



HEMAS HOLDINGS PLC [HHL.N0000]

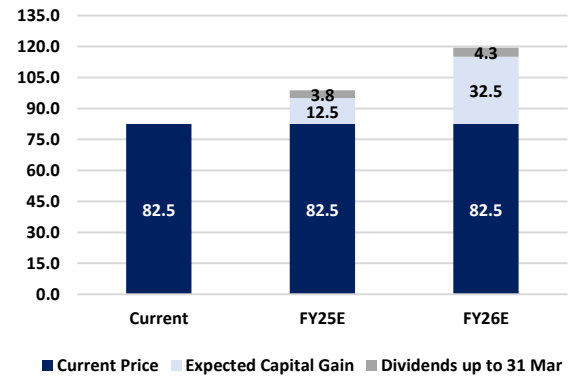
MAINTAIN BUY

“GDP REBOUNDS, CONSUMER DEMAND SOARS”

Fair Value: FY25E - LKR 95.0 [+15%] **Fair Value: FY26E - LKR 115.0 [+39%]**

Total Return with DPS: FY25E - 20% [AER 68%] *FY26E - 45% [AER 32%]*

HHL reported an impressive 23.7%YoY growth in earnings, reaching LKR 1.5Bn in 2QFY25, broadly in line with FCR expectations. This growth was primarily driven by an EBIT margin expansion of 142bps YoY to 10.7% (1QFY25: 7.6%), supported by a reduction in commodity prices and currency appreciation, enabling lower-cost imports. Additionally, consecutive reductions in electricity and fuel prices further alleviated cost pressures. A significant reduction in finance costs by 58.2%YoY also contributed to the robust profit growth. Segment-wise, the Consumer Brands and Healthcare divisions delivered 19.8%YoY and 30.0%YoY growth in earnings, respectively, boosting group profitability. However, price reductions for Home and Personal Care (HPC) products, facilitated through discounts and promotions, impacted the segmental topline, which declined by 4.6%YoY. In contrast, the Pharma Manufacturing segment saw a rebound in volumes, marking the first post-pandemic growth phase. This was driven by a consumer shift toward affordable pharmaceutical options and expanded production capacity. Looking ahead, FCR projects Sri Lanka's economic growth at 2.0%-3.0% in 2024, with deflationary trends anticipated to persist through year-end, potentially easing consumer purchasing power pressures. Factoring in the growth prospects in pharma manufacturing and the anticipated recovery in consumer demand, FCR maintains its earnings targets for FY25E and FY26E at LKR 6.8Bn and LKR 7.8Bn, respectively. Accordingly, FCR derives a fair value for HHL at LKR 95.0 for FY25E and LKR 115.0 for FY26E. At the current price of LKR 82.5, with the stock trading at a P/E of 7.9x, significantly below the 10-year average P/E of 15.0x, HHL offers an attractive upside potential of 39.0% for FY26E. **MAINTAIN BUY.**



FIRST CAPITAL RESEARCH

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LKR (Mn)	2QFY24	2QFY25	YoY	1HFY24	1HFY25	YoY
Earnings (LKR 'Mn)						
Revenue	29,829	28,912	-3%	58,951	54,388	-8%
Gross profit	8,655	9,140	+6%	16,510	16,750	+1%
EBIT	2,767	3,093	+12%	4,920	5,023	+2%
PBT	2,004	2,833	+41%	3,415	4,549	+33%
Net Profit-Equity holders	1,220	1,509	+24%	2,313	2,454	+6%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	38,894	44,039	+13%	38,894	44,039	+13%
Borrowings	22,187	14,306	-36%	22,187	14,306	-36%
NAVPS	65.2	73.8		65.2	73.8	

Margin expansion drive Consumer brand's profitability to LKR 1.2Bn

The Consumer Brands segment recorded a robust 19.8%YoY growth (+110.8%QoQ) in earnings to LKR 1.2Bn in 2QFY25, primarily driven by a notable expansion in EBIT margins by 232bps and a sharp decline in finance costs (-63.2%YoY) due to the AWPLR falling below 10.0% during the quarter. The strengthening of the domestic currency and declining global commodity prices helped reduce raw material costs and import expenses, easing the margin pressures. In response, the group introduced promotions and discounts across key brands, passing on the cost savings to customers. Consequently, the segmental topline witnessed a marginal decline of 4.6%YoY to LKR 11.0Bn. Conversely, the HPC International segment faced margin pressures from rising operational costs and currency devaluation in Bangladesh. Meanwhile, despite intense competition from the relaxation of the import ban, the Learning segment maintained its market share by launching value-for-money product ranges, which supported a 30.6%YoY growth in revenue. Looking ahead, potential salary hikes and the ongoing deflationary trend are anticipated to ease pressures on disposable income, likely bolstering consumer spending. As a result, we project the consumer brands segment's revenue to grow at a CAGR of 9.2% from FY24 to FY27E underpinned by favorable macroeconomic conditions.

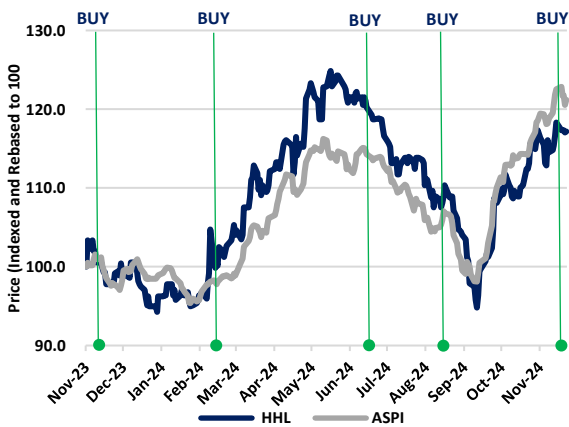
Local pharma industry shows volume growth since 2022

The Healthcare segment recorded a substantial earnings growth of 30.0%YoY to LKR 984.1Mn in 2QFY25, driven primarily by a significant 153.3%YoY reduction in finance costs. This was supported by a 1535bps decline in the AWPLR to 9.32% during the quarter, easing the pressure on borrowing costs. Although the topline of the Pharma Manufacturing and Distribution segment experienced a marginal decline of 2.6%YoY (+8.1QoQ), the segment achieved volume growth for the first time since the 2022 economic crisis. This rebound was largely driven by volume pick up in local manufacturing and the increased demand for low-cost products, particularly in high-demand categories such as diabetic drugs and vitamins. Moreover, the Morison's Homagama plant operated at over 60% capacity, fulfilling a mix of government buyback orders and branded generics. While hospital admissions showed a slight decline, this was offset by growth in both inpatient and outpatient volumes, underpinned by an increase in surgeries and medical screenings. The ongoing shift in consumer preference toward affordable pharmaceutical options has benefited the segment, with Morison's focus on manufacturing higher-margin branded generics contributing to profitability. Looking ahead, this strategic shift, combined with operational efficiencies, is expected to drive a gradual improvement in the Healthcare segment's operating margin, projected to reach 7.5% in FY25E and 8.0% in FY26E.

Fair value maintained at LKR 95.0 for FY25E and LKR 115.0 for FY26E- MAINTAIN BUY

In line with FCR's forecast of a rapid economic recovery in 2H2024E, we maintain a positive outlook HHL, driven by the expected resurgence in the Consumer and Healthcare sectors, along with improvements in the production mix at the Pharma Manufacturing facility in Homagama. This recovery is anticipated to fuel volume growth, enhance margins, and increase consumer footfall, supported by stronger private sector consumption. As the reported earnings align with our targets, we are maintaining our forecasts at LKR 6.8Bn for FY25E and LKR 7.8Bn for FY26E. Our fair value projections also remain unchanged at LKR 95.0 for FY25E and LKR 115.0 for FY26E. Considering the favorable economic developments, we expect the stock to re-rate to a P/E of 9.0x, which remains significantly discounted compared to its 10-year average P/E of 15.0x. **MAINTAIN BUY**

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



Source: CSE

Minimum Return for BUY:

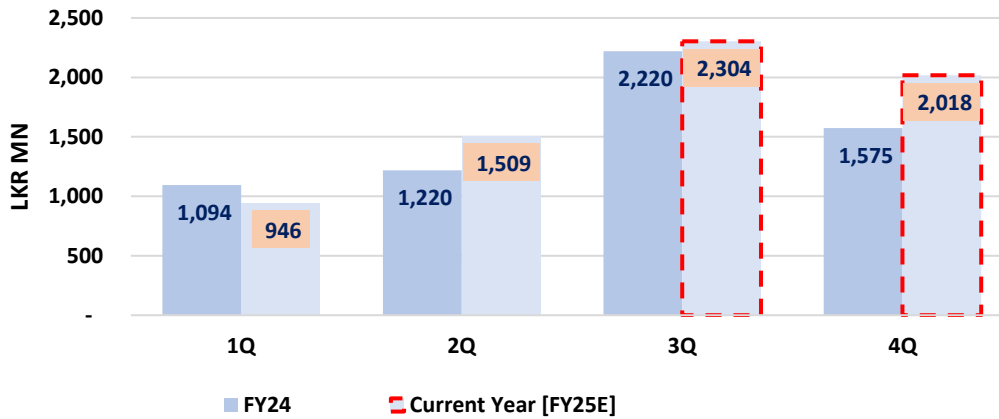
Buy Below for FY26E [AER of 16.0% with DPS]: LKR 97.73
HHL categorized as 'Grade A' counter

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	FY25-O	FY25E-R	% Change	FY26E-O	FY26E-R	% Change
Earnings Estimate						
Revenue	134,360	134,360	0%	149,448	149,448	0%
Gross Profit	40,039	40,039	0%	43,639	43,639	0%
EBIT	13,719	13,719	0%	15,254	15,254	0%
Profit before tax	11,725	11,725	0%	13,443	13,443	0%
Net Profit	6,777	6,777	0%	7,770	7,770	0%
Adjusted EPS	11.4	11.4	0%	13.0	13.0	0%
Growth YoY	11%	11%		15%	15%	
Balance Sheet Estimate						
Shareholders' Equity	47,958	47,958	0%	53,147	53,147	0%
Borrowings	12,353	12,353	0%	12,460	12,460	0%
Adjusted NAVPS	80.4	80.4		89.1	89.1	
Ratio Estimate						
ROE (%)	14%	14%		15%	15%	
PER (x)	6.9	7.3		6.0	6.3	
PBV (x)	1.0	1.0		1.0	0.9	

Valuation Table

P/E 31 March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Estimates (LKR 'Mn)							
Revenue	64,501	78,831	113,940	121,614	134,360	149,448	158,350
Gross Profit	19,417	21,850	31,793	35,997	40,039	43,639	47,188
EBIT	6,061	6,783	10,963	11,921	13,719	15,254	17,306
Net Profit	3,253	4,249	4,269	6,109	6,777	7,770	8,825
Adjusted EPS (LKR)	5.5	7.1	7.2	10.2	11.4	13.0	14.8
YoY Growth (%)	163%	31%	0%	43%	11%	15%	14%
Valuations							
PER (x)	15.1x	11.6x	11.5x	8.1x	7.3x	6.3x	5.6x
PBV (x)	1.5x	1.4x	1.3x	1.1x	1.0x	0.9x	0.8x
DY (%)	2.2%	5.9%	2.8%	4.1%	4.6%	5.2%	6.0%
NAVPS	53.5	59.6	64.4	72.8	80.4	89.1	99.0
DPS (LKR)	1.9	4.9	2.4	3.4	3.8	4.3	4.9
Dividend Payout	33.9%	68.1%	32.8%	33.2%	33.2%	33.2%	33.2%



Valuation Summary

Return	FY25E	FY26E	Expected HHL Price	FY25E	FY26E
Target Price	95.0	115.0	PER Valuation based target price	96.5	117.2
Current Price	82.5	82.5	SOTP Valuation based target price	93.4	109.6
Capital Gain (LKR)	12.5	32.5	Average Target Price	95.0	113.4
Dividends upto 31 Mar (LKR)	3.8	4.3	Target Price after Rounding off	95.0	115.0
Capital Gain %	15%	39%			
Dividend Yield %	5%	5%			
Total Return %	20%	45%			
Annualized Return %	68%	32%			

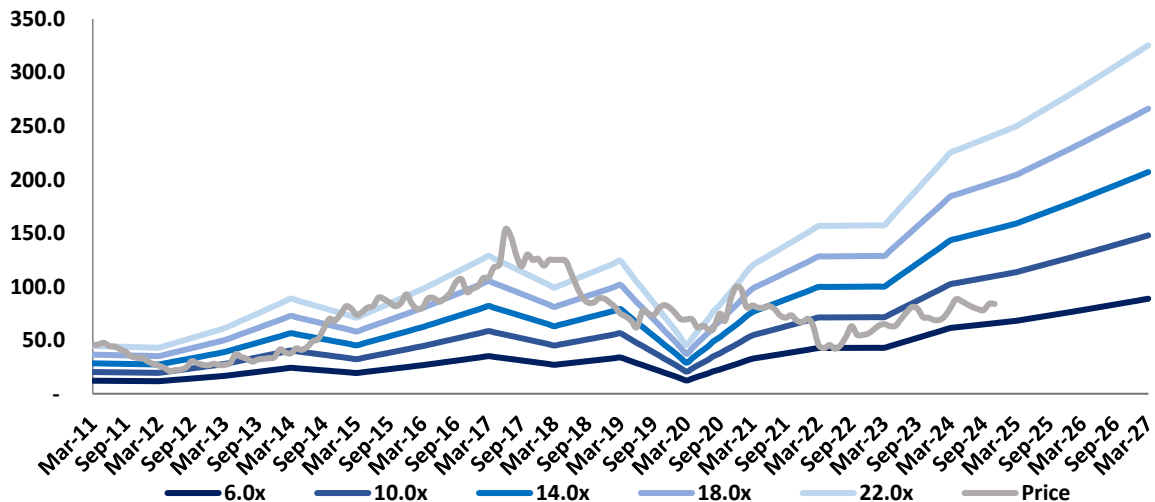
PER Valuation

PER based Valuation	FY25E	FY26E
Earnings (LKR 'Mn)	6,777	7,770
No. of Shares ('Mn)	597	597
EPS	11.4	13.0
Expected Average PER	9x	9x
Price at 9x Earnings	96.5	117.2

SOTP Valuation

Segment	Valuation Method	Valuation Assumptions			Value in LKR Mn	
		CoE	WACC	Growth	Firm Value FY25E	Firm Value FY26E
Consumer	DCF	20.6%	18.9%	3%	29,094.4	32,279.4
Healthcare	DCF	23.0%	18.7%	3%	29,539.6	34,683.0
Logistics and maritime	DCF	25.4%	20.1%	3%	3,229.8	3,304.8
Others	DCF	18.0%	20.8%	3%	-6,064.4	-5,104.7
Fair Value before Net Debt					55,799.5	65,162.5
Less: Debt					-12,353.5	-12,460.4
Add: Cash					12,291.9	12,678.7
Fair Value					55,737.9	65,380.7
No. of shares					596.7	596.7
Fair Value per share					93.4	109.6

PER Chart





Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
P/E 31st Mar							
Revenue	64,501	78,831	113,940	121,614	134,360	149,448	158,350
Cost of sales	-45,084	-56,981	-82,147	-85,617	-94,321	-105,810	-111,162
Gross Profit	19,417	21,850	31,793	35,997	40,039	43,639	47,188
Other Income	681	1,099	720	754	672	598	633
Selling, Distribution & Admin expenses	-13,704	-15,641	-21,150	-24,924	-27,108	-29,133	-30,704
Share of results of JV	-333	-525	-400	93	115	150	188
Share of results of associate							
Operating Profit	6,061	6,783	10,963	11,921	13,719	15,254	17,306
Finance Income	249	352	911	803	265	246	254
Less : Finance Cost	-639	-486	-4,110	-3,256	-2,259	-2,058	-2,293
Profit Before Tax	5,670	6,648	7,765	9,468	11,725	13,443	15,267
Income Tax Expense	-1,523	-1,814	-2,696	-3,113	-3,752	-4,302	-4,886
Profit for the Year (continuing)	4,147	4,834	5,069	6,355	7,973	9,141	10,382
Profit/(loss) from discontinued operations	-805	-	-	-	-	-	-
Profit for the year	3,342	4,834	5,069	6,355	7,973	9,141	10,382
Minority Interest	89	586	800	246	1,196	1,371	1,557
Profit attributable to Equity Holders	3,253	4,249	4,269	6,109	6,777	7,770	8,825
EPS	5.5	7.1	7.2	10.2	11.4	13.0	14.8

Appendix II: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY21	FY22	FY23E	FY24	FY25E	FY26E	FY27E
as at 31st Mar							
Non-Current Assets							
Property, plant and equipment	17,540	18,007	19,913	20,052	21,041	22,130	23,321
Investment properties	1,942	2,100	2,310	4,008	4,008	4,008	4,008
Right of use of assets	1,879	1,178	995	1,314	1,314	1,314	1,314
Intangible assets	3,290	3,295	3,311	3,283	3,283	3,283	3,283
Lease Receivable	140	125	122	42	42	42	42
Investments in JVs	557	85	702	1,474	1,474	1,474	1,474
Other non-current financial assets	209	210	182	210	210	210	210
Deferred tax assets	144	86	87	496	496	496	496
	25,700	25,086	27,623	30,880	31,868	32,957	34,148
Current Assets							
Inventories	15,451	16,807	28,602	22,775	24,541	29,383	33,256
Trade and other Receivables	13,655	19,772	25,456	26,299	31,118	32,979	34,911
Tax receivables	157	329	324	347	347	347	347
Lease Receivable	65	60	139	169	169	169	169
Other current financial assets	110	359	23	31	31	31	31
Cash and cash equivalents	8,458	13,895	16,331	13,223	12,292	12,679	16,336
	37,895	51,221	70,875	62,843	68,498	75,587	85,049
Total Assets	63,594	76,308	98,498	93,723	100,366	108,544	119,197
Equity and Liabilities							
Stated Capital	7,776	7,776	7,776	7,784	7,784	7,784	7,784
Other Reserves	181	160	119	103	103	103	103
Other components of equity	2,161	4,446	6,542	7,501	7,501	7,501	7,501
Retained Earnings	21,778	23,206	23,968	28,044	32,570	37,759	43,653
Equity attributable to equity holders of parent	31,895	35,588	38,405	43,432	47,958	53,147	59,041
Non-controlling interests	1,543	920	716	688	1,884	3,255	4,812
Total Equity	33,438	36,507	39,120	44,120	49,842	56,402	63,853
Non-current Liabilities							
Interest-bearing loans and borrowings	3,196	3,093	5,449	5,408	5,915	5,966	6,751
Other non current financial liabilities	278	277	276	280	280	280	280
Deferred tax liabilities	1,363	1,724	2,901	2,899	2,899	2,899	2,899
Employee benefit liabilities	1,033	992	1,199	1,384	1,384	1,384	1,384
	5,869	6,085	9,825	9,970	10,477	10,528	11,313
Current Liabilities							
Trade and other payables	17,947	27,165	29,626	30,848	30,780	32,372	34,009
Income tax payable	603	804	969	1,488	1,488	1,488	1,488
Other financial liabilities	1,973	2,272	2,949	0	0	0	0
Interest bearing borrowings	3,260	2,678	11,739	5,887	6,439	6,495	7,350
Bank overdraft	504	796	4,269	1,410	1,340	1,259	1,184
	24,287	33,716	49,552	39,633	40,047	41,614	44,031
Total Liabilities & Shareholders' Funds	63,594	76,308	98,498	93,723	100,366	108,544	119,197
NAVPS	53.5	59.6	64.4	72.8	80.4	89.1	99.0



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