

SEARL

1HFY21 Result Review: Stance Upgraded to BUY

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SEARL has announced its 1HFY21 result where it posted (consolidated) profit after tax of Rs1.5bn (EPS: Rs6.2) as compared to a profit after tax of Rs1.1bn (EPS: Rs2.27) in the same period last year, up by 33.9% YoY.

The company has posted the revenue of Rs12.4bn against Rs9.9bn in SPLY, recording a growth of 25.2% YoY. We note that this growth is attributed to the increase in volumetric growth.

The gross margin has been squeezed to 46.9% as compared to 48.7% in SPLY on account of higher input costs.

Finance cost has been increased by 91.9% YoY to Rs649mn as compared to Rs338mn in SPLY on account of higher working capital requirement.

SEARL is currently trading at FY21E PE of 19.94x. Furthermore, the scrip is also trading at a FY21E PB of 3.45x which provides a discount of 41% relative to its 5-year average of 5.84x. We have a **BUY** stance on the script with a DCF based Dec-21 TP of Rs320 which provides an Upside potential of 18%.

Rupees' millions	2QFY21	2QFY20	YoY	1HFY21	1HFY20	YoY
Net Sales	6,816	4,926	38.4% ▲	12,378	9,889	25.2% ▲
Cost of Sales	-3,570	-2,485	43.7% ▲	-6,572	-5,074	29.5% ▲
Gross Profit	3,246	2,442	32.9% ▲	5,806	4,814	20.6% ▲
SG&A Expenses	-1,696	-1,567	8.2% ▲	-3,027	-2,968	2.0% ▲
Other Expenses	-115	-64	79.3% ▲	-188	-123	52.5% ▲
Operating Profit	1,435	810	77.1% ▲	2,592	1,723	50.4% ▲
Other Income	194	188	3.2% ▲	237	237	0.2% ▼
Finance Cost	-376	-195	92.9% ▲	-649	-338	91.9% ▲
Profit Before Taxation	1,253	803	56.0% ▲	2,180	1,622	34.4% ▲
Taxation	-379	-224	68.8% ▲	-658	-489	34.5% ▲
Profit After Taxation	874	579	51.1% ▲	1,522	1,133	34.3% ▲
Earnings Per Share	3.56	2.36	50.7% ▲	6.21	4.64	33.9% ▲
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	

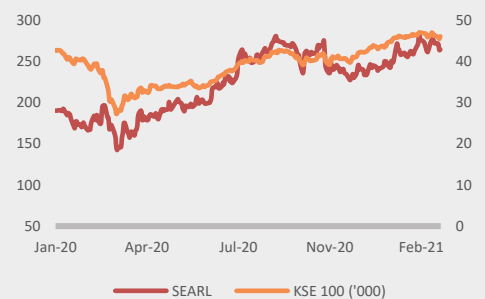
Gross Margin	47.6%	49.6%	1.9% ▼	46.9%	48.7%	1.8% ▼
SG&A Expenses to Sales	-24.9%	-31.8%	6.9% ▼	-24.5%	-30.0%	5.6% ▼
Other Expenses to Sales	-1.7%	-1.3%	0.4% ▲	-1.5%	-1.2%	0.3% ▲
Other Income to Sales	2.8%	3.8%	1.0% ▼	1.9%	2.4%	0.5% ▼
Effective Taxation	-30.2%	-27.9%	2.3% ▲	-30.2%	-30.1%	0.0% ▲
Net Margin	12.8%	11.7%	1.1% ▲	12.3%	11.5%	0.8% ▲

Source: ACPL Research, Company Financials

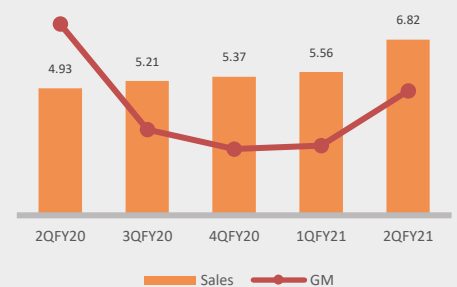
Key Statistics

Symbol	SEARL
TP - Dec 21	320.00
LDGP	270.49
Upside	18%
Free Float (Rs. mn)	96
Market Cap. (Rs.mn)	57,459

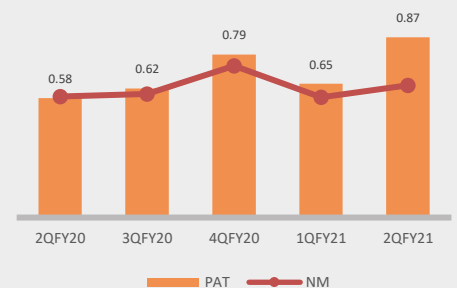
SEARL vs KSE 100



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	%	0.74	1.85	3.70	1.85	0.92	0.92	1.11	1.48	2.22
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	47.30	32.45	27.56	24.16	28.97	25.97	19.94	16.17	13.72
Sales per share		37.69	47.04	55.45	68.30	75.25	85.30	110.54	124.37	140.13
P/BV	x	12.21	8.02	6.63	5.67	4.80	4.07	3.45	2.96	2.57
P/S	x	7.18	5.75	4.88	3.96	3.59	3.17	2.45	2.17	1.93
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
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Market Weight	Neutral
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