

Foundation Alert

SEARL: Analyst Briefing Takeaways

Event

- The Searle Company limited (SEARL) held its Analyst briefing today to discuss financial performance of the company along with its future prospects.
- Following are the key takeaways.

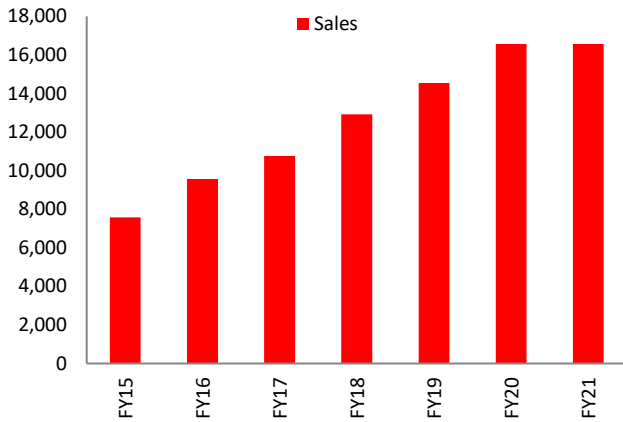
Impact

- To highlight company reported revenue of Rs904mn in 1QFY22, compared to profit of Rs648mn in 1QFY21 (↑40% YoY).
- Companies revenue for FY21 increased to 26.2bn (up by 27% YoY) on consolidated basis, due to increase in revenue from its subsidiaries.
- At this point in time, the company's non-essential and essential drugs universe is divided into 20% and 80% respectively. Regarding OBS IPO, it is expected to come by Feb 2022.
- Company is one of the largest pharmaceutical in terms of product consumption and is growing with 18% CAGR over five year horizon. Company has wide international presence especially in Africa with 15 existing markets and expect expansion into 7 new markets in future. Company's top 10 products increased its market share from 64% in 2016 to 72% in 2021. Some leading brands include Hydrillin, Nuberol, Peditral, Extor, Gravinate, Venofer, Cosopt and Rotec.
- For year 2022, company is aiming 7% volumetric growth and expecting increase in prices which will increase revenue for the company.
- SEARL Company is 56.32% owned by IBL group. It has four subsidiaries with 100% stake namely Searle Pakistan, Searle Biosciences, Searle laboratories, Searle Pharmaceuticals, IBL Future technology and IBL Healthcare Limited with 74.15% stake.
- Overall pharma sector increased by PKR 559bn during FY 2021 with growth of 23% annually. SEARL Company is ranked second in volume terms with 6.35% market share and 7.22% growth. It is ranked fifth in value terms with 5.53% market share and 18.70% growth. Major competitors are Abbot, GSK, GETZ and Sami.
- Revenue and profits of the company grow by an average growth rate of 16.20% and 26.37% over the last 21 years. Last year company reported the highest revenue and profits of 26.2bn and 3.75bn respectively.
- Major risks faced by the company are exchange rate fluctuations, higher freight costs, border closures hindering potential sales and overhead costs due higher electricity costs.

Outlook

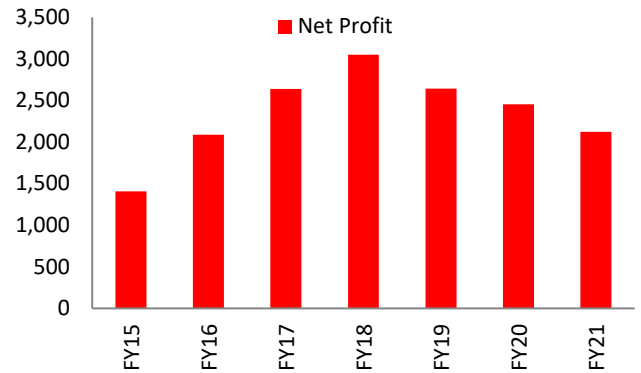
- The company is not in our formal coverage.

Fig 1: Sales growth show marginal decline



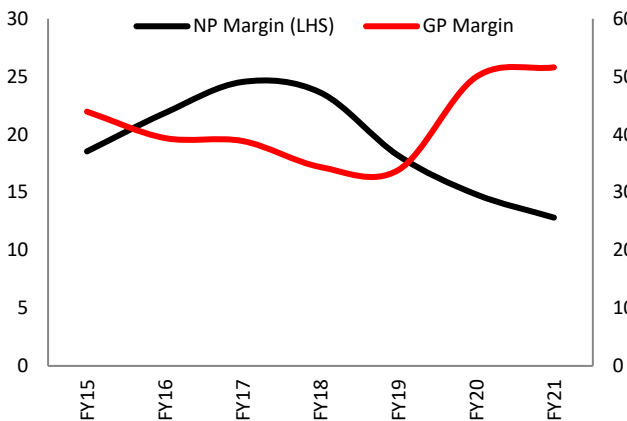
Source: PSX, Foundation Research, Dec'21

Fig 2: ...profitability dips as gross margins decline



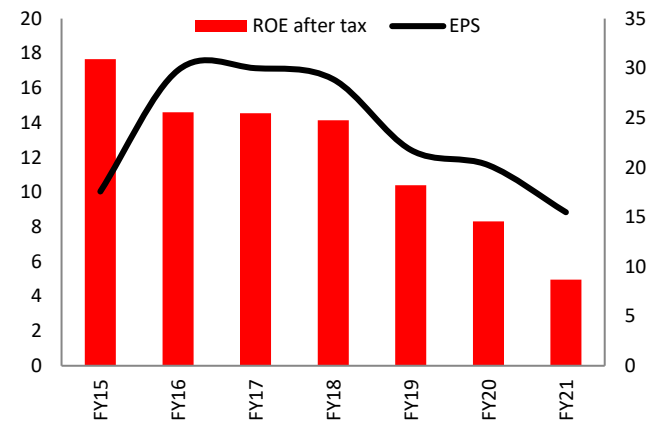
Source: PSX, Foundation Research, Dec'21

Fig 3: recovery in margins...



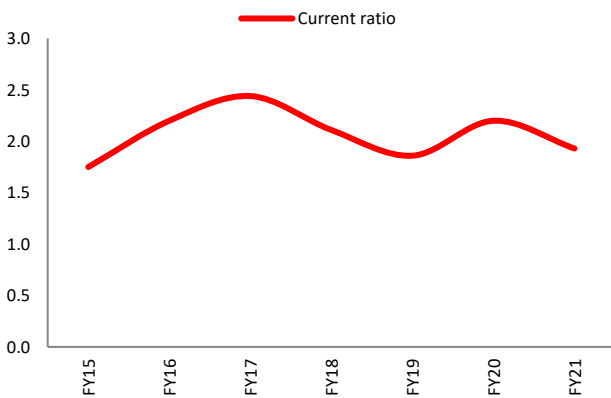
Source: PSX, Foundation Research, Dec'21

Fig 4: Shareholder equity increase with assets



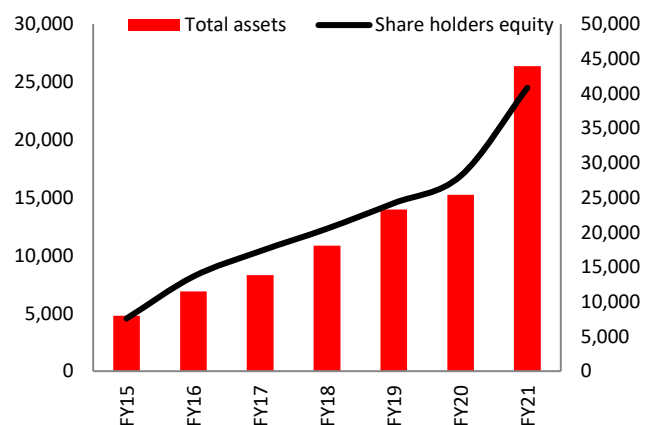
Source: PSX, Foundation Research, Dec'21

Fig 5: Current ration trend



Source: PSX, Foundation Research, Dec'21

Fig 6: Earnings to boost asset base



Source: PSX, Foundation Research, Dec'21

Fig1: SEARL Key financial and operational ratios(Unconsolidated)

Rs mn		FY15	FY16	FY17	FY18	FY19	FY20	FY21
Sales		7,582	9,561	10,754	12,911	14,537	16,567	16,570
GP		3,332	3,765	4,179	4,437	4,920	8,272	8,549
PBT		1,768	2,520	2,875	3,233	2,830	3,304	2,735
Net Profit		1,405	2,089	2,639	3,049	2,642	2,455	2,123
Share capital		1,400	1,228	1,539	1,847	2,124	2,124	2,400
Share holders equity		4,548	8,180	10,368	12,315	14,518	16,871	24,488
Fixed assets - net		3,730	6,001	5,392	6,054	7,196	7,858	25,686
Total assets		7,979	11,470	13,846	18,094	23,302	25,381	43,926
RATIOS:								
PROFITABILITY								
GP Margin	%	43.9	39.4	38.9	34.4	33.8	49.9	51.6
PBT Margin	%	23.3	26.4	26.7	25.0	19.5	19.9	16.5
NP Margin (LHS)	%	18.5	21.9	24.5	23.6	18.2	14.8	12.8
RETURN TO SHAREHOLDERS								
ROE before tax	%	38.9	30.8	27.7	26.3	19.5	19.6	11.2
ROE after tax	%	30.9	25.5	25.4	24.8	18.2	14.6	8.7
EPS	Rs	10.0	17.0	17.1	16.5	12.4	11.6	8.8
Sales to fixed assets		2.0	1.6	2.0	2.1	2.0	2.1	0.6
Sales to total assets		1.0	0.8	0.8	0.7	0.6	0.7	0.4
LIQUIDITY/LEVERAGE/VALUATION								
Current ratio		1.8	2.2	2.4	2.1	1.9	2.2	1.9
Debt-to-Equity ratio		0.31	0.13	0.16	0.22	0.27	0.31	0.63
Breakup value per share		0.31	0.15	0.15	0.15	0.15	0.13	0.10
Book Value per Share		0.01	0.03	0.03	0.04	0.05	0.05	0.05

Source: Company accounts, Foundation Research, December 2021

Table 2: SEARL 3QFY21 earnings preview

Income Statement (Rs mn)	1QFY22	1QFY21	YoY	4QFY21	QoQ
Net Sales	7,678	5,562	38%	6,225	23%
COGS	4,273	3,002	42%	3,257	31%
Gross Profit	3,405	2,560	33%	2,968	15%
Admin Expenses	344	316	9%	4,313	-92%
Distribution Expenses	1,311	1,015	29%	2,462	-47%
Other Income	41	43	-5%	1,048	-96%
other expense	93	72	28%	76	21%
EBIT	1,699	1,200	42%	2,088	-19%
Finance Cost	423	272	55%	(184)	-330%
PBT	1,276	927	38%	1,904	-33%
Tax	372	279	33%	370	1%
Net Profit	904	648	40%	1,535	-41%
EPS	2.90	2.08		4.92	
Gross Margins	44.35%	46.02%		47.68%	
Net Margins	11.78%	11.66%		24.65%	
ETR	29.1%	30.1%		19.4%	

Source: Company Accounts, Foundation Research, December 2021

About the company

The SEARLE Company Ltd (TSCL) was incorporated in Pakistan as a Private Limited Company on October 5, 1965 as a subsidiary of G.D. Searle & Co., U.S.A.

Today, Searle is one of the leading pharmaceutical companies in Pakistan having two state-of-the-art manufacturing facilities in Lahore, and Karachi, Pakistan. The Company is principally engaged in the manufacture of pharmaceutical and other consumer products. International Brands Limited is its holding company.

SEARLE also has collaboration with several world recognized organizations like Grunenthal and CHR Hansen. TSCL is manufacturing organization of branded generics and providing best research products in the services of mankind.

Auditor: A. F. Ferguson & Co, Chartered Accountants

Table 4: Pattern shareholders

Pattern of Shareholders	Holding	Shares (mn)
INTERNATIONAL BRANDS LIMITED	56.60%	176.62
Foreign companies	6.17%	19.25
Other	37.23%	116.18
Free Float	45.00%	140.42

Source; Company Accounts, Foundation research, Dec 2021

Table 5: GLAXO key personnel

Key Personnel	Name	Designation
Board of Directors	Mr. Adnan Asdar Ali	Chairman
	Mr. Rashid Abdulla	Independent Director
	Mr. S. Nadeem Ahmed	Chief Executive Officer
	Mr. Zubair Razzak Palwala	Independent Director
	Mr. Ayaz Abdulla	Independent Director
	Mr. Asad Abdulla	Non-Executive Director
	Mrs. Shaista Khaliq Rehman	Non-Executive Director
Management	Mr. S. Nadeem Ahmed	Chief Executive Officer
	Mr. Mobeen Alam	Chief Financial Officer
	Mr. Zubair Razzak Palwala	Company Secretary

Source; Company Accounts, Foundation research, Dec 2021

Important disclosures:

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Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.