

# SEARL

## 1HFY23 Result Review: BUY Stance Maintained

Equity Research | Pharmaceuticals | Tuesday, 28 February, 2023

SEARL has announced its 1HFY23 result where it posted a (consolidated) profit after tax of Rs706mn (EPS: Rs1.61) as compared to a profit after tax of Rs1,458mn (EPS: Rs3.63) in the same period last year, down by 51.55% YoY owing to higher input cost due to devaluation of PKR.

The company has posted a revenue of Rs16.86bn against Rs14.57bn in SPLY, recording a growth of 15.7% YoY. The gross margin has squeezed to 42.1% as compared to 44.5% in SPLY. Furthermore, SG&A expenses have increased by 24.4% to Rs4.30bn as compared to Rs3.46bn SPLY. Finance cost has surged by 82.1% YoY to Rs1.67bn owing to higher interest rates. Lastly, effective taxation has increased to 39% as compared to 30.4% during SPLY.

SEARL is currently trading at FY23E PE of 17.29x. 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 0.94x. We have a **BUY** stance on the scrip with a DCF-based Dec-23 TP of Rs70 which provides an upside potential of 29%. Further, the scrip also provides a dividend yield of 1.8% which makes the total return of 31%.

| Rupees' millions             | 2QFY23       | 2QFY22       | YoY            | 1HFY23       | 1HFY22       | YoY             |
|------------------------------|--------------|--------------|----------------|--------------|--------------|-----------------|
| Net Sales                    | 8,643        | 6,889        | 25.5% ▲        | 16,856       | 14,567       | 15.7% ▲         |
| Cost of Sales                | -4,847       | -3,809       | 27.3% ▲        | -9,755       | -8,082       | 20.7% ▲         |
| <b>Gross Profit</b>          | <b>3,796</b> | <b>3,080</b> | <b>23.2% ▲</b> | <b>7,101</b> | <b>6,485</b> | <b>9.5% ▲</b>   |
| SG&A Expenses                | -2,254       | -1,801       | 25.2% ▲        | -4,297       | -3,455       | 24.4% ▲         |
| Other Expenses               | -56          | -57          | 1.7% ▼         | -98          | -149         | 34.1% ▼         |
| <b>Operating Profit</b>      | <b>1,486</b> | <b>1,223</b> | <b>21.5% ▲</b> | <b>2,706</b> | <b>2,881</b> | <b>6.1% ▼</b>   |
| Other Income                 | 77           | 91           | 15.4% ▼        | 126          | 132          | 4.9% ▼          |
| Finance Cost                 | -881         | -497         | 77.4% ▲        | -1,674       | -919         | 82.1% ▲         |
| Profit Before Taxation       | 682          | 817          | 16.6% ▼        | 1,158        | 2,094        | 44.7% ▼         |
| Taxation                     | -268         | -264         | 1.4% ▲         | -451         | -636         | 29.1% ▼         |
| <b>Profit After Taxation</b> | <b>414</b>   | <b>553</b>   | <b>25.1% ▼</b> | <b>706</b>   | <b>1,458</b> | <b>51.55% ▼</b> |
| <b>Earnings Per Share</b>    | <b>0.93</b>  | <b>1.36</b>  | <b>31.2% ▼</b> | <b>1.61</b>  | <b>3.63</b>  | <b>55.61% ▼</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                 | 43.9%        | 44.7%        | 0.8% ▼         | 42.1%        | 44.5%        | 2.4% ▼          |
| SG&A Expenses to Sales       | -26.1%       | -26.1%       | 0.1% ▼         | -25.5%       | -23.7%       | 1.8% ▲          |
| Other Expenses to Sales      | -0.6%        | -0.8%        | 0.2% ▼         | -0.6%        | -1.0%        | 0.4% ▼          |
| Other Income to Sales        | 0.9%         | 1.3%         | 0.4% ▼         | 0.7%         | 0.9%         | 0.2% ▼          |
| Effective Taxation           | -39.3%       | -32.3%       | 7.0% ▲         | -39.0%       | -30.4%       | 8.6% ▲          |
| <b>Net Margin</b>            | <b>4.8%</b>  | <b>8.0%</b>  | <b>3.2% ▼</b>  | <b>4.2%</b>  | <b>10.0%</b> | <b>5.8% ▼</b>   |

Source: ACPL Research, Company Financials

### Key Statistics

| Symbol              | SEARL  |
|---------------------|--------|
| TP - Dec 23         | 70     |
| LDCP                | 54.18  |
| Upside              | 29%    |
| Free Float (Rs. mn) | 176    |
| Market Cap. (Rs.mn) | 21,181 |

### 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        | 33,723        | 38,023        | 43,726        | 50,285        |
| Cost of sales                   | - 10,769     | - 14,028      | - 16,790      | - 19,516      | - 21,674      | - 24,926      | - 28,664      |
| <b>Gross profit</b>             | <b>9,706</b> | <b>12,191</b> | <b>13,119</b> | <b>14,208</b> | <b>16,348</b> | <b>18,801</b> | <b>21,621</b> |
| Distribution cost               | - 4,417      | - 5,348       | - 6,040       | - 7,149       | - 8,061       | - 9,270       | - 10,660      |
| Administrative expenses         | - 1,189      | - 1,383       | - 1,431       | - 1,447       | - 1,631       | - 1,876       | - 1,654       |
| Other operating expenses        | - 262        | - 326         | - 300         | 196           | 221           | 254           | 292           |
| <b>Profit from operations</b>   | <b>3,838</b> | <b>5,134</b>  | <b>5,348</b>  | <b>5,807</b>  | <b>6,877</b>  | <b>7,909</b>  | <b>9,598</b>  |
| Other income                    | 506          | 1,353         | 430           | 253           | 285           | 328           | 377           |
| Finance cost                    | - 685        | - 1,452       | - 2,116       | - 3,962       | - 3,964       | - 3,976       | - 4,028       |
| <b>Profit before income tax</b> | <b>3,659</b> | <b>5,035</b>  | <b>3,661</b>  | <b>2,099</b>  | <b>3,198</b>  | <b>4,261</b>  | <b>5,946</b>  |
| Income tax expense              | - 1,111      | - 1,288       | - 1,245       | - 741         | - 905         | - 1,200       | - 1,666       |
| <b>Profit for the year</b>      | <b>2,548</b> | <b>3,747</b>  | <b>2,416</b>  | <b>1,358</b>  | <b>2,293</b>  | <b>3,061</b>  | <b>4,280</b>  |
| EPS                             | 6.41         | 9.43          | 6.03          | 3.13          | 5.72          | 7.64          | 10.68         |
| EBITDA                          | 4,084        | 5,541         | 5,967         | 6,923         | 8,013         | 9,064         | 10,773        |

## Horizontal Analysis

|                                 | FY20A        | FY21A        | FY22A         | FY23E         | FY24E        | FY25E        | FY26E        |
|---------------------------------|--------------|--------------|---------------|---------------|--------------|--------------|--------------|
| Revenue                         | 13.4%        | 28.1%        | 14.1%         | 12.8%         | 12.8%        | 15.0%        | 15.0%        |
| Cost of sales                   | 13.8%        | 30.3%        | 19.7%         | 16.2%         | 11.1%        | 15.0%        | 15.0%        |
| <b>Gross profit</b>             | <b>12.9%</b> | <b>25.6%</b> | <b>7.6%</b>   | <b>8.3%</b>   | <b>15.1%</b> | <b>15.0%</b> | <b>15.0%</b> |
| Distribution cost               | 3.1%         | 21.1%        | 12.9%         | 18.4%         | 12.8%        | 15.0%        | 15.0%        |
| Administrative expenses         | 7.8%         | 16.3%        | 3.5%          | 1.1%          | 12.8%        | 15.0%        | -11.8%       |
| Other operating expenses        | 49.6%        | 24.7%        | -8.0%         | -34.9%        | 12.8%        | 15.0%        | 15.0%        |
| <b>Profit from operations</b>   | <b>26.4%</b> | <b>33.8%</b> | <b>4.2%</b>   | <b>8.6%</b>   | <b>18.4%</b> | <b>15.0%</b> | <b>21.4%</b> |
| Other income                    | 115.8%       | 167.5%       | -68.2%        | -41.2%        | 12.8%        | 15.0%        | 15.0%        |
| Finance cost                    | 56.1%        | 111.9%       | 45.8%         | 87.2%         | 0.1%         | 0.3%         | 1.3%         |
| <b>Profit before income tax</b> | <b>29.2%</b> | <b>37.6%</b> | <b>-27.3%</b> | <b>-42.7%</b> | <b>52.4%</b> | <b>33.2%</b> | <b>39.6%</b> |
| Income tax expense              | 95.9%        | 16.0%        | -3.3%         | -40.5%        | 22.2%        | 32.6%        | 38.9%        |
| <b>Profit for the year</b>      | <b>12.5%</b> | <b>47.0%</b> | <b>-35.5%</b> | <b>-43.8%</b> | <b>68.9%</b> | <b>33.5%</b> | <b>39.8%</b> |
| EPS                             | 11.5%        | 47.2%        | -36.1%        | -48.0%        | 82.6%        | 33.5%        | 39.8%        |
| EBITDA                          | 25.6%        | 35.7%        | 7.7%          | 16.0%         | 15.7%        | 13.1%        | 18.9%        |

Source: ACPL Research, Company Financials

## Key Ratios

| Profitability Ratios |      | FY19A  | FY20A  | FY21A  | FY22A  | FY23E  | FY24E  | FY25E  |
|----------------------|------|--------|--------|--------|--------|--------|--------|--------|
| GP Margin            | %    | 47.61  | 47.40  | 46.50  | 43.86  | 42.13  | 43.00  | 43.00  |
| NP Margin            | %    | 12.54  | 12.44  | 14.29  | 8.08   | 4.03   | 6.03   | 7.00   |
| OP Margin            | %    | 16.81  | 18.74  | 19.58  | 17.88  | 17.22  | 18.09  | 18.09  |
| ROE                  | %    | 16.76  | 15.96  | 14.36  | 7.87   | 4.28   | 6.87   | 8.58   |
| ROCE                 | %    | 22.20  | 23.18  | 14.25  | 13.23  | 18.50  | 24.78  | 32.05  |
| ROA                  | %    | 10.65  | 10.15  | 7.62   | 4.33   | 2.48   | 4.30   | 5.78   |
| Liquidity Ratios     |      | FY19A  | FY20A  | FY21A  | FY22A  | FY23E  | FY24E  | FY25E  |
| Current              | x    | 1.89   | 2.07   | 1.65   | 1.71   | 0.87   | 0.74   | 0.65   |
| Quick                | x    | 0.15   | 0.18   | 0.32   | 0.35   | -0.13  | -0.28  | -0.40  |
| Activity Ratios      |      | FY19A  | FY20A  | FY21A  | FY22A  | FY23E  | FY24E  | FY25E  |
| Inventory Turnover   | x    | 6.24   | 6.42   | 6.31   | 5.61   | 5.40   | 5.37   | 5.46   |
| Inventory Days       |      | 111.58 | 108.16 | 108.17 | 115.87 | 116.75 | 119.27 | 117.33 |
| Receivables Days     |      | 15.92  | 21.17  | 55.92  | 59.64  | 59.64  | 59.64  | 59.64  |
| Payables Days        |      | 135.79 | 114.75 | 132.39 | 110.82 | 110.82 | 110.82 | 110.82 |
| Operating Cycle      |      | -8.29  | 14.58  | 31.70  | 64.69  | 65.58  | 68.09  | 66.15  |
| Investment Ratios    |      | FY19A  | FY20A  | FY21A  | FY22A  | FY23E  | FY24E  | FY25E  |
| DPS                  |      | 2.50   | 2.50   | 2.00   | 0.00   | 1.00   | 1.50   | 2.00   |
| Div. Yield           | %    | 4.61   | 4.61   | 3.69   | 0.00   | 1.85   | 2.77   | 3.69   |
| Dividend Cover       | x    | 2.30   | 2.56   | 4.72   | 0.00   | 3.13   | 3.81   | 3.82   |
| Retention            | %    | 56.49  | 60.99  | 78.79  | 100.00 | 68.08  | 73.78  | 73.82  |
| Payout               | %    | 43.51  | 39.01  | 21.21  | 0.00   | 31.92  | 26.22  | 26.18  |
| No. of Shares        | ('m) | 390.07 | 390.07 | 390.07 | 390.07 | 390.07 | 390.07 | 390.07 |
| EPS                  |      | 5.75   | 6.41   | 9.43   | 6.03   | 3.13   | 5.72   | 7.64   |
| BVPS                 |      | 34.66  | 40.92  | 66.88  | 78.68  | 81.26  | 85.61  | 91.43  |
| P/E                  | x    | 9.43   | 8.45   | 5.74   | 8.99   | 17.29  | 9.47   | 7.09   |
| Sales per share      |      | 46.31  | 52.49  | 67.22  | 76.68  | 86.45  | 97.48  | 112.10 |
| P/BV                 | x    | 1.56   | 1.32   | 0.81   | 0.69   | 0.67   | 0.63   | 0.59   |
| P/S                  | x    | 1.17   | 1.03   | 0.81   | 0.71   | 0.63   | 0.56   | 0.48   |
| Solvency Ratios      |      | FY19A  | FY20A  | FY21A  | FY22A  | FY23E  | FY24E  | FY25E  |
| Total Debt to Equity | x    | 0.29   | 0.33   | 0.67   | 0.62   | 0.78   | 0.75   | 0.71   |
| L.T Debt to Equity   | x    | 0.00   | 0.02   | 0.37   | 0.29   | 0.29   | 0.23   | 0.18   |
| Total Debt to Assets | x    | 0.18   | 0.21   | 0.36   | 0.34   | 0.45   | 0.47   | 0.48   |
| L.T Debt to Assets   | x    | 0.00   | 0.01   | 0.20   | 0.16   | 0.17   | 0.14   | 0.12   |
| Interest Cover       | x    | 6.92   | 5.60   | 3.54   | 2.53   | 1.47   | 1.73   | 1.99   |

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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