

The Searle Company (SEARL)

3QFY18 EPS Rs3.4 +53% YoY (-32% QoQ); 9MFY18 EPS Rs12.6 +33% YoY

In-line with expectations

ASIAMONEY

Best Local Brokerage House
Brokers Poll 2011-14, 2016-17

 CFA Society
Pakistan

 Jama
Punji

www.jamapunji.pk Best Local Brokerage House 2015-16

Nabeel Khursheed^{AC}
nabeel@topline.com.pk
Tel: +9221-35303330
Topline Securities, Pakistan

Strong revenue growth supported earnings

SEARL: Financial Highlights							
Rs mn	3QFY18	3QFY17	YoY	QoQ	9MFY18	9MFY17	YoY
Net sales	4,114	3,312	24%	6%	11,998	9,911	21%
Cost of Sales	2,035	1,581	29%	41%	5,503	4,575	20%
Gross Profit	2,080	1,730	20%	-15%	6,495	5,336	22%
Selling and Distribution Expense	919	878	5%	1%	2,583	2,362	9%
Administrative Expenses	364	363	0%	-9%	998	716	39%
Other Operating Expenses	34	42	-19%	-43%	142	165	-14%
Other Income	20	78	-75%	-40%	91	171	-47%
Operating Profit	782	525	49%	-30%	2,863	2,264	26%
Finance Cost	44	28	55%	-5%	127	113	13%
Profit Before Tax	738	497	49%	-31%	2,735	2,151	27%
Taxation	102	79	29%	-30%	380	366	4%
Profit After Tax	636	418	52%	-31%	2,356	1,785	32%
Attributable to:							
Owners of Holding Company	626	408	53%	-32%	2,334	1,756	33%
Non-Controlling Interest	10.1	9.8	3%	297%	21	29	-26%
EPS	3.4	2.2			12.6	9.5	

Source: PSX, Topline Research

- SEARL announced consolidated earnings of Rs626mn (EPSRs3.4) up 53% YoY in 3QFY18, in-line with our expectations.
- Sales grew by a robust 24% YoY during the outgoing quarter, mainly on the back of higher volumes of Pharmaceutical segment that constitute over 85% of SEARL's total sales where performance of SEARL's biosciences venture remained strong. We believe that the Pharmaceutical segment of the company witnessed up to 20% growth in revenues while the consumer segment posted up to 30% growth during 3QFY18.

Strong revenue growth supported earnings

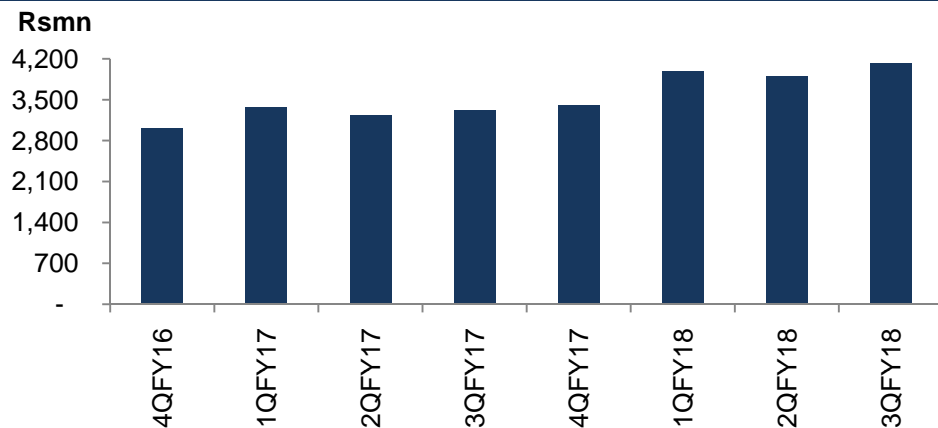
- The company's gross margins contracted by 1.7ppts to ~50%, mainly on the back of higher input costs, we believe.
- Although distribution expenses were up 5% YoY in 3QFY18, as percentage of sales, they fell 4ppts to 22%, which supported the company's bottom-line. We attribute this to lower advertisement and travel related expenses.
- We flag 1) lower than expected volumetric growth, 2) regulatory and legal issues restricting price increase, 3) delay in introducing new products and 4) higher than anticipated distribution expenses as key risks for SEARL.

SEARL: Key Numbers

	FY13A	FY14A	FY15A	FY16A	FY17A
EPS	3.6	4.3	7.4	10.8	12.8
Earnings Growth	70%	20%	71%	46%	18%
PE at Rs352.2	97.3	81.2	47.4	32.5	27.6
Dividend Yield	0%	1%	1%	1%	3%
ROE	23%	22%	27%	33%	25%
PBV	22.5	17.7	13.0	10.7	6.9

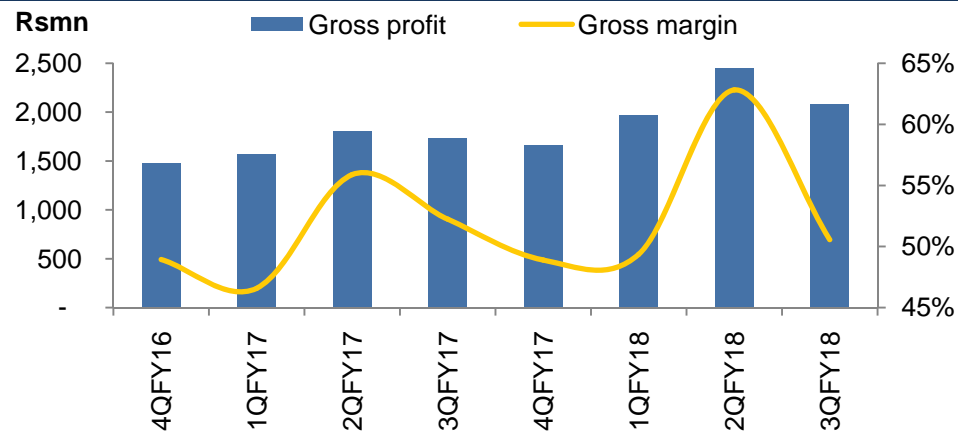
Source: Company Accounts, Topline Research

SEARL: Quarterly Sales



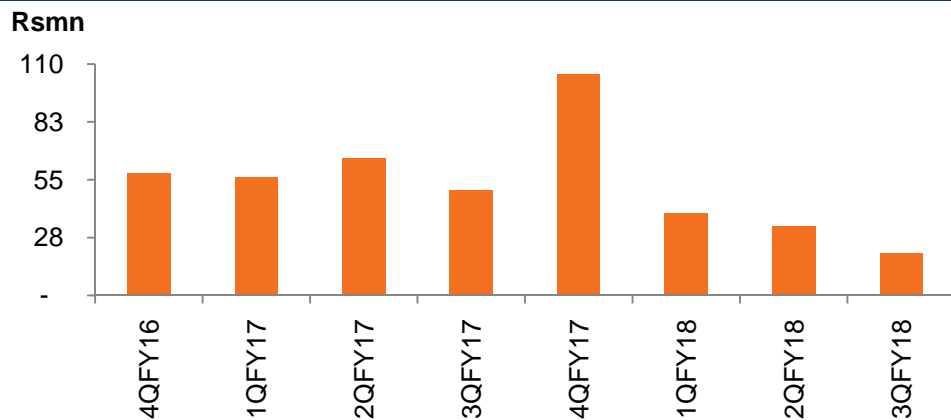
Source: Company Accounts, Topline Research

SEARL: Quarterly Gross Profit & Gross Margins



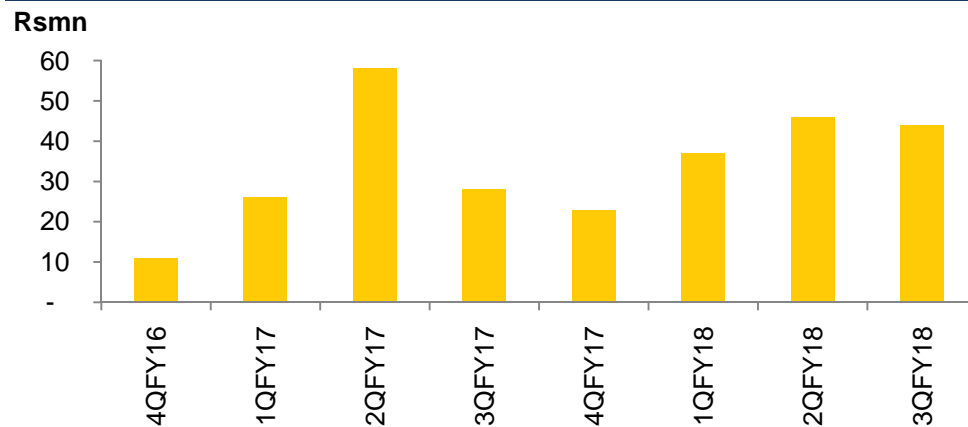
Source: Company Accounts, Topline Research

SEARL: Quarterly Other Income



Source: Company Accounts, Topline Research

SEARL: Quarterly Finance Cost



Source: Company Accounts, Topline Research

Analyst Certification and Disclosures

The research analyst(s), denoted by an “AC” on the cover of this report, primarily involved in the preparation of this report, certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject companies/securities/sectors and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Furthermore, it is stated that the research analyst or its close relative have neither served as a director/officer in the past 3 years nor received any compensation from the subject company in the past 12 months.

Additionally, as per regulation 8(2)(i) of the Research Analyst Regulations, 2015, we currently do not have a financial interest in the securities of the subject company aggregating more than 1% of the value of the company.

Rating System

Topline Securities employs three tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Stock will outperform the average total return of stocks in universe
Neutral	Stock will perform in line with the average total return of stocks in universe
Sell	Stock will underperform the average total return of stocks in universe

For sector rating, Topline Securities employs three tier ratings system, depending upon the sector’s proposed weight in the portfolio as compared to sector’s weight in KSE-100 Index:

Rating	Sector’s Proposed Weight in Portfolio
Over Weight	> Weight in KSE-100 Index
Market Weight	= Weight in KSE-100 Index
Under Weight	< Weight in KSE-100 Index

Ratings are updated daily to account for the latest developments in the economy/sector/company, changes in stock prices and changes in analyst’s assumptions or a combination of any of these factors.

Valuation Methodology

To arrive at our 12-months Target Price, Topline Securities uses different valuation methods which include: 1). Present value methodology, 2). Multiplier methodology, and 3). Asset-based methodology.

Research Dissemination Policy

Topline Securities endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time.

Disclaimer

This report has been prepared by Topline Securities and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Topline Securities and/or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Topline Securities accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Topline Research Department and do not necessarily reflect those of Topline or its directors. Topline as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report.

All rights reserved by Topline Securities. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Topline Securities. Action could be taken for unauthorized reproduction, distribution or publication.