605</b>	<b>6,768</b>	<b>7,870</b>	<b>9,041</b>
Income tax expense	- 567	- 1,111	- 1,288	- 1,454	- 1,746	- 2,020	- 2,307
<b>Profit for the year</b>	<b>2,265</b>	<b>2,548</b>	<b>3,747</b>	<b>4,151</b>	<b>5,021</b>	<b>5,851</b>	<b>6,734</b>
EPS	9.44	10.62	15.61	17.29	20.92	24.37	28.05
EBITDA	3,251	4,084	5,610	6,429	7,328	8,020	8,781

## Horizontal Analysis

	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Revenue	10.2%	13.4%	28.1%	16.1%	14.8%	10.0%	10.0%
Cost of sales	17.3%	13.8%	30.3%	18.8%	14.7%	10.0%	10.0%
<b>Gross profit</b>	<b>3.2%</b>	<b>12.9%</b>	<b>25.6%</b>	<b>13.1%</b>	<b>14.9%</b>	<b>10.0%</b>	<b>10.0%</b>
Distribution cost	14.5%	3.1%	21.1%	8.2%	14.8%	10.0%	10.0%
Administrative expenses	2.3%	7.8%	16.3%	21.1%	14.8%	10.0%	10.0%
Other operating expenses	-10.4%	49.6%	24.7%	16.1%	14.8%	10.0%	10.0%
<b>Profit from operations</b>	<b>-8.4%</b>	<b>26.4%</b>	<b>33.8%</b>	<b>15.9%</b>	<b>15.0%</b>	<b>10.0%</b>	<b>10.0%</b>
Other income	49.9%	115.8%	167.5%	-10.0%	14.8%	10.0%	10.0%
Finance cost	102.5%	56.1%	111.9%	7.5%	-5.9%	-19.0%	-22.3%
<b>Profit before income tax</b>	<b>-13.0%</b>	<b>29.2%</b>	<b>37.6%</b>	<b>11.3%</b>	<b>20.7%</b>	<b>16.3%</b>	<b>14.9%</b>
Income tax expense	5.4%	95.9%	16.0%	12.8%	20.1%	15.7%	14.3%
<b>Profit for the year</b>	<b>-16.6%</b>	<b>12.5%</b>	<b>47.0%</b>	<b>10.8%</b>	<b>21.0%</b>	<b>16.5%</b>	<b>15.1%</b>
EPS	-16.6%	11.5%	47.2%	10.7%	21.0%	16.5%	15.1%
EBITDA	-6.4%	25.6%	37.4%	14.6%	14.0%	9.4%	9.5%

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
GP Margin	%	47.61	47.40	46.50	45.28	45.33	45.33	45.33
NP Margin	%	12.54	12.44	14.29	13.63	14.37	15.22	15.93
OP Margin	%	16.81	18.74	19.58	19.53	19.57	19.57	19.57
ROE	%	16.76	15.96	19.22	18.31	19.15	19.43	19.57
ROCE	%	22.20	23.13	21.34	23.16	26.69	28.73	30.19
ROA	%	10.65	10.15	10.33	11.18	12.76	14.63	16.21
Liquidity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Current	x	1.89	2.07	1.03	1.17	1.14	1.17	1.25
Quick	x	0.15	0.18	-0.42	-0.51	-0.33	-0.29	-0.17
Activity Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Inventory Turnover	x	6.24	6.42	6.22	5.81	6.22	6.68	7.38
Inventory Days		111.58	108.16	109.60	114.73	107.33	100.00	90.45
Receivables Days		15.92	21.17	10.00	10.00	10.00	10.00	10.00
Payables Days		135.79	113.59	150.00	150.00	150.00	150.00	150.00
Operating Cycle		-8.29	15.75	-30.40	-25.27	-32.67	-40.00	-49.55
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	%	1.22	1.22	0.98	1.96	2.93	3.91	4.89
Dividend Cover	x	3.73	4.17	7.66	4.24	3.42	2.99	2.75
Retention	%	73.22	75.99	86.95	76.42	70.76	66.54	63.66
Payout	%	26.78	24.01	13.05	23.58	29.24	33.46	36.34
No. of Shares	('m)	240.04	240.04	240.04	240.04	240.04	240.04	240.04
EPS		9.34	10.41	15.33	16.96	20.52	23.91	27.52
BVPS		56.32	66.50	81.22	94.44	109.24	125.46	143.32
P/E	x	21.90	19.64	13.34	12.06	9.96	8.55	7.43
Sales per share		75.25	85.30	109.23	126.85	145.56	160.12	176.13
P/BV	x	3.63	3.08	2.52	2.17	1.87	1.63	1.43
P/S	x	2.72	2.40	1.87	1.61	1.40	1.28	1.16
Solvency Ratios		FY19A	FY20A	FY21A	FY22E	FY23E	FY24E	FY25E
Total Debt to Equity	x	0.29	0.33	0.88	0.67	0.55	0.38	0.26
L.T Debt to Equity	x	0.00	0.02	0.56	0.48	0.42	0.29	0.19
Total Debt to Assets	x	0.18	0.21	0.47	0.41	0.37	0.29	0.21
L.T Debt to Assets	x	0.00	0.01	0.30	0.29	0.28	0.22	0.16
Interest Cover	x	6.92	5.60	3.54	3.81	4.66	6.33	8.95

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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