



First Capital

EQUITY | SRI LANKA | CAPITAL GOODS

EARNINGS UPDATE | 03 JUN 2022

HEMAS HOLDINGS PLC [HHL.N0000]**MAINTAIN BUY****“GRADUAL RECOVERY TO DRIVE LONG-RUN GROWTH”****Fair Value: FY23E - LKR 65.0 [+41%]**

Total Return with DPS: FY23E - 51% [AER 65%]

Fair Value: FY24E - LKR 74.0 [+61%]

FY24E - 71% [AER 34%]

HHL's earnings grew by 23.6%YoY to LKR 1.1Bn in 4QFY22, owing to revenue growth of 27.2%YoY to LKR 21.1Bn. Consumer and Healthcare segments contributed to the topline growth whereas Mobility sector witnessed a negative growth due to lower volumes. Despite a surge in revenue, consumer segment witnessed a decline in GP margin by 266bps to 10.1% caused by the high inflationary pressure. However, it was offset by the growth in Healthcare earnings which surged by 50.0%YoY in 4QFY22 while contributing 60% to the group's bottom line. Considering the escalation of the price of essentials and currency depreciation, we have downgraded earnings for FY23E to LKR 3.8Bn while FY24E is estimated at LKR 4.3Bn. With the downgrade in earnings and considering the impact of higher risk-free rate applicable for valuations, we have downgraded the fair value of HHL to LKR 65.0 for FY23E from previous LKR 96.0. At the current market price of LKR 46.0, HHL provides a capital gain of 41.0% for FY23E. **MAINTAIN BUY**

LKR (Mn)	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Earnings (LKR 'Mn)						
Revenue	16,591	21,109	+27%	64,501	78,831	+22%
Gross profit	4,902	5,727	+17%	19,417	21,850	+13%
EBIT	1,317	1,529	+16%	6,061	6,783	+12%
PBT	1,271	1,483	+17%	5,670	6,648	+17%
Net Profit	860	1,063	+24%	3,253	4,249	+31%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	31,895	35,588	+12%	31,895	35,588	+12%
Borrowings	6,456	5,771	-11%	6,456	5,771	-11%
NAVPS	53.5	59.7		53.5	59.7	

Robust performance recorded across Healthcare segment

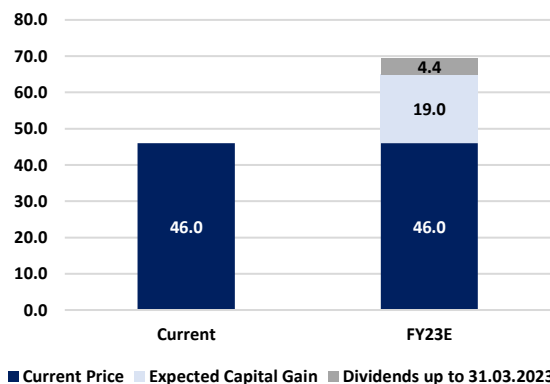
Healthcare sector delivered an exceptional performance growth during the quarter which contributed 58.9% to the group's topline while recording a growth of 24.0%YoY to LKR 12.4Bn. Although, the pharmaceutical industry struggled to meet their commitments due to the foreign exchange liquidity crisis as it primarily depends on imports, Morison Ltd reported a steady growth which was driven by robust private sector sales. During the quarter, Morison launched "Glucomile" a 100% glucose monohydrate which was well received by the market. Moreover, with the fall in Covid-19 admissions, a greater focus on strengthening the surgical operations resulted in a 21.8%YoY increase in surgical admissions. With more people opting for elective surgeries, average annual occupancy at both Hemas hospitals improved to over 55.0% cf. the previous year. Moreover, Morison commenced its first commercial production while manufacturing Chlorphenamine Oral Solution and Paracetamol 500mg tablets at the manufacturing plant in Homagama in May-22 where the facility has the capacity to manufacture over 5.0Bn tablets and can cater upto 40.0% of the national demand and expect to contribute to the group's revenue in future.

Rising inflation trimmed margins in Consumer segment

HHL Consumer segment EBIT rose by 12.1%YoY to LKR 830.9Mn in 4QFY22 from LKR 740.1Mn in 4QFY21 while operating profit margins witnessed a decline of 266bps to 10.1% due to the continuous rise in prices of essentials where inflation rate hit 18.7%YoY in Mar-22. Profitability was largely affected due to inflationary pressure and lower disposable income which lead to weakening retail demand for HHL's products that resulted in customer spending skewing towards essential consumables. As a result, segment's earnings for the quarter declined by 5.9%YoY to LKR 671.6Mn. Despite rigid competitive pressure, HPC Bangladesh recorded a volume growth of 12.0% during the quarter supported by the new launch of "Eva" and "Actisef Nourish" where around 16.9% contribution to the revenue was reported from these new launches. Additionally, learning segment witnessed an increase in demand for stationary on the back of reopening of schools. The segment had difficulties with the rise in paper prices by over 25.0% during the quarter and is expected to rise further as the demand for paper packaged products is skyrocketing.

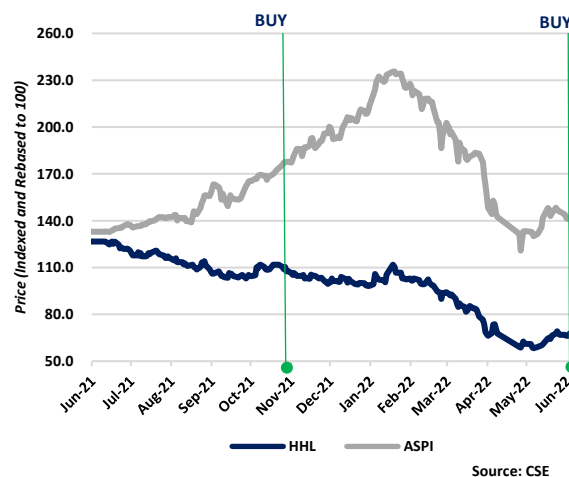
TP for FY23E downgraded to LKR 65.0

With the downgrade in earnings and considering the impact of higher risk-free rate applicable for valuations, we have downgraded the fair value for FY23E to LKR 65.0. However, at the current market price HHL is expected to provide an annualised return of 65.0%. **MAINTAIN BUY**

**FIRST CAPITAL RESEARCH**

Tharusha Ashokgar

+94 11 263 9866

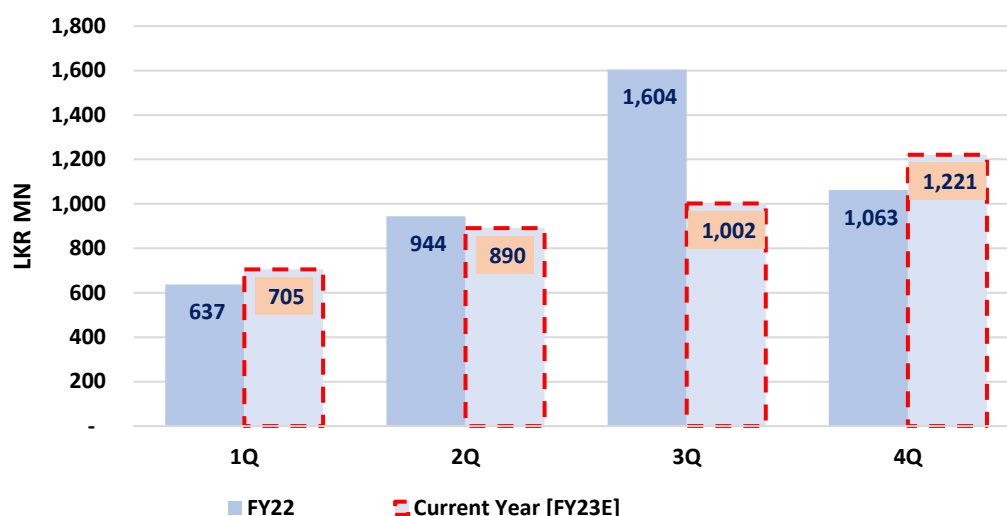
tharushaash@firstcapital.lk**Price Movement of HHL vs ASPI (Indexed and rebased to 100)****Minimum Return for BUY:**

Buy Below for FY23E [AER of 23.0% with DPS]: LKR 58.5.
HHL categorized as 'Grade B' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of HHL during the five trading days prior to the issuance of this document

Quarterly Earnings



Estimate Revision

In LKR Mn	FY23E-O	FY23E-R	% Change	FY24E-O	FY24E-R	% Change
Earnings Estimate						
Revenue	89,665	74,188	-17%	106,804	82,356	-23%
Gross Profit	26,900	20,402	-24%	32,041	22,648	-29%
EBIT	7,821	5,852	-25%	9,512	6,830	-28%
Profit before tax	7,449	5,865	-21%	9,322	6,535	-30%
Net Profit	5,285	3,818	-28%	6,613	4,254	-36%
Adjusted EPS	8.9	6.4	-28%	11.1	7.1	-36%
Growth YoY	38%	-10%		25%	11%	
Balance Sheet Estimate						
Shareholders' Equity	36,442	36,806	+1%	39,746	38,163	-4%
Borrowings	3,546	5,476	+54%	3,827	6,082	+59%
Adjusted NAVPS	61.1	61.8		66.7	64.0	
Ratio Estimate						
ROE (%)	15.0	10.5		17.36	11.3	
PER (x)	8.1	7.2		6.5	6.5	
PBV (x)	1.2	0.7		1.1	0.7	

Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY24E
Estimates (LKR 'Mn)								
Revenue	49,874	64,082	60,043	64,501	78,831	74,188	82,356	89,770
Gross Profit	17,707	21,478	19,148	19,417	21,850	20,402	22,648	24,866
EBIT	4,245	5,661	3,532	6,061	6,783	5,852	6,830	7,695
Net Profit	2,687	3,369	1,236	3,253	4,249	3,818	4,254	4,786
Adjusted EPS (LKR)	4.5	5.7	2.1	5.5	7.1	6.4	7.1	8.0
YoY Growth (%)	-23%	25%	-63%	163%	31%	-10%	11%	13%
Valuations								
PER (x)	10.2x	8.1x	22.2x	8.4x	6.5x	7.2x	6.4x	5.7x
PBV (x)	1.1x	1.0x	1.0x	0.9x	0.8x	0.7x	0.7x	0.7x
DY (%)	4.0%	10.7%	3.2%	4.0%	10.5%	9.5%	10.6%	11.9%
NAVPS	42.7	47.1	46.8	53.5	59.7	61.8	64.0	66.6
DPS (LKR)	1.9	4.9	1.5	1.9	4.9	4.4	4.9	5.5
Dividend Payout	41.0%	87.2%	69.9%	33.9%	68.0%	68.0%	68.0%	68.0%

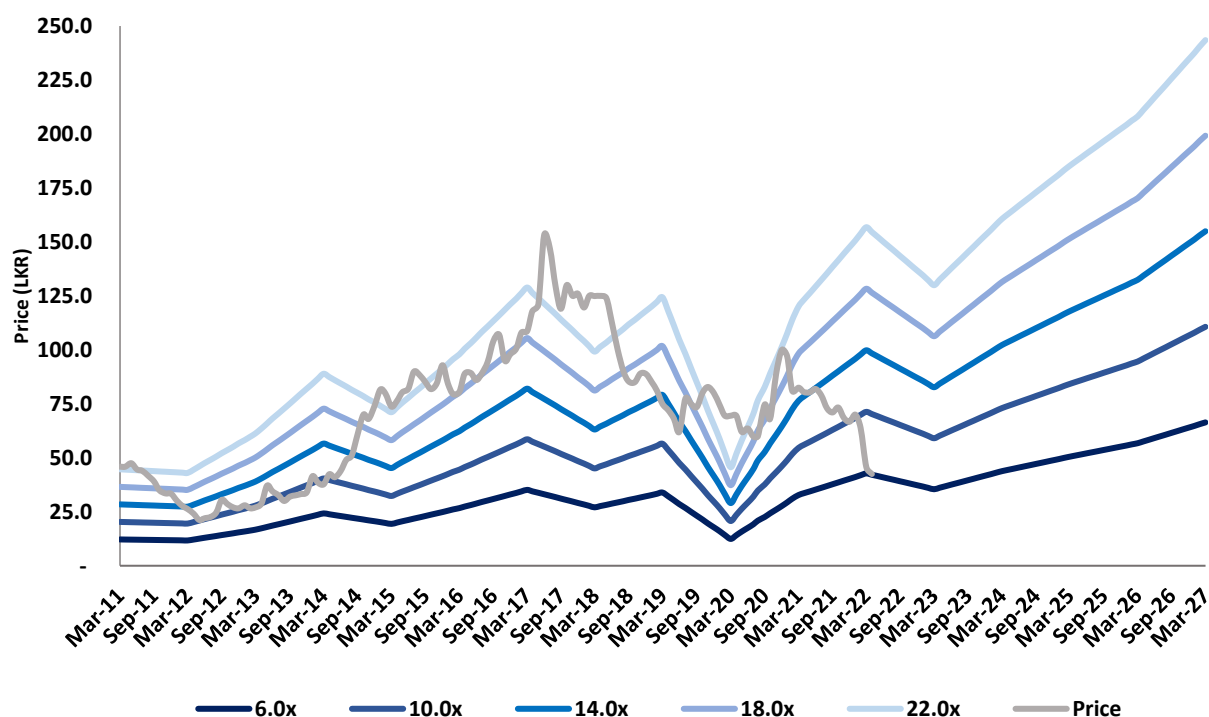
Valuation Summary

Return	FY23E	FY24E
Target Price	65.0	74.0
Current Price	46.0	46.0
Capital Gain (LKR)	19.00	28.00
Dividends upto 31.03.2023 (LKR)	4.36	4.86
Capital Gain %	41%	61%
Dividend Yield %	9%	11%
Total Return %	51%	71%
Annualized Return %	65%	34%

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	4/96	21.2%	21%	3%	18,977		31.8	51%
Healthcare	DCF	21/79	21.2%	20%	3%	15,135		25.4	41%
Logistics and Maritime	DCF	7/93	21.2%	20%	3%	2,480		4.4	7%
Other	Justified PBV						301	0.5	1%
Fair Value before Net Debt								62.1	100%
Less: Debt								9.0	
Add: Cash								12.6	
Fair Value								65.8	
Fair Value (Round up)								65.0	

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
P/E 31st Mar								
Revenue	49,874	64,082	60,043	64,501	78,831	74,188	82,356	89,770
Cost of sales	-32,167	-42,605	-40,896	-45,084	-56,981	-53,786	-59,708	-64,904
Gross Profit	17,707	21,478	19,148	19,417	21,850	20,402	22,648	24,866
Other Income	414	794	623	681	1,099	2,968	3,294	3,591
Selling, Distribution & Admin expenses	-13,760	-16,517	-16,119	-13,704	-15,641	-16,990	-18,612	-20,287
Share of results of JV	-80	-58	-120	-333	-525	-527	-500	-475
Share of results of associate	-36	-35	-	-	-	-	-	-
Operating Profit	4,245	5,661	3,532	6,061	6,783	5,852	6,830	7,695
Finance Income	765	478	269	249	352	998	646	691
Less : Finance Cost	-618	-1,046	-960	-639	-486	-985	-942	-1,034
Profit Before Tax	4,392	5,093	2,841	5,670	6,648	5,865	6,535	7,352
Income Tax Expense	-1,442	-1,414	-1,357	-1,523	-1,814	-1,759	-1,960	-2,206
Profit for the Year (continuing)	2,951	3,679	1,484	4,147	4,834	4,105	4,574	5,147
Profit/(loss) from discontinued operations	-	-	-121	-805	-	-	-	-
Profit for the year	2,951	3,679	1,363	3,342	4,834	4,105	4,574	5,147
Minority Interest	263	310	127	89	586	287	320	360
Profit attributable to Equity Holders	2,687	3,369	1,236	3,253	4,249	3,818	4,254	4,786
EPS	4.5	5.7	2.1	5.5	7.1	6.4	7.1	8.0

Appendix II: Segmental Results

Segmental Results	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
P/E 31st Mar								
Segmental Revenue								
Consumer	16,490	25,555	23,806	25,056	30,761	27,708	31,033	34,757
Healthcare	23,026	27,697	31,418	37,237	46,170	43,881	48,994	52,913
Leisure and travel	4,172	4,982	1,655	0	0	0	0	0
Logistics and maritime	2,814	2,835	2,893	2,428	2,072	1,554	1,306	1,097
Other	3,372	3,013	1,484	1,044	1,066	1,045	1,024	1,004
Total	49,874	64,082	61,256	65,765	80,070	74,188	82,356	89,770
Segmental Operating Profits (including joint ventures and associates)								
Consumer	1,433	2,738	1,904	3,348	3,017	2,743	3,197	3,616
Healthcare	2,297	2,181	2,259	2,891	3,602	3,434	3,828	4,299
Leisure and travel	214	416	-131	-14	0	0	0	0
Logistics and maritime	836	692	478	654	1,308	709	596	534
Other	-535	-365	-949	-880	-1,302	-1,238	-1,081	-1,045
Total	4,245	5,661	3,561	5,998	6,625	5,648	6,539	7,404

Appendix III: Statement of Financial Position

Statement of Financial Position (LKR Mn) as at 31st Mar	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Non-Current Assets								
Property, plant and equipment	18,069	18,685	20,033	17,540	18,007	18,780	19,498	20,159
Investment properties	1,507	1,648	1,648	1,942	2,100	1,890	1,701	1,531
Right of use of assets			2,028	1,879	1,178	1,178	1,178	1,178
Leasehold property	767	731	0	0	0	0	0	0
Intangible assets	3,494	3,469	3,439	3,290	3,295	3,295	3,295	3,295
Investments in subsidiaries	0	0	0	0	0	0	0	0
Lease Receivable	0	0	172	140	125	125	125	125
Investments in JVs	1,026	884	701	557	85	612	1,112	1,587
Investment in associates	28	6	0	0	0	0	0	0
Other non-current financial assets	711	711	541	209	210	210	210	210
Deferred tax assets	62	108	164	144	86	86	86	86
	25,664	26,242	28,727	25,700	25,086	26,176	27,206	28,171
Current Assets								
Inventories	9,873	11,201	13,560	15,451	16,807	16,550	17,891	19,492
Trade and other Receivables	14,122	18,434	16,094	13,655	19,772	20,129	20,953	21,376
Tax receivables	196	299	241	157	329	329	329	329
Lease Receivable			58	65	60	60	60	60
Other current financial assets	131	100	84	110	359	369	379	392
Cash and cash equivalents	7,711	6,474	5,617	8,458	13,895	8,867	8,260	10,276
	32,034	36,507	35,654	37,895	51,221	46,303	47,872	51,924
Total Assets	57,699	62,749	64,380	63,594	76,308	72,479	75,078	80,095
Other Reserves	142	185	217	181	160	160	160	160
Other components of equity	1,956	1,682	1,389	2,161	4,446	4,446	4,446	4,446
Retained Earnings	17,421	18,497	18,574	21,778	23,206	24,424	25,781	27,308
Equity attributable to equity holders of parent	25,479	28,099	27,914	31,895	35,588	36,806	38,163	39,690
Non-controlling interests	3,590	3,771	3,560	1,543	920	1,207	1,527	1,887
Total Equity	29,069	31,870	31,474	33,438	36,507	38,013	39,690	41,577
Non-current Liabilities								
Interest-bearing loans and borrowings	2,244	1,369	4,738	3,196	3,093	3,012	3,345	3,929
Other non current financial liabilities	1,909	1,956	2,207	278	277	277	277	277
Deferred tax liabilities	1,815	1,812	1,733	1,363	1,724	1,724	1,724	1,724
Employee benefit liabilities	850	969	1,019	1,033	992	1,145	1,323	1,528
	6,818	6,106	9,697	5,869	6,085	6,157	6,668	7,457
Current Liabilities								
Trade and other payables	16,415	18,599	17,937	17,947	27,165	22,045	22,247	24,183
Income tax payable	494	439	513	603	804	723	651	586
Other financial liabilities	-	-	-	1,973	2,272	2,272	2,272	2,272
Interest bearing borrowings	2,932	3,553	3,363	3,260	2,678	2,464	2,737	3,215
Bank overdraft	1,971	2,182	1,396	504	796	804	812	804
	21,811	24,774	23,209	24,287	33,716	28,309	28,720	31,060
Total Liabilities & Shareholders' Funds	57,699	62,749	64,380	63,594	76,308	72,479	75,078	80,095
NAVPS	42.7	47.1	46.8	53.5	59.7	61.8	64.0	66.6



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	Vidushika Perera	+94 11 2639 865
Hiruni Perera	+94 11 2639 864	Tharusha Ashokgar	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 864	Zaeema Jihan	+94 11 2639 866

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

Tharusha Ekanayake	+ 94 77 7 809 154
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Rasika Indra Kumara		+94 77 7072 698		
Isuru Jayawardena		+94 76 7084 953		
Nishantha Mudalige		+94 70 2910 041		
Ifadh Marikar		+94 77 9625 679		
Anushka Buddhika		+94 71 4310 600		
Thushara Pathiraja		+94 70 2910 037		
Chandika Jayawardana		+94 77 3940 070		

UNIT TRUST SALES

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

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw 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 4937 072

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