

SITARA PEROXIDE LIMITED

4QFY21 Earnings Review: Higher input costs dented profitability

Monday, September 27, 2021

Sitara Peroxide Limited (SPL) announced its FY21 result today, posting below-expected earnings of PKR 35Mn (EPS: PKR 0.6), down 53% YoY. During 4QFY21 alone, the company recorded a loss of PKR 86Mn (LPS: PKR 1.6) as against a profit of PKR 83Mn (EPS: PKR 1.5) and PKR 24Mn (EPS: PKR 0.4) in 4QFY20 and 3QFY21, respectively. Despite better downstream demand for hydrogen peroxide (H₂O₂) from the textile sector, lower H₂O₂ prices and higher cost pressures kept the earnings in check.

Key highlights of the result are discussed below:

- During 4QFY21, net revenue slightly increased by 1% YoY to PKR 351Mn due to better demand from the textile sector, however, it declined sequentially by 22% owing to lower hydrogen peroxide prices following the decline in imported hydrogen peroxide prices. This takes the FY21 top-line to PKR 1.9Bn, up 7% YoY.
- The company recorded gross margin of -52% in 4QFY21 vs. 40% in 4QFY20 and 21% in 3QFY21. The decline is on account of lower hydrogen peroxide prices and higher RLNG costs.
- Finance costs surged by 6% YoY to PKR 19Mn during 4QFY21, however, it declined by 41% YoY to PKR 49Mn during FY21 due to lower interest rate.
- On the other hand, other income improved to PKR 100Mn during FY21, up 2.1x YoY.
- We have a Buy stance on the scrip with our Jun'22 TP of PKR 31/sh, which implies a total upside of 37% from the last close.

SPL vs. KSE-100 Index



%	3M	6M	12M
Absolute	-21	-22	-5
Relative to KSE	-16	-21	-13

Source: PSX, BMA Research

Sitara Peroxide Ltd. — (PSX: SPL, Bloomberg: SPL.PA): Earnings Snapshot

(PKR Mn)	4QFY21	4QFY20	YoYΔ%	3QFY21	QoQΔ%	FY21	FY20	YoYΔ%
Net Revenue	351	349	1%	448	-22%	1,865	1,745	7%
Cost of Sales	(535)	(208)	157%	(356)	50%	(1,674)	(1,422)	18%
Gross Profit	(184)	141	N/A	92	N/A	191	323	-41%
Gross Margin	-52%	40%		21%		10%	19%	
SG&A	(55)	(45)	22%	(53)	2%	(227)	(191)	19%
Other expenses	7	(9)	N/A	-	N/A	(2)	(9)	-78%
Other income	100	(4)	N/A	0	N/A	100	48	110%
EBIT	(131)	83	N/A	39	N/A	62	171	-64%
Finance cost	(19)	(18)	6%	(8)	125%	(49)	(82)	-41%
PBT	(150)	65	N/A	30	N/A	14	89	-85%
Tax	64	18	265%	(6)	N/A	21	(15)	N/A
PAT	(86)	83	-204%	24	-453%	35	74	-53%
EPS	-1.6	1.5		0.4		0.6	1.3	
E. Tax rate	43%	-27%		20%		-154%	17%	

Source: Company Accounts, BMA Research

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Buy	>15% expected total return
Hold	10%-15% expected total return
Underperform	<10% expected total return
*Total stock return = capital gain + dividend yield	

Old rating system

Overweight	Total sector return > expected market return
Marketweight	Expected market return
Underweight	Total stock return < expected market return

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)