

SEARL

FY22 Result Review: BUY Stance Maintained

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SEARL has announced its FY22 result where it posted a (consolidated) profit after tax of Rs2.42bn (Diluted EPS: Rs6.19) as compared to a profit after tax of Rs3.75bn (Diluted EPS: Rs9.61) in the same period last year, down by 35.52% YoY amid an increase in finance cost and effective taxation.

The company has posted a revenue of Rs29.91bn against Rs26.22bn in SPLY, recording a growth of 14.1% YoY. The gross margin has been squeezed to 43.9% as compared to 46.5% in SPLY because of higher input costs.

Finance cost has been increased by 45.8% YoY to Rs2.12bn as compared to Rs1.45bn in SPLY owing to higher interest rates. Moreover, effective taxation has increased to 34% as compared to 25.6% during SPLY.

SEARL is currently trading at FY23E PE of 13.21x. Furthermore, the scrip is also trading at a FY23E PB of 1.31x which provides a discount of 29% relative to its 3-year average of 1.84x. We have a **BUY** stance on the scrip with a DCF-based Jun-23 TP of Rs130 which provides an upside potential of 25%. Further, the scrip also provides a dividend yield of 2% which makes the total return of 27%.

Rupees' millions	4QFY22	4QFY21	YoY	FY22	FY21	YoY
Net Sales	7,714	6,225	23.9% ▲	29,910	26,220	14.1% ▲
Cost of Sales	-4,514	-3,258	38.6% ▲	-16,790	-14,028	19.7% ▲
Gross Profit	3,200	2,968	7.8% ▲	13,119	12,191	7.6% ▲
SG&A Expenses	-2,072	-1,851	11.9% ▲	-7,471	-6,731	11.0% ▲
Other Expenses	-58	-76	23.7% ▼	-300	-326	8.0% ▼
Operating Profit	1,069	1,040	2.8% ▲	5,348	5,134	4.2% ▲
Other Income	143	1,048	86.3% ▼	430	1,353	68.2% ▼
Finance Cost	-642	-184	248.9% ▲	-2,116	-1,452	45.8% ▲
Profit Before Taxation	571	1,904	70.0% ▼	3,661	5,035	27.3% ▼
Taxation	-243	-370	34.1% ▼	-1,245	-1,288	3.3% ▼
Profit After Taxation	631	690	8.6% ▼	2,416	3,747	35.52% ▼
Earnings Per Share	1.62	1.77	8.6% ▼	6.19	9.61	35.52% ▼
Dividend	0.00	2.50		0.00	2.50	-
Bonus	25%	30%		25%	30%	

Closing Period: Oct 22, 2022 to Oct 28, 2022

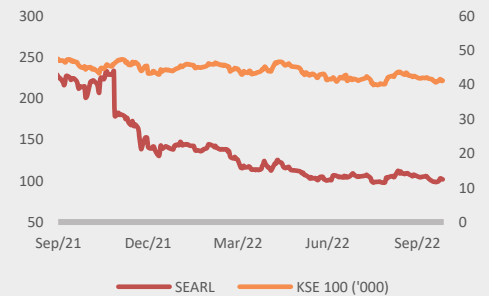
	4QFY22	4QFY21	YoY	FY22	FY21	YoY
Gross Margin	41.5%	47.7%	6.2% ▼	43.9%	46.5%	2.6% ▼
SG&A Expenses to Sales	-26.9%	-29.7%	2.9% ▼	-25.0%	-25.7%	0.7% ▼
Other Expenses to Sales	-0.8%	-1.2%	0.5% ▼	-1.0%	-1.2%	0.2% ▼
Other Income to Sales	1.9%	16.8%	15.0% ▼	1.4%	5.2%	3.7% ▼
Effective Taxation	-42.7%	-19.4%	23.2% ▲	-34.0%	-25.6%	8.4% ▲
Net Margin	8.2%	11.1%	2.9% ▼	8.1%	14.3%	6.2% ▼

Source: ACPL Research, Company Financials

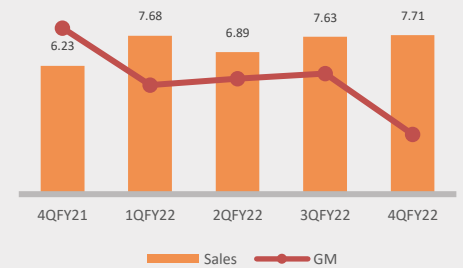
Key Statistics

Symbol	SEARL
TP - Jun 23	130
LDCP	103.90
Upside	25%
Free Float (Rs. mn)	140
Market Cap. (Rs.mn)	40,527

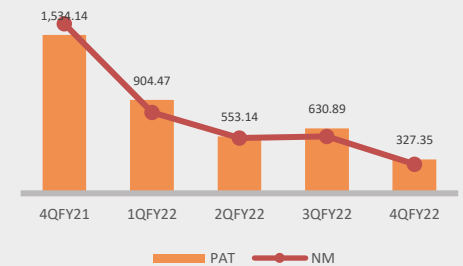
SEARL vs KSE 100



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	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	18,062	20,475	26,220	29,910	34,396	39,556	45,489
Cost of sales	- 9,462	- 10,769	- 14,028	- 16,790	- 18,456	- 21,224	- 24,408
Gross profit	8,600	9,706	12,191	13,119	15,940	18,332	21,081
Distribution cost	- 4,285	- 4,417	- 5,348	- 6,040	- 7,128	- 8,197	- 9,426
Administrative expenses	- 1,103	- 1,189	- 1,383	- 1,431	- 1,819	- 2,092	- 2,406
Other operating expenses	- 175	- 262	- 326	- 300	- 404	- 465	- 535
Profit from operations	3,037	3,838	5,134	5,348	6,589	7,578	8,715
Other income	234	506	1,353	430	494	568	654
Finance cost	- 439	- 685	- 1,452	- 2,116	- 2,586	- 2,411	- 2,240
Profit before income tax	2,832	3,659	5,035	3,661	4,498	5,736	7,128
Income tax expense	- 567	- 1,111	- 1,288	- 1,245	- 1,341	- 1,700	- 2,102
Profit for the year	2,265	2,548	3,747	2,416	3,157	4,035	5,026
EPS	5.75	6.41	9.43	6.03	7.86	10.05	12.52
EBITDA	3,251	4,084	5,541	6,278	7,536	8,541	9,694

Horizontal Analysis

	FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	10.2%	13.4%	28.1%	14.1%	15.0%	15.0%	15.0%
Cost of sales	17.3%	13.8%	30.3%	19.7%	9.9%	15.0%	15.0%
Gross profit	3.2%	12.9%	25.6%	7.6%	21.5%	15.0%	15.0%
Distribution cost	14.5%	3.1%	21.1%	12.9%	18.0%	15.0%	15.0%
Administrative expenses	2.3%	7.8%	16.3%	3.5%	27.1%	15.0%	15.0%
Other operating expenses	-10.4%	49.6%	24.7%	-8.0%	34.7%	15.0%	15.0%
Profit from operations	-8.4%	26.4%	33.8%	4.2%	23.2%	15.0%	15.0%
Other income	49.9%	115.8%	167.5%	-68.2%	15.0%	15.0%	15.0%
Finance cost	102.5%	56.1%	111.9%	45.8%	22.2%	-6.8%	-7.1%
Profit before income tax	-13.0%	29.2%	37.6%	-27.3%	22.9%	27.5%	24.3%
Income tax expense	5.4%	95.9%	16.0%	-3.3%	7.7%	26.8%	23.6%
Profit for the year	-16.6%	12.5%	47.0%	-35.5%	30.7%	27.8%	24.6%
EPS	-16.6%	11.5%	47.2%	-36.1%	30.4%	27.8%	24.6%
EBITDA	-6.4%	25.6%	35.7%	13.3%	20.0%	13.3%	13.5%

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	46.34	46.34	46.34
NP Margin	%	12.54	12.44	14.29	8.08	9.18	10.20	11.05
OP Margin	%	16.81	18.74	19.58	17.88	19.16	19.16	19.16
ROE	%	16.76	15.96	14.36	8.48	10.24	11.93	13.38
ROCE	%	22.20	23.18	14.22	18.74	24.61	29.29	33.61
ROA	%	10.65	10.15	7.61	5.61	7.14	8.92	10.59
Liquidity Ratios		FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Current	x	1.89	2.07	1.66	1.09	0.97	0.92	0.92
Quick	x	0.15	0.18	0.32	-0.13	-0.16	-0.24	-0.27
Activity Ratios		FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Inventory Turnover	x	6.24	6.42	6.31	6.01	6.48	6.62	6.62
Inventory Days		111.58	108.16	108.17	108.11	105.04	102.83	102.83
Receivables Days		15.92	21.17	55.92	20.63	20.63	20.63	20.63
Payables Days		135.79	114.75	132.39	132.39	132.39	132.39	132.39
Operating Cycle		-8.29	14.58	31.70	-3.65	-6.72	-8.94	-8.94
Investment Ratios		FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
DPS		2.50	2.50	2.00	0.00	2.00	2.50	3.00
Div. Yield	%	2.41	2.41	1.92	0.00	1.92	2.41	2.89
Dividend Cover	x	2.30	2.56	4.72	0.00	3.93	4.02	4.17
Retention	%	56.49	60.99	78.79	100.00	74.56	75.12	76.03
Payout	%	43.51	39.01	21.21	0.00	25.44	24.88	23.97
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	7.86	10.05	12.52
BVPS		34.66	40.92	66.88	73.07	79.07	86.73	96.27
P/E	x	18.08	16.21	11.02	17.23	13.21	10.34	8.30
Sales per share		46.31	52.49	67.22	76.68	88.18	101.41	116.62
P/BV	x	3.00	2.54	1.55	1.42	1.31	1.20	1.08
P/S	x	2.24	1.98	1.55	1.36	1.18	1.02	0.89
Solvency Ratios		FY19A	FY20A	FY21A	FY22A	FY23E	FY24E	FY25E
Total Debt to Equity	x	0.29	0.33	0.67	0.62	0.60	0.53	0.46
L.T Debt to Equity	x	0.00	0.02	0.37	0.33	0.31	0.24	0.17
Total Debt to Assets	x	0.18	0.21	0.36	0.41	0.42	0.40	0.36
L.T Debt to Assets	x	0.00	0.01	0.20	0.22	0.22	0.18	0.14
Interest Cover	x	6.92	5.60	3.54	2.53	2.55	3.14	3.89

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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