

Foundation Alert

SEARL: Analyst Briefing Takeaways

Event

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

Impact

- To highlight company reported revenue of Rs8.2bn in 1QFY23, compared to Rs7.7mn in 1QFY22 (↑7% YoY).
- Company's revenue for FY22 increased to 29.9bn (up 14% YoY) on consolidated basis, due to increase in retention prices and revenue from its subsidiaries.
- SEARL is 56.3% owned by IBL group. It has four subsidiaries with 100% stake namely Searle Pakistan, Searle Biosciences, Searle laboratories, Searle Pharmaceuticals and IBL Future technology. Additionally, it has 74.1/90.6% stake in IBL Healthcare Limited/Searle Pakistan Limited.
- Overall pharma sector recorded sales of Rs678bn (US\$3.5bn) up 15.3% YoY in FY22. Domestic/International companies represent 72/28% of sales.
- SEARL is ranked second in terms of product consumption with 6.5% market share and 11.3% growth. It is ranked fifth in value terms with 5.7% market share and 19.0% growth. Major competitors are Abbot, GSK, GETZ and Sami.
- At this point in time, the company's non-essential and essential drugs universe is divided into 20% and 80% respectively.
- Company has grown with 10.4% CAGR over five year horizon. Company has wide international presence especially in Africa with 16 existing markets and expect expansion into 6 new markets in Africa/South America in future. Company's top 10 products contributes 26% to the revenue. Some leading brands include Hydryllin, Nuberol, Peditral, Extor, Gravinate, Venofer, Cosopt and Rotec.
- Company has plans for initial public offering (IPO) of its newly acquired subsidiary, Searle Pakistan Limited (SPL). Funds will be used for further expansion of SPL's business.
- Company has decided to acquire the 100% shareholding of Steller Ventures Limited (SVPL) from Universal Ventures Limited (UVPL) to be adjusted against receivable balance with the further condition that in case the valuation of SVPL is determined to be less than the receivables balance due to the company by UVPL, the balance amount will be settled in cash by UVP at the same time as completion of the acquisition of SVPL.
- Company is expecting one time price increase in near future to pass on currency depreciation and inflation.
- Company has 150-200 products in pipeline while 4 products are under litigation as per the pricing policy.
- Major risks faced by the company are exchange rate fluctuations, higher freight costs, higher interest rates and overhead costs due higher electricity costs.

Outlook

- The company is not in our formal coverage.

Table 01: SEARL 1QFY23 earnings preview (Consolidated)

Rs mn	1QFY23	1QFY22	YoY	4QFY22	QoQ	FY22	FY21	YoY
Net Sales	8,213	7,678	7%	7,714	6%	29,910	26,220	14%
COGS	4,908	4,273	15%	4,514	9%	16,790	14,028	20%
Gross Profit	3,306	3,405	-3%	3,200	3%	13,119	12,191	8%
Administrative And General Expenses	347	344	1%	452	-23%	1,431	1,383	3%
Selling and Marketing Expenses	1,696	1,311	29%	1,620	5%	6,040	5,348	13%
Other Income	48	41	19%	143	-66%	430	1,353	-68%
other expense	43	93	-54%	58	-27%	300	326	-8%
EBIT	1,269	1,699	-25%	1,213	5%	5,778	6,487	-11%
Finance Cost	793	423	88%	642	24%	2,116	1,452	46%
PBT	475	1,276	-63%	571	-17%	3,661	5,035	-27%
Tax	183	372	-51%	243	-25%	1,245	1,288	-3%
Net Profit	292	904	-68%	327	-11%	2,416	3,747	-36%
EPS	0.75	2.32		0.84		6.19	9.61	
Gross Margins	40%	44%		41%		44%	46%	
Net Margins	4%	12%		4%		8%	14%	
ETR	39%	29%		43%		34%	26%	

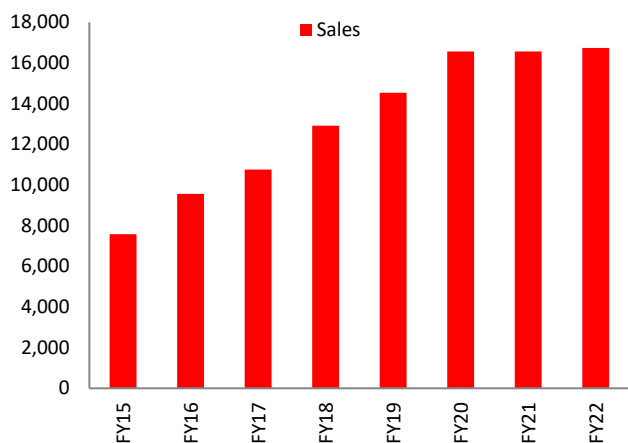
Source: Company Accounts, Foundation Research, December 2022

Table 02: SEARL Key financial and operational ratios(Unconsolidated)

Rs mn	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	
Sales	7,582	9,561	10,754	12,911	14,537	16,567	16,570	17,737	
GP	3,332	3,765	4,179	4,437	4,920	8,272	8,549	8,648	
PBT	1,768	2,520	2,875	3,233	2,830	3,304	2,735	2,329	
Net Profit	1,405	2,089	2,639	3,049	2,642	2,455	2,123	2,091	
Share capital	1,400	1,228	1,539	1,847	2,124	2,124	2,400	3,121	
Shareholders' equity	4,548	8,180	10,368	12,315	14,518	16,871	24,488	27,037	
Fixed assets - net	3,730	6,001	5,392	6,054	7,196	7,858	25,686	28,367	
Total assets	7,979	11,470	13,846	18,094	23,302	25,381	43,926	47,831	
Dividend	%	20	50	100	50	25	25	20	0
RATIOS:									
PROFITABILITY									
GP Margin	%	43.9	39.4	38.9	34.4	33.8	49.9	51.6	51.7
PBT Margin	%	23.3	26.4	26.7	25.0	19.5	19.9	16.5	13.9
NP Margin	%	18.5	21.9	24.5	23.6	18.2	14.8	12.8	12.5
RETURN TO SHAREHOLDERS									
ROE before tax	%	38.9	30.8	27.7	26.3	19.5	19.6	11.2	8.6
ROE after tax	%	30.9	25.5	25.4	24.8	18.2	14.6	8.7	7.7
EPS	Rs	10.0	17.0	17.1	16.5	12.4	11.6	8.8	6.7
Sales to fixed assets		2.0	1.6	2.0	2.1	2.0	2.1	0.6	0.6
Sales to total assets		1.0	0.8	0.8	0.7	0.6	0.7	0.4	0.3
LIQUIDITY/LEVERAGE/VALUATION									
Current ratio		1.8	2.2	2.4	2.1	1.9	2.2	1.9	1.7
Debt-to-Equity ratio		0.31	0.13	0.16	0.22	0.27	0.31	0.63	0.65
Breakup value per share		11.66	20.97	26.58	31.57	37.22	43.25	62.78	69.32

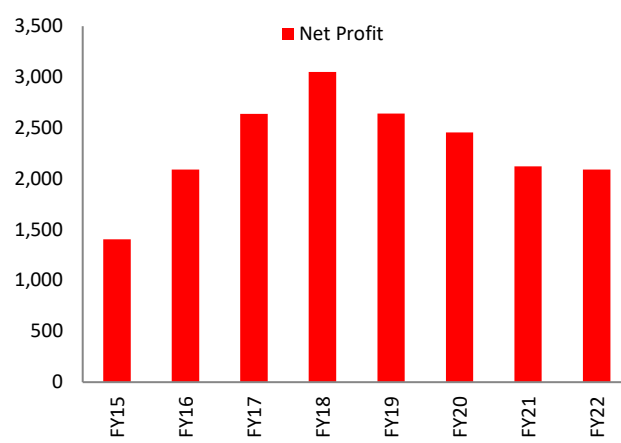
Source: Company accounts, Foundation Research, December 2022

Fig 1: Sales growth show marginal decline



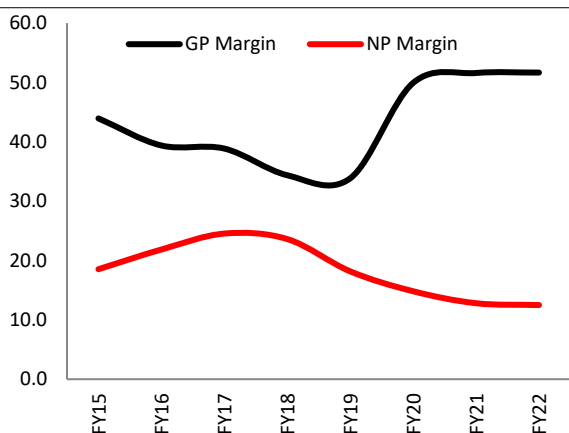
Source: PSX, Foundation Research, Dec'22

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



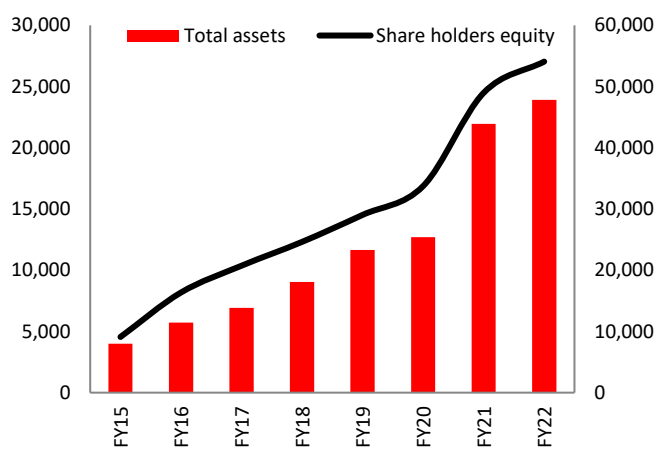
Source: PSX, Foundation Research, Dec'22

Fig 3: Recovery in margins...



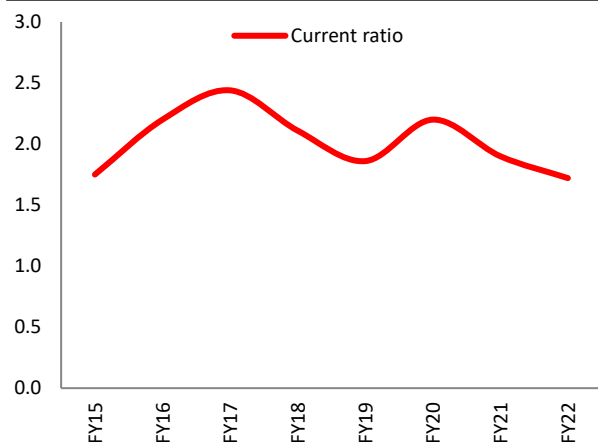
Source: PSX, Foundation Research, Dec'22

Fig 4: Shareholder equity increase with assets



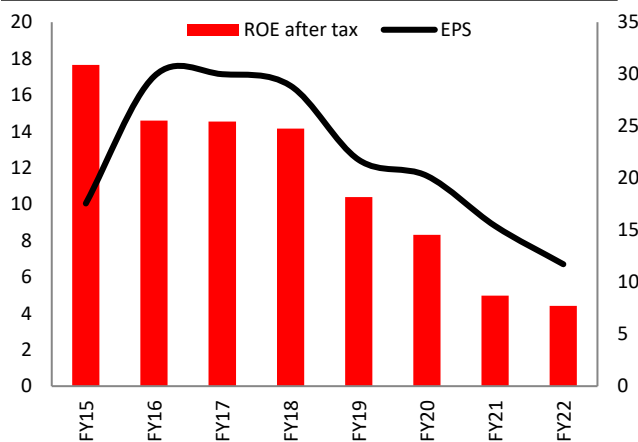
Source: PSX, Foundation Research, Dec'22

Fig 5: Current ratio trend



Source: PSX, Foundation Research, Dec'22

Fig 6: Earnings to boost asset base



Source: PSX, Foundation Research, Dec'22

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 3: Pattern shareholders

Pattern of Shareholders	Holding	Shares (mn)
INTERNATIONAL BRANDS LIMITED	56.32%	175.75
Foreign companies	5.34%	16.67
Other	38.34%	119.63
Free Float	45.00%	140.42

Source; Company Accounts, Foundation Research, Dec 2022

Table 4: Searle key personnel

Key Personnel	Name	Designation
Board of Directors	Mr. Adnan Asdar Ali	Chairman
	Mr. S. Nadeem Ahmed	Chief Executive Officer
	Mr. Zubair Razzak Palwala	Independent Director
	Mr. Munis Abdullah	Independent Director
	Mr. Mufti Zia Ul Islam	Non-Executive Director
	Dr. Atta Ur Rahman	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 2022

Analyst

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Ext 311s

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Recommendations definitions

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