

## SEARL

## 1QFY21 Result Review: Stance Downgraded to SELL

Equity Research | Pharmaceuticals | Wednesday, 28 October, 2020

SEARL has announced its 1QFY21 result where it posted (consolidated) profit after tax of Rs648mn (Post-Right EPS: Rs2.65) as compared to a profit after tax of Rs555mn (Post-Right EPS: Rs2.27) in the same period last year, up by 16.4% YoY.

The company has posted the revenue of Rs5.6bn against Rs4.9bn in SPLY, recording a growth of 12.1% YoY. We note that this growth is attributed to the increase in volumetric growth.

The gross margin has slightly been squeezed to 46% as compared to 47.8% in SPLY on account of higher input costs.

Finance cost has been increased by 90.5% YoY to Rs272mn as compared to Rs143mn in SPLY on account of higher working capital requirement.

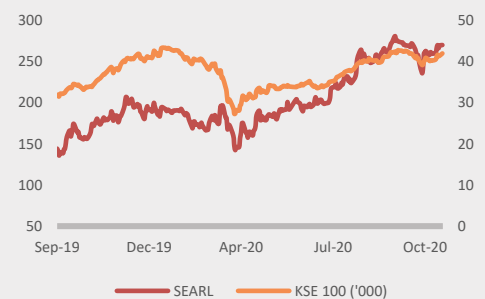
Furthermore, the board has recommended to offer 30% right issue at a price of Rs.170/- right share for expansion of production facilities and improve working capital cycle.

Going forward, the acquisition of Luna Pakistan and more expansions would result in strengthening the company's portfolio and distribution network as well. However, the fundamentals do not justify the current share price in our view. SEARL is currently trading at FY21E PE of 23.71x. We have a **SELL** stance on the script with a DCF based Jun-21 TP of Rs230 which provides a downside potential of 12%.

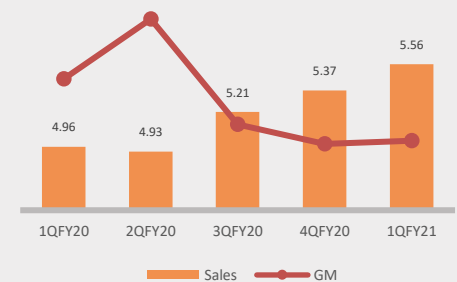
## Key Statistics

Symbol	SEARL
TP - Jun 21	230.00
LDCP	260.00
Upside	-12%
Free Float (Rs. mn)	96
Market Cap. (Rs.mn)	55,231

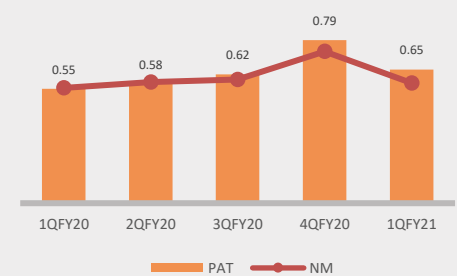
## SEARL vs KSE 100



## Sales (Rs'bn) vs Gross Margin



## PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

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Rupees' millions	1QFY21	1QFY20	YoY	FY20	FY19	YoY
Net Sales	5,562	4,962	12.1% ▲	20,475	18,062	13.4% ▲
Cost of Sales	-3,002	-2,589	15.9% ▲	-10,769	-9,462	13.8% ▲
Gross Profit	2,560	2,373	7.9% ▲	9,706	8,600	12.9% ▲
SG&A Expenses	-1,331	-1,401	5.0% ▼	-5,606	-5,388	4.0% ▲
Other Expenses	-72	-59	23.3% ▲	-262	-175	49.6% ▲
Operating Profit	1,157	913	26.7% ▲	3,838	3,037	26.4% ▲
Other Income	43	49	13.2% ▼	506	234	115.8% ▲
Finance Cost	-272	-143	90.5% ▲	-685	-439	56.1% ▲
Profit Before Taxation	927	819	13.2% ▲	3,659	2,832	29.2% ▲
Taxation	-279	-265	5.4% ▲	-1,111	-567	95.9% ▲
Profit After Taxation	648	555	16.9% ▲	2,548	2,265	12.5% ▲
Earnings Per Share	2.65	2.27	16.4% ▲	10.41	9.34	11.5% ▲
Dividend	0.00	0.00		2.50	2.50	
Bonus	0%	0%		0%	0%	
Right	13%	0%		0%	0%	

Closing Period: 19 Nov 20 - 25 Nov 20

	1QFY21	1QFY20	YoY	FY20	FY19	YoY
Gross Margin	46.0%	47.8%	1.8% ▼	47.4%	47.6%	0.2% ▼
SG&A Expenses to Sales	-23.9%	-28.2%	4.3% ▼	-27.4%	-29.8%	2.5% ▼
Other Expenses to Sales	-1.3%	-1.2%	0.1% ▲	-1.3%	-1.0%	0.3% ▲
Other Income to Sales	0.8%	1.0%	0.2% ▼	2.5%	1.3%	1.2% ▲
Effective Taxation	-30.1%	-32.3%	2.2% ▼	-30.4%	-20.0%	10.3% ▲
Net Margin	11.7%	11.2%	0.5% ▲	12.4%	12.5%	0.1% ▼

Source: ACPL Research, Company Financials

## 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	22,699	25,634	28,994
Cost of sales	- 4,645	- 5,415	- 6,291	- 8,065	- 9,462	- 10,769	- 12,075	- 13,529	- 15,152
<b>Gross profit</b>	<b>4,403</b>	<b>5,876</b>	<b>7,018</b>	<b>8,331</b>	<b>8,600</b>	<b>9,706</b>	<b>10,624</b>	<b>12,105</b>	<b>13,842</b>
Distribution cost	- 1,966	- 2,635	- 3,140	- 3,742	- 4,285	- 4,417	- 4,861	- 5,480	- 6,187
Administrative expenses	- 261	- 422	- 933	- 1,078	- 1,103	- 1,189	- 1,318	- 1,488	- 1,683
Other operating expenses	- 172	- 267	- 206	- 195	- 175	- 262	- 290	- 328	- 371
<b>Profit from operations</b>	<b>2,004</b>	<b>2,551</b>	<b>2,740</b>	<b>3,315</b>	<b>3,037</b>	<b>3,838</b>	<b>4,155</b>	<b>4,809</b>	<b>5,600</b>
Other income	98	216	276	156	234	506	227	256	290
Finance cost	- 192	- 113	- 135	- 217	- 439	- 685	- 752	- 747	- 742
<b>Profit before income tax</b>	<b>1,910</b>	<b>2,655</b>	<b>2,880</b>	<b>3,254</b>	<b>2,832</b>	<b>3,659</b>	<b>3,630</b>	<b>4,319</b>	<b>5,148</b>
Income tax expense	- 456	- 621	- 487	- 538	- 567	- 1,111	- 947	- 1,120	- 1,328
<b>Profit for the year</b>	<b>1,454</b>	<b>2,034</b>	<b>2,393</b>	<b>2,717</b>	<b>2,265</b>	<b>2,548</b>	<b>2,683</b>	<b>3,198</b>	<b>3,820</b>
<b>EPS</b>	<b>6.06</b>	<b>8.47</b>	<b>9.97</b>	<b>11.32</b>	<b>9.44</b>	<b>10.62</b>	<b>11.18</b>	<b>13.32</b>	<b>15.91</b>
<b>EBITDA</b>	<b>2,064</b>	<b>2,627</b>	<b>2,848</b>	<b>3,471</b>	<b>3,251</b>	<b>4,084</b>	<b>4,631</b>	<b>5,309</b>	<b>6,129</b>

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%	10.9%	12.9%	13.1%
Cost of sales	10.2%	16.6%	16.2%	28.2%	17.3%	13.8%	12.1%	12.0%	12.0%
<b>Gross profit</b>	<b>29.7%</b>	<b>33.5%</b>	<b>19.4%</b>	<b>18.7%</b>	<b>3.2%</b>	<b>12.9%</b>	<b>9.5%</b>	<b>13.9%</b>	<b>14.3%</b>
Distribution cost	13.5%	34.1%	19.1%	19.2%	14.5%	3.1%	10.0%	12.7%	12.9%
Administrative expenses	-0.3%	61.6%	120.8%	15.6%	2.3%	7.8%	10.9%	12.9%	13.1%
Other operating expenses	27.4%	55.3%	-22.8%	-5.2%	-10.4%	49.6%	10.9%	12.9%	13.1%
<b>Profit from operations</b>	<b>58.5%</b>	<b>27.3%</b>	<b>7.4%</b>	<b>21.0%</b>	<b>-8.4%</b>	<b>26.4%</b>	<b>8.3%</b>	<b>15.7%</b>	<b>16.5%</b>
Other income	-16.4%	119.9%	27.4%	-43.2%	49.9%	115.8%	-55.1%	12.9%	13.1%
Finance cost	-11.1%	-41.3%	19.7%	60.4%	102.5%	56.1%	9.7%	-0.7%	-0.7%
<b>Profit before income tax</b>	<b>63.7%</b>	<b>39.1%</b>	<b>8.5%</b>	<b>13.0%</b>	<b>-13.0%</b>	<b>29.2%</b>	<b>-0.8%</b>	<b>19.0%</b>	<b>19.2%</b>
Income tax expense	57.5%	36.0%	-21.5%	10.4%	5.4%	95.9%	-14.8%	18.3%	18.6%
<b>Profit for the year</b>	<b>65.8%</b>	<b>40.0%</b>	<b>17.7%</b>	<b>13.5%</b>	<b>-16.6%</b>	<b>12.5%</b>	<b>5.3%</b>	<b>19.2%</b>	<b>19.4%</b>
<b>EPS</b>	<b>71.3%</b>	<b>45.7%</b>	<b>17.8%</b>	<b>14.1%</b>	<b>-16.6%</b>	<b>11.5%</b>	<b>5.3%</b>	<b>19.2%</b>	<b>19.4%</b>
<b>EBITDA</b>	<b>-37.4%</b>	<b>27.3%</b>	<b>8.4%</b>	<b>21.9%</b>	<b>-6.4%</b>	<b>25.6%</b>	<b>13.4%</b>	<b>14.6%</b>	<b>15.4%</b>

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	46.80	47.22	47.74
NP Margin	%	16.05	18.01	17.98	16.57	12.54	12.44	11.82	12.48	13.18
OP Margin	%	22.15	22.60	20.59	20.22	16.81	18.74	18.30	18.76	19.31
ROE	%	27.32	25.11	24.44	23.72	16.76	15.96	14.75	15.67	16.78
ROCE	%	33.24	29.42	27.19	28.75	22.20	23.13	32.27	33.48	34.99
ROA	%	17.33	17.70	17.64	15.75	10.65	10.15	11.38	12.51	13.77
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	1.50	1.59	1.68
Quick	x	0.15	0.20	0.16	0.10	0.15	0.18	0.28	0.29	0.29
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	6.59	6.98	7.05
Inventory Days		87.83	92.92	88.33	98.25	111.58	108.16	104.18	99.11	99.12
Receivables Days		8.30	13.27	10.38	7.09	15.92	21.17	21.17	21.17	21.17
Payables Days		121.54	142.03	116.36	139.11	135.79	113.59	123.17	123.17	123.17
Operating Cycle		-25.41	-35.85	-17.65	-33.78	-8.29	15.75	2.19	-2.89	-2.87
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	%	0.77	1.92	3.85	1.92	0.96	0.96	1.15	1.54	2.31
Dividend Cover	x	2.86	1.67	0.98	2.24	3.73	4.17	3.66	3.27	2.60
Retention	%	65.03	40.01	-1.89	55.34	73.22	75.99	72.64	69.40	61.57
Payout	%	34.97	59.99	101.89	44.66	26.78	24.01	27.36	30.60	38.43
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	10.97	13.07	15.61
BVPS		22.15	33.75	40.79	47.71	56.32	66.50	75.77	85.02	94.82
P/E	x	45.46	31.19	26.49	23.22	27.85	24.97	23.71	19.89	16.65
Sales per share		37.69	47.04	55.45	68.30	75.25	85.30	94.56	106.79	120.79
P/BV	x	11.74	7.70	6.37	5.45	4.62	3.91	3.43	3.06	2.74
P/S	x	6.90	5.53	4.69	3.81	3.46	3.05	2.75	2.43	2.15
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	0.37	0.33	0.30
L.T Debt to Equity	x	0.14	0.06	0.02	0.00	0.00	0.02	0.02	0.02	0.01
Total Debt to Assets	x	0.17	0.10	0.12	0.15	0.18	0.21	0.29	0.26	0.24
L.T Debt to Assets	x	0.09	0.04	0.02	0.00	0.00	0.01	0.01	0.01	0.01
Interest Cover	x	10.42	22.60	20.28	15.29	6.92	5.60	5.53	6.44	7.55

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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