



First Capital
A Janashakthi Group Company

HEMAS HOLDINGS PLC

CSE: HHL.N0000 BLOOMBERG: HEMS SL

“Defensive Giant Building On Strong Fundamentals”

EQUITY | SRI LANKA | CAPITAL GOODS

FIRST CAPITAL RESEARCH

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MAINTAIN BUY

Fair Value: FY24E: LKR 85.0 [42%]

Total Return with DPS: 52% [AER 45%]

CORPORATE UPDATE 14 FEB 2023

01 Investment Thesis 05

02 Stock Analysis and Valuation 37

03 Financial statements analysis 46

04 Risk analysis 50

05 Company Profile 53

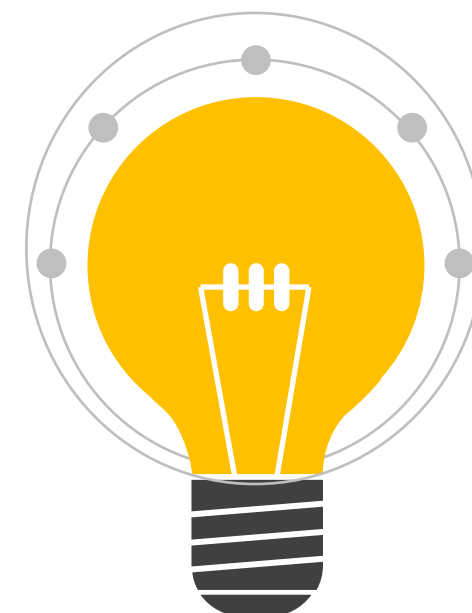
06 Environmental Social & Governance 57

07 Annexures 61

TABLE OF CONTENTS

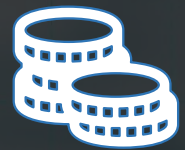
Summary: FCR recommends HHL as a **STRONG BUY** at a target price of LKR 85.0 (+42% price upside; +10.2% dividend yield)

P/E 31 March Estimates (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Revenue	64,082	60,043	64,501	78,831	109,075	119,805	132,780
<i>YoY growth %</i>	28%	-6%	7%	22%	38%	10%	11%
Gross profit	21,478	19,148	19,417	21,850	28,359	32,347	35,851
<i>Margin %</i>	34%	32%	30%	28%	26%	27%	27%
Operating profit	5,661	3,532	6,061	6,783	9,273	14,728	15,798
<i>Margin %</i>	9%	6%	9%	9%	9%	12%	12%
Profit for the year	3,369	1,236	3,253	4,249	4,326	6,041	6,826
<i>Margin %</i>	5%	2%	5%	5%	4%	5%	5%
EPS (LKR)	5.7	2.1	5.5	7.1	7.3	10.1	11.4
<i>YoY growth %</i>	-23%	-63%	163%	31%	2%	40%	13%
ROE (%)	12%	4%	10%	12%	12%	15%	16%
DPS (LKR)	4.9	1.5	1.9	4.9	4.4	6.1	6.9
PER(x)	10.6x	28.9x	11.0x	8.4x	8.3x	5.9x	5.2x
PBV(x)	1.3x	1.3x	1.1x	1.0x	1.0x	0.9x	0.8x



EXECUTIVE SUMMARY

- ❑ Sri Lanka relies on imports for about 85% of its pharmaceutical needs and the remaining 15% of the total local drug requirement is fulfilled by SPMC and the local private manufacturers. Over reliance on the import medicines, led to shortages of essential medications at the hospitals giving rise to the need for local pharma manufacturing.
- ❑ Pharmaceutical industry was identified as one of the potential industries that could bring Sri Lanka enormous economic benefits as it could attract FDI, earn foreign exchange through exports and save foreign exchange by way of import substitution.
- ❑ Under HHL's Healthcare segment, Morison's Ltd, one of the pioneers of pharmaceutical manufacturing in Sri Lanka commenced operation of Sri Lanka's first and largest general oral solid and liquid dosage pharmaceutical manufacturing facility built to international standards while focusing on producing NCDs medications at affordable prices to the market.
- ❑ Meanwhile, under Consumer Brands segment, HPC margins to recover gradually amidst the easing of global commodity prices which is expected to average lower in 2023, compared to the prices of 2022 while shifting focus towards international business and exports is also expected to provide better margins for the group.
- ❑ Considering the defensive nature of the key main segments of HHL (Healthcare and Consumer segment) and the improvement in capacity utilization, we expect the group to record an earnings of LKR 4.3Bn for FY23E and LKR 6.0Bn for FY24E. Accordingly, FV for FY24E is derived at LKR 85.0. At the current market price of LKR 59.9, HHL provides a capital gain of 42% for FY24E.



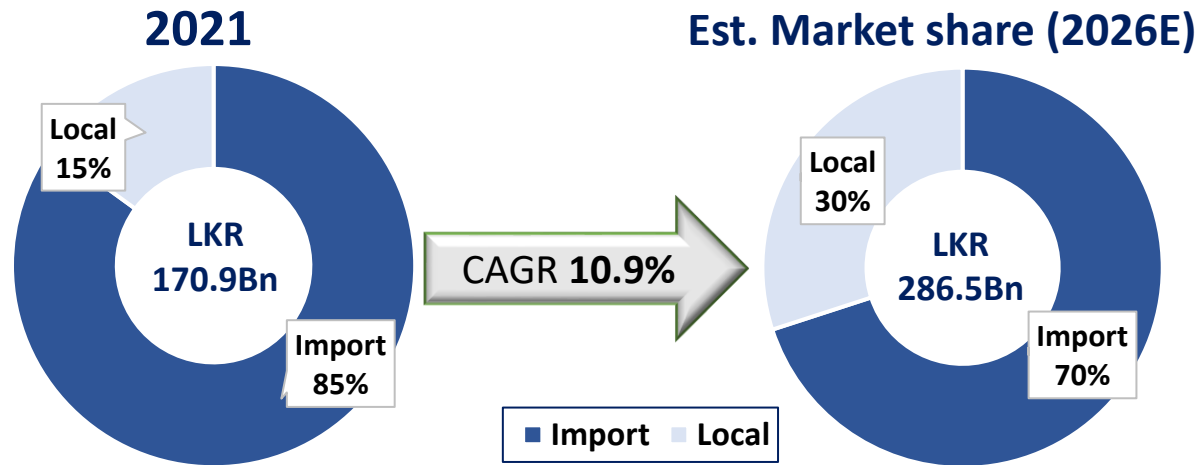
1.0 INVESTMENT THESIS



 **1.1 Healthcare topline to grow at a CAGR of +20% from FY22 to FY25E**

Sri Lanka local manufacturers set to fill essential medicine shortages at affordable prices...

Sri Lanka Pharmaceutical Industry Import Vs. Local production



Source: Fitch Solutions

Over-reliance on imported pharmaceutical drugs has resulted in an extensive outflow of foreign currency from the country, and uncertainty about the continuous supply of drugs in times when the global supply chain is disrupted.

Essential medicine (Ex: Metformin) manufacturers in Sri Lanka

Public sector



Private sector



At present, Metformin is the 3rd highest selling drug in SL where nearly 90% of the molecule is imported while local private manufacturers play a minor role.

...as forex crisis worsened the economic conditions, led to lower import of essential medicines...

ECONOMY

Sri Lanka facing shortage of 150 essential drugs; govt looking to boost local production

HOME / NEWS / WORLD

Economic crisis | Drug shortages persist in Sri Lanka

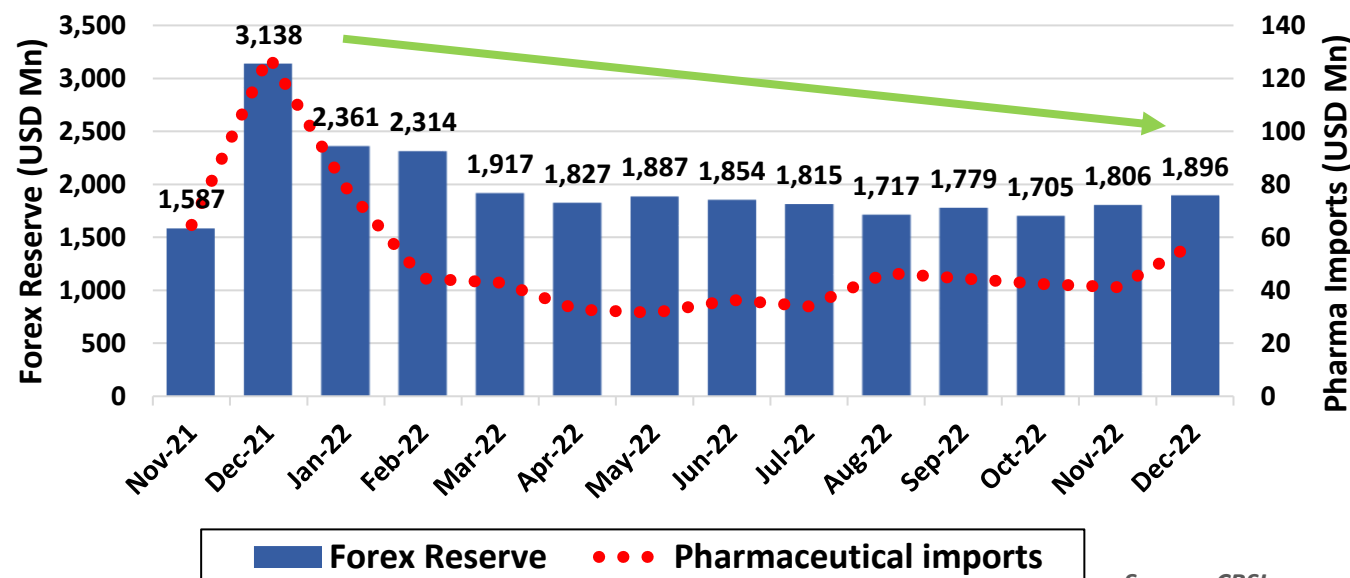
Sri Lanka's health sector is still short of over 150 essential drugs

Asia Pacific

3 minute read · May 23, 2022 8:56 PM GMT+5:30 · Last Updated 7 months ago

Sri Lankan medicine shortage a death sentence for some, doctors say

CBSL forex reserves significantly contracted in 2022 amidst the economic crisis, slumping the pharmaceutical imports

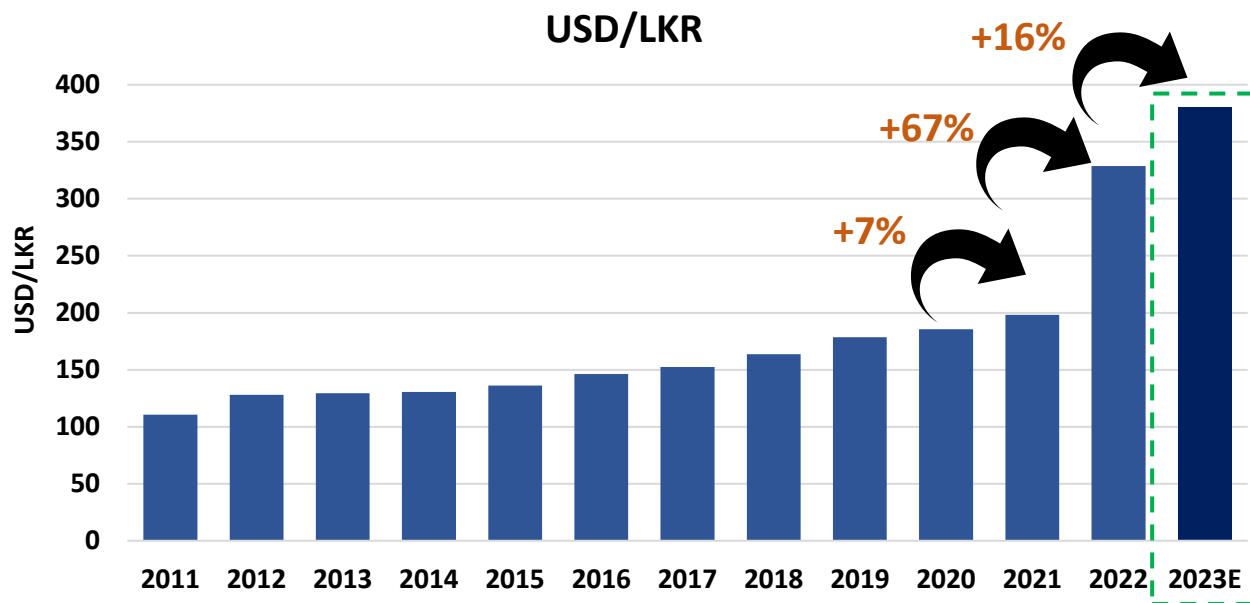


Price controls by the regulators coupled with a forex crisis dampened the imports of essential drugs as majority of the importers were unable to obtain LOC from the banks while foreign principals hesitant to supply at controlled price.

However, being a private market leader in import and distribution of healthcare products in SL, **HHL pharma distribution hand** continued to supply drugs as they have an advantage to obtain forex from banks, underpinned by strong balance sheet and cash balances

....while significant price revisions amidst LKR devaluation led to import medicines unaffordable

LKR depreciated over 80% YTD (Jan - Dec 2022), resulted premium price for essential medicines...

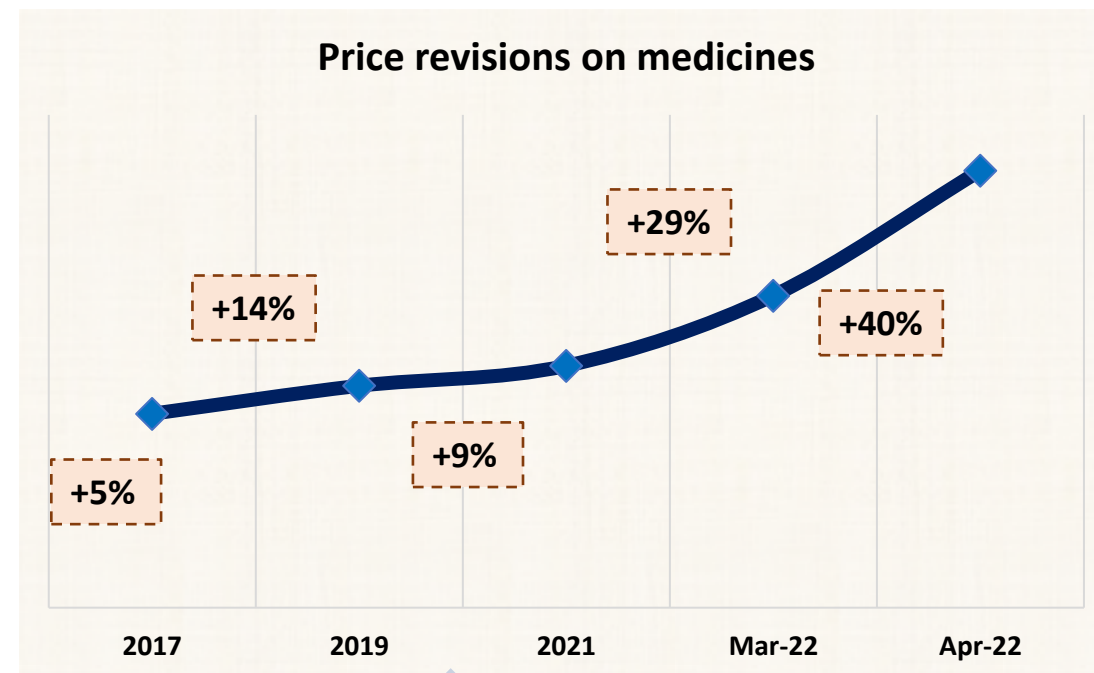


Source: CBSL

All essential drugs have been under price control since October 2016 onwards.

... accordingly, NMRA revised the price of essential molecules in line with the LKR devaluation

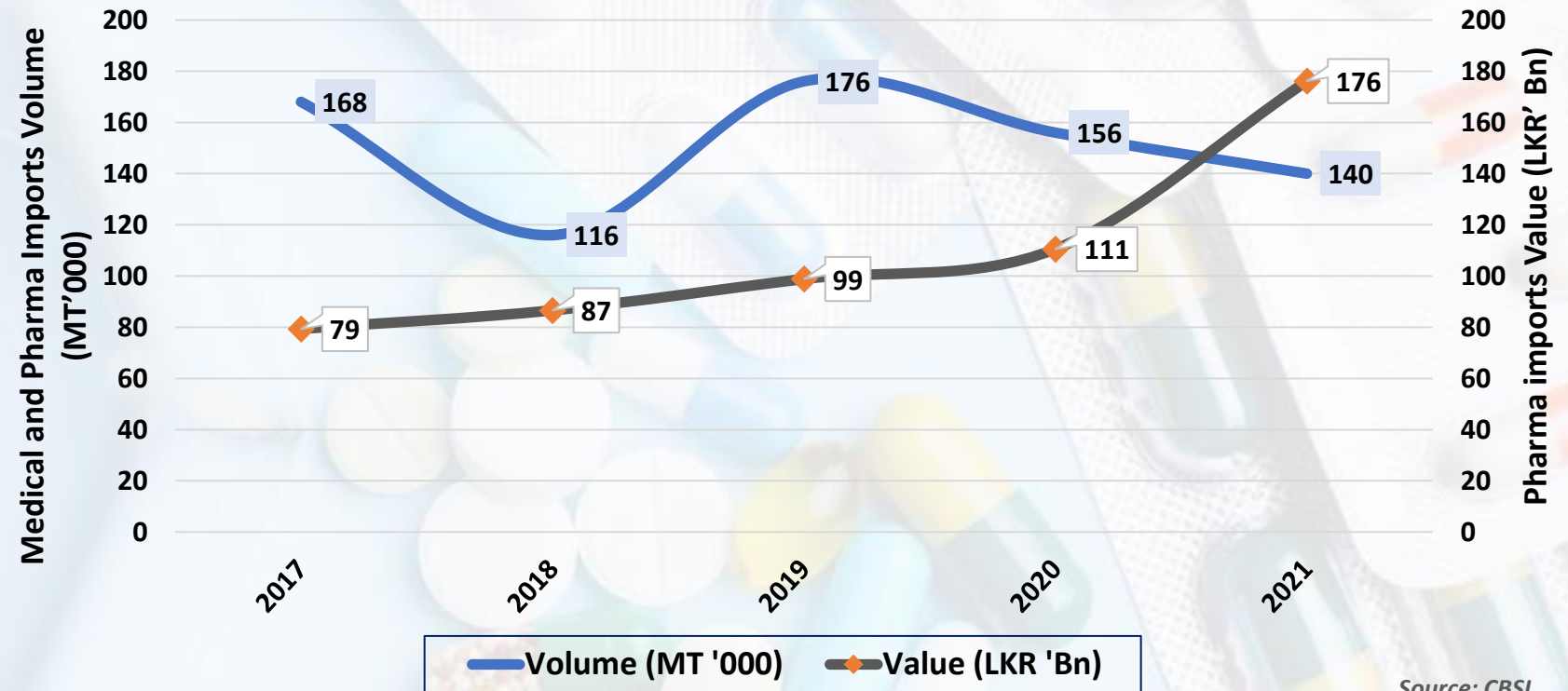
Significant upward price revision by nearly 80% in 2022, resulted import medicines unaffordable.



Source: NMRA

MRP
revisions
made import
medicines
expensive

Surge in prices and decline in volume of foreign pharma products open door for local manufacturing



The volume of pharmaceuticals imported started to decline after 2019, whilst the value continued to rise amidst the currency devaluation, indicating the shift towards more expensive foreign drugs. This trend **created the need for local manufacturing of essential drugs to cater to the local demand.**

Essential drug treating Non-Communicable Disease (NCD) at primary-level healthcare institutions Price comparison

Name of Essential Drug – Treatment	Imported From	Local Manufacturer	Imported Price per tablet (LKR)	Locally Manufactured Price per tablet (LKR)
METFORMIN - Diabetes mellitus type 2	France, Indonesia, India, Pakistan, Bangladesh	Astron, Celogen, SPMC, CIC, Morison	LKR 9.34- LKR 17.5	LKR 3.00- LKR 10.00
ATORVASTATIN - Cardiovascular disease	India, Bangladesh, Pakistan, Germany	Astron, CIC, Celogen, SPMC, Morison	LKR 10.85- LKR 41.81	Price equal to import medicine
Folic Acid - Vitamin B9	Australia, India, Thailand	Astron, Celogen, Morison	1mg - LKR 0.6	LKR 0.45
PARACETAMOL - Treat pain and fever	India	Diyatha, Glaxo, Morison, Astron	500mg - LKR 4.16	LKR 3.75
AMOXICILLIN - Antibiotic	India, Bangladesh, Indonesia	Astron, SPMC	250mg - LKR 25.00	LKR 4.20

Source: retail pharmacy

Morison's largest pharma manufacturing facility

S N A P S H O T

Only plant to comply with **European Union GMP standards** in the country

Annual capacity of 5Bn tablets and 2Mn litres of liquids

Capability to cater to 40% of the national annual general OSD demand in Sri Lanka

Pipeline project:

5 New products are in the pipeline to cater to key therapeutic segments including **cardio, diabetic and vitamins**

Investment
USD 18.5Mn

Timeline of the plant

2017

Started building the facility

Oct -2020

Opened the factory

May 2022

Began commercial production

Sep - 2022

Produced 3 high in demand medicines

End - 2024

Expect to reach 25% capacity utilization (Current utilization <10%)

Ventured into Branded Generics:

*Bisoprolol 5mg
ChlorMor 4mg
Ros-10 – 10mg*

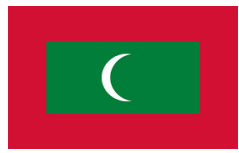
Morison's new manufacturing plant will be effectively utilized:

(I) To produce for global third-party value manufacturing contracts and expect to generate Export earnings

Morison has the opportunity to enter into global supply chain via contract manufacturing due to availability of infrastructure and expertise and the location.

As the new plant is the only **EU Union GMP certified** manufacturing facility in SL, Morison has the potential to enter the European pharmaceutical market through exports, which may provide comparatively **higher margins**.

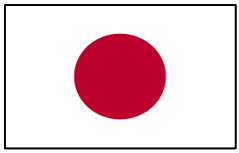
Top pharma Export markets for SL with export market share in 2021



Maldives - 29%
(USD 3.2Mn)



India - 24%
(USD 2.6Mn)



Japan – 10.6%
(USD 1.1Mn)

Source: Trend Economy

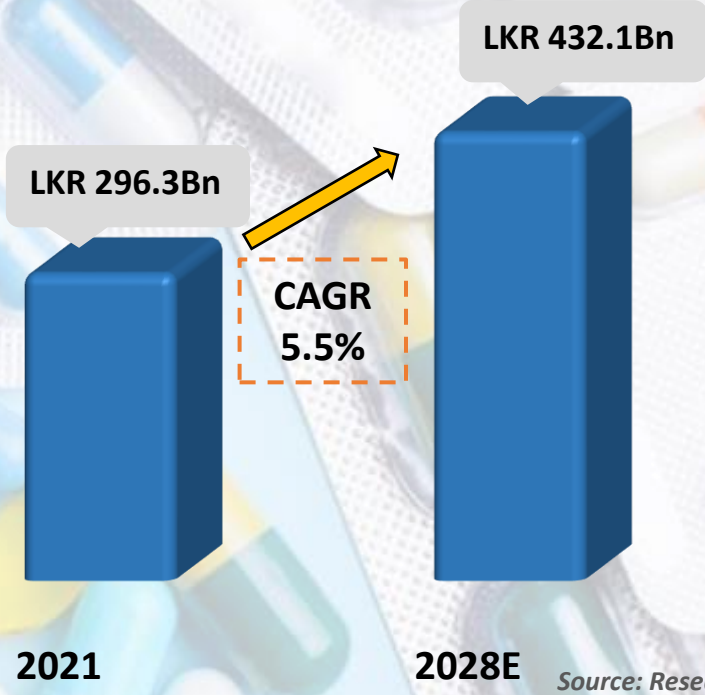
UK and USA will be an attractive contract manufacturing hub for Morison



**Global pharmaceutical market to grow
at a CAGR of 8% from 2021 to 2025E**



**European pharmaceutical market to grow
at a CAGR of 5.5% from 2021 to 2028E**



- Increasing costs resulting from the expiration of many older drug patents, serious competition from the generic drug industry, and stricter government oversight of new drug development in the US and the EU played a part in the rise of contract manufacturing.
- Morison has signed up for contract manufacturing arrangements with a few leading regional pharmaceutical companies, which is expected to be operationalised in the near future and eventually expect to open up for exports.

(II) to produce quality essential medications at affordable prices to local market

Morison has launched three new NCD molecules at the new facility

Name of the Drug

Purpose

Key advantage of manufacturing



Bisoprolol tablets
B.P. 5 mg 250s

Treatment for high blood pressure and other cardiovascular conditions

First time manufactured in Sri Lanka, by Morison and supplied to the Medical Supplies Division for use in Government hospitals. The annual requirement of Bisoprolol of the Government sector is around 40Mn tablets, which was being imported to date.



Ros-10
Rosuvastatin tablets
I.P. 10 mg 30s blister

Used to treat high blood cholesterol, a risk factor for cardiovascular disease

Launched at approximately half of the current weighted average market price, offering significant savings to Sri Lankans.



ChlorMor
Chlorphenamine tablets
B.P. 4 mg 100s blister

Oral antihistamine that helps to relieve symptoms of allergies

This was also launched at a price less than the prevailing similar products in the market.

Feb 2023

First Capital Research

Sri Lanka spends millions of dollars on essential drugs for treating NCDs. Some of these are already being manufactured locally, although at a very small scale.

Meanwhile, Morison's recent launch of NCD drugs marks a milestone in the local pharma industry



Morison committed to provide quality healthcare at more **affordable prices** to locals



The new manufacturing plant, can cater upto 40% of the national Oral Solid Dosage (OSD) demand, which can **save substantial forex** to the country



As locally manufactured drugs for NCDs are now **accessible** to locals the supply of which does not have to depend on imports in future

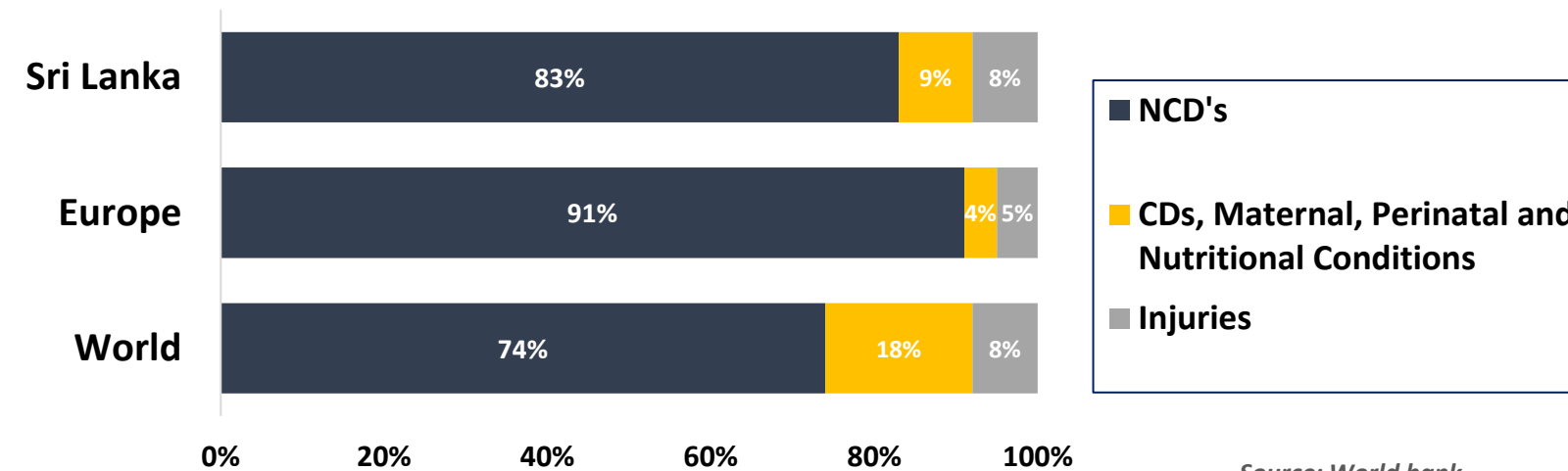


Morison's brand is highly preferable and recognizable among locals, which may be a better **alternative for import medicines**

According to the management, Morison's Homagama facility has over 5 new products in pipeline mainly focusing on NCD molecules, which includes some of the latest therapies predominantly in **diabetic, cardiovascular and vitamin segments.**

Morison venturing into Private Branded Generic Space by focusing on Non-Communicable Diseases (NCDs)

Causes of death for people ≥60 years (2019)



Non-communicable diseases, including diabetes, cardiovascular, strokes and cancers, account for nearly 80% of the disease burden in Sri Lanka



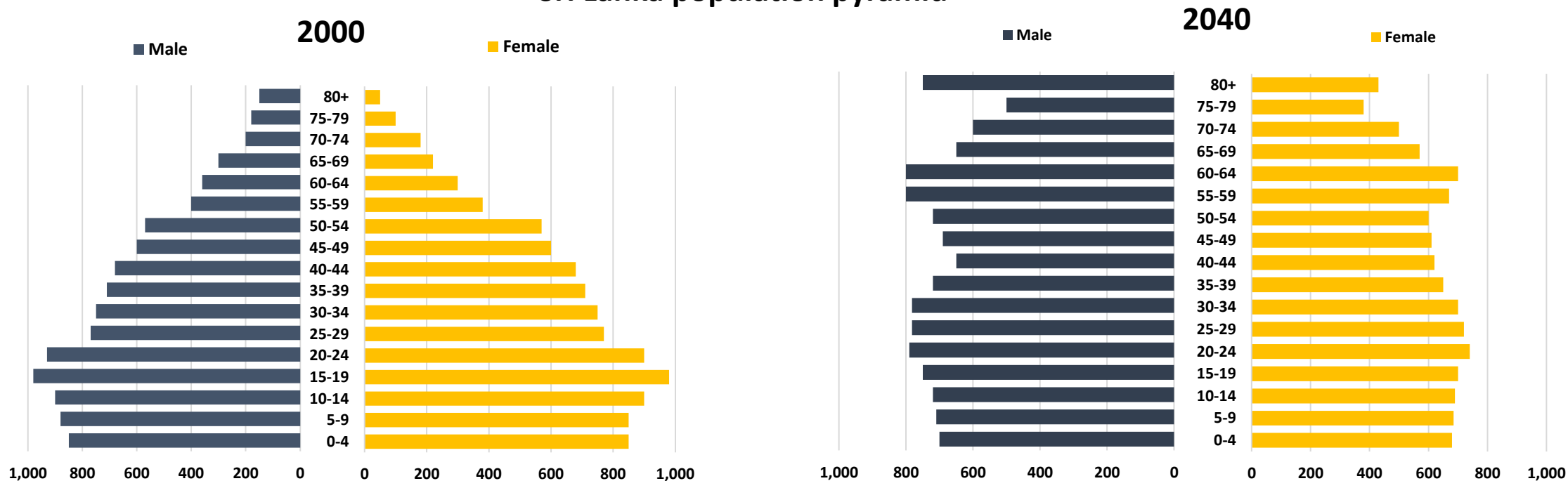
Morison ventured into the **branded generics** space in 2021, with the launch of the diabetic care molecule Empagliflozin, under the brand name of EmpaMor.

It is the first locally manufactured Sodium-Glucose Co-Transporter-2 (SGLT2) inhibitor in Sri Lanka, which was well received by the market upon the release and variants of 10mg and 25mg were launched during the year.

This was launched at approximately 50% price advantage from the market and a fast-moving molecule under the category, which is a suitable substitute for imported medicine

Healthcare segment of HEMAS is largely benefiting from an ageing population and increasing non-communicable diseases, where Sri Lanka population pyramid is expected to change rapidly with the share of population over 65 years expected to grow from 9.4% of the population in 2015 to 21% by 2045.

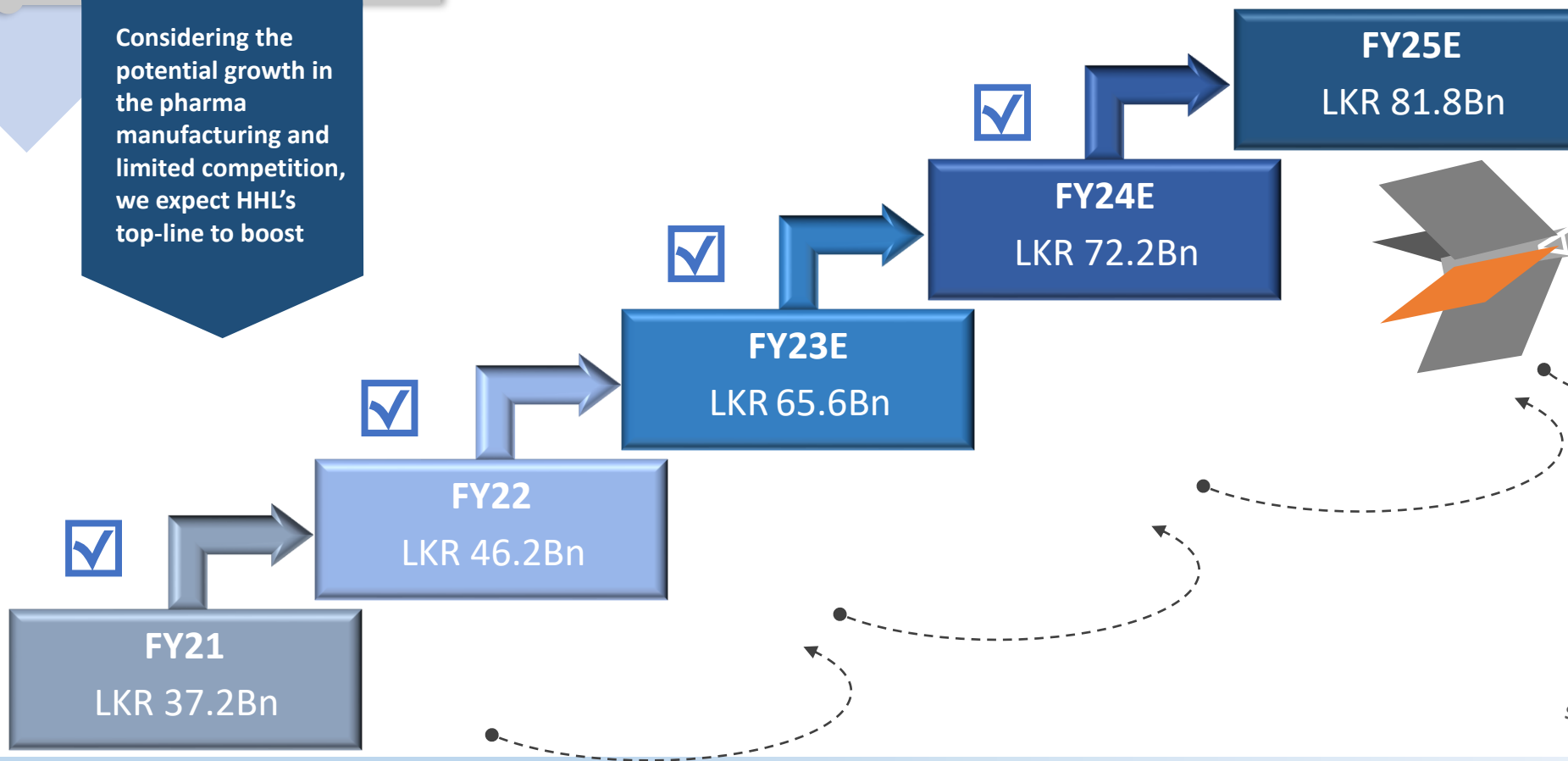
Sri Lanka population pyramid



With nearly 1 in 5 adults in the Western Province reported to be suffering from diabetes, where medicines treating these NCDs are in high demand.

Source: ADB

Considering the potential growth in the pharma manufacturing and limited competition, we expect HHL's top-line to boost



Source: Company Reports and First Capital Research Estimates

Accordingly, Healthcare segment to lead the group's top-line growth at a CAGR of 21.0% from FY22-FY25E

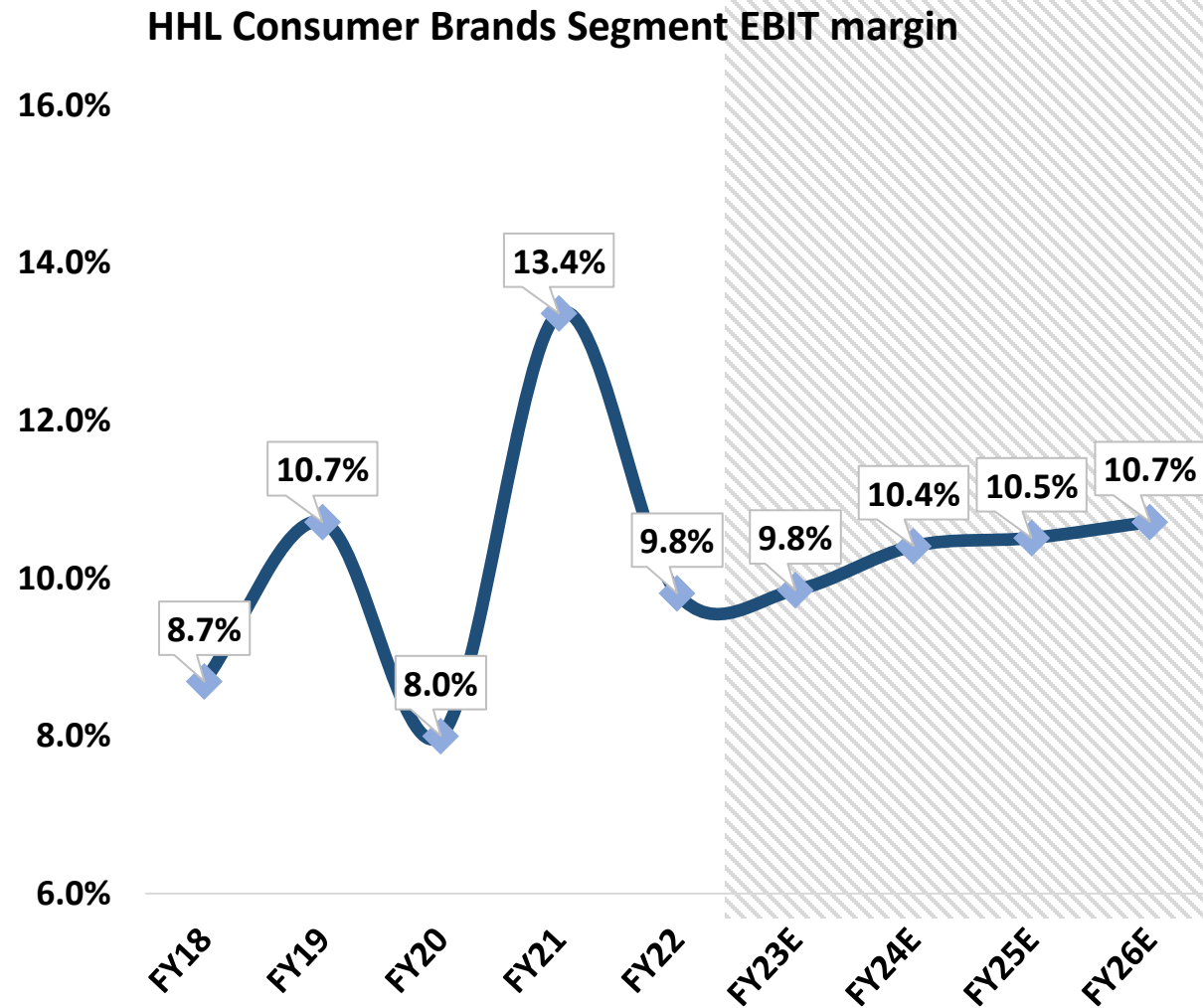


1.2 Consumer Brands segment revenue to grow at a CAGR of 14.2% (FY22-FY26E)



(I) Margin pressure on Consumer Brands Segment to ease down

Consumer Brands segment margins expect to grow amidst multiple catalysts...



Source: FCR, HHL annual reports

Inflation

Inflation expected to ease down, where downward price adjustments would be offset by pick up in consumer brands volumes.

Volatile commodity prices

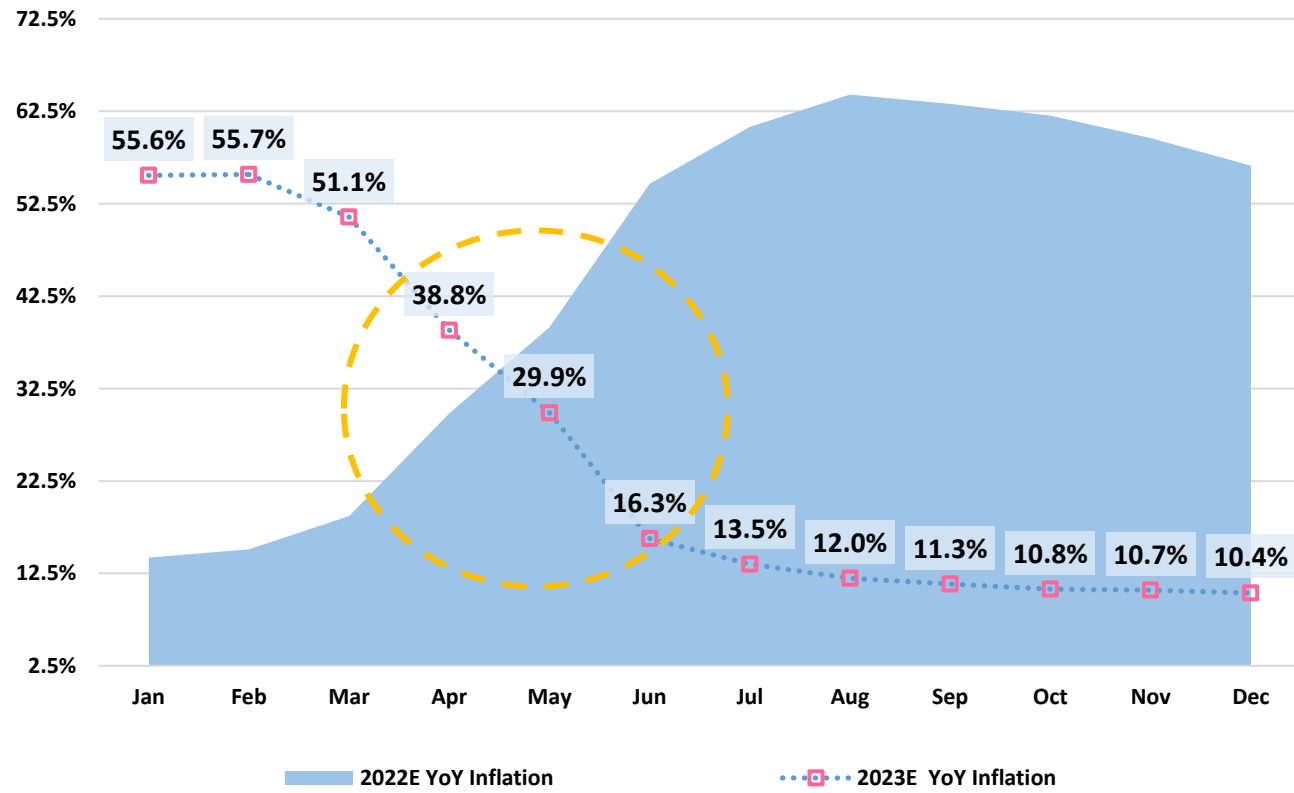
Global commodity prices started to witness decline from its record high amidst the recessionary fears

International business

Shifting focus to regional expansions via internationalisation and exports to aid margin expansions

...where steep dip in inflation is expected in 2Q2023 due to the higher base effect on inflation...

FCR 2023 forecast illustrates a sharp dip in inflation towards 2Q2023



Source: Dept. Census and Statistics

In the midst of change in consumer buying patterns with reduced disposable income amidst continuous price hikes, HHL witnessed a degrowth in volume in 2H2022, yet value growth was primarily driven by price increases in key markets

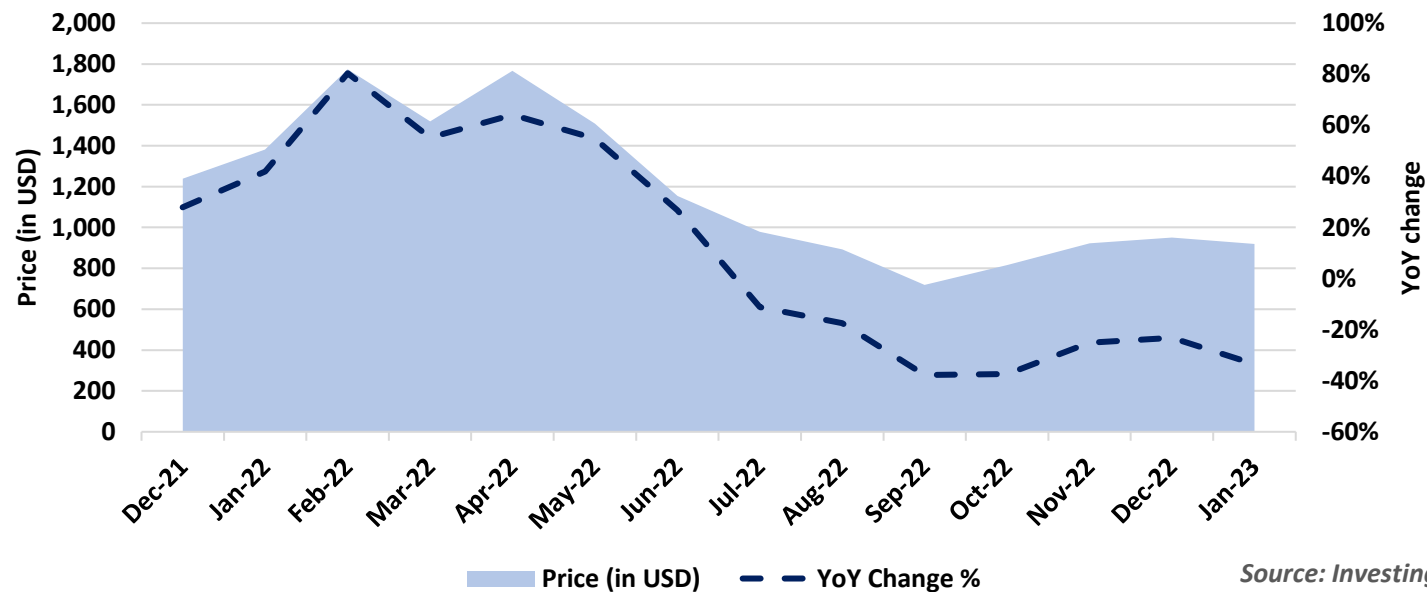
However, with the expectation of inflation easing off, as market interest rates also started to descend in 4Q2022, we believe overall volume to recover which may offset the price stabilization impact on the topline.

...coupled with shrinking global commodity prices

Fitch Ratings
forecasts on crude
palm oil

Malaysian benchmark crude palm oil price
expected to average at
USD 850/MT in 2023
cf. USD 1,175/MT in 2022

Palm Oil USD Futures (USD/MT)



HHL uses Distilled Fatty Acids (DFA) derived from **palm oil** and Liquid Paraffin as input for its range of soaps, shampoos and other personal care products.

With the slowdown in the global economy on the back of recessionary fears, commodity prices witnessed a dip, resulting in easing off margin pressure on HHL's consumer businesses (palm oil prices get reflected in HHL's financials with a 3-month lag)

Source: Investing.com



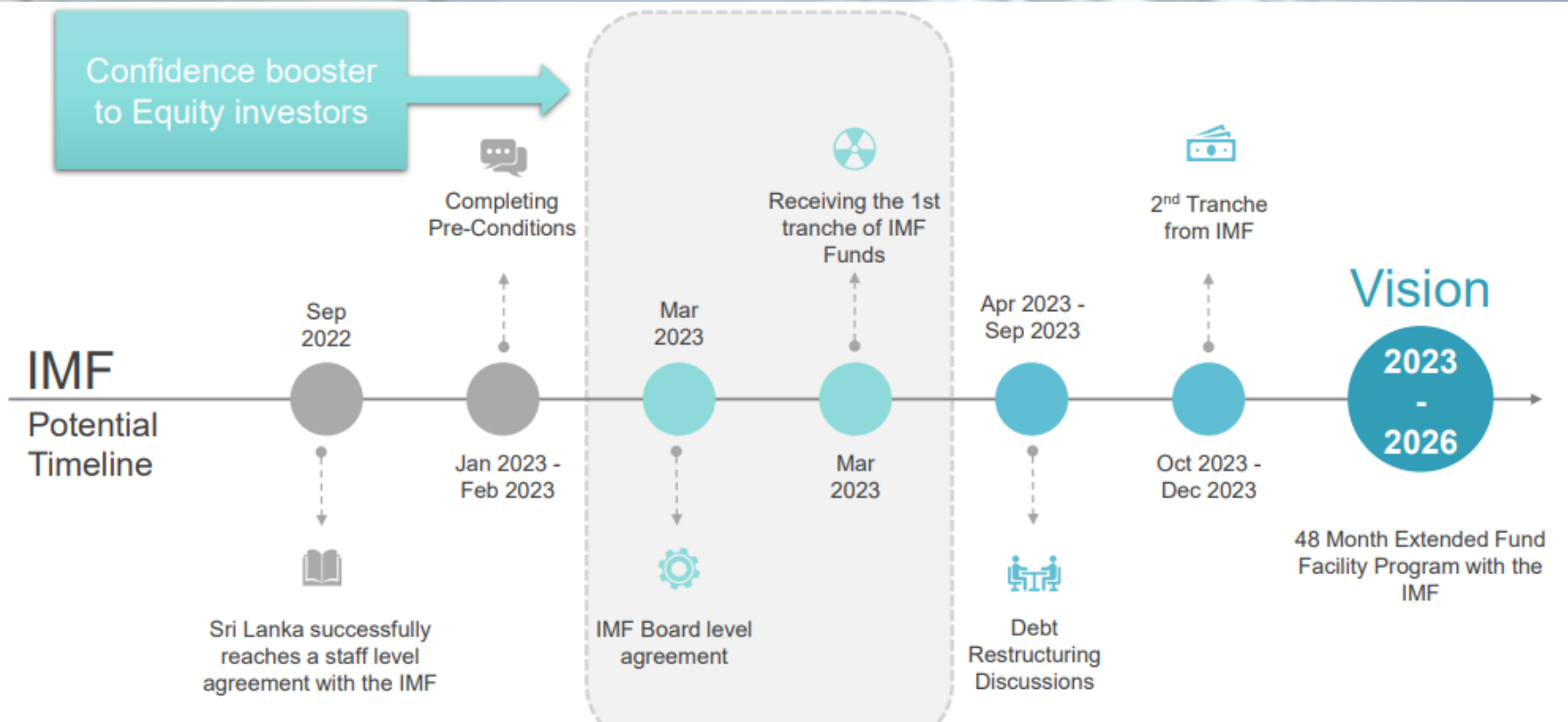
Crude oil (USD/BBL)

YoY (Jan 22 – Jan 23) -15.4%
QoQ (Sep 22 – Dec 22) +1.2%



Palm oil (USD/MT)

YoY (Jan 22 – Jan 23) -33.5%
QoQ (Sep 22 – Dec 22) +32.3%



Debt restructuring talks with the bilateral creditors India and China has been progressing well.

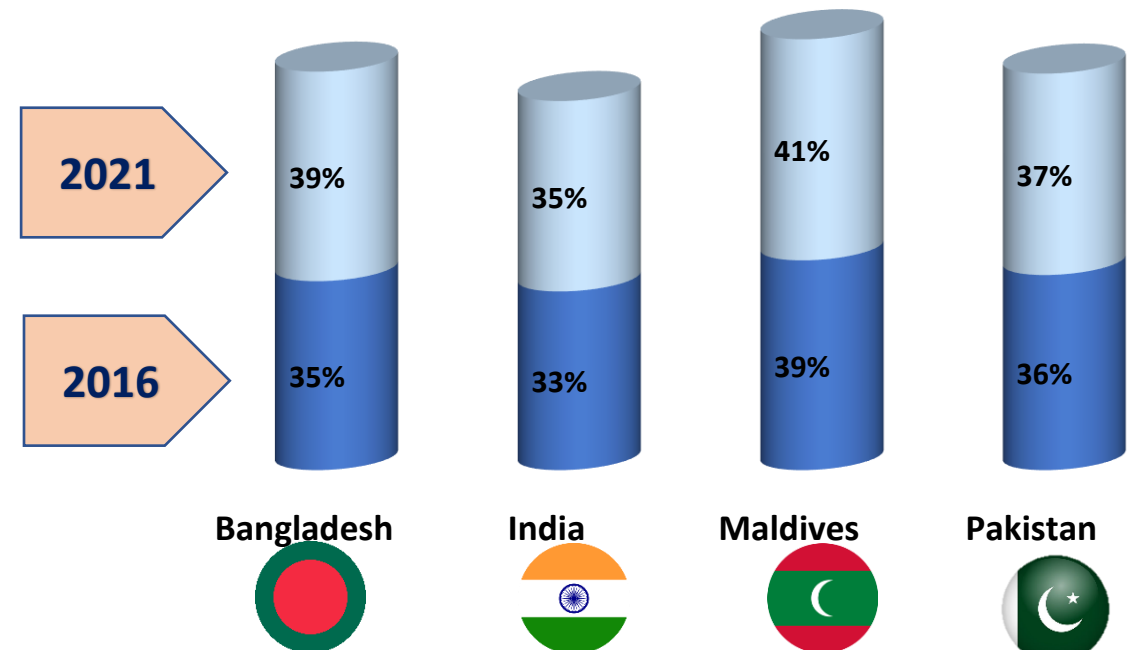
Meanwhile, FCR expects potential IMF Board Level approval may close in 1Q2023, which may reinstate business confidence from 2H2023

Moreover, shifting focus to regional expansions via internationalisation and exports further expand margins

HHL is well positioned to execute value accretive regional acquisitions in the consumer space and pursue an aggressive internationalization strategy given its strong consumer portfolio and balance sheet strength.

Factors such as increasing urbanization, growing awareness of customers in utilizing the technology, and growing popularity of online shopping will likely lead to high market penetration in the next ten years which may drive higher demand and changes consumer buying patterns.

Urban Population across HHL's key export nations



Source: macrotrends

As a result, multiple products and services are hitting take-off points at which their consumption rises steeply. Meanwhile, by 2025, urban consumers are likely to inject around USD 20.0Tn/year in additional spending into the world economy.

HHL holds market leadership positions in 8 product categories, reaching more than 90% of Sri Lankan households

Kumarika

**#1
In Hair Oil**

Kumarika is the top hair oil product in Sri Lanka while in Bangladesh, it is classified under value added category

Defensive core portfolio and extensive value adding new product launches may result increase in market share, underpinned by sourcing strengths and access to banks, compared with smaller players

Velvet

**#1
In Beauty Soap**

Velvet is mostly preferred by the locals as it is cheapest alternative out of other beauty soaps.



LKR 195.0



LKR 275.0

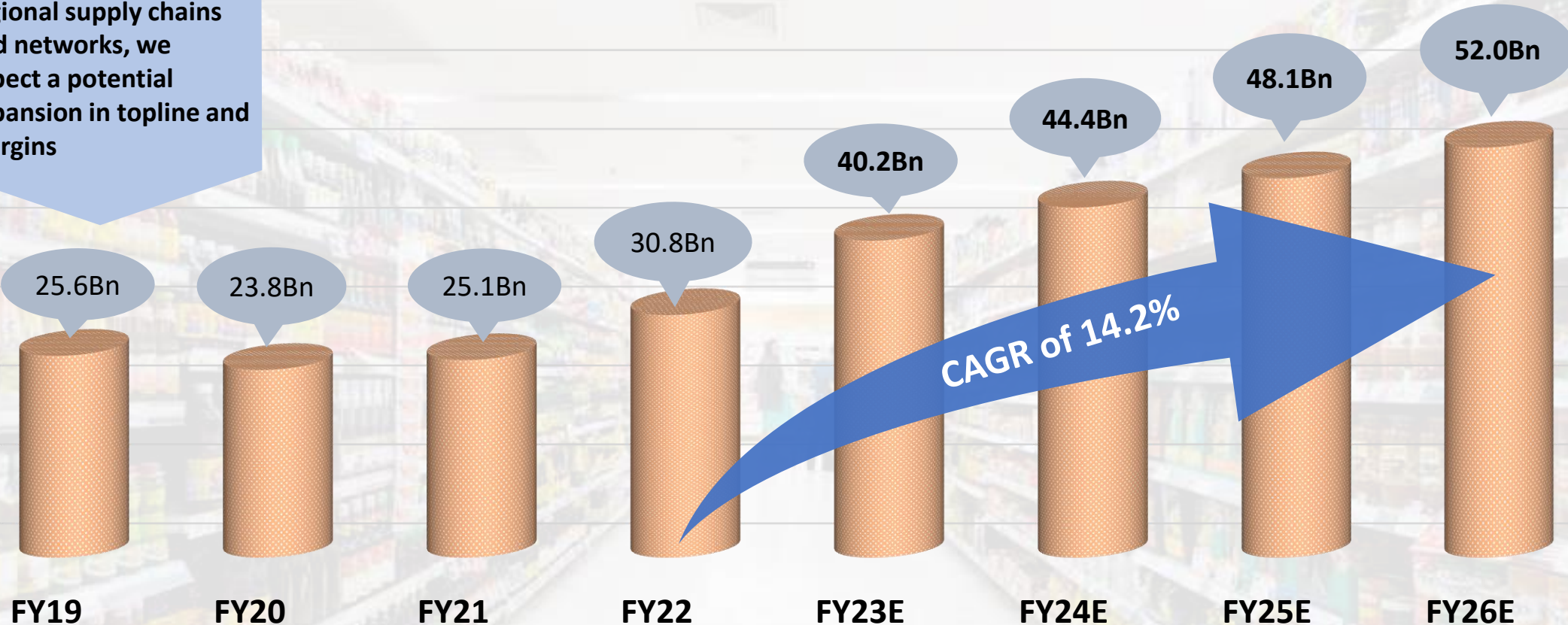


**#1
In Baby Care**

Baby Cheramy is the standalone local brand that produces a wide range of products and enjoys market leadership in the Sri Lankan baby care market as the No. 1 baby care brand

HHL Consumer Brands Segment revenue (LKR)

With significant scale benefits, and access to regional supply chains and networks, we expect a potential expansion in topline and margins



Source: HHL annual reports, FCR estimates

Accordingly, HHL's strong consumer portfolio to drive the segment revenue to grow at a CAGR of 14.2% from FY22-FY26E



(II) Focus on value added products to further escalate margins in the future

HHL intends to focus on underpenetrated emerging markets

HHL is geared to reap the benefits through premiumization and new category adoption

Skin Care

CAGR 4.86%
2022-2026

The key drivers for growth:

- ✓ Increasing awareness of the importance of skin care
- ✓ Increased demand for anti-aging skincare
- ✓ Increasing usage of social media influencing beauty product purchasing decisions



The Vivya range has already **attracted Maldives and United Arab Emirates** consumers and is poised to enter the **South Asian** market and beyond.

HPC Sri Lanka launched a new all-natural face care range in 2021, under the '**Vivya**' brand label with the aim of **tapping into the emerging market for niche high-end skin care products**

The first and only product in the country to be manufactured using extracts from Sri Lankan heirloom rice

Vivya was the **entry brand into the beauty care segment**, which was **well received** by the market where the business **look into portfolio expansion and increasing reach.**

Baby Diapers

CAGR 7.88%
2022-2026

Baby Diaper market is projected to witness higher demand over the coming years owing to the rising awareness regarding child health.

The shifting inclination toward **high-quality and eco-friendly baby products** is the major factor boosting the demand for **biodegradable diapers** across the globe.

Disposable baby diapers are now a more **necessity** for working parents while in Sri Lanka, the **diaper bill quickly adds up** to become a significant chunk of the monthly budget.

HHL ventured into baby diapers under the brand name of **Baby cheramy**. Meanwhile, the segment has the potential to **expand portfolio** into **Overnight diapers, Super night category, Disposable underwear, Flushable** etc.

Baby Diapers in SL market – (Large, 4Pcs)

HHL's Baby Cheramy is one of the **cheapest alternative** baby diaper in the market.



LKR 550.0

Baby Cheramy



LKR 559.0

Pampers



LKR 575.0

Farlin

Imported diapers

Beauty care industry is a booming sector in Bangladesh, opens extensive potential to grow further

**The Bangladeshi hair oil market
CAGR of 5.5%
(2022-2027E)**

Hair care in the community is growing where coconut oil holds the highest share in the market.

Product innovation and the growing popularity of value-added hair oils are driving the hair oil market

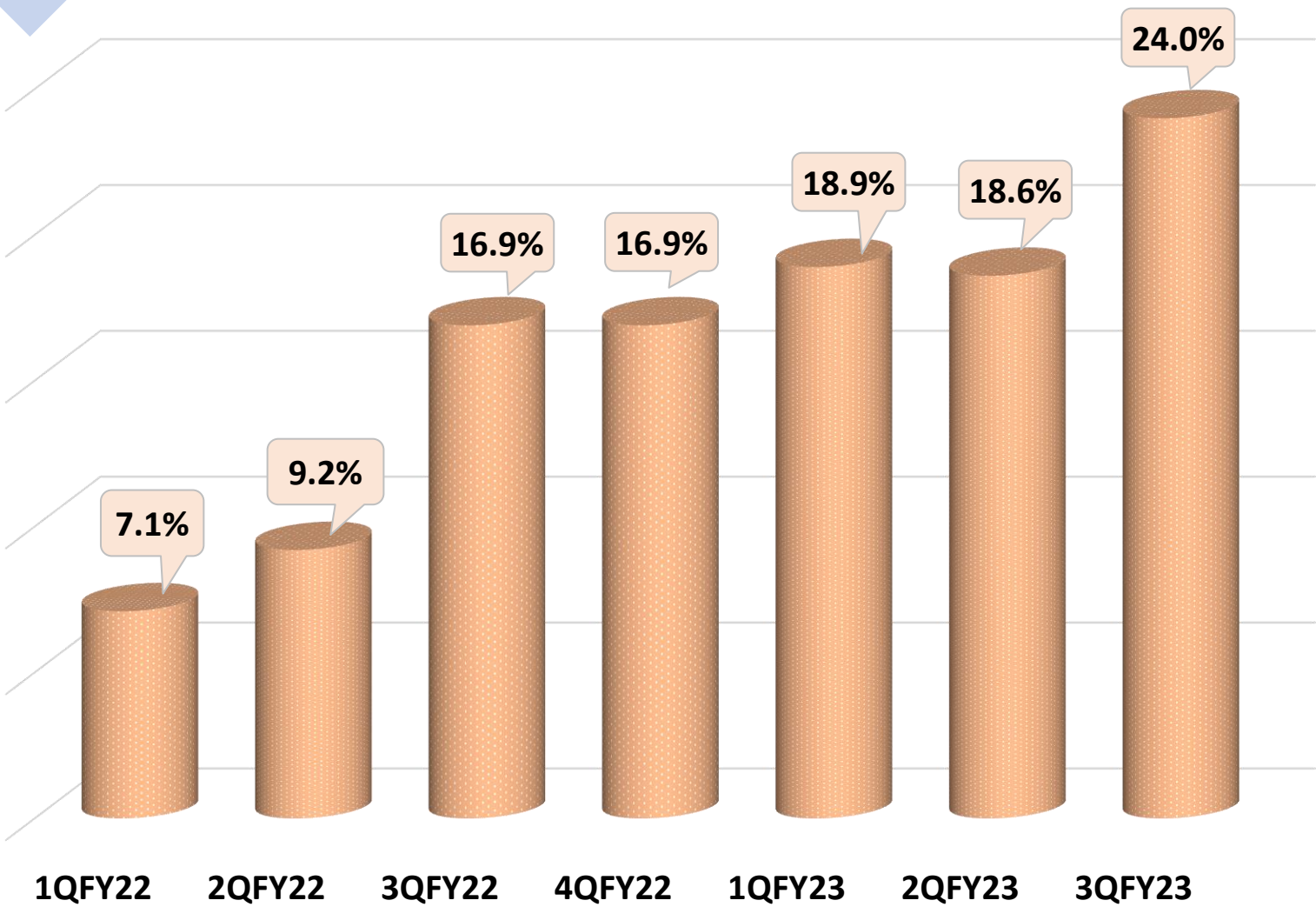
Growth prospects in Bangladesh remain robust, given its much larger market and significant under-penetration in HPC products

Bangladesh hair oil market dominated by these players



**HHL's Kumarika brand is the top 3 player
in Bangladesh hair oil market
categorized as a value-added hair oil
holding a market share of nearly 10% -
15%**

New launches contribution to HHL’s total HPC-International Top-line



Considering the population and the rising demand for beauty and personal care in Bangladesh, **Key focus on opportunities for growth in Bangladesh by expanding the portfolio in core and adjacent spaces.**

Revenue contribution from new launches stood above 18% in Bangladesh in recent times



Eva by Kumarika
Hair Oil



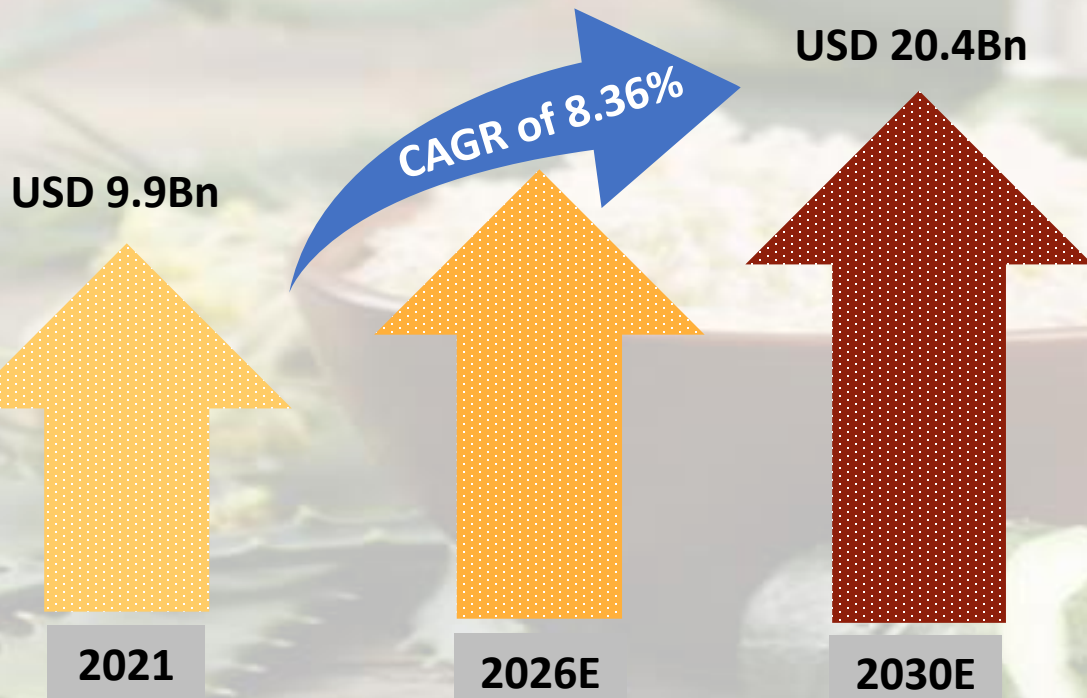
Actisef
Health Soap

Source: HHL investor relations

Changes in demographic patterns drive demand for Organic skin care products

Rising health consciousness in wellness products and concerns related to environmental sustainability among the customers boosted the growth of organic and natural cosmetics..

Global Organic personal care market value



Source: Statista, polais market research

...while growing market value of natural and organic skin care may open opportunities to premium market segments

Natural skincare market value (2023 – 2027E)
(values in USD)

India	Bangladesh	Pakistan	Thailand	Indonesia
CAGR 3.61%	CAGR 3.55%	CAGR 3.33%	CAGR 6.41%	CAGR 6.29%
1,037.2 Mn	301.3 Mn	80.2 Mn	95.2 Mn	301.6 Mn
900.0 Mn	175.1 Mn	70.4 Mn	122.0 Mn	236.3 Mn

2027E

2023



(III) Expansion plans on learning segment “Atlas” for better reach

As Atlas Axilia being the local market leader in key product categories in the learning segment...



No 1 Stationery brand and a leading learning brand in Sri Lanka

First brand of stationery to begin **in-house production** of markers

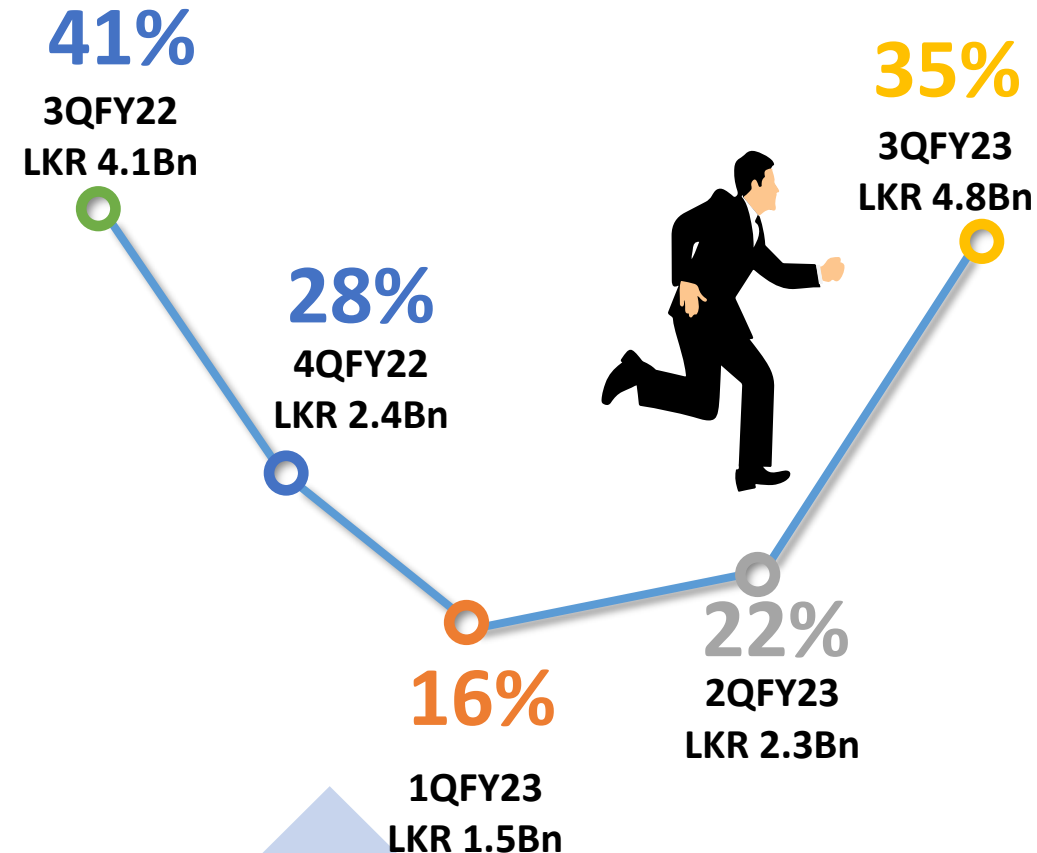
Bangladesh, Pakistan and Gulf countries are the key export markets for Atlas

Meanwhile, improved revenue from **export initiatives** and the premium brand 'innovate' contributed to the revenue growth.

Although, all verticals saw decline in volume, Atlas continued to gain market share in key categories, given the defensive nature.

Learning segment contribution to HHL's Consumer Brands revenue

Source: HHL investor relations



...global partnerships to further elevate the growth of Atlas

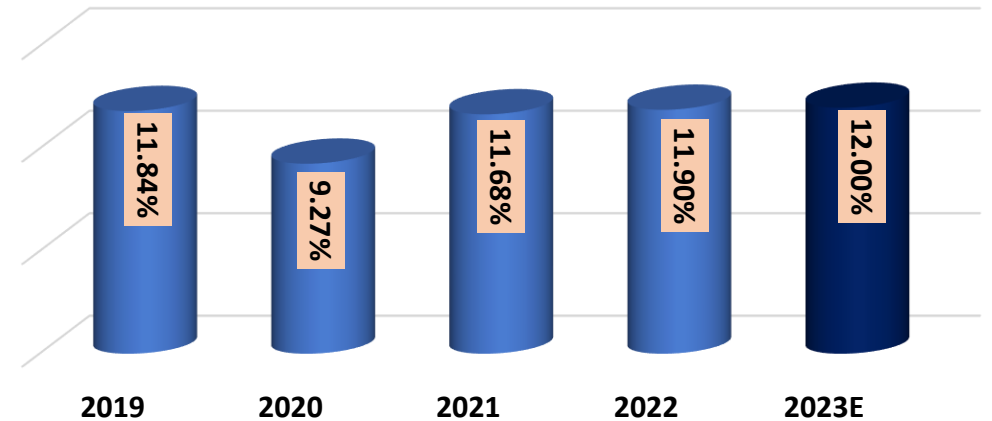
As **Bangladesh** is one of the leading export market for Atlas, the management is expecting to **expand operation** into the region as around **35%** of Bangladesh domestic demand is met by the **home-grown products**, while the rest are imported.

Moreover, the Govt. of Bangladesh is also aiming to **strengthen the education** sector of the country over the coming years.

The primary and secondary education enrolment rate along with adult **literacy rate** in Bangladesh has **increased** over the years and this trend is expected to continue in future as well.

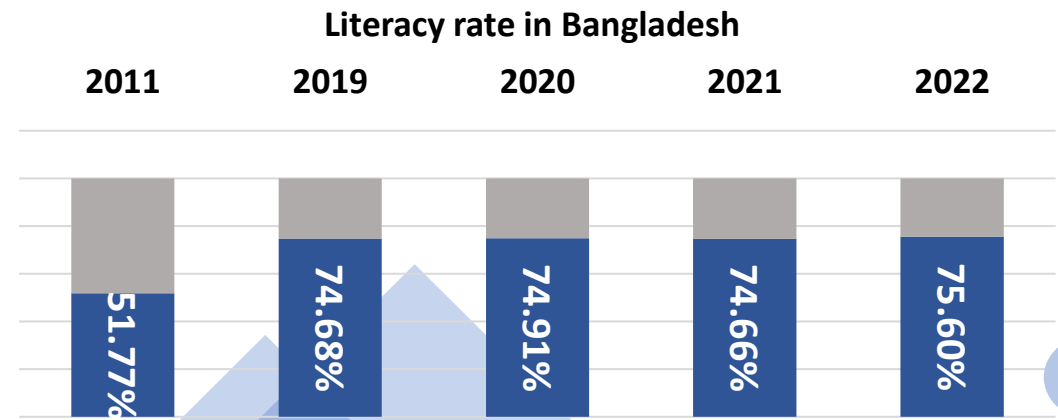
Meanwhile, as a stationery brand, opportunities arise for Atlas as countries grow their **education spending**, which is happening at a rapid pace in developing economies.

Bangladesh Expenditure on Education as a % of Total Govt. Expenditure



Source: macrotrends

Under the Education Goal 2030, the government of Bangladesh aims to achieve 100% literacy rate in 8 years

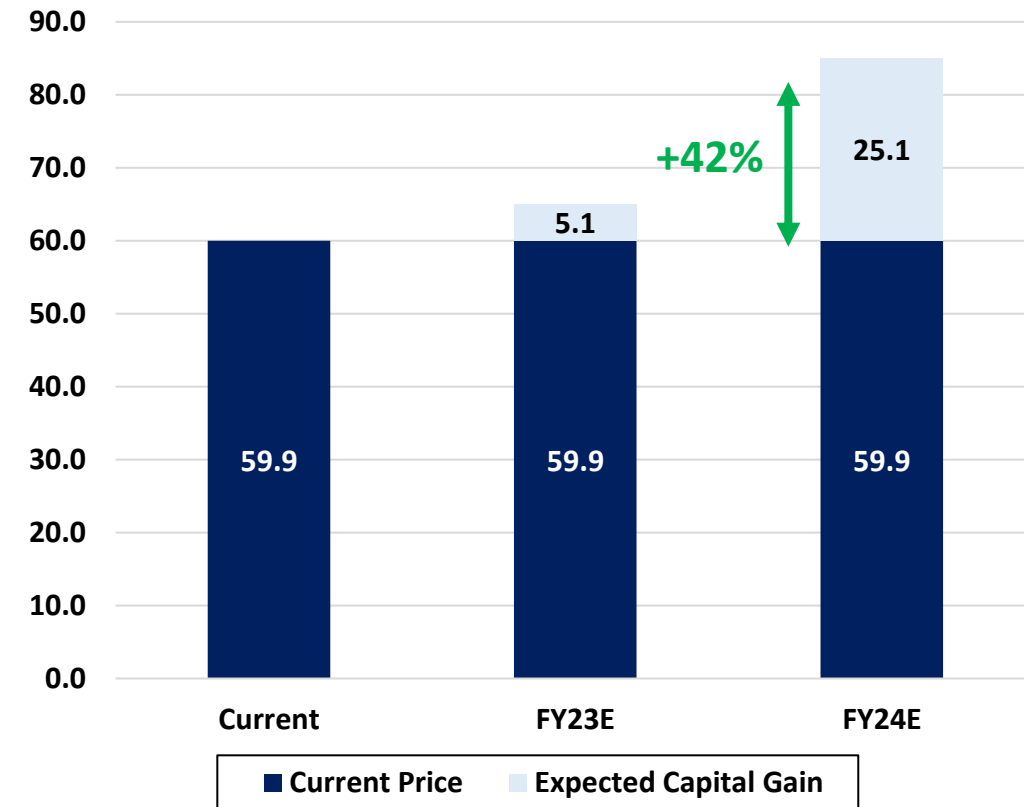
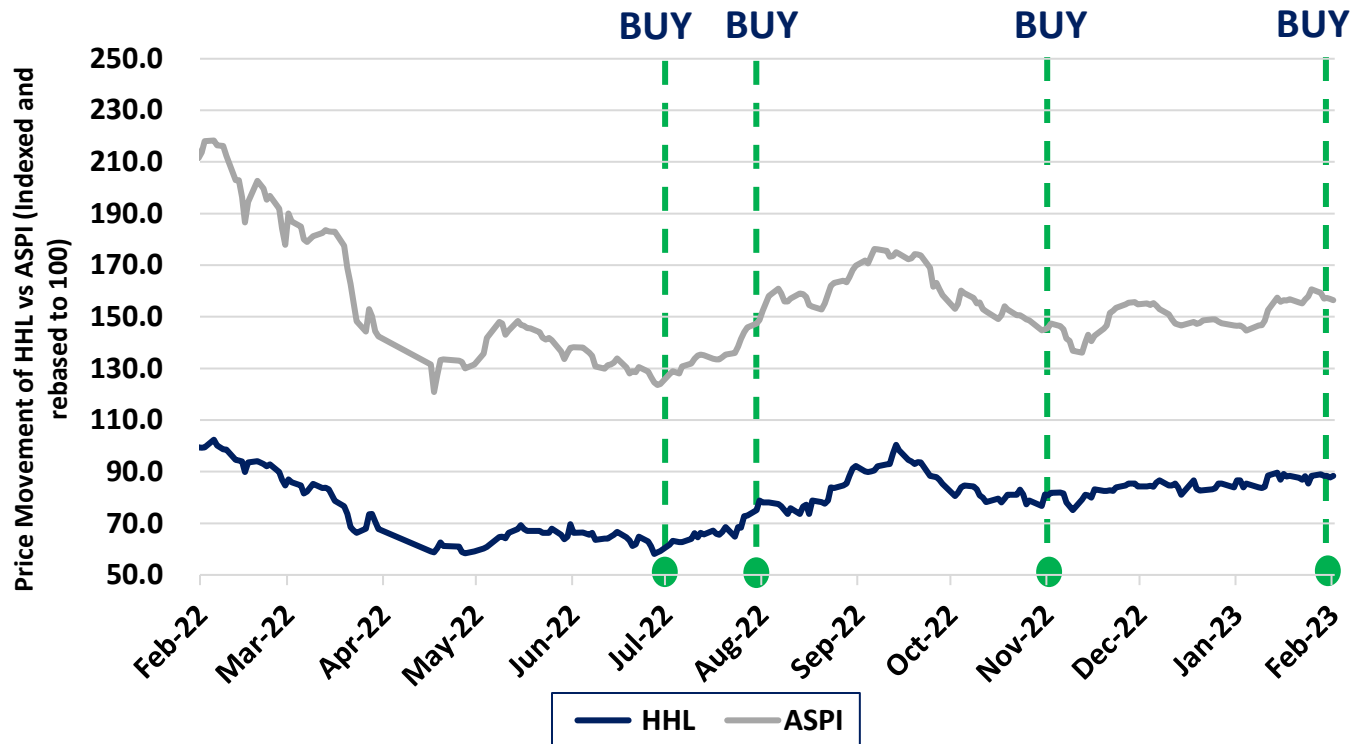




2.0 Stock Analysis and Valuation

HHL provides an upside of 42% for FY24E from its current price where it already reached our target price for FY23E in Sep 2022

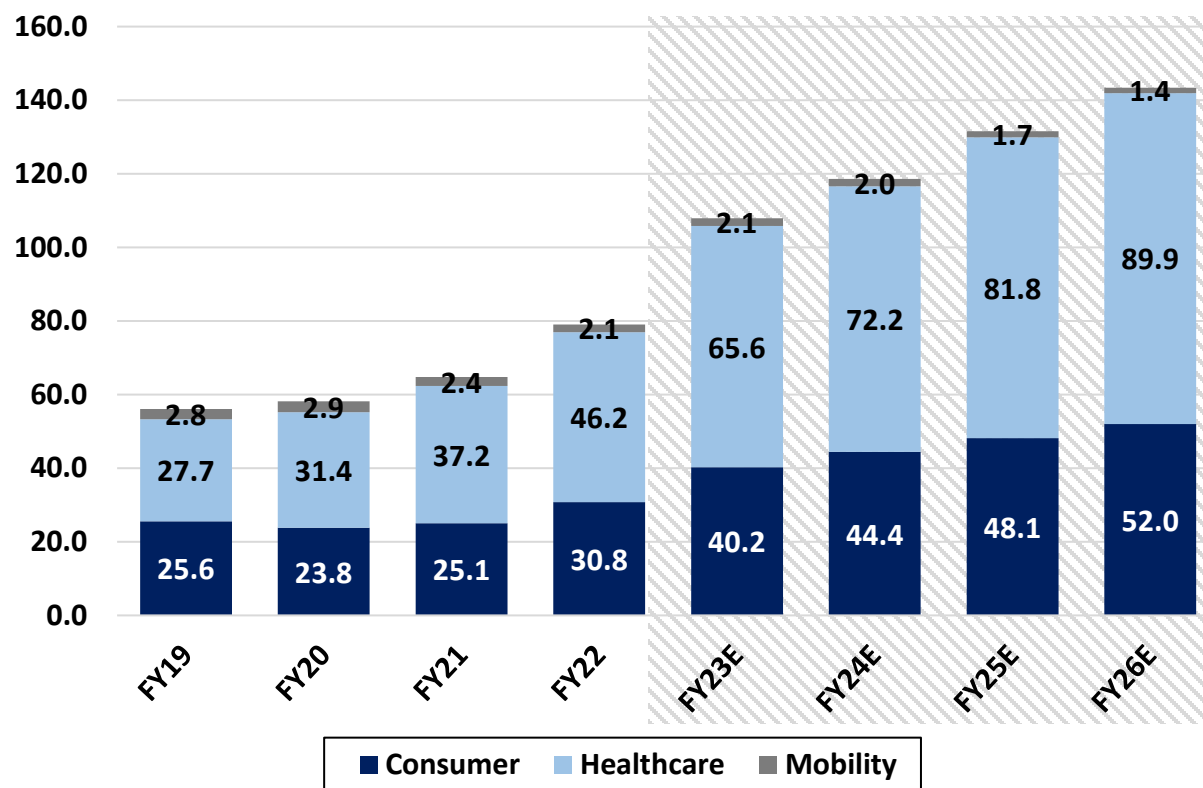
Price Movement of HHL vs ASPI (Indexed and rebased to 100)



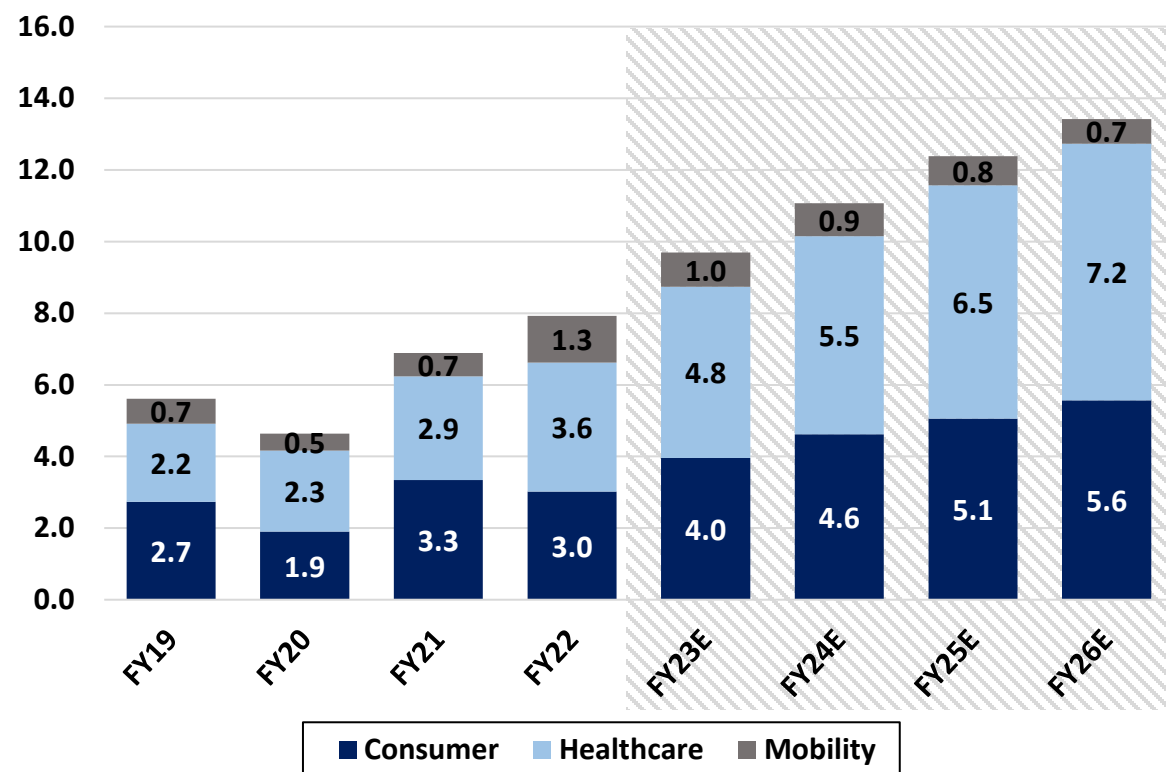
HHL share price reached our target price for FY23E (LKR 65.0) on 21st Sep 2022 providing a capital gain of 41.3% since our recommendation on 3rd Jun 2022, when the share price was at LKR 46.0

By expanding the portfolio in core and adjacent spaces, HHL's core segments are expected to deliver resilient performances

Segmental Revenue Breakdown (LKR Bn)

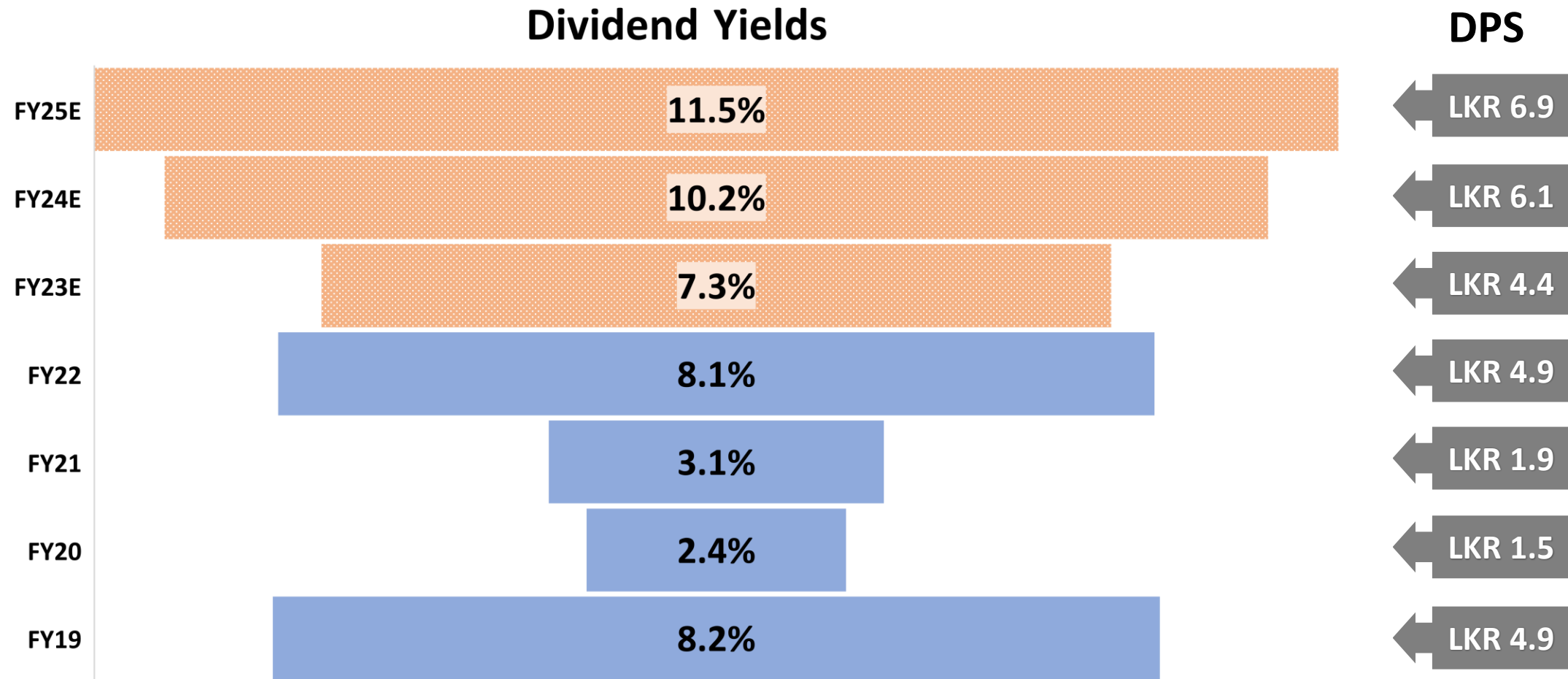


Segmental EBIT Breakdown (LKR Bn)

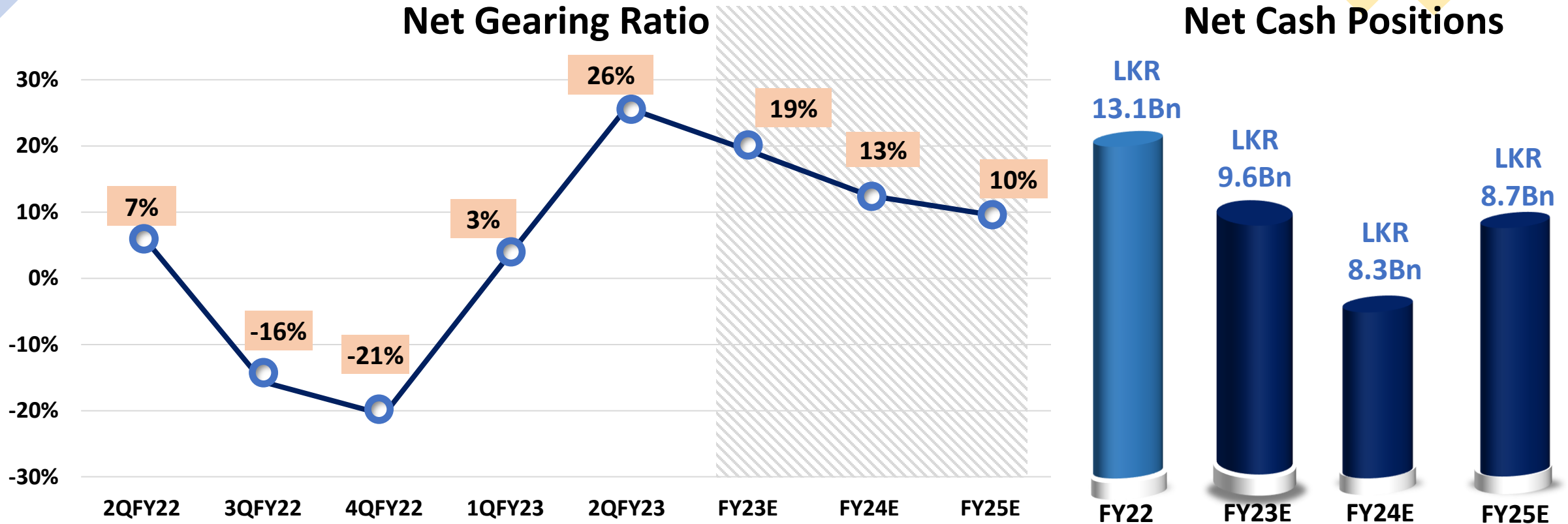


Healthcare segment continued to contribute over 50% to the Group's topline and EBIT while Consumer brands segment is expected to see a consistent growth.

HHL also provides an attractive dividend yield with a payout over 60%, backed by steady earnings



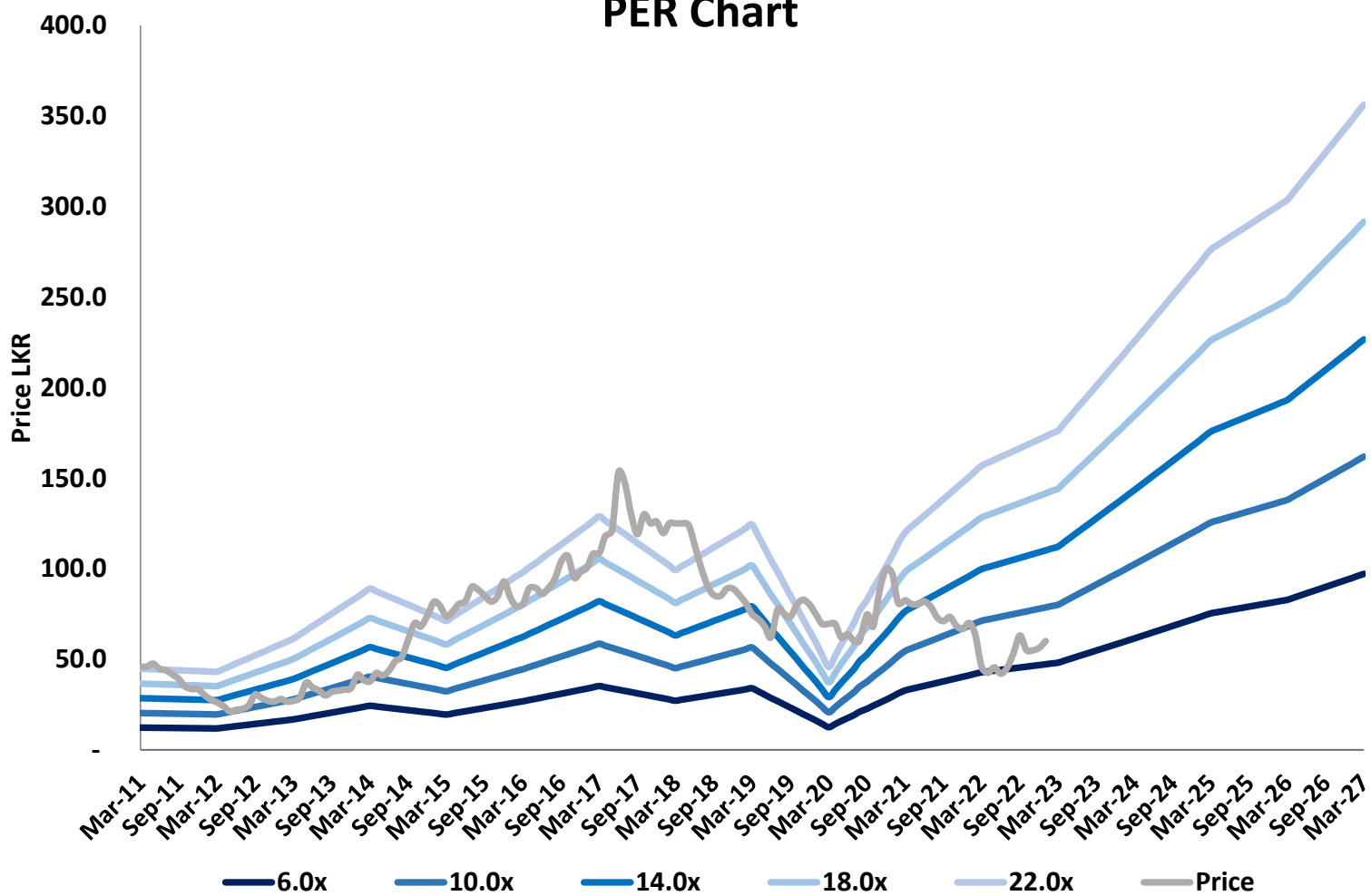
Net gearing ratio remains low backed by strong balance sheet and defensive cash flow



HHL continued to **maintain lower net gearing level** despite an increase on a QoQ basis in order to finance the working capital requirements amidst the economic crisis. Maintaining lower leverage, provides an **opportunity for M&A mainly within the core segment** as HHL has a record of selective acquisitions and strong integration capabilities with acquired companies. Meanwhile, the management strongly believes with the high interest rate environment the group is likely to maintain low net gearing.

HHL has been trading at a historical low level of PE deriving a TP of LKR 81.0 for FY24E

PER Chart



PER based Valuation	FY24E
Earnings (LKR 'Mn)	6,040,623
No. of Shares ('Mn)	596,546
EPS	10
Expected Average PER	8.0x
Price at 8x Earnings	81.0

PER valuation method has used a price multiple of **8.0 times** considering the significant potential in the counter. Our PER based TP is estimated at **LKR 81.0** for FY24E.

SOTP based valuation has derived a TP of LKR 88.0 for FY24E

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	25.5%	25%	3%	26,056		43.7	43%
Healthcare	DCF	21/79	25.9%	23%	3%	31,295		52.5	52%
Logistics and Maritime	DCF	7/93	25.9%	24%	3%	2,721		4.6	5%
Other	Justified PBV						295	0.5	0%
Fair Value before Net Debt								101.3	100%
Less: Debt								22.2	
Add: Cash								9.4	
Fair Value								88.4	
Fair Value (Round up)								88.0	

Expected HHL Price	FY24E
PER Valuation based target price	81.0
SOTP Valuation based target price	88.0
Average Target Price	84.5
Target Price after Rounding off	85.0

Fair Value for HHL has been computed based on **SOTP** and **PER** valuations with equal weightage given for both methods.

Return	FY24E
Target Price	85.0
Current Price	59.9
Capital Gain (LKR)	25.1
Dividends upto 31 Mar (LKR)	6.1
Capital Gain %	42%
Dividend Yield %	10%
Total Return %	52%
Annualized Return %	45%

Accordingly, we have derived a fair value of **LKR 85.0 for FY24E** which provides a Total return of **52%** with dividend.

Peer Comparison – Global and Local peers

Peer Comparison - Global

Company	Country	Mkt Cap (LKR' Bn)	Enterprise Value (LKR Bn)	D/E	ROE	P/E	P/B
Hemas Holdings PLC	Sri Lanka	35.70	48.6	63%	12.0%	8.41	1.01
Tempo Scan Pacific Tbk	Indonesia	152.44	128.1	19%	12.4%	7.77	0.93
Dishman Carbogen Amcis	India	70.28	125.7	25%	0.3%	88.61	0.29
Guangdong Taiantang Pharmaceutical	China	178.48	231.8	21%	-29.8%	N/A	0.78
Enseval Putera Megatrading Tbk	Indonesia	177.92	165.4	0%	12.4%	8.80	1.07

Peer Comparison - Local

Company	Ticker	Mkt Cap (LKR' Bn)	Trailing PER	P/B	ROE	NAVPS	DY
Hemas Holdings PLC	HHL.N0000	35.70	8.40	1.00	12.0%	59.70	8.1%
CIC Holdings PLC	CIC.N0000	21.58	3.70	1.30	35.2%	56.93	2.7%
Sunshine Holdings PLC	SUN.N0000	18.74	5.40	1.20	22.0%	31.86	2.6%
Hayleys PLC	HAYL.N0000	52.28	1.90	0.60	33.7%	110.27	7.2%
John Keells Holdings PLC	JKH.N0000	199.08	7.70	0.50	7.1%	262.97	1.0%
Industry			4.00	0.60			



3.0 Financial statements analysis

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	9MFY23	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)								
Revenue	64,082	60,043	64,501	78,831	81,730	109,075	119,805	132,780
Gross Profit	21,478	19,148	19,417	21,850	21,907	28,359	32,347	35,851
EBIT	5,661	3,532	6,061	6,783	7,959	9,273	14,728	15,798
Net Profit	3,369	1,236	3,253	4,249	3,211	4,326	6,041	6,826
Adjusted EPS (LKR)	5.7	2.1	5.5	7.1	5.4	7.3	10.1	11.4
YoY Growth (%)	25%	-63%	163%	31%	1%	2%	40%	13%
Valuations								
PER (x)	10.6x	28.9x	11.0x	8.4x	11.1x	8.3x	5.9x	5.2x
PBV (x)	1.3x	1.3x	1.1x	1.0x	1.0x	1.0x	0.9x	0.8x
DY (%)	8.2%	2.4%	3.1%	8.10%	-	7.3%	10.2%	11.5%
NAVPS	47.1	46.8	53.5	59.7	59.7	62.6	66.7	71.2
DPS (LKR)	4.9	1.5	1.9	4.9	-	4.4	6.1	6.9
Dividend Payout	87.2%	69.9%	33.9%	68.0%	-	60.0%	60.0%	60.0%

Statement of Financial Performance (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
P/E 31st Mar							
Revenue	64,082	60,043	64,501	78,831	109,075	119,805	132,780
Cost of sales	-42,605	-40,896	-45,084	-56,981	-80,715	-87,458	-96,930
Gross Profit	21,478	19,148	19,417	21,850	28,359	32,347	35,851
Other Income	794	623	681	1,099	1,091	3,414	2,656
Selling, Distribution & Admin expenses	-16,517	-16,119	-13,704	-15,641	-20,066	-20,928	-22,608
Share of results of JV	-58	-120	-333	-525	-111	-105	-100
Share of results of associate	-35	-	-	-	-	-	-
Operating Profit	5,661	3,532	6,061	6,783	9,273	14,728	15,798
Finance Income	478	269	249	352	855	658	582
Less : Finance Cost	-1,046	-960	-639	-486	-2,299	-4,453	-3,572
Profit Before Tax	5,093	2,841	5,670	6,648	7,830	10,933	12,808
Income Tax Expense	-1,414	-1,357	-1,523	-1,814	-2,740	-3,827	-4,483
Profit for the Year (continuing)	3,679	1,484	4,147	4,834	5,089	7,107	8,325
Profit/(loss) from discontinued operations	-	-121	-805	-	-	-	-
Profit for the year	3,679	1,363	3,342	4,834	5,089	7,107	8,325
Minority Interest	310	127	89	586	763	1,066	1,498
Profit attributable to Equity Holders	3,369	1,236	3,253	4,249	4,326	6,041	6,826
EPS	5.7	2.1	5.5	7.1	7.3	10.1	11.4

Statement of Income and Expenses

Statement of Financial Position (LKR Mn) as at 31st Mar	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Non-Current Assets							
Property, plant and equipment	18,685	20,033	17,540	18,007	18,780	19,498	20,159
Investment properties	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
Intangible assets	3,469	3,439	3,290	3,295	3,295	3,295	3,295
Investments in JVs	884	701	557	85	196	301	401
Other non current assets	1,556	878	493	421	421	421	421
	26,242	28,727	25,700	25,086	25,760	26,395	26,985
Current Assets							
Inventories	11,201	13,560	15,451	16,807	24,225	28,412	31,489
Trade and other Receivables	18,434	16,094	13,655	19,772	30,934	29,840	33,008
Other current assets	399	383	331	748	757	768	780
Cash and cash equivalents	6,474	5,617	8,458	13,895	10,597	9,317	9,691
	36,507	35,654	37,895	51,221	66,513	68,337	74,968
Total Assets	62,749	64,380	63,594	76,308	92,273	94,732	101,954
Equity and Liabilities							
Stated Capital	7,734	7,734	7,776	7,776	7,776	7,776	7,776
Other Reserves	185	217	181	160	160	160	160
Other components of equity	1,682	1,389	2,161	4,446	4,446	4,446	4,446
Retained Earnings	18,497	18,574	21,778	23,206	24,934	27,347	30,074
Equity attributable to equity holders of parent	28,099	27,914	31,895	35,588	37,316	39,729	42,456
Non-controlling interests	3,771	3,560	1,543	920	1,683	2,749	4,247
Total Equity	31,870	31,474	33,438	36,507	38,999	42,478	46,704
Non-current Liabilities							
Interest-bearing loans and borrowings	1,369	4,738	3,196	3,093	3,359	2,652	2,549
Deferred tax liabilities	1,812	1,733	1,363	1,724	1,724	1,724	1,724
Other non-current liabilities	2,925	3,225	1,310	1,268	1,422	1,600	1,805
	6,106	9,697	5,869	6,085	6,504	5,975	6,077
Current Liabilities							
Trade and other payables	18,599	17,937	17,947	27,165	29,040	31,466	34,873
Income tax payable	439	513	603	804	1,005	904	814
Other financial liabilities	-	-	1,973	2,272	2,272	2,272	2,272
Interest bearing borrowings	3,553	3,363	3,260	2,678	13,435	10,608	10,195
Bank overdraft	2,182	1,396	504	796	1,019	1,029	1,019
	24,774	23,209	24,287	33,716	46,770	46,279	49,173
Total Liabilities & Shareholders' Funds	62,749	64,380	63,594	76,308	92,273	94,732	101,954

Statement of Financial Position



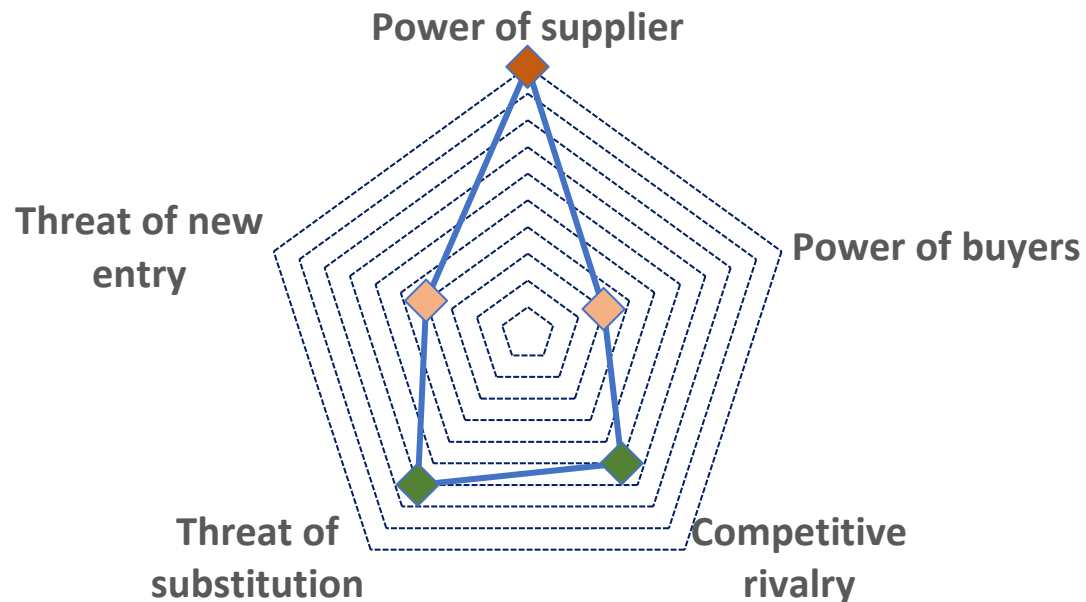
4.0 Risk analysis

Investment Risk Assessment

		LIKELIHOOD			
		LOW	MEDIUM	HIGH	VERY HIGH
IMPACT	LOW		Change in consumer patterns from brand to affordability		
	MEDIUM	Margin pressure on consumer brands due to volatile commodity prices		Government price control on pharma drugs	GDP expected to contract further in 2023
	HIGH		Steep depreciation of LKR against USD	Electricity tariff hike and power shortages	
	VERY HIGH				Extensive skill migration amidst financial crisis

Porter's Five Forces Analysis

Overall Industry Attractiveness and Outlook: **NEUTRAL**



Power of suppliers: HIGH

The industry is reliant on multiple raw materials sourced largely from foreign suppliers. As it is difficult to access to RM locally, current suppliers possess significant power for both pharma manufacturing and Consumer brands.

Power of buyers: LOW

HPC products' essential nature means they will remain defensive in the downturn. Hence, despite a challenging environment, the industry performs well as it owns significant number of buyers.

Competitive rivalry: NEUTRAL

There is a healthy level of competition for both Consumer brands and Pharma in SL.

Threat of substitution: NEUTRAL

HPC products are easily substitutable as consumer preferences may change from brand loyalty to affordability, while pharma drugs possess low risk in terms of substitution.

Threat of new entry: Low

The existence of a few, dominant number of players in the market suggests that there are higher barriers to entry while HHL holds a market leadership position with substantial market share.



5.0 Company Profile



The infographic is a circular diagram with a central black octagon containing the company logo and name. Surrounding this center are seven colored triangular segments, each representing a different company metric. The segments are: 1. Top (orange): 75 Years in Operation, with a checkmark icon. 2. Top-right (light green): 15 Export Destinations, with a globe icon. 3. Right (light blue): Regional Operations, listing Sri Lanka, Bangladesh, and West Bengal, with a city/location icon. 4. Bottom-right (light purple): Gender Composition, showing 88% male and 12% female with person icons. 5. Bottom (orange): >5K Employees, with a person and clipboard icon. 6. Bottom-left (light green): Market Capitalisation, showing USD 99.42Mn and a bar chart icon. 7. Left (light blue): Key Segments, listing Healthcare, Consumer Brands, and Mobility, with a pie chart icon. 8. Top-left (light purple): AAA Long-term Fitch Rating, with a star icon.

HEXAS COMPANY OVERVIEW

75 Years in
Operation

15 Export
Destinations

Regional Operations:

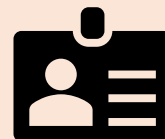
- Sri Lanka
- Bangladesh
- West Bengal

Gender Composition:



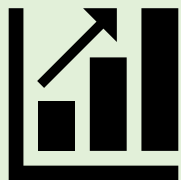
88% : 12%

>5K Employees



Market Capitalisation:

USD 99.42Mn



Key Segments:

- Healthcare
- Consumer Brands
- Mobility



AAA Long-term
Fitch Rating

Portfolio and Brands

Consumer Brands



Baby care



Oral Care



Laundry Care



Beauty care



Hair Oil

Home & Personal care



Feminine care



Female fragrances



Shampoo



Hygiene care



Male grooming

Learning segment



Healthcare



Baby Care



Cold and Flu



Skincare



Hospital



Pharma Manufacturing

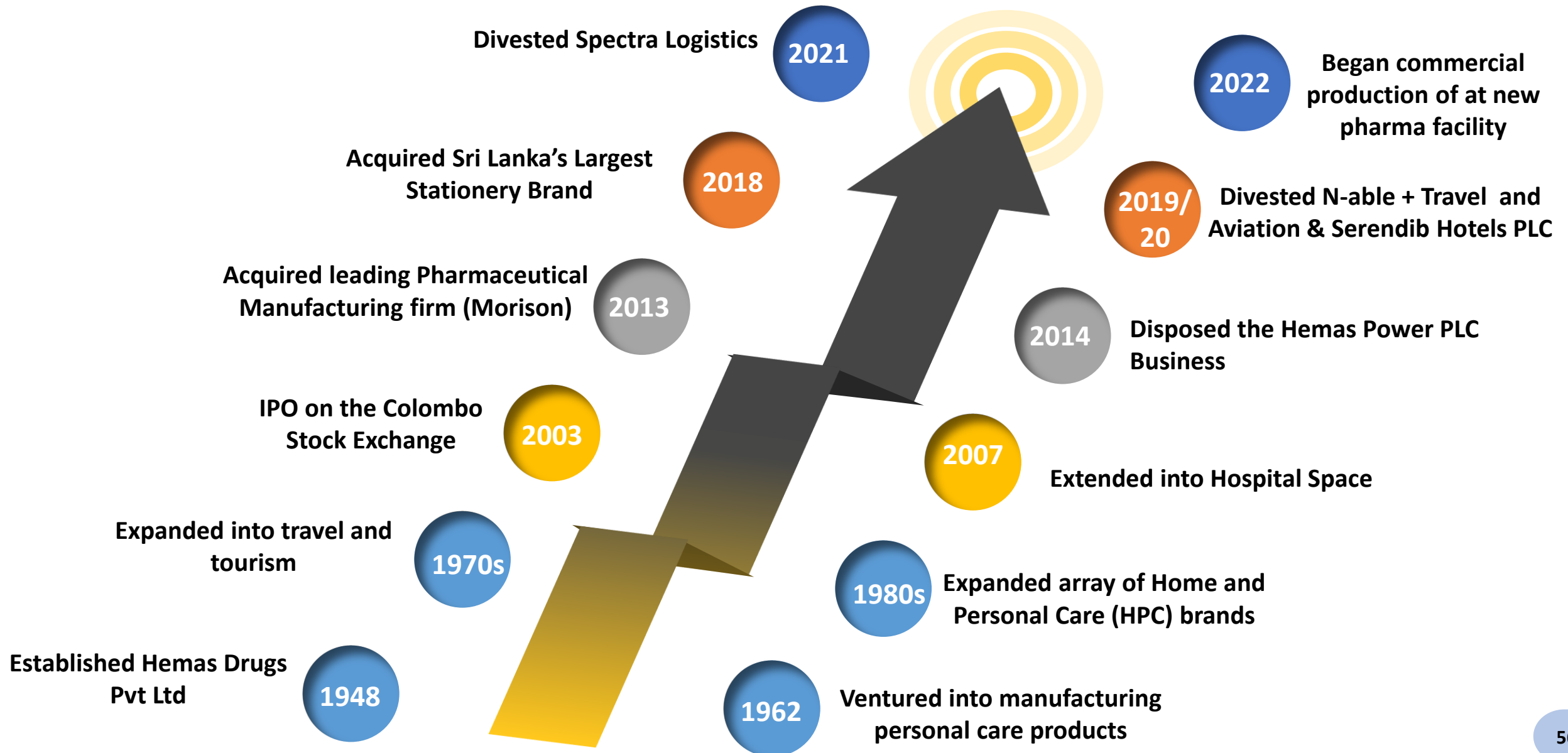


Mobility



EVERGREEN LINE

Milestones of HHL





6.0 Environmental Social & Governance



Environmental



An 'Ocean Strainer' floating trash trap at the Samanala Canal, Galle, and four 'Beach Caretaker Projects' in Habaraduwa, Rathgama, Bentota and Balapitiya.

20+ Tonnes
Expected Annual Collection

Addressing Marine Pollution in Sri Lanka

Responsible Disposal of Plastic Waste

Partnership with Plasticcycle which is targeted towards responsible disposal and responsible management of post consumption plastic products among the general public

5+ Tonnes
Plastic collected since inception



Series of mini projects that strives to protect the endemic species of Sri Lanka

25 Mini Projects

Endemic Species Conservation Project

Reduction of Plastic Used in Products

Baby Cheramy introduced 100% eco-friendly biodegradable cotton buds made from paper. Baby Cheramy is the first local baby care brand to introduce an eco-friendly bamboo cotton bud to the market.

100+ Tonnes
Reduction of plastic used per year



Partnership with Rainforest Protectors to plant 15,000 trees with the aim to embed sustainable forest management practices within Sri Lanka and extend its support towards social initiatives to conserve the forest cover.

Reforestation of Land in Balangoda for a Greener Sri Lanka

Social



61st Piyawara Pre School

4,000+
Children

150+
Teachers

Early childhood care and development of underprivileged children across the country.



8,500+ Teachers

60,000+
Students

20,000+
Parents

Facilitating learning by creating quality educational experiences for every child

Feb 2023



6,000
Natural Hair
wigs

10
Cancer
Hospitals

Raising awareness on the stigma and misconceptions regarding cancer in an effort to create an inclusive world



15,000+
Reached on issues around menstruation

4,000+
Women

18 localities
Training session

Tackling period poverty in Sri Lanka

First Capital Research

Governance

Corporate Governance Appraisal

1. Company is headed by an effective Board	✓
2. Role of the CEO and Chairman are two different individuals	✓
3. Chairman is an independent director	✗
4. Firm has an audit committee	✓
5. Firm has a remuneration committee	✓
6. Firm has at least an additional specialized committee other than nomination, remuneration and audit committees. Ex: risk committee and/or governance committee	✓
7. Firm discloses individual director's performance appraisal	✓
8. Has an equity-based compensation plan (ESOPs)	✓
9. No adverse opinion by the auditor in the past year	✓
10. Classes of stocks with different voting rights	✗
11. Diversity in the Board	✓
12. Firm discloses the total and breakdown of remuneration as fixed and variable	✗
13. Announcements to the CSE when required	✓



7.0 Annexures

Glossary of Terms

CAGR	Compound Annual Growth Rate	NAVPS	Net Asset Value Per Share
CD	Communicable Disease	NCD	Non communicable Disease
DPS	Dividend Per Share	NMRA	National Medicines Regulatory Authority
DY	Dividend Yield	OSD	Oral Solid Dosage
EPS	Earnings per Share	PBV	Price to Book Value
EU	European Union	PER	Price to Earnings Ratio
FCR	First Capital Research	Pharma	Pharmaceutical
FDI	Foreign Direct Investment	QoQ	Quarter on Quarter
FV	Fair Value	ROCE	Return on Capital Employed
GMP	Good Manufacturing Practice	ROE	Return on Equity
HHL	Hemas Holdings	SL	Sri Lanka
HPC	Home and Personal Care	SOTP	Sum of The Parts Valuation
IMF	International Monetary Fund	SPMC	State Pharmaceutical Manufacturing Corporation
LOC	Letter of Credit	TP	Target Price
M&A	Mergers and Acquisitions	YoY	Year on Year
MRP	Maximum Retail Price	YTD	Year to Date
MT	Metric Ton		

Consumer Brands product comparison

Product Category	Hemas Brands		Competitor Brands	
Toothpaste 120g	Clogard LKR 250	Signal LKR 285	Close up LKR 375	Sudantha LKR 300
Shampoo (Women) 180ml	Kumarika LKR 455	Sunsilk LKR 700	Pantene LKR 660	Dove LKR 920
Body spray (Men) 150ml	Gold LKR 650	Axe LKR 1010		
Baby Talc powder 100g	Baby Cheramy LKR 330	Panda LKR 250	Pears LKR 300	
Anti-dandruff shampoo 175ml	Dandex LKR 540	Lifebuoy LKR 580	Lever Ayush LKR 845	
Hand wash bottle 250ml	Velvet LKR 550	Dettol 200ml LKR 580	Lifebuoy 200ml LKR 525	

Top 20 Shareholder list

Top 20 shareholders	Holding %	3QFY23	3QFY22	YoY
A Z Holdings (Pvt) Ltd	15.77%	94,092,305	94,092,305	0.0%
Amagroup (Pvt) Ltd.	15.33%	91,427,333	91,427,333	0.0%
Saraz Investments (Pvt) Ltd	15.01%	89,565,277	89,565,277	0.0%
Blueberry Investments (Pvt) Ltd.	14.91%	88,927,940	88,927,940	0.0%
BBH-Kopernik Global All Cap Fund	2.69%	16,019,905	16,019,905	0.0%
HSBC Intl Nominees Ltd-JPMLU-Franklin Templeton Investment Funds	2.16%	12,862,845	12,862,845	0.0%
BBH-Kopernik Global All Cap Equity Fund	2.06%	12,263,194	12,263,194	0.0%
Citibank Newyork S/A Norges Bank Account 2	1.93%	11,510,345	7,146,662	61.1%
Phoenix Ventures (Pvt) Limited.	1.64%	9,796,683	9,796,683	0.0%
Rubber Investment Trust Ltd Account 1	1.33%	7,932,332	6,768,333	17.2%
Mr. I.A.H. Esufally	1.19%	7,086,284	7,086,284	0.0%
Mr. M.A.H. Esufally	1.03%	6,164,633	6,164,633	0.0%
Mr. H.H. Abdulhusein	0.92%	5,500,000	5,500,000	0.0%
Mellon Bank N.A-United Technologies CORP	0.92%	5,488,757	5,488,757	0.0%
Ceylon Investment PLC Account 2	0.91%	5,456,719	6,030,208	-9.5%
Mr. M.J.Fernando	0.91%	5,448,160	5,448,160	0.0%
CB London s/a Verdipapirfondet Holberg Rurik	0.89%	5,289,130	5,520,000	-4.2%
Ceylon Guardian Investment Trust PLC Account 2	0.81%	4,813,216	5,270,726	-8.7%
BBH - Tundra Sustainable Frontier Fund	0.67%	4,001,928	4,001,928	0.0%
BBH - Kopernik Global All-Cap Master Fund	0.55%	3,252,575	-	-

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MANAGING RISKS"*

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