

SEARL

FY20 Result Review: Stance Upgraded to BUY

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SEARL has announced its annual result where it (consolidated) posted profit after tax of Rs2.5bn (EPS: Rs11.7) in FY20 as compared to a profit after tax of Rs2.3bn (EPS: Rs10.55) in the same period last year, up by 11.5% YoY.

The company has posted the revenue of Rs20.5bn against Rs18.1bn in SPLY, recording a growth of 13.4% YoY. We note that this growth is attributed to the increase in volumetric growth and medicine prices.

The gross margin has slightly been squeezed to 47.4% in FY20 as compared to 47.6% in FY19 on account of higher input costs.

SG&A expenses have increased by 4% YoY to Rs5.6bn as compared to Rs5.4bn during SPLY. Other Income has significantly been increased by 115.8% YoY to Rs506mn as compared to Rs234mn during SPLY.

Finance cost has been increased by 56.1% YoY to Rs685mn in FY20 as compared to Rs439mn in SPLY on account of higher working capital requirement. Lastly, effective taxation has been increased to 30.4% as compared to 20% during SPLY.

Going forward, in our view, the acquisition of Luna Pakistan would result in strengthening the company's portfolio and distribution network as well, hence improving the profitability. SEARL is currently trading at FY21E PE of 18.43x. We have a **BUY** stance on the script with a DCF based Jun-21 TP of Rs330 which provides an upside potential of 25%.

Rupees' millions	4QFY20	4QFY19	YoY	FY20	FY19	YoY
Net Sales	5,372	5,611	4.3% ▼	20,475	18,062	13.4% ▲
Cost of Sales	-2,905	-3,589	19.1% ▼	-10,769	-9,462	13.8% ▲
Gross Profit	2,467	2,022	22.0% ▲	9,706	8,600	12.9% ▲
SG&A Expenses	-1,220	-1,347	9.4% ▼	-5,606	-5,388	4.0% ▲
Other Expenses	-68	-38	79.1% ▲	-262	-175	49.6% ▲
Operating Profit	1,179	637	85.0% ▲	3,838	3,037	26.4% ▲
Other Income	134	115	16.1% ▲	506	234	115.8% ▲
Finance Cost	-181	-129	40.3% ▲	-685	-439	56.1% ▲
Profit Before Taxation	1,132	624	81.5% ▲	3,659	2,832	29.2% ▲
Taxation	-342	-148	131.8% ▲	-1,111	-567	95.9% ▲
Profit After Taxation	790	476	65.9% ▲	2,548	2,265	12.5% ▲
Earnings Per Share	3.66	2.21	65.7% ▲	11.77	10.55	11.5% ▲
Dividend	2.50	2.50		2.50	2.50	
Bonus	0%	0%		0%	0%	

Closing Period: 22 Oct 20 - 28 Oct 20

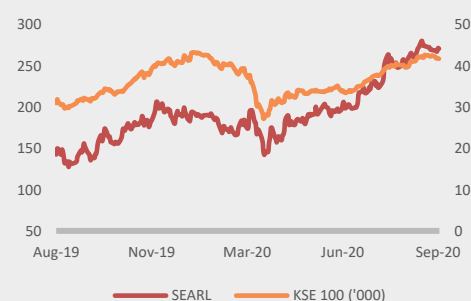
Gross Margin	45.9%	36.0%	9.9% ▲	47.4%	47.6%	0.2% ▼
SG&A Expenses to Sales	-22.7%	-24.0%	1.3% ▼	-27.4%	-29.8%	2.5% ▼
Other Expenses to Sales	-1.3%	-0.7%	0.6% ▲	-1.3%	-1.0%	0.3% ▲
Other Income to Sales	2.5%	2.1%	0.4% ▲	2.5%	1.3%	1.2% ▲
Effective Taxation	-30.2%	-23.7%	6.6% ▲	-30.4%	-20.0%	10.3% ▲
Net Margin	14.7%	8.5%	6.2% ▲	12.4%	12.5%	0.1% ▼

Source: ACPL Research, Company Financials

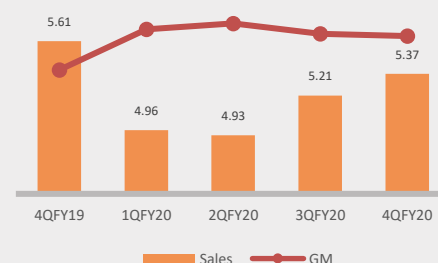
Key Statistics

Symbol	SEARL
TP - Jun 21	330.00
LDGP	264.17
Upside	25%
Free Float (Rs. mn)	96
Market Cap. (Rs.mn)	56,116

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	24,404	28,397	33,055
Cost of sales	- 4,645	- 5,415	- 6,291	- 8,065	- 9,462	- 10,769	- 12,487	- 14,364	- 16,510
Gross profit	4,403	5,876	7,018	8,331	8,600	9,706	11,917	14,033	16,545
Distribution cost	- 1,966	- 2,635	- 3,140	- 3,742	- 4,285	- 4,417	- 5,758	- 6,695	- 7,787
Administrative expenses	- 261	- 422	- 933	- 1,078	- 1,103	- 1,189	- 1,417	- 1,649	- 1,919
Other operating expenses	- 172	- 267	- 206	- 195	- 175	- 262	- 312	- 363	- 423
Profit from operations	2,004	2,551	2,740	3,315	3,037	3,838	4,430	5,327	6,416
Other income	98	216	276	156	234	506	366	426	496
Finance cost	- 192	- 113	- 135	- 217	- 439	- 685	- 587	- 582	- 577
Profit before income tax	1,910	2,655	2,880	3,254	2,832	3,659	4,209	5,170	6,335
Income tax expense	- 456	- 621	- 487	- 538	- 567	- 1,111	- 1,105	- 1,350	- 1,645
Profit for the year	1,454	2,034	2,393	2,717	2,265	2,548	3,104	3,820	4,690
EPS	6.84	9.58	11.27	12.79	10.66	12.00	14.61	17.98	22.08
EBITDA	2,064	2,627	2,848	3,471	3,251	4,186	4,796	5,710	6,822

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%	19.2%	16.4%	16.4%
Cost of sales	10.2%	16.6%	16.2%	28.2%	17.3%	13.8%	16.0%	15.0%	14.9%
Gross profit	29.7%	33.5%	19.4%	18.7%	3.2%	12.9%	22.8%	17.8%	17.9%
Distribution cost	13.5%	34.1%	19.1%	19.2%	14.5%	3.1%	30.4%	16.3%	16.3%
Administrative expenses	-0.3%	61.6%	120.8%	15.6%	2.3%	7.8%	19.2%	16.4%	16.4%
Other operating expenses	27.4%	55.3%	-22.8%	-5.2%	-10.4%	49.6%	19.2%	16.4%	16.4%
Profit from operations	58.5%	27.3%	7.4%	21.0%	-8.4%	26.4%	15.4%	20.2%	20.5%
Other income	-16.4%	119.9%	27.4%	-43.2%	49.9%	115.8%	-27.6%	16.4%	16.4%
Finance cost	-11.1%	-41.3%	19.7%	60.4%	102.5%	56.1%	-14.3%	-0.9%	-0.9%
Profit before income tax	63.7%	39.1%	8.5%	13.0%	-13.0%	29.2%	15.0%	22.8%	22.5%
Income tax expense	57.5%	36.0%	-21.5%	10.4%	5.4%	95.9%	-0.5%	22.2%	21.9%
Profit for the year	65.8%	40.0%	17.7%	13.5%	-16.6%	12.5%	21.8%	23.1%	22.8%
EPS	71.3%	45.7%	17.8%	14.1%	-16.6%	11.5%	21.8%	23.1%	22.8%
EBITDA	-37.4%	27.3%	8.4%	21.9%	-6.4%	28.8%	14.6%	19.1%	19.5%

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	47.40	48.83	49.42	50.05
NP Margin	%	16.05	18.01	17.98	16.57	12.54	12.44	12.72	13.45	14.19
OP Margin	%	22.15	22.60	20.59	20.22	16.81	18.74	18.15	18.76	19.41
ROE	%	27.32	25.11	24.44	23.72	16.76	16.41	17.26	18.25	19.28
ROCE	%	33.24	29.42	27.19	28.75	22.20	33.98	33.62	34.22	34.87
ROA	%	17.33	17.70	17.64	15.75	10.65	11.22	12.29	13.47	14.64
Liquidity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Current	x	2.02	2.40	2.09	1.68	1.89	1.37	1.49	1.64	1.79
Quick	x	0.15	0.20	0.16	0.10	0.15	0.39	0.42	0.48	0.55
Activity Ratios		FY15A	FY16A	FY17A	FY18A	FY19A	FY20E	FY21E	FY22E	FY23E
Inventory Turnover	x	8.09	8.19	8.74	7.55	6.24	6.94	7.66	7.72	7.82
Inventory Days		87.83	92.92	88.33	98.25	111.58	100.06	93.12	93.47	93.50
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	-26.02	-32.96	-32.61	-32.58
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	%	0.76	1.89	3.79	1.89	0.95	0.95	1.14	1.51	2.27
Dividend Cover	x	3.23	1.88	1.11	2.53	4.22	4.71	4.78	4.41	3.61
Retention	%	69.05	46.91	9.83	60.47	76.31	78.75	79.07	77.33	72.30
Payout	%	30.95	53.09	90.17	39.53	23.69	21.25	20.93	22.67	27.70
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	11.77	14.33	17.64	21.66
BVPS		25.03	38.13	46.09	53.91	63.64	73.09	84.64	98.55	114.51
P/E	x	40.88	28.05	23.82	20.88	25.04	22.45	18.43	14.97	12.20
Sales per share		42.59	53.15	62.66	77.18	85.03	96.39	114.88	133.68	155.61
P/BV	x	10.56	6.93	5.73	4.90	4.15	3.61	3.12	2.68	2.31
P/S	x	6.20	4.97	4.22	3.42	3.11	2.74	2.30	1.98	1.70
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	0.39	0.34	0.29
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	0.31	0.28	0.25	0.22
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	5.60	7.55	9.15	11.12

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
Underweight	Negative

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