

**HEMAS HOLDINGS PLC [HHL.N0000]****MAINTAIN BUY****“DEFENSIVE GIANT STRENGTHENED BY SOLID FOUNDATION”****Fair Value: FY24E - LKR 85.0 [+25%]**

Total Return with DPS: FY24E - 30% [AER 38%]

Fair Value: FY25E - LKR 95.0 [+40%]

FY25E - 46% [AER 23%]

HHL's topline reported notable results for 4QFY23 by recording 52.6%YoY growth in revenue while earnings remained flat at LKR 1.1Bn. Despite a surge in revenue, healthcare segment witnessed a steep decline in earnings by 69.2%YoY amidst the devaluation of the currency and increase in finance costs. However, it was offset by the growth in consumer brands earnings by 121.9%YoY in 4QFY23 supported by increased focus on international business and exports and improved traction from the learning segment. With the easing of operating environment on the back of declining trend of inflation coupled with stable currency and a slowdown in global commodity prices, we expect pressure on margins to ease going forward. Hence, we maintain the earnings target for FY24E and FY25E at LKR 6.0Bn and LKR 6.8Bn, respectively while the FV for FY24E maintained at LKR 85.0. **MAINTAIN BUY**

LKR (Mn)	4QFY22	4QFY23	YoY	FY22	FY23	YoY
Earnings (LKR 'Mn)						
Revenue	21,109	32,209	+53%	78,831	113,940	+45%
Gross profit	5,727	9,886	+73%	21,850	31,793	+46%
EBIT	1,529	3,004	+97%	6,783	10,963	+62%
PBT	1,616	1,914	+18%	6,648	7,765	+17%
Net Profit-Equity holders	1,063	1,058	-0%	4,249	4,269	+0%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	35,588	38,405	+8%	35,588	38,405	+8%
Borrowings	6,567	21,457	+227%	6,567	21,457	+227%
NAVPS	59.7	64.4		59.7	64.4	

Consumer brands topline driven by price escalations; EBIT margins backed by easing of costs

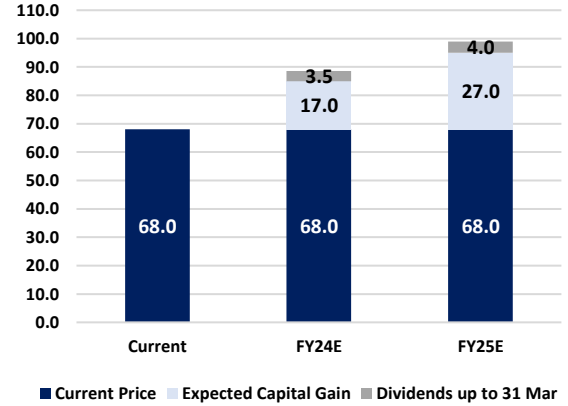
Consumer segment EBIT rose by 161.3%YoY to LKR 2.2Bn in 4QFY23, while operating margin too expanded on a YoY basis by 430bps to 14.3% (3QFY23: 13.1%) on the back of steep increase in revenue by 83.2%YoY. As topline growth was largely attributed to prudent price adjustments, volumes depicted double-digit degrowth on a YoY basis. The decline in global commodity prices, particularly palm oil and paper prices, by 45.3% and 39.0%YoY respectively, allowed the business to implement price reductions and offer discounts across its portfolio. This strategy helped to regain momentum in volumes on a quarterly basis. The introduction of new products under the brands 'Vivva,' 'Aya,' and 'Velvet,' as well as an entry into the ayurvedic wellness market with the brand 'Prasara,' contributed over 10.0% to the total revenue. Furthermore, challenging macroeconomic conditions in Bangladesh (inflationary pressure, currency devaluation and forex crisis) further tightened profit margins of the hair-oil segment as the market witnessed a contraction in terms of volumes. As a result, HHL focused on reducing the concentration of a single brand by shifting attention to the personal care brand 'Actisef,' which contributed over 10% to the top line. Furthermore, the Learning segment, comprising Atlas and Innovate, gained traction in key categories amidst seasonality, contributing 45.4% to the consumer brands' total revenue. Moving forward, the segment aims to establish distribution partnerships with international players to expand its export footprint. With an improving operating environment driven by declining CCPI, stability of currency, and a slowdown in global commodity prices, disposable income is expected to increase. This positive trend is anticipated to alleviate margin pressure on consumer brands and lead to volume growth in the upcoming quarters.

Healthcare segment continued to lead the topline, yet profitability hampered amidst cost escalations

HHL's health care segment contributed 51.9% to the group's topline and reported revenue growth of 34.5%YoY to LKR 16.7Bn cf. LKR 12.4Bn in 4QFY22. Although the Pharmaceutical industry was heavily impacted by the medicine supply shortages amidst the foreign exchange liquidity crisis, HHL's pharmaceutical business reported a robust performance during the quarter leading to YoY revenue growth of 41.4% amidst the price escalation of medicines due to steep currency devaluation. However, the collective impact of high finance cost and steep currency depreciation (9.5%YoY) hampered the earnings growth of the segment by -69.2%YoY to LKR 197.0Mn. The capacity utilisation of the 'Homagama' factory was improved during the latter part of the quarter after securing order from the Government buyback scheme. Moreover, the new manufacturing plant is currently operating at less than 10% of its capacity, and it is expected to progress well to achieve 25% by the end of 2024 with the commencement of pipeline products which can cater to local NCD demand at an affordable price (imported medicines are 80% higher than the locally manufactured). Furthermore, Morison is accelerating its contract manufacturing efforts and expanding into export markets. These initiatives are expected to contribute to growth and enhance the segment's performance.

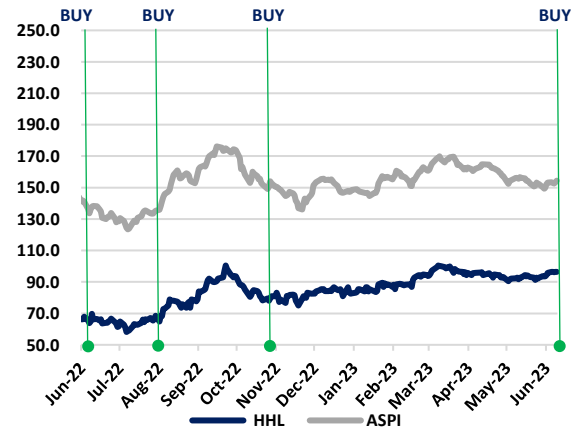
Earnings and Fair Value for FY24E maintained at LKR 6.0Bn and LKR 85.0, respectively - MAINTAIN BUY

Considering the defensive nature of the key main segments of HHL (Healthcare and Consumer segment) and the improvement in capacity utilization and increased traction of the exports and international businesses, we broadly maintain the earnings target for FY24E at LKR 6.0Bn and FY25E at LKR 6.8Bn. Accordingly, FV for FY24E is maintained at LKR 85.0. At the current market price of LKR 65.5, HHL provides a capital gain of 25.0% for FY24E. **MAINTAIN BUY**

**FIRST CAPITAL RESEARCH**

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Source: CSE

Minimum Return for BUY:

Buy Below for FY24E [AER of 29.0% with DPS]: LKR 72.02.
HHL categorized as 'Grade B' counter

Disclosure on Shareholding:

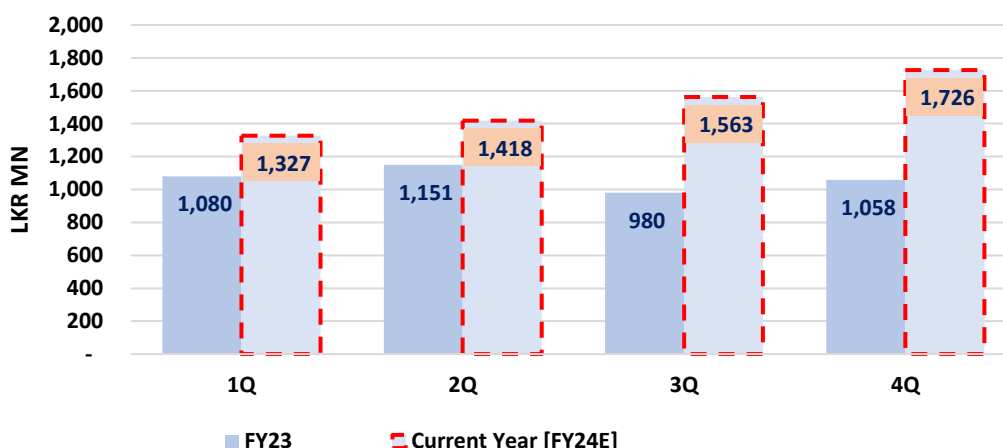
First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of HHL during the five trading days prior to the issuance of this document

Atlas Axillia Company (Pvt) Ltd is now a fully owned subsidiary of HHL

In 2018, HHL strategically acquired a controlling stake of 75.1% in Atlas Axillia Company (Private) Limited, positioning itself as a significant shareholder in the company. Building upon this initial investment, on 13th Jun 2023, HHL successfully acquired the remaining 24.9% issued and paid-up ordinary shares of Atlas Axillia Company (Private) Limited from Mr. Nirmal Anrudha Madanayake. This acquisition solidified Hemas' ownership of Atlas Axillia Company, transforming it into a wholly owned subsidiary. By taking full ownership of Atlas, HHL has strategically strengthened its position in the industry and unlocked opportunities for future growth.

History of Hemas - Atlas Axillia Acquisition	
19th Jan 2018	
Purchase Consideration	LKR 5.7Bn
Acquired stake	75.1%
13th Jun 2023	
Purchase consideration	LKR 3.4Bn
Acquired stake	24.9%
Total investment	LKR 9.1Bn
HHLs' Total stake in Atlas Axillia	100%

Quarterly Earnings



Estimate Revision

In LKR Mn	FY24E-O	FY24E-R	% Change	FY25E-O	FY25E-R	% Change
Earnings Estimate						
Revenue	119,805	121,494	+1%	132,780	132,750	-0%
Gross Profit	32,347	34,140	+6%	35,851	36,971	+3%
EBIT	14,728	13,679	-7%	15,798	14,678	-7%
Profit before tax	10,933	10,550	-4%	12,808	12,393	-3%
Net Profit	6,041	6,034	-0%	6,826	6,847	+0%
Adjusted EPS	10.1	10.1	+0%	11.5	11.5	+0%
Growth YoY	40%	41%		13%	13%	
Balance Sheet Estimate						
Shareholders' Equity	39,729	42,325	+7%	42,456	46,774	+10%
Borrowings	14,289	19,575	+37%	13,762	17,767	+29%
Adjusted NAVPS	66.7	71.0		71.2	78.5	
Ratio Estimate						
ROE (%)	15%	14%		16%	15%	
PER (x)	6.7	6.7		5.9	5.9	
PBV (x)	1.0	1.0		1.0	0.9	

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	64,082	60,043	64,501	78,831	113,940	121,494	132,750	144,415
Gross Profit	21,478	19,148	19,417	21,850	31,793	34,140	36,971	38,992
EBIT	5,661	3,532	6,061	6,783	10,963	13,679	14,678	15,402
Net Profit	3,369	1,236	3,253	4,249	4,269	6,034	6,847	7,478
Adjusted EPS (LKR)	5.7	2.1	5.5	7.1	7.2	10.1	11.5	12.5
YoY Growth (%)	25%	-63%	163%	31%	0%	41%	13%	9%
Valuations								
PER (x)	12.0x	32.8x	12.5x	9.5x	9.5x	6.7x	5.9x	5.4x
PBV (x)	1.4x	1.5x	1.3x	1.1x	1.1x	1.0x	0.9x	0.8x
DY (%)	2.7%	0.0%	2.7%	6.40%	3.46%	5.2%	5.9%	6.5%
NAVPS	47.1	46.8	53.5	59.7	64.4	71.0	78.5	86.6
DPS (LKR)	1.8	-	1.9	4.4	2.4	3.5	4.0	4.4
Dividend Payout	32.5%	N/A	33.9%	61.0%	32.8%	35.0%	35.0%	35.0%

Valuation Summary

Return	FY24E	FY25E	Expected HHL Price	FY24E	FY25E
Target Price	85.0	95.0	PER Valuation based target price	91.0	103.3
Current Price	68.0	68.0	SOTP Valuation based target price	84.7	95.9
Capital Gain (LKR)	17.00	27.00	Average Target Price	87.9	99.6
Dividends upto 31 Mar (LKR)	3.54	4.02	Target Price after Rounding off	85.0	95.0
Capital Gain %	25%	40%			
Dividend Yield %	5%	6%			
Total Return %	30%	46%			
Annualized Return %	38%	23%			

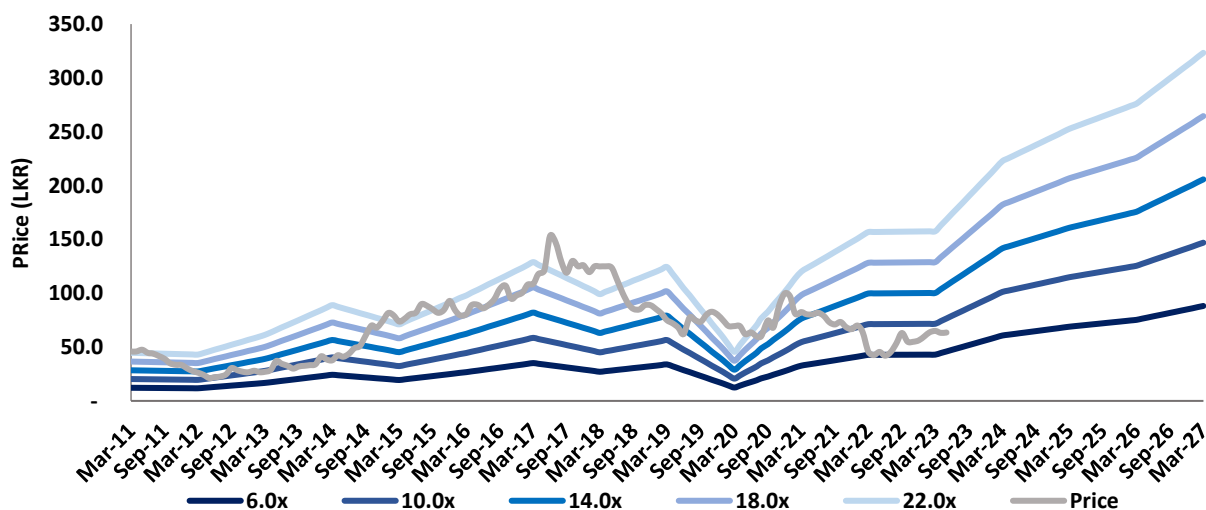
PER Valuation

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	6,034	6,847
No. of Shares ('Mn)	597	597
EPS	10.1	11.5
Expected Average PER	9.0x	9.0x
Price at 9x Earnings	91.0	103.3

SOTP Valuation

Segment	Valuation Method	Valuation Assumptions			Value in LKR Mn	
		CoE	WACC	Growth	Firm Value FY24E	Firm Value FY25E
Consumer	DCF	29.0%	28.7%	3%	27,367.1	29,678.7
Healthcare	DCF	27.4%	22.9%	3%	24,841.7	27,952.8
Logistics and maritime	DCF	29.0%	26.5%	3%	1,555.2	1,404.7
Other	DCF	18.0%	25.7%	3%	-2,799.8	-2,955.4
Fair Value before Net Debt					50,964.2	56,080.9
Less: Debt					-15,648.2	-14,036.4
Add: Cash					15,204.2	15,171.8
Fair Value					50,520.2	57,216.3
No. of shares					596.5	596.5
Fair Value per share					84.7	95.9

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
P/E 31st Mar								
Revenue	64,082	60,043	64,501	78,831	113,940	121,494	132,750	144,415
Cost of sales	-42,605	-40,896	-45,084	-56,981	-82,147	-87,354	-95,779	-105,423
Gross Profit	21,478	19,148	19,417	21,850	31,793	34,140	36,971	38,992
Other Income	794	623	681	1,099	720	972	796	866
Selling, Distribution & Admin expenses	-16,517	-16,119	-13,704	-15,641	-21,150	-20,881	-22,401	-23,595
Share of results of JV	-58	-120	-333	-525	-400	-551	-689	-861
Share of results of associate	-35	-	-	-	-	-	-	-
Operating Profit	5,661	3,532	6,061	6,783	10,963	13,679	14,678	15,402
Finance Income	478	269	249	352	911	981	914	912
Less : Finance Cost	-1,046	-960	-639	-486	-4,110	-4,111	-3,198	-2,780
Profit Before Tax	5,093	2,841	5,670	6,648	7,765	10,550	12,393	13,534
Income Tax Expense	-1,414	-1,357	-1,523	-1,814	-2,696	-3,692	-4,338	-4,737
Profit for the Year (continuing)	3,679	1,484	4,147	4,834	5,069	6,857	8,056	8,797
Profit/(loss) from discontinued operations	-	-121	-805	-	-	-	-	-
Profit for the year	3,679	1,363	3,342	4,834	5,069	6,857	8,056	8,797
Minority Interest	310	127	89	586	800	823	1,208	1,320
Profit attributable to Equity Holders	3,369	1,236	3,253	4,249	4,269	6,034	6,847	7,478
EPS	5.7	2.1	5.5	7.1	7.2	10.1	11.5	12.5

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
as at 31st Mar								
Non-Current Assets								
Property, plant and equipment	18,685	20,033	17,540	18,007	19,913	19,820	19,905	20,163
Investment properties	1,648	1,648	1,942	2,100	2,310	2,310	2,310	2,310
Right of use of assets	-	2,028	1,879	1,178	995	995	995	995
Intangible assets	3,469	3,439	3,290	3,295	3,311	3,311	3,311	3,311
Lease Receivable	0	172	140	125	122	120	117	115
Investments in JVs	884	701	557	85	702	702	702	702
Other non-current financial assets	1,448	541	209	210	182	182	182	182
Deferred tax assets	108	164	144	86	87	87	87	87
	26,242	28,727	25,700	25,086	27,623	27,527	27,610	27,866
Current Assets								
Inventories	11,201	13,560	15,451	16,807	28,602	30,329	32,816	35,821
Trade and other Receivables	18,434	16,094	13,655	19,772	25,456	29,554	33,891	37,713
Tax receivables	299	241	157	329	324	324	324	324
Lease Receivable	-	58	65	60	139	139	139	139
Other current financial assets	100	84	110	359	23	23	23	23
Cash and cash equivalents	6,474	5,617	8,458	13,895	16,331	15,204	15,172	17,335
	36,507	35,654	37,895	51,221	70,875	75,573	82,364	91,354
Total Assets	62,749	64,380	63,594	76,308	98,498	103,100	109,974	119,220
Equity and Liabilities								
Stated Capital	7,734	7,734	7,776	7,776	7,776	7,776	7,776	7,776
Other Reserves	185	217	181	160	119	119	119	119
Other components of equity	1,682	1,389	2,161	4,446	6,542	6,542	6,542	6,542
Retained Earnings	18,497	18,574	21,778	23,206	23,968	27,888	32,337	37,195
Equity attributable to equity holders of parent	28,099	27,914	31,895	35,588	38,405	42,325	46,774	51,632
Non-controlling interests	3,771	3,560	1,543	920	716	1,539	2,747	4,067
Total Equity	31,870	31,474	33,438	36,507	39,120	43,864	49,521	55,699
Non-current Liabilities								
Interest-bearing loans and borrowings	1,369	4,738	3,196	3,093	5,449	5,007	4,492	4,437
Other non current financial liabilities	1,956	2,207	278	277	276	276	276	276
Deferred tax liabilities	1,812	1,733	1,363	1,724	2,901	2,901	2,901	2,901
Employee benefit liabilities	969	1,019	1,033	992	1,199	1,199	1,199	1,199
	6,106	9,697	5,869	6,085	9,825	9,383	8,867	8,813
Current Liabilities								
Trade and other payables	18,599	17,937	17,947	27,165	29,626	31,366	34,392	37,854
Income tax payable	439	513	603	804	969	969	969	969
Other financial liabilities	-	-	1,973	2,272	2,949	2,949	2,949	2,949
Interest bearing borrowings	3,553	3,363	3,260	2,678	11,739	10,641	9,545	9,429
Bank overdraft	2,182	1,396	504	796	4,269	3,927	3,731	3,507
	24,774	23,209	24,287	33,716	49,552	49,853	51,586	54,709
Total Liabilities & Shareholders' Funds	62,749	64,380	63,594	76,308	98,498	103,100	109,974	119,220
NAVPS	47.1	46.8	53.5	59.7	64.4	71.0	78.5	86.6



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