

**HEMAS HOLDINGS PLC [HHL.N0000]****DOWNGRADE TO HOLD****“AWAITING A GRADUAL REAWAKENING FROM 2H2023”****Fair Value: FY24E - LKR 85.0 [+6%]**

Total Return with DPS: FY24E - 10% [AER 18%]

Fair Value: FY25E - LKR 95.0 [+19%]

FY25E - 24% [AER 14%]

HHL's 1QFY24 results displayed a remarkable 17.2%YoY revenue growth, although earnings remained stable at LKR 1.1Bn (+1.2%YoY). Despite the revenue surge, Healthcare segment's earnings were negatively impacted by high finance costs and a steep currency depreciation (8.7%YoY), resulting in a 33.3%YoY decline to LKR 475.3Mn. However, it was partly offset by the growth in Consumer Brands earnings by 84.2%YoY in 1QFY24 supported by increased focus on international business and exports and improved traction of the new launches. Looking ahead, the operating environment is expected to improve amidst the easing off inflationary pressure, LKR appreciation, and a slowdown in global commodity prices, which may alleviate margin pressures in the upcoming period. As First Capital Research (FCR) anticipates a recovery in economic activities from 2H2023, earnings targets for FY24E and FY25E marginally revised down to LKR 5.6Bn (-6.8%) and LKR 6.7Bn (-1.5%), respectively, while the FV for FY25E is maintained at LKR 95.0. Since the previous report in Feb 2023, the stock price has significantly appreciated, reaching our FY24E FV of LKR 85.0 in Aug 2023, resulting in a substantial capital gain of 41.9%. As we believe that the counter has outperformed the estimated fair value and requires no significant upgrade in earnings hence, we **DOWNGRADE TO HOLD**

LKR (Mn)	1QFY23	1QFY24	YoY	FY22	FY23	YoY
Earnings (LKR 'Mn)						
Revenue	24,841	29,121	+17%	78,831	113,940	+45%
Gross profit	6,339	7,855	+24%	21,850	31,793	+46%
EBIT	2,031	2,153	+6%	6,783	10,963	+62%
PBT	1,920	1,412	-26%	6,648	7,765	+17%
Net Profit-Equity holders	1,080	1,094	+1%	4,249	4,269	+0%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	34,097	37,764	+11%	35,588	38,405	+8%
Borrowings	11,956	21,517	+80%	6,567	21,457	+227%
NAVPS	57.2	63.3		59.7	64.4	

Easing off margin pressure drives Consumer segment profitability

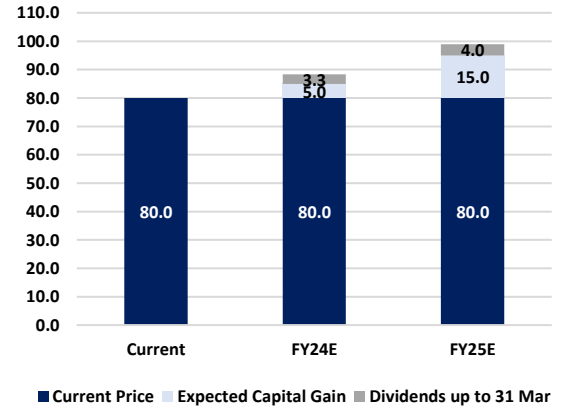
In 1QFY24, HHL's consumer segment EBIT saw robust 62.8%YoY growth to LKR 1.1Bn while the operating margin also expanded by 229bps, reaching 10.4%, driven by a substantial 26.9%YoY revenue growth. The topline growth was mainly attributed to a YoY surge in average selling prices, though there was a 27.0%QoQ decline due to portfolio-wide price reductions in line with reduced global commodity prices (Palm oil: -52.5%YoY, Paper: -22.4%YoY) and domestic currency appreciation (10.8%YTD). Despite passing on price reductions, HPC volumes contracted 4.5%YoY (yet better than the market's 25.0% contraction) amidst the stagnant disposable income recovery affected by increased taxes and electricity tariffs. Nevertheless, recent value-for-money product launches and extensions of 'Prasara' and 'Vivya' within the HPC portfolio gained traction. Despite challenges in Bangladesh such as inflation over 9.0%, depreciation of Taka coupled with depleting reserves, the HPC Bangladesh arm achieved volume-led growth through affordable variants of "Kumarika" and "Eva" brands. The learning segment faced QoQ setbacks due to seasonality and increased competition after import restrictions eased. Yet, it advanced in exports by manufacturing for global brands and launching 'ignite' in the Gulf region. Moreover, as the global commodity prices saw a declining momentum on a QoQ basis, we expect an easing of margin pressure on consumer brands in the upcoming quarters. Meanwhile, HHL is keen to focus on developing international business to further enhance its growth while prioritizing exports. Notably, consumer confidence has begun rising from 2H2023, evidenced by the Index of Consumer Sentiment (ICS) improving by 6bps to 30 points in Jul 2023, the highest since Oct 2021, indicating economic rebounding. As consumer spending recovers gradually and inflationary pressures subside, a potential transformation in individuals' hierarchy of needs becomes plausible.

Slow growth amidst the weight of persistent challenges in the Healthcare segment

Healthcare segment contributed 60.6% to the group's topline and reported a revenue growth of 12.5%YoY to LKR 17.6Bn in 1QFY24 cf. LKR 15.7Bn in 1QFY23. Despite challenges faced by the country's healthcare industry, such as drug shortages and migration of specialists, HHL's pharma business maintained a low single-digit volume contraction, achieving a top-line growth of 11.1%YoY. This growth was largely driven by price adjustments and increased revenue from Branded Generics. However, high finance costs and substantial currency depreciation collectively impacted the segment's earnings, resulting in a 33.3%YoY decline to LKR 475.3Mn. Efforts towards introducing new branded generics to the market, along with pipeline expansion, have led to improved capacity utilization at the Homagama facility, reaching 20% and aiming for 40% by the end of 2023E. In the same period, NMRA granted approval for a 16% reduction in the MRP of 60 essential drugs, aligned with currency appreciation. However, imported medicines remain more expensive than locally manufactured drugs, presenting an opportunity to bolster local pharma manufacturing. 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.

FY24E fair value achieved, FY25E maintained at LKR 95.0 – DOWNGRADE TO HOLD

As First Capital Research anticipates a recovery in economic activities from 2H2023, earnings targets for FY24E and FY25E marginally revised down to LKR 5.6Bn (-6.8%) and LKR 6.7Bn (-1.5%), respectively, while the FV for FY25E is maintained at LKR 95.0. Since FCR believes that the stock has outperformed our estimated fair value and requires no significant upgrade in earnings hence, we **DOWNGRADE TO HOLD**

**FIRST CAPITAL RESEARCH**

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Source: CSE

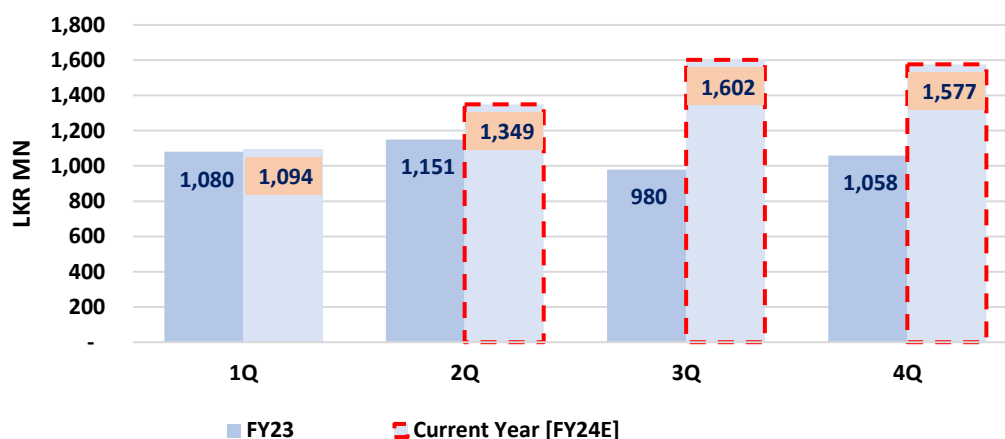
Minimum Return for BUY:

Buy Below for FY25E [AER of 19.0% with DPS]: LKR 75.02.
HHL categorized as 'Grade A' 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	FY24E-O	FY24E-R	% Change	FY25E-O	FY25E-R	% Change
Earnings Estimate						
Revenue	121,494	121,494	0%	132,750	131,723	-1%
Gross Profit	34,140	34,140	0%	36,971	37,804	+2%
EBIT	13,679	13,315	-3%	14,678	15,050	+3%
Profit before tax	10,550	9,830	-7%	12,393	12,204	-2%
Net Profit	6,034	5,623	-7%	6,847	6,742	-2%
Adjusted EPS	10.1	9.4	-7%	11.5	11.3	-2%
Growth YoY	41%	32%		13%	20%	
Balance Sheet Estimate						
Shareholders' Equity	42,325	42,058	-1%	46,774	46,438	-1%
Borrowings	19,575	21,268	+9%	17,767	19,038	+7%
Adjusted NAVPS	71.0	70.5		78.5	77.8	
Ratio Estimate						
ROE (%)	14%	13%		15%	15%	
PER (x)	7.9	8.5		7.0	7.1	
PBV (x)	1.1	1.1		1.0	1.0	

Valuation Table

P/E 31 March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)							
Revenue	60,043	64,501	78,831	113,940	121,494	131,723	143,295
Gross Profit	19,148	19,417	21,850	31,793	34,140	37,804	41,842
EBIT	3,532	6,061	6,783	10,963	13,315	15,050	16,012
Net Profit	1,236	3,253	4,249	4,269	5,623	6,742	7,450
Adjusted EPS (LKR)	2.1	5.5	7.1	7.2	9.4	11.3	12.5
YoY Growth (%)	-63%	163%	31%	0%	32%	20%	10%
Valuations							
PER (x)	38.6x	14.7x	11.2x	11.2x	8.5x	7.1x	6.4x
PBV (x)	1.7x	1.5x	1.3x	1.2x	1.1x	1.0x	0.9x
DY (%)	0.0%	2.3%	6.1%	2.9%	4.1%	4.9%	5.5%
NAVPS	46.8	53.5	59.7	64.4	70.5	77.8	86.0
DPS (LKR)	-	1.9	4.9	2.4	3.3	4.0	4.4
Dividend Payout	N/A	33.9%	68.0%	32.8%	35.0%	35.0%	35.0%

Valuation Summary

Return	FY24E	FY25E
Target Price	85.0	95.0
Current Price	80.0	80.0
Capital Gain (LKR)	5.00	15.00
Dividends upto 31 Mar (LKR)	3.30	3.96
Capital Gain %	6%	19%
Dividend Yield %	4%	5%
Total Return %	10%	24%
Annualized Return %	18%	14%

Expected HHL Price	FY24E	FY25E
PER Valuation based target price	84.8	101.7
SOTP Valuation based target price	83.3	96.0
Average Target Price	84.1	98.9
Target Price after Rounding off	85.0	95.0

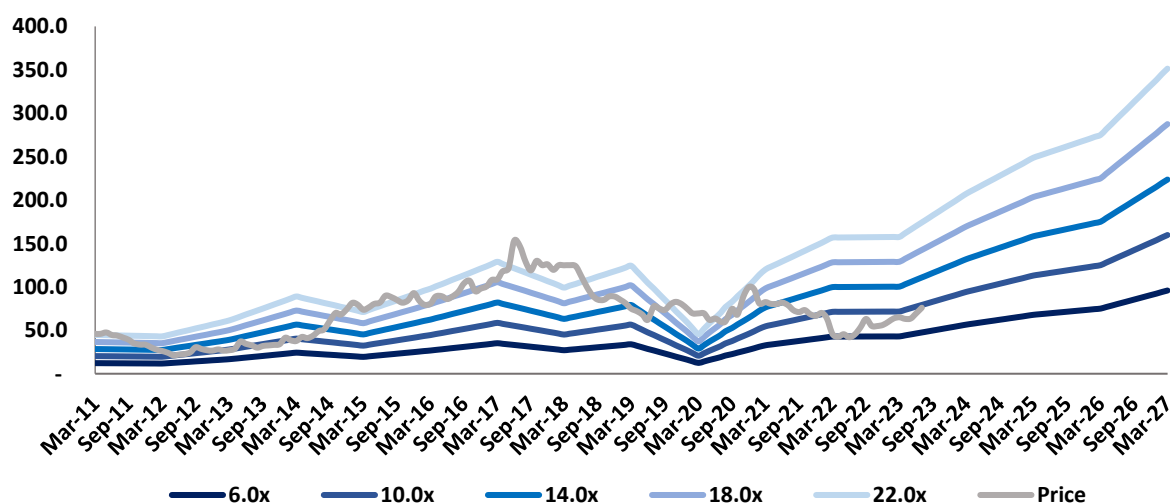
PER Valuation

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	5,623	6,742
No. of Shares ('Mn)	597	597
EPS	9.4	11.3
Expected Average PER	9.0x	9.0x
Price at 9x Earnings	84.8	101.7

SOTP Valuation

Segment	Valuation Method	Valuation Assumptions			Value in LKR Mn	
		CoE	WACC	Growth	Firm Value FY24E	Firm Value FY25E
Consumer	DCF	22.4%	22.3%	3%	28,663.1	30,632.2
Healthcare	DCF	24.0%	20.9%	3%	26,985.5	31,645.3
Logistics and maritime	DCF	24.0%	22.5%	3%	1,803.2	1,520.9
Other	DCF	18.0%	25.7%	3%	-2,907.0	-3,076.2
Fair Value before Net Debt					54,544.8	60,722.2
Less: Debt					-19,560.2	-17,416.0
Add: Cash					14,727.8	13,961.0
Fair Value					49,712.4	57,267.1
No. of shares					596.6	596.6
Fair Value per share					83.3	96.0

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	131,723	143,295
Cost of sales	-42,605	-40,896	-45,084	-56,981	-82,147	-87,354	-93,918	-101,453
Gross Profit	21,478	19,148	19,417	21,850	31,793	34,140	37,804	41,842
Other Income	794	623	681	1,099	720	607	659	573
Selling, Distribution & Admin expenses	-16,517	-16,119	-13,704	-15,641	-21,150	-20,881	-22,724	-25,507
Share of results of JV	-58	-120	-333	-525	-400	-551	-689	-896
Share of results of associate	-35	-	-	-	-	-	-	-
Operating Profit	5,661	3,532	6,061	6,783	10,963	13,315	15,050	16,012
Finance Income	478	269	249	352	911	981	295	280
Less : Finance Cost	-1,046	-960	-639	-486	-4,110	-4,466	-3,141	-2,807
Profit Before Tax	5,093	2,841	5,670	6,648	7,765	9,830	12,204	13,485
Income Tax Expense	-1,414	-1,357	-1,523	-1,814	-2,696	-3,440	-4,271	-4,720
Profit for the Year (continuing)	3,679	1,484	4,147	4,834	5,069	6,389	7,932	8,765
Profit/(loss) from discontinued operations	-	-121	-805	-	-	-	-	-
Profit for the year	3,679	1,363	3,342	4,834	5,069	6,389	7,932	8,765
Minority Interest	310	127	89	586	800	767	1,190	1,315
Profit attributable to Equity Holders	3,369	1,236	3,253	4,249	4,269	5,623	6,742	7,450
EPS	5.7	2.1	5.5	7.1	7.2	9.4	11.3	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	-	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	32,451	35,231
Trade and other Receivables	18,434	16,094	13,655	19,772	25,456	29,554	33,675	37,496
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	14,728	13,961	15,482
	36,507	35,654	37,895	51,221	70,875	75,096	80,573	88,694
Total Assets	62,749	64,380	63,594	76,308	98,498	102,623	108,183	116,560
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	27,621	32,001	36,842
Equity attributable to equity holders of parent	28,099	27,914	31,895	35,588	38,405	42,058	46,438	51,279
Non-controlling interests	3,771	3,560	1,543	920	716	1,483	2,672	3,987
Total Equity	31,870	31,474	33,438	36,507	39,120	43,540	49,111	55,266
Non-current Liabilities								
Interest-bearing loans and borrowings	1,369	4,738	3,196	3,093	5,449	11,736	10,450	10,313
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	16,112	14,825	14,689
Current Liabilities								
Trade and other payables	18,599	17,937	17,947	27,165	29,626	29,521	31,740	34,286
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	7,824	6,966	6,875
Bank overdraft	2,182	1,396	504	796	4,269	1,707	1,622	1,525
	24,774	23,209	24,287	33,716	49,552	42,972	44,247	46,605
Total Liabilities & Shareholders' Funds	62,749	64,380	63,594	76,308	98,498	102,623	108,183	116,560
NAVPS	47.1	46.8	53.5	59.7	64.4	70.5	77.8	86.0



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