

**HEMAS HOLDINGS PLC [HHL.N0000]****UPGRADE TO BUY****FLASHNOTE****Fair Value FY21E: LKR 68.0 [13%] FY22E: LKR 72.0 [20%]****Previous Report in Jun 2019 – DOWNGRADE TO SELL AND DISCONTINUE COVERAGE**

With our earnings update published on 18th Jun 2019, we **DOWNGRADED TO SELL AND DISCONTINUED COVERAGE** aftermath of the Easter Sunday attacks and considering the negative repercussion to the sectors in which HHL operates. Following our recommendation, price fell by 5% in Jul 2019 and witnessed a slight uptrend towards the end of 2019. However, since the beginning of the year 2020, share price witnessed a steep downtrend due to COVID-19.

HHL FY22E TP ESTIMATED AT LKR 72.0 - UPGRADE TO BUY**Health Sector topline to improve with the leadership advantages**

HHL is the largest pharma supplier in SL with a market share of 22%. We expect HHL to benefit from the recently extended agreement till 2024 to supply critical pharmaceuticals to the government. Moreover, construction of the new research and pharmaceutical manufacturing facility in Homagama is nearing completion and is targeting commercial production in beyond 4QFY21. New plant is capable of manufacturing 5Bn tablets per annum and 1,500 kilo litres of medicine per annum adding to the existing capacity of 2Bn tablets and 800 kilo litres of medicine per annum. In addition, HHL added Mead Johnson as a nutrition partner in Jan 2020 which supplies brands such as Sustagen, Enfagrow, Lactum and Enfapro etc. During the year, Hemas increased stake in the online pharmacy provider “HealthNet”, which is a new model of pharma distribution through online prescription fulfillment and we expect to see a spike in demand for pharmaceutical distribution post COVID-19. Health sector net revenue is estimated to increase by 20%YoY in FY22E to LKR 40.5Bn.

Consumer sector; cautiously optimistic due to the essential nature

In the consumer sector, despite the fact that weaker consumer sentiment is likely to impact the operations in the short term, we estimate demand to pick up relatively quickly due to the essential nature of the consumer products. Moreover, given the Government’s emphasis on supporting locally manufactured products we remain cautiously optimistic regarding the prospects for the remainder of FY21E. Recently HHL entered into the personal hygiene wash category by launching the “Shield” brand which includes a soap, a hand sanitizer and other personal care products. HHL continued to focus on expanding into rural markets in Bangladesh and West Bengal and we expect HHL to increase its market share in Bangladesh through further penetration of “Kumarika Hair Oil”.

Company exited the N-able and a portion of Travel and Aviation sector (Hemas Travels) although HHL retained the Emirates agency and Hotel portfolio. The main purpose of the divestiture is to focus on the core business of health and consumer sectors.

We expect HHL to record earnings of LKR 2.8Bn in FY22E with a TP of LKR 72.0. **UPGRADE TO BUY**

FIRST CAPITAL RESEARCH

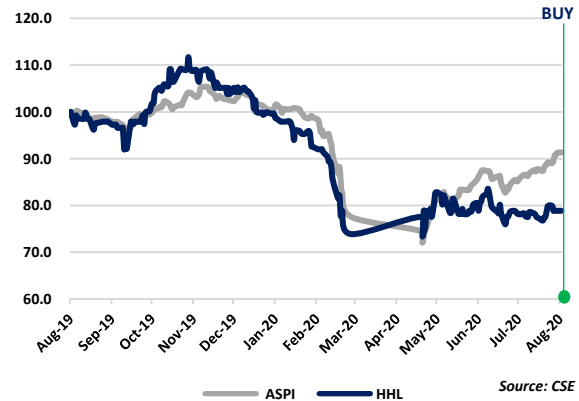
Hiruni Perera +94 11 263 9864
hiruni@firstcapital.lk

KEY DATA

CSE Ticker	HHL.N0000
Bloomberg Ticker	HEMS SL
Share Price (LKR)	60.00
52w High (LKR)	85.00
52w Low (LKR)	55.80
Avg. Daily Volume (Shares)	230,034
Avg. Daily Turnover (LKR)	14,652,661
Issued Share Capital (Shares 'Mn)	596
Market Cap (LKR 'Mn)	35,763
Market Cap (USD 'Mn)	203

*1 USD = LKR 185

Price Performance (%)	1 mth	3 mths	12mths
HHL	1%	1%	-19%
ASPI	6%	13%	-8%

Price Movement of HHL vs ASPI and Past Recommendations**Disclosure on Shareholding:**

First Capital Group do not hold shares in HHL will not trade in this share for three trading days following the issue of this document.

Valuation Table

P/E 31 March	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Estimates (LKR 'Mn)							
Revenue	43,404	49,874	64,082	61,632	60,640	71,880	87,787
Gross Profit	16,742	17,707	21,478	20,291	20,011	24,439	29,848
EBIT	4,784	4,245	5,661	3,561	2,202	5,181	6,968
Net Profit	3,491	2,687	3,369	1,236	1,058	2,784	3,977
Adjusted EPS (LKR)	5.9	4.5	5.7	2.1	1.8	4.7	6.7
YoY Growth (%)	32%	-23%	25%	-63%	-14%	163%	43%
DPS (LKR)	1.9	1.9	4.9	0.6	0.5	1.4	2.0
Valuations							
PER (x)	10.2x	13.3x	10.6x	28.9x	33.8x	12.8x	9.0x
PBV (x)	1.4x	1.4x	1.3x	1.3x	1.2x	1.2x	1.1x
DY (%)	3.1%	3.1%	8.2%	1.0%	0.9%	2.3%	3.3%

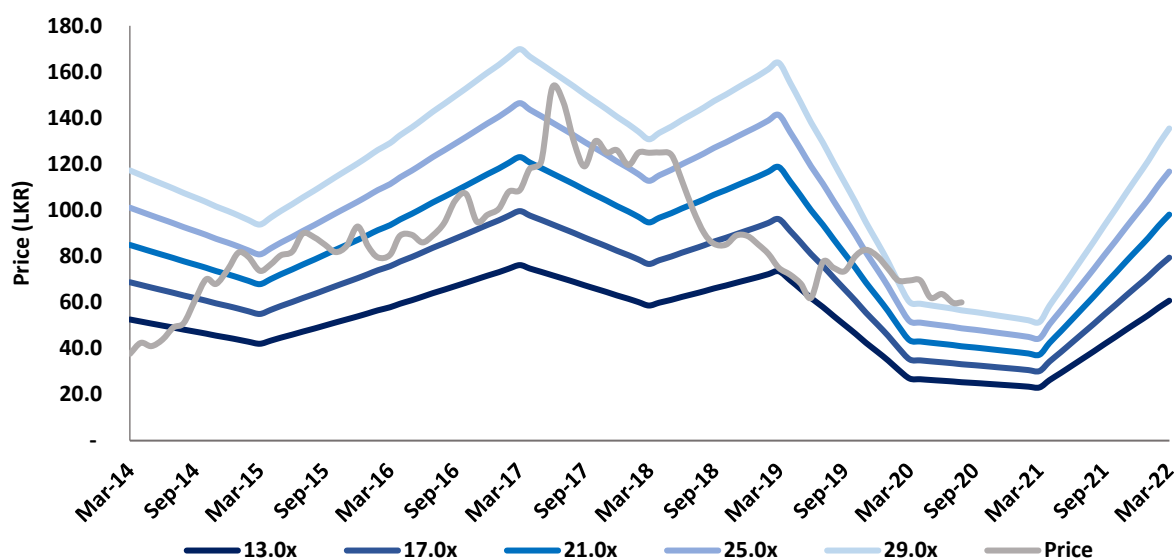
Valuation Summary

Return	FY22E
Target Price	72.0
Current Price	60.0
Capital Gain (LKR)	12.00
Dividends upto 31.03.2022 (LKR)	1.15
Capital Gain %	20%
Dividend Yield %	2%
Total Return %	22%
Annualized Return %	13%

SOTP Valuation

Segment	Valuation method	Valuation assumptions				Value in LKR Mn		Value per share	% of total
		D/E	CoE	WACC	Growth	Firm value	Equity		
Consumer	DCF	20/80	13.7%	13%	4%	15,290		25.9	37%
Healthcare	DCF	39/61	13.7%	11%	3%	18,183		30.9	44%
Leisure and travel	DCF	18/82	13.7%	13%	3%	-677		-1.2	-2%
Logistics and maritime	DCF	7/93	13.7%	13%	3%	3,532		5.8	8%
Other	Justified PBV						5,095	8.5	12%
Fair value before net debt								69.9	100%
Less: Debt								8.0	
Add: Cash								9.5	
Fair value								71.3	
Fair value (Round up)								72.0	

PER Valuation



Source: CSE, Company annual reports and First Capital Research Estimates

Appendix I: Statement of Financial Performance

Statement of Financial Performance (LKR Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
P/E 31st Mar							
Revenue	43,404	49,874	64,082	61,632	60,640	71,880	87,787
Cost of sales	-26,663	-32,167	-42,605	-41,341	-40,629	-47,441	-57,940
Gross Profit	16,742	17,707	21,478	20,291	20,011	24,439	29,848
Other Income	432	414	794	689	394	231	659
Selling, Distribution & Admin expenses	-12,266	-13,760	-16,517	-17,300	-18,048	-19,318	-23,351
Share of results of JV	-117	-80	-58	-120	-155	-171	-188
Share of results of associate	-7	-36	-35	0	0	0	0
Operating Profit	4,784	4,245	5,661	3,561	2,202	5,181	6,968
Finance Income	822	765	478	280	243	255	325
Less : Finance Cost	-519	-618	-1,046	-1,049	-760	-1,003	-958
Profit Before Tax	5,087	4,392	5,093	2,792	1,685	4,434	6,335
Income Tax Expense	-1,333	-1,442	-1,414	-1,429	-522	-1,374	-1,964
Profit for the Year (continuing)	3,754	2,951	3,679	1,363	1,163	3,059	4,371
Profit/(loss) from discontinued operations	-	-	-	-	-	-	-
Profit for the year	3,754	2,951	3,679	1,363	1,163	3,059	4,371
Minority Interest	262	263	310	127	105	275	393
Profit attributable to Equity Holders	3,491	2,687	3,369	1,236	1,058	2,784	3,977
EPS	5.9	4.5	5.7	2.1	1.8	4.7	6.7
Segmental Revenue							
Consumer	16,013	16,490	25,555	23,806	21,822	26,187	31,424
Healthcare	18,842	23,026	27,697	31,418	33,785	40,542	50,678
Leisure and travel	4,302	4,172	4,982	3,620	2,172	2,389	2,867
Logistics and maritime	1,931	2,814	2,835	2,331	2,294	2,478	2,676
Other	2,316	3,372	3,013	456	566	283	141
Total	43,404	49,874	64,082	61,632	60,640	71,880	87,787
Segmental Operating Profits (including joint ventures and associates)							
Consumer	2,074	1,433	2,738	1,904	1,102	1,852	2,539
Healthcare	2,065	2,297	2,181	2,259	1,379	3,310	4,137
Leisure and travel	356	214	416	-131	-166	-183	-202
Logistics and maritime	495	836	692	478	413	446	616
Other	-207	-535	-365	-949	-526	-243	-122
Total	4,784	4,245	5,661	3,561	2,202	5,181	6,968

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn) as at 31st Mar	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Non-Current Assets							
Property, plant and equipment	13,526	18,069	18,685	20,033	19,591	19,604	19,619
Investment properties	1,473	1,507	1,648	1,648	1,648	1,648	1,648
Right of use of assets				2,028	2,028	2,028	2,028
Leasehold property	828	767	731	0	0	0	0
Intangible assets	954	3,494	3,469	3,439	3,439	3,439	3,439
Investments in subsidiaries	0	0	0	0	0	0	0
Lease Receivable	0	0	0	172	172	172	172
Investments in JVs	1,102	1,026	884	701	546	375	187
Investment in associates	2	28	6	0	0	0	0
Other non-current financial assets	907	711	711	541	541	541	541
Deferred tax assets	57	62	108	164	164	164	164
	18,850	25,664	26,242	28,727	28,129	27,971	27,799
Current Assets							
Inventories	6,288	9,873	11,201	13,560	11,899	12,640	15,438
Trade and other Receivables	9,904	14,122	18,434	16,094	15,950	18,796	22,783
Tax receivables	181	196	299	241	241	241	241
Lease Receivable				58	58	58	58
Other current financial assets	103	131	100	84	95	108	123
Cash and cash equivalents	11,992	7,711	6,474	5,617	5,892	7,514	7,710
	28,469	32,034	36,507	35,654	34,135	39,357	46,353
Total Assets	47,319	57,699	62,749	64,380	62,265	67,328	74,152
Equity and Liabilities							
Stated Capital	5,741	5,960	7,734	7,734	7,734	7,734	7,734
Other Reserves	105	142	185	217	217	217	217
Other components of equity	2,158	1,956	1,682	1,389	1,389	1,389	1,389
Retained Earnings	16,907	17,421	18,497	18,574	19,315	21,264	24,048
Equity attributable to equity holders of parent	24,911	25,479	28,099	27,914	28,655	30,604	33,388
Non-controlling interests	3,218	3,590	3,771	3,560	3,665	3,940	4,334
Total Equity	28,129	29,069	31,870	31,474	32,320	34,544	37,722
Non-current Liabilities							
Interest-bearing loans and borrowings	2,045	2,244	1,369	4,738	1,605	1,454	1,036
Other non current financial liabilities	10	1,909	1,956	2,207	2,207	2,207	2,207
Deferred tax liabilities	490	1,815	1,812	1,733	1,733	1,733	1,733
Employee benefit liabilities	650	850	969	1,019	1,177	1,359	1,569
	3,196	6,818	6,106	9,697	6,722	6,753	6,546
Current Liabilities							
Trade and other payables	12,180	16,415	18,599	17,937	17,628	20,584	25,139
Income tax payable	486	494	439	513	513	513	513
Interest bearing borrowings	1,955	2,932	3,553	3,363	3,745	3,394	2,418
Bank overdraft	1,373	1,971	2,182	1,396	1,337	1,541	1,815
	15,994	21,811	24,774	23,209	23,223	26,031	29,885
Total Liabilities & Shareholders' Funds	47,319	57,699	62,749	64,380	62,265	67,328	74,152
NAVPS	41.8	42.7	47.1	46.8	48.1	51.3	56.0

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Cash flow

Statement of Cashflow (LKR Mn) as at 31st Mar	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Profit/Loss before tax (after disc. Operations)	5,087	4,392	5,093	2,792	1,685	4,434	6,335
Adjustments for:							
Depreciation	988	1,071	1,271	1,271	1,613	1,557	1,554
(Gain)/loss on disposal of PPE	-113	-24	-25	-73	0	0	0
Impairment of PPE	0	0	0	0	0	0	0
Fair value gains on investment property	-35	-35	-140	0	0	0	0
Other Items	129	449	1,034	1,951	830	1,101	1,032
	6,056	5,853	7,233	6,234	4,117	7,079	8,905
Changes in working capital							
(Increase)/ decrease in inventories	-1,075	-2,454	-1,247	-2,447	1,661	-741	-2,797
(Increase)/ decrease in Receivable	-2,328	285	-4,509	-2,083	144	-2,846	-3,987
Increase/ (decrease) Trade and Other Payables	1,538	3,608	2,259	2,173	-309	2,955	4,555
Increase/ (decrease) non current liabilities	4	7	319	-33	0	0	0
Finance cost paid	-519	-618	-1,044	-894	-760	-1,003	-958
Finance income received	817	761	470	274	243	255	325
Income tax	-1,406	-1,578	-1,558	-1,485	-522	-1,374	-1,964
Super gain tax	0	0	0	0	0	0	0
Employee benefit paid	-81	-83	-109	-151	0	0	0
Net Cash from operating activities	3,005	5,782	1,813	1,589	4,574	4,325	4,079
Cash Flow from Investing Activities							
Purchase of PPE	-1,828	-2,417	-2,644	-3,042	-1,171	-1,570	-1,570
Investment in investment property	0	0	0	0	0	0	0
Investment in intangible assets	-173	-17	-64	-33	0	0	0
Acquisition of subsidiaries	-15	-5,037	0	-24	0	0	0
Investment/Profit in JVs	-9	-26	-13	-1	0	0	0
Disposal of (investmetn in) financial assets	8	-31	-69	27	0	0	0
Dividends from JVs	25	0	0	0	0	0	0
Investment in leasehold rights	-719	0	0	0	0	0	0
Proceeds from disposal of investments	0	0	0	0	0	0	0
Proceeds from disposal of PPE/ investment property	500	170	150	201	0	0	0
Net cash used in investing activities	-2,209	-7,358	-2,197	-2,500	-1,171	-1,570	-1,570
Cash Flow from Financing Activities							
Interest bearing borrowings (net)	-584	-2,163	-127	1,830	-2,751	-503	-1,394
Proceeds from ESOS	15	184	2	0	0	0	0
Proceeds from Rights issue	0	0	0	0	0	0	0
Transaction cost of rights issue	0	0	0	0	0	0	0
Proceeds from NCI	476	118	86	-14	0	0	0
Dividends paid to equityholders	-802	-1,061	-1,064	-864	-317	-835	-1,193
Dividends paid for last year	0	0	0	0	0	0	0
Dividends paid to NCI	-192	-370	-33	-118	0	0	0
Net Cash Flow from Financing Activities	-1,087	-3,292	-1,135	834	-3,068	-1,338	-2,587
Increase/ decrease in cash and cash equivalents	10,887	10,619	5,740	4,291	4,221	4,556	5,973
Movement in Cash and Cash Equivalents							
At the beginning of the year	10,887	10,619	5,740	4,291	4,221	4,556	5,973
Forex differences	23	-12	70	7	0	0	0
Increase/ decrease in cash and cash equivalents	-291	-4,867	-1,519	-77	335	1,417	-78
Cash and cash equivalents at the end of the Year	10,619	5,740	4,291	4,221	4,556	5,973	5,895

Source : Company Annual Reports and First Capital Research Estimates



First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Nisansala Kuruppumudali	+94 11 2639 866
Atchuthan Srirangan	+94 11 2639 863		
Hiruni Perera	+94 11 2639 864		

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Sewwandi Kathriarachchi	+94 77 3461 734
Nethalie De Mel	+94 11 2639 854

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Nishantha Mudalige	+94 70 2910 041			
Isuru Jayawardana	+94 70 2910 034			
Ifadh Marikar	+94 77 9625 679			
Thushara Pathiraja	+94 70 2910 037			
Anushka Buddhika	+94 70 2910 030			

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
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BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagaraika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

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