

## SEARL

## 9MFY20 Result Review: HOLD Stance Maintained

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SEARL has announced its 3QFY20 result where it (consolidated) posted profit after tax of Rs1.76bn (EPS: Rs8.11) in 9MFY20 as compared to profit after tax of Rs1.79bn (EPS: Rs8.34) in same period last year, down by 2.8% YoY.

The company has posted the revenue of Rs15.1bn against Rs12.5bn in SPLY, recording a growth of 21.3% YoY. We note that this growth is attributed to the increase in volumetric growth and medicine prices.

Gross margin has been squeezed to 47.9% in 9MFY20 as compared to 52.8% in 9MFY19 on account of higher input cost.

Despite increase of 8.5% YoY in SG&A expenses in 9MFY20, the SG&A expenses to sales ratio has declined to 29% as compared to 32.5% during SPLY. Other Income has significantly been increased by 212.6% YoY to Rs372mn as compared to Rs119mn during SPLY.

Finance cost has been increased by 62.7% YoY to Rs504mn in 9MFY20 as compared to Rs310mn in SPLY on account of higher working capital requirement.

Lastly, higher effective taxation of 30.4% as compared to 19% during SPLY caused the bottom line to plunge despite growth in revenues.

SEARL is currently trading at FY21E PE of 13.86x. We maintain our **HOLD** stance on the script with a DCF based Jun-21 TP of Rs200 which provides an upside potential of 11%.

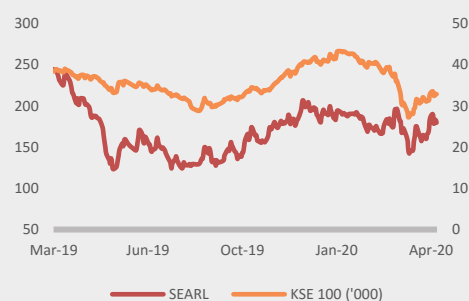
Rupees' millions	3QFY20	3QFY19	YoY	9MFY20	9MFY19	YoY
Net Sales	5,214	4,603	13.3% ▲	15,103	12,452	21.3% ▲
Cost of Sales	-2,790	-2,445	14.1% ▲	-7,864	-5,874	33.9% ▲
<b>Gross Profit</b>	<b>2,424</b>	<b>2,158</b>	<b>12.4% ▲</b>	<b>7,239</b>	<b>6,578</b>	<b>10.0% ▲</b>
SG&A Expenses	-1,418	-1,442	1.7% ▼	-4,386	-4,041	8.5% ▲
Other Expenses	-71	-46	54.8% ▲	-194	-137	41.5% ▲
<b>Operating Profit</b>	<b>936</b>	<b>670</b>	<b>39.8% ▲</b>	<b>2,659</b>	<b>2,399</b>	<b>10.8% ▲</b>
Other Income	135	43	209.2% ▲	372	119	212.6% ▲
Finance Cost	-165	-93	77.9% ▲	-504	-310	62.7% ▲
Profit Before Taxation	905	620	45.9% ▲	2,527	2,209	14.4% ▲
Taxation	-280	-143	96.1% ▲	-769	-419	83.3% ▲
<b>Profit After Taxation</b>	<b>625</b>	<b>477</b>	<b>30.9% ▲</b>	<b>1,758</b>	<b>1,789</b>	<b>1.7% ▼</b>
Earnings Per Share	2.87	2.23	28.8% ▲	8.11	8.34	2.8% ▼
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	
Gross Margin	46.5%	46.9%	0.4% ▼	47.9%	52.8%	4.9% ▼
SG&A Expenses to Sales	-27.2%	-31.3%	4.1% ▼	-29.0%	-32.5%	3.4% ▼
Other Expenses to Sales	-1.4%	-1.0%	0.4% ▲	-1.3%	-1.1%	0.2% ▲
Other Income to Sales	2.6%	0.9%	1.6% ▲	2.5%	1.0%	1.5% ▲
Effective Taxation	-30.9%	-23.0%	7.9% ▲	-30.4%	-19.0%	11.4% ▲
Net Margin	12.0%	10.4%	1.6% ▲	11.6%	14.4%	2.7% ▼

Source: ACPL Research, Company Financials

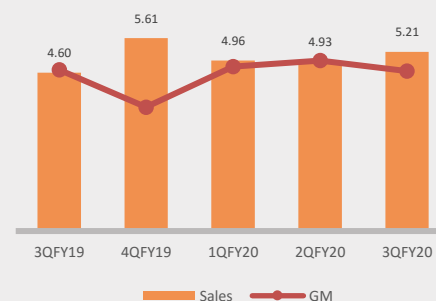
## Key Statistics

Symbol	SEARL
TP - Jun 21	200.00
LDCP	179.52
Upside	11%
Free Float (Rs. mn)	96
Market Cap. (Rs.mn)	38,135

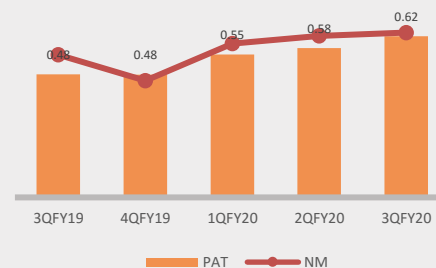
## SEARL vs KSE 100



## 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
<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>9,537</b>	<b>10,901</b>	<b>12,590</b>	<b>14,606</b>
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
<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>3,431</b>	<b>4,022</b>	<b>4,828</b>	<b>5,834</b>
Other income	98	216	276	156	234	474	334	377	427
Finance cost	- 192	- 113	- 135	- 217	- 439	- 638	- 587	- 582	- 577
<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>3,266</b>	<b>3,769</b>	<b>4,623</b>	<b>5,684</b>
Income tax expense	- 456	- 621	- 487	- 538	- 567	- 980	- 989	- 1,207	- 1,476
<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>2,287</b>	<b>2,780</b>	<b>3,416</b>	<b>4,208</b>
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%
<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>10.9%</b>	<b>14.3%</b>	<b>15.5%</b>	<b>16.0%</b>
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%
<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>13.0%</b>	<b>17.3%</b>	<b>20.0%</b>	<b>20.8%</b>
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%
<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>15.3%</b>	<b>15.4%</b>	<b>22.6%</b>	<b>22.9%</b>
Income tax expense	57.5%	36.0%	-21.5%	10.4%	5.4%	72.9%	1.0%	22.0%	22.3%
<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>0.9%</b>	<b>21.6%</b>	<b>22.9%</b>	<b>23.2%</b>
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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<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%

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Market Weight	Neutral
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