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# Hemas Holdings PLC - HHL SL

Economic revival becomes key catalyst

Recommendation	Current price	Target price
<b>Buy</b>	<b>80.00</b>	<b>101.00</b>

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**Trading snapshot**

GICS industry group	Capital Goods
Market cap (LKR' mn)	47,724
Market cap (USD' mn)	148
Outstanding equity shares (mn)	597
Public Holding (%) - June'23	35.08%
52-week High/Low (LKR)	84.00/51.00
YTD ASPI return (%)	32.5%
YTD Stock return (%)	41.8%
Beta	0.46
Bloomberg ticker	HHL SL

**Valuation**

Valuation method	SOTP valuation
CMP (LKR)	80.00
Intrinsic value (LKR)	101.00
DPS FY24E (LKR)	2.00
Target price based on total return (LKR)	103.00
Upside	26.3%
Total Return %	28.8%
Rating	BUY

**Key indicators**

	FY22	FY23	FY24E	FY25E	FY26E
ROE (%)	13%	11%	14%	16%	15%
EBIT margin (%)	9%	10%	9%	10%	10%
P/E (x)	5.8x	9.1x	8.2x	6.5x	5.9x
P/B (x)	0.8x	1.0x	1.2x	1.0x	0.9x
EPS (LKR)	7.95	7.16	9.72	12.35	13.52

**ASPI vs HHL**



HHL's 1Q FY24 EPS reported a flat growth of 1.2% YoY to LKR 1.83 despite a 7.6% contraction in PAT to LKR 1.1bn. Topline expansion of 17% YoY to LKR 29bn was supported by growth in consumer brands and healthcare segments. EBIT margin continued to feel the pressure from higher operational expenses suppressed while finance costs remained elevated at LKR 971mn (+159% YoY). Despite price driven topline growth, volume contraction was seen in both Home & Personal Care Sri Lanka (HPC SL) and pharmaceutical segments albeit lower than the overall market contraction. The contribution from the learning segment slowed down during the quarter owing to seasonality. The remaining stake of Atlas was purchased for a consideration of LKR 3.4bn thus making it a wholly owned subsidiary of HHL. The Bangladesh market saw an improvement in volumes with the new product launches gaining traction.

We believe easing of inflationary pressure and value for money offerings will improve volumes of HPC SL while margins will benefit from lower palm oil prices in the global market. HHL will continue to be strong in the pharmaceutical distribution business, with the expansion of pharma manufacturing portfolio driving the medium to long term value for the sector. Further, easing of interest rates will bring down the group finance costs and ease the pressure on the bottomline. We have arrived at a TP of LKR 101.00 based on our SOTP valuation, recommending BUY.

**Volume recovery the catalyst for Consumer Brands:**

Consumer Brands topline grew to LKR 11.1bn (+27% YoY) during 1Q FY24 driven by higher prices. However, price reductions were taken (QoQ) to reflect the easing of global commodity prices and LKR appreciation. HPC SL's value for money products gained traction thereby keeping the volume contraction at a slower rate compared to the market. Bangladesh market witnessed volume growth driven by Actisev (health soap) and new product launches in smaller pack sizes. Learning segment (Atlas) performance slowed down during the quarter owing to seasonality effects and slowdown in purchases in anticipation of future price reductions.

We believe HPC volumes will return to normalcy by latter FY24 reflecting the easing of inflation and improved consumer confidence. Bangladesh market will continue to benefit from volumes from new launches amidst the prevailing economic conditions. Atlas, we believe whilst continuing to grow volumes in essential categories will also see the demand improving for the nonessential items. New developments in terms of edu toys and exports will continue to add value to the segment in the medium to long term.

**Healthcare: lower interest rates to benefit the sector**

Healthcare revenue improved by 13% YoY to LKR 17.6bn primarily owing to price growth. Whilst volume degrowth was seen in pharmaceutical segment, attractive pricing resulted in the branded generics portfolio continuing to gain traction. We expect imported pharmaceutical volumes to recover from a lower base following the price amendments taken during the latter part of 1Q FY24 and improved sentiments in consumer confidence. However, given the rupee depreciation that followed, near term margin growth may remain hindered. A medication used in treatment of high blood pressure 'BisoMor' (5mg and 2.5mg variants) were introduced during the quarter. We expect utilization rates to gradually improve whilst focusing on profitable product segments and growth in contract manufacturing. Hospital occupancy which improved to 62% during 1Q FY24 would gradually improve during the forecast period. We believe, the sector which was impacted by higher finance cost during the 1Q FY24 (LKR 693mn) will benefit from declining interest rates during the forecast period.

**Cargo vertical remains challenged while Aviation displays commendable growth:**

Segment revenue declined by 7% YoY to LKR 418mn with the slowdown in global demand and normalised freight rates. Pickup in inbound and outbound travel improved the Aviation passenger vertical albeit still below pre pandemic levels. We believe volumes will pick up from a lower base with pick up in global demand.

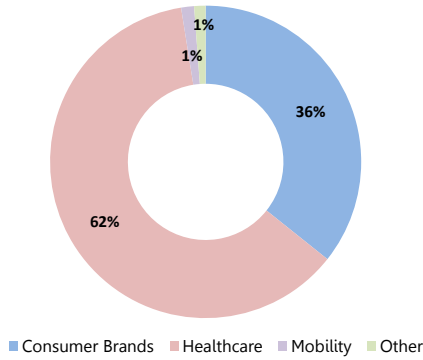
**Valuation:** Based on our SOTP valuation we have arrived at a TP of LKR 101 reflecting a 26.3% upside on CMP. Counter trades at a forward PER of 8.2x based on FY24E EPS. We remain positive on the prospects of HHL's healthcare and consumer brands segments in the medium term and anticipate a stronger bounce back from the resilient performance shown under challenging conditions.

**Key Risks:** (1) Fx exposure in pharma and HPC (2) Government intervention through imposition of price ceilings (3) High correlation to consumer disposable income

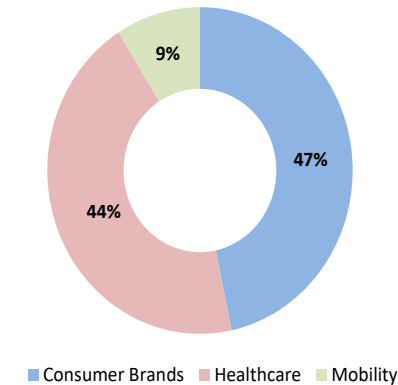
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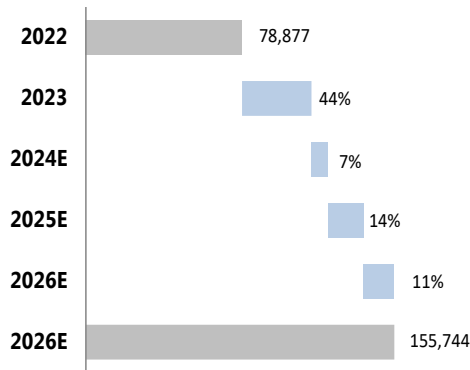
## Revenue Breakdown - 1Q FY24



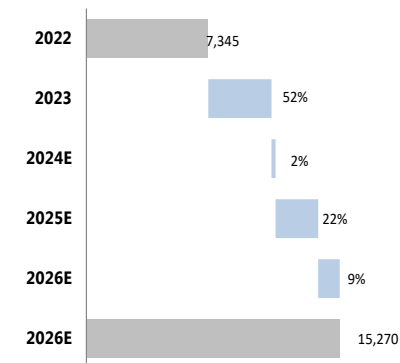
## EBIT Breakdown - 1Q FY24



## Revenue growth - LKR 'mn



## EBIT growth - LKR 'mn



## Year Ending 31 March

Summary Information	2022	2023	2024E	2025E	2026E
BRS EPS (LKR)	7.95	7.16	9.72	12.35	13.52
BRS EPS growth (%)	10%	-10%	36%	27%	10%
P/E (x)	5.8 x	9.1 x	8.2 x	6.5 x	5.9 x
Sector P/E (x)	4.2x	3.9x	na	na	na
Reported EPS (LKR)	7.12	7.16	na	na	na
P/E on reported EPS (x)	6.5 x	9.1 x	na	na	na
NAV per share (LKR)	59.66	64.38	69.20	78.54	89.07
P/BV (x)	0.8 x	1.0 x	1.2 x	1.0 x	0.9 x
Sector PBV (x)	0.6x	0.7x	na	na	na
DPS (LKR)	4.85	2.35	2.00	3.00	3.00
Dividend yield (%)	10%	4%	3%	4%	4%
FCFF (LKR' mn)	7,015	(7,805)	4,840	4,624	5,263
FCFE (LKR' mn)	6,143	760	6,237	4,494	5,147
MPS (LKR)	46.20	65.00	80.00	80.00	80.00
Weighted average shares (mn)	597	597	597	597	597
Average mkt cap (LKR' mn)	27,560	38,776	47,724	47,724	47,724
Enterprise value (LKR' mn)	21,152	44,618	56,395	56,253	55,681
EV/Sales (x)	0.3 x	0.4 x	0.5 x	0.4 x	0.4 x
EV/EBITDA (x)	2.5 x	3.6 x	4.4 x	3.6 x	3.2 x

## Key ratios

Key ratios	2022	2023	2024E	2025E	2026E
Revenue growth (%)	9%	44%	7%	14%	11%
EBIT growth (%)	15%	52%	2%	22%	9%
EBITDA margin (%)	11%	11%	11%	11%	11%
EBIT margin (%)	9%	10%	9%	10%	10%
ROCE (%)	17%	18%	18%	19%	19%
ROE (%)	13%	11%	14%	16%	15%
Debt/equity (%)	18%	55%	51%	48%	45%
Net debt/equity (%)	-20%	13%	17%	13%	9%
Gearing (%)	15%	35%	34%	33%	31%
Interest cover (x)	15.1 x	2.7 x	3.7 x	5.2 x	5.3 x
Payout ratio (%)	61%	33%	21%	24%	22%

## KPI Dashboard for 1Q FY24

**HPC Sri Lanka - Sales volume growth (YoY)**

**-5.0%**

**HPC Revenue Growth (YoY)**

**18.7%**

**Atlas - Revenue Growth (YoY)**

**67.7%**

**Pharma Revenue Growth (YoY)**

**11.1%**

**Hospital Revenue Growth (YoY)**

**25.3%**

**Hospital Average Occupancy**

**62.0%**

1Q FY24

## 1Q FY24 Vs 1Q FY23

Income Statement (LKR mn)	1Q FY24	1Q FY23	Var %	Comments
Net revenue	29,121	24,841	17%	Price driven growth
EBIT recurring	2,153	2,031	6%	
Finance expense	(971)	(375)	159%	Impact due to interest rate increase
Tax expense	(286)	(701)	-59%	
PAT	1,126	1,219	-8%	
Profit attributable to equity shareholders	1,094	1,080	1.2%	
EPS (LKR)	1.83	1.81	1.2%	

## Valuation estimates

**SOTP based valuation** results in a TP of LKR 101.00 with a upside of 26.3% on CMP.

Key assumptions used in the valuation are as follows;

- WACC - Computed based on the risk free rate considered for each respective forecast year
- Terminal growth rate - 2.0%
- Risk free rate - We have considered different rates for each forecast year (taking into consideration the real risk free rate and inflation)
- Beta - 0.46 (based on HHL share price Vs. ASPI movement)

## SOTP Valuation

Sector	Equity Value (LKR 'mn)	Valuation Method	Equity value per share
Consumer Brands	28,672	DCF	48.06
Healthcare	35,162	DCF	58.94
Mobility	2,575	DCF	4.32
Net cash/(Net Borrowing)	(6,940)	Book value	-11.63
Non operating assets	675	Book value	1.13
<b>Equity value</b>	<b>60,144</b>		
<b>Target Price</b>	<b>101.00</b>		
CMP	80.00		
Upside %	26.25%		

# Income statement - Annual

All numbers in LKR' mn	2022	2023	2024E	2025E	2026E
<b>Revenue</b>					
<b>Consumer Brands</b>	31,097	47,791	53,628	61,709	69,876
<i>YoY growth %</i>	21%	54%	12%	15%	13%
<b>Healthcare</b>	50,207	70,352	65,774	75,285	82,588
<i>YoY growth %</i>	27%	40%	-7%	14%	10%
<b>Mobility</b>	2,102	1,668	1,660	1,743	1,831
<i>YoY growth %</i>	-16%	-21%	0%	5%	5%
<b>Other</b>	1,210	1,327	1,366	1,407	1,450
<i>YoY growth %</i>	3%	10%	3%	3%	3%
<b>Gross Revenue</b>	<b>84,616</b>	<b>121,138</b>	<b>122,429</b>	<b>140,145</b>	<b>155,744</b>
Inter segmental revenue	(1,196)	(1,146)	-	-	-
<b>Net Revenue</b>	<b>78,887</b>	<b>113,940</b>	<b>122,429</b>	<b>140,145</b>	<b>155,744</b>
<i>YoY growth %</i>	9%	44%	7%	14%	11%
EBITDA excluding non recurring items	8,514	12,452	12,939	15,718	17,232
EBITDA margin %	10.8%	10.9%	10.6%	11.2%	11.1%
Depreciation & amortisation	(1,168)	(1,296)	(1,532)	(1,749)	(1,962)
Non-recurring items	-	-	-	-	-
<b>EBIT excluding non-recurring items</b>	<b>7,345</b>	<b>11,155</b>	<b>11,407</b>	<b>13,970</b>	<b>15,270</b>
<i>YoY growth %</i>	15%	52%	2%	22%	9%
EBIT margin %	9.3%	9.8%	9.3%	10.0%	9.8%
Finance cost	(486)	(4,110)	(3,075)	(2,678)	(2,863)
Finance income	352	911	579	400	400
<b>Net Profit before tax</b>	<b>7,211</b>	<b>7,765</b>	<b>8,911</b>	<b>11,692</b>	<b>12,807</b>
Income tax	(1,814)	(2,696)	(2,528)	(3,508)	(3,842)
<b>Recurring Net profit</b>	<b>5,330</b>	<b>5,069</b>	<b>6,357</b>	<b>8,184</b>	<b>8,965</b>
<i>YoY growth %</i>	21%	-5%	25%	29%	10%
Net profit margin %	7%	4%	5%	6%	6%
Attributable to equity holders	<b>4,745</b>	<b>4,269</b>	<b>5,801</b>	<b>7,366</b>	<b>8,068</b>
Minority interest	586	800	555	818	896
<b>Reported EPS</b>	<b>7.12</b>	<b>7.16</b>	<b>9.72</b>	<b>12.35</b>	<b>13.52</b>
<b>Adjusted EPS (1)</b>	<b>7.95</b>	<b>7.16</b>	<b>9.72</b>	<b>12.35</b>	<b>13.52</b>

**Note 1: EPS adjusted for share split, new issues and non recurring items**

**Source: Company Financial Reports and BRS Equity Research**

# Balance sheet - March ended

All numbers in LKR' mn	2022	2023	2024E	2025E	2026E
<b>Non Current Assets</b>					
Property,Plant and Equipment	18,007	19,913	19,922	22,379	25,091
Investment Properties	2,100	2,310	3,740	3,740	3,740
Intangible Assets	3,295	3,311	3,305	3,305	3,305
Leasehold Property	-	-	-	-	-
Deferred Tax Assets	86	87	113	113	113
Investment in Equity Accounted Investees	85	702	675	675	675
Investment in Associates	-	-	-	-	-
Other Investments	210	182	178	178	178
<b>Total non current assets</b>	<b>26,477</b>	<b>27,623</b>	<b>29,220</b>	<b>31,501</b>	<b>34,063</b>
<b>Current Assets</b>					
Inventories	16,807	28,602	27,099	29,325	32,596
Trade and Other Receivables	19,772	25,456	28,389	33,724	37,485
Lease Receivables	60	23	9	9	9
Tax Recoverable	329	324	287	287	287
Cash and Cash Equivalents	13,895	16,331	14,470	17,175	20,532
<b>Total current assets</b>	<b>51,221</b>	<b>70,875</b>	<b>70,414</b>	<b>80,680</b>	<b>91,068</b>
<b>Total assets</b>	<b>77,698</b>	<b>98,498</b>	<b>99,634</b>	<b>112,181</b>	<b>125,132</b>
<b>Equity &amp; Liabilities</b>					
Stated Capital	7,776	7,776	7,776	7,776	7,776
Reserves	160	119	125	125	125
Other components of Equity	4,446	6,542	6,430	6,430	6,430
Retained Earnings	23,206	23,968	26,948	32,524	38,802
<b>Shareholders' Funds</b>	<b>35,588</b>	<b>38,405</b>	<b>41,279</b>	<b>46,855</b>	<b>53,133</b>
Minority Interests	920	716	1,276	2,094	2,990
<b>Total Equity</b>	<b>36,507</b>	<b>39,120</b>	<b>42,554</b>	<b>48,949</b>	<b>56,124</b>
<b>Non Current Liability</b>					
Other Borrowings	277	276	276	276	276
Interest Bearing Loans and Borrowings	3,093	5,449	9,521	12,597	13,635
Lease Liability	-	-	-	-	-
Deferred Tax Liabilities	1,724	2,901	2,670	2,670	2,670
Retirement Benefit Liability	992	1,199	1,256	1,296	1,336
<b>Total Non current liability</b>	<b>6,085</b>	<b>9,825</b>	<b>13,723</b>	<b>16,838</b>	<b>17,917</b>
<b>Current Liability</b>					
Trade and Other Payables	27,165	29,626	28,389	32,258	35,855
Income Tax Liabilities	804	969	1,460	1,959	2,210
Short term borrowings	3,474	16,008	12,345	11,014	11,863
<b>Total current liabilities</b>	<b>33,716</b>	<b>49,552</b>	<b>43,357</b>	<b>46,394</b>	<b>51,091</b>
<b>Total Equity &amp; Liabilities</b>	<b>76,308</b>	<b>98,498</b>	<b>99,634</b>	<b>112,181</b>	<b>125,132</b>

Source: Company Financial Reports and BRS Equity Research

# Cash flow statement

All numbers in LKR' mn	2022	2023	2024E	2025E	2026E
<b>Cash flow from operating activities</b>					
<b>EBIT</b>	<b>7,345</b>	<b>11,155</b>	<b>11,407</b>	<b>13,970</b>	<b>15,270</b>
Adjustment for					
Depreciation	1,092	1,220	1,501	1,749	1,962
Profit on Disposal of Property, Plant and Equipment	(29)	(57)	(5)	-	-
Retirement Benefit Plan	186	214	209	200	200
Unrealised profits	-	-	-	-	-
Change in Fair Value of Investment Properties	(158)	-	-	-	-
(Profit)/ Loss on Sale of Investments	(272)	-	-	-	-
Exchange (Gain)/Loss on USD Loan	1	-	-	-	-
Amortisation/Impairment of Intangibles	77	76	31	-	-
Amortisation of Leasehold Property	-	-	-	-	-
Impairment of Property, Plant and Equipment	-	-	-	-	-
Share of result of associate & joint ventures	133	-	-	-	-
Provision for impairment of Trade receivables	46	115	48	-	-
Other	-	-	-	-	-
<b>Operating Profit before Working Capital Changes</b>	<b>8,679</b>	<b>13,124</b>	<b>13,446</b>	<b>16,094</b>	<b>17,581</b>
Change in working capital	1,397	(15,223)	(2,878)	(3,693)	(3,434)
<b>Cash generated from/(used in) Operation</b>	<b>10,076</b>	<b>(2,098)</b>	<b>10,569</b>	<b>12,401</b>	<b>14,147</b>
Finance Cost Paid	(321)	(3,957)	(3,034)	(2,678)	(2,863)
Finance income received	348	905	579	400	400
Income Tax Paid	(1,789)	(2,290)	(2,256)	(3,008)	(3,592)
Gratuity Paid	(133)	(153)	(152)	(160)	(160)
Super Gain tax	-	(1,668)	-	-	-
<b>Net Cash/(used in) Operating Activities</b>	<b>8,182</b>	<b>(9,262)</b>	<b>5,706</b>	<b>6,955</b>	<b>7,932</b>
<b>Cash Flow from Investing Activities</b>					
Purchase of Property, Plant and Equipment	(1,531)	(1,420)	(3,019)	(4,206)	(4,674)
Acquisition and Disposal of Other Investment	-	-	-	-	-
Increase in Investment in associate	-	-	-	-	-
Acquisitions of Subsidiaries	-	-	(3,261)	-	-
Investment in Intangible Assets	(102)	(72)	(6)	-	-
Other Investments	-	-	-	-	-
Investment in Leasehold Right	-	-	-	-	-
Proceeds from Disposal of Property, Plant and Equipment	114	105	6	-	-
Proceeds from Disposal of Investments	-	-	-	-	-
Dividend received from Joint Venture/Associate	72	104	-	-	-
Disposal/derecognition of Joint ventures	-	-	-	-	-
<b>Net Cash used in Investing Activities</b>	<b>268</b>	<b>(1,308)</b>	<b>(6,288)</b>	<b>(4,206)</b>	<b>(4,674)</b>
<b>Cash Flow from Financing Activities</b>					
Interest Bearing Loans and Borrowings (Net)	(508)	11,442	3,550	1,744	1,888
Proceeds from Issue of Ordinary shares under ESOS	-	-	-	-	-
Proceeds from Minority Shareholders	(20)	-	-	-	-
Dividends Paid					
Equityholders of Parent	(2,595)	(1,402)	(1,193)	(1,790)	(1,790)
Minority Shareholders	(413)	(443)	-	-	-
Transaction cost of subsidiary share issue	-	-	-	-	-
<b>Net Cash from/(used in) Financing Activities</b>	<b>(3,696)</b>	<b>9,597</b>	<b>1,484</b>	<b>(45)</b>	<b>98</b>
<b>Net Increase/(Decrease) in Cash &amp; Cash Equivalents</b>	<b>4,754</b>	<b>(973)</b>	<b>903</b>	<b>2,704</b>	<b>3,357</b>

Source: Company Financial Reports and BRS Equity Research

# Top 20 Shareholders as of 30.06.2023

	<b>Name of the Shareholder</b>	<b>No.of Shares</b>	<b>% holding</b>
1	A Z Holdings (Pvt) Ltd	94,092,305	15.77
2	Amagroup (Pvt) Ltd.	91,427,333	15.33
3	Saraz Investments (Pvt) Ltd	89,565,277	15.01
4	Blueberry Investments (Pvt) Ltd	88,927,940	14.91
5	Citibank Newyork S/A Norges Bank Account 2	18,829,504	3.16
6	BBH-Kopernik Global All Cap Fund	16,019,905	2.69
7	BBH-Kopernik Global All Cap Equity Fund	12,263,194	2.06
8	J.B. Cocoshell (Pvt) Ltd	8,996,648	1.51
9	Rubber Investment Trust Ltd Account 1	7,339,008	1.23
10	Mr. I.A.H. Esufally	6,164,633	1.03
11	BBH - Tundra Sustainable Frontier Fund	7,001,928	1.17
12	Mr. M.A.H. Esufally	6,164,633	1.03
13	Mr. H.H. Abdulhusein	5,500,000	0.92
14	Mellon Bank NA-United Technologies CORP	5,488,757	0.92
15	Mr. M.J.Fernando	5,448,160	0.91
16	CB London s/a Verdipapirfondet Holberg Rurik	5,289,130	0.89
17	Invenco Capital (Pvt) Ltd	4,718,964	0.79
18	Pemberton Asian Opportunities Fund	4,282,370	0.72
19	Ceylon Investment PLC	3,706,719	0.62
20	Akbar Brothers (Pvt) Ltd	3,409,468	0.57

Source: Company Financial Reports

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## Stock Ratings Recommendation

### Expected absolute returns (%) over 12 months

#### Buy

More than 10%

#### Hold

Between 10% and 0

#### Sell

Less than 0%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

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