

SEARL

6MFY20 Result Review: Stance Downgraded to HOLD

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SEARL has announced its 2QFY20 result where it (consolidated) posted profit after tax of Rs1.1bn (EPS: Rs5.24) in 6MFY20 as compared to profit after tax of Rs1.3bn (EPS: Rs6.12) in same period last year, down by 13.6% YoY.

The company has posted the revenue of Rs9.9bn against Rs7.8bn in SPLY, recording a growth of 26% YoY. We note that this growth is attributed to the increase in volumetric growth and medicine prices.

Gross margin has been squeezed to 48.7% in 6MFY20 as compared to 56.3% in 6MFY19 on account of higher input cost.

Despite increase of 14.2% YoY in SG&A expenses in 6MFY20, the SG&A expenses to sales ratio has declined to 30% as compared to 33.1% during SPLY. Other Income has significantly been increased by 214.6% YoY to Rs237mn as compared to Rs75mn during SPLY.

Finance cost has been increased by 56.1% YoY to Rs338mn in 6MFY20 as compared to Rs217mn in SPLY on account of higher working capital requirement.

Lastly, higher effective taxation of 30.1% as compared to 17.4% during SPLY caused the bottom line to plunge despite growth in revenues.

SEARL is currently trading at FY20E PE of 15.67x. We have a **HOLD** stance on the script with a DCF based Dec-20 TP of Rs170 which provides an upside potential of 2%. Furthermore, it also offers a dividend yield of 2% which makes a total return of 4%.

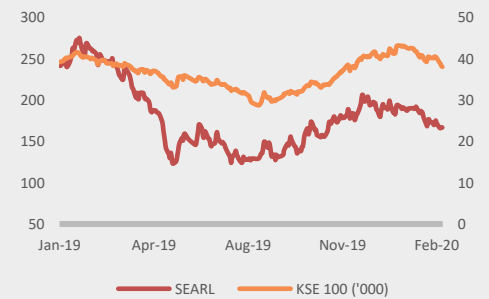
Rupees' millions	2QFY20	2QFY19	YoY	6MFY20	6MFY19	YoY
Net Sales	4,926	3,468	42.0% ▲	9,889	7,849	26.0% ▲
Cost of Sales	-2,485	-1,171	112.1% ▲	-5,074	-3,428	48.0% ▲
Gross Profit	2,442	2,297	6.3% ▲	4,814	4,420	8.9% ▲
SG&A Expenses	-1,567	-1,397	12.2% ▲	-2,968	-2,599	14.2% ▲
Other Expenses	-64	-41	55.0% ▲	-123	-91	34.8% ▲
Operating Profit	810	858	5.6% ▼	1,723	1,730	0.4% ▼
Other Income	188	36	419.8% ▲	237	75	214.6% ▲
Finance Cost	-195	-117	66.5% ▲	-338	-217	56.1% ▲
Profit Before Taxation	803	777	3.3% ▲	1,622	1,589	2.1% ▲
Taxation	-224	-146	53.4% ▲	-489	-277	76.8% ▲
Profit After Taxation	579	631	8.3% ▼	1,133	1,312	13.6% ▼
Earnings Per Share	2.67	2.93	9.0% ▼	5.24	6.12	14.3% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	
Gross Margin	49.6%	66.2%	16.7% ▼	48.7%	56.3%	7.6% ▼
SG&A Expenses to Sales	-31.8%	-40.3%	8.5% ▼	-30.0%	-33.1%	3.1% ▼
Other Expenses to Sales	-1.3%	-1.2%	0.1% ▲	-1.2%	-1.2%	0.1% ▲
Other Income to Sales	3.8%	1.0%	2.8% ▲	2.4%	1.0%	1.4% ▲
Effective Taxation	-27.9%	-18.8%	9.1% ▲	-30.1%	-17.4%	12.7% ▲
Net Margin	11.7%	18.2%	6.5% ▼	11.5%	16.7%	5.3% ▼

Source: ACPL Research, Company Financials

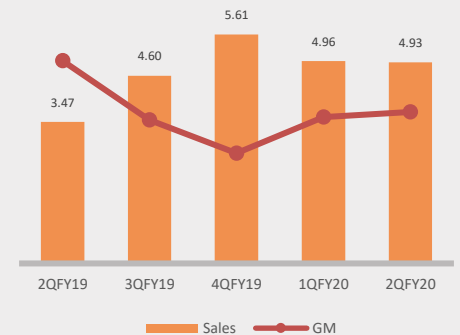
Key Statistics

Symbol	SEARL
TP - Dec 20	170.00
LDPCP	166.92
Upside	2%
Free Float (Rs. mn)	96
Market Cap. (Rs.mn)	35,458

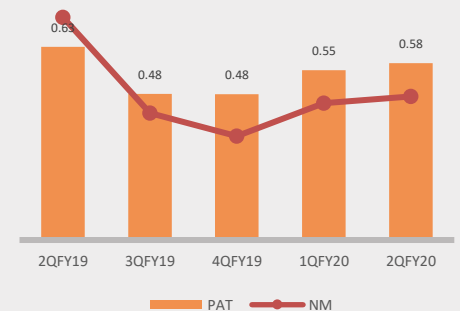
SEARL vs KSE 100



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	FY20E	FY21E	FY22E	FY23E
Revenue	9,048	11,291	13,310	16,396	18,062	19,745	22,273	25,165	28,479
Cost of sales	- 4,645	- 5,415	- 6,291	- 8,065	- 9,462	- 10,208	- 11,371	- 12,575	- 13,872
Gross profit	4,403	5,876	7,018	8,331	8,600	9,537	10,901	12,590	14,606
Distribution cost	- 1,966	- 2,635	- 3,140	- 3,742	- 4,285	- 4,655	- 5,242	- 5,913	- 6,680
Administrative expenses	- 261	- 422	- 933	- 1,078	- 1,103	- 1,206	- 1,360	- 1,537	- 1,739
Other operating expenses	- 172	- 267	- 206	- 195	- 175	- 245	- 276	- 312	- 353
Profit from operations	2,004	2,551	2,740	3,315	3,037	3,431	4,022	4,828	5,834
Other income	98	216	276	156	234	474	334	377	427
Finance cost	- 192	- 113	- 135	- 217	- 439	- 638	- 587	- 582	- 577
Profit before income tax	1,910	2,655	2,880	3,254	2,832	3,266	3,769	4,623	5,684
Income tax expense	- 456	- 621	- 487	- 538	- 567	- 980	- 989	- 1,207	- 1,476
Profit for the year	1,454	2,034	2,393	2,717	2,265	2,287	2,780	3,416	4,208
EPS	6.84	9.58	11.27	12.79	10.66	10.76	13.09	16.08	19.81
EBITDA	2,064	2,627	2,848	3,471	3,251	3,779	4,388	5,212	6,240

Source: ACPL Research, Company Financials

Horizontal Analysis

	FY15A	FY16A	FY17A	FY18A	FY19E	FY20E	FY21E	FY22E	FY23E
Revenue	18.9%	24.8%	17.9%	23.2%	10.2%	9.3%	12.8%	13.0%	13.2%
Cost of sales	10.2%	16.6%	16.2%	28.2%	17.3%	7.9%	11.4%	10.6%	10.3%
Gross profit	29.7%	33.5%	19.4%	18.7%	3.2%	10.9%	14.3%	15.5%	16.0%
Distribution cost	13.5%	34.1%	19.1%	19.2%	14.5%	8.6%	12.6%	12.8%	13.0%
Administrative expenses	-0.3%	61.6%	120.8%	15.6%	2.3%	9.3%	12.8%	13.0%	13.2%
Other operating expenses	27.4%	55.3%	-22.8%	-5.2%	-10.4%	39.9%	12.8%	13.0%	13.2%
Profit from operations	58.5%	27.3%	7.4%	21.0%	-8.4%	13.0%	17.3%	20.0%	20.8%
Other income	-16.4%	119.9%	27.4%	-43.2%	49.9%	102.1%	-29.5%	13.0%	13.2%
Finance cost	-11.1%	-41.3%	19.7%	60.4%	102.5%	45.4%	-8.0%	-0.9%	-0.9%
Profit before income tax	63.7%	39.1%	8.5%	13.0%	-13.0%	15.3%	15.4%	22.6%	22.9%
Income tax expense	57.5%	36.0%	-21.5%	10.4%	5.4%	72.9%	1.0%	22.0%	22.3%
Profit for the year	65.8%	40.0%	17.7%	13.5%	-16.6%	0.9%	21.6%	22.9%	23.2%
EPS	71.3%	45.7%	17.8%	14.1%	-16.6%	0.9%	21.6%	22.9%	23.2%
EBITDA	-37.4%	27.3%	8.4%	21.9%	-6.4%	16.3%	16.1%	18.8%	19.7%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
GP Margin	%	48.66	52.04	52.73	50.81	47.61	48.30	48.94	50.03	51.29
NP Margin	%	16.05	18.01	17.98	16.57	12.54	11.58	12.48	13.57	14.78
OP Margin	%	22.15	22.60	20.59	20.22	16.81	17.37	18.06	19.18	20.49
ROE	%	27.32	25.11	24.44	23.72	16.76	14.98	15.97	17.11	18.39
ROCE	%	33.24	29.42	27.19	28.75	22.20	30.96	31.83	33.02	34.36
ROA	%	17.33	17.70	17.64	15.75	10.65	10.27	11.45	12.78	14.22
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	2.02	2.40	2.09	1.68	1.89	1.36	1.47	1.60	1.75
Quick	x	0.15	0.20	0.16	0.10	0.15	0.40	0.44	0.51	0.58
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	8.09	8.19	8.74	7.55	6.24	6.87	7.53	7.67	7.86
Inventory Days		87.83	92.92	88.33	98.25	111.58	102.81	94.88	95.21	95.32
Receivables Days		8.30	13.27	10.38	7.09	15.92	15.92	15.92	15.92	15.92
Payables Days		121.54	142.03	116.36	139.11	135.79	142.00	142.00	142.00	142.00
Operating Cycle		-25.41	-35.85	-17.65	-33.78	-8.29	-23.27	-31.19	-30.86	-30.75
Investment Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
DPS		2.00	5.00	10.00	5.00	2.50	2.50	3.00	4.00	6.00
Div. Yield	%	1.20	3.00	5.99	3.00	1.50	1.50	1.80	2.40	3.59
Dividend Cover	x	3.23	1.88	1.11	2.53	4.22	4.26	4.32	3.98	3.27
Retention	%	69.05	46.91	9.83	60.47	76.31	76.53	76.83	74.86	69.39
Payout	%	30.95	53.09	90.17	39.53	23.69	23.47	23.17	25.14	30.61
No. of Shares	('m)	212.43	212.43	212.43	212.43	212.43	212.43	212.43	212.43	212.43
EPS		6.46	9.42	11.09	12.65	10.55	10.65	12.95	15.91	19.60
BVPS		25.03	38.13	46.09	53.91	63.64	71.88	81.93	93.97	107.72
P/E	x	25.83	17.72	15.05	13.20	15.82	15.67	12.89	10.49	8.52
Sales per share		42.59	53.15	62.66	77.18	85.03	92.95	104.85	118.46	134.06
P/BV	x	6.67	4.38	3.62	3.10	2.62	2.32	2.04	1.78	1.55
P/S	x	3.92	3.14	2.66	2.16	1.96	1.80	1.59	1.41	1.25
Solvency Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Total Debt to Equity	x	0.27	0.15	0.17	0.22	0.29	0.46	0.41	0.35	0.31
L.T Debt to Equity	x	0.14	0.06	0.02	0.00	0.00	0.00	0.00	0.00	0.00
Total Debt to Assets	x	0.17	0.10	0.12	0.15	0.18	0.32	0.29	0.26	0.24
L.T Debt to Assets	x	0.09	0.04	0.02	0.00	0.00	0.00	0.00	0.00	0.00
Interest Cover	x	10.42	22.60	20.28	15.29	6.92	5.38	6.85	8.29	10.11

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
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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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