Hemas Holdings PLC (HHL)

Rs. 104.00 **BUY**

Financial Year	Revenue (Rs.mn)	NPAT (Rs.mn)	EPS (Rs.)	EPS Growth	PER (x) Rs.	P/BV	Dividend Yield %	DPS Rs.	NAV / Share	ROE
2007	11,778	1,006	9.86	3.6%	10.54	1.99	2.40%	2.50	52.3	18.9%
2008	14,164	1,135	11.14	12.9%	9.34	1.64	1.20%	1.25	63.5	17.5%
2009	15,342	775	7.60	-31.7%	13.68	1.51	1.20%	1.25	68.9	11.0%
2010E	16,733	954	9.35	23.0%	11.12	1.35	1.20%	1.25	76.9	12.2%
2011E	19,096	1,340	13.14	40.5%	7.91	1.17	1.20%	1.25	88.6	14.8%
2012E	21,644	1,641	16.09	22.5%	6.46	1.01	1.20%	1.25	103.3	15.6%

- Hemas Holdings Limited (HHL) is a diversified group with business interests that range from Personal Care, Health Care, Power, Leisure and Transportation. Key contributors to earnings are the groups FMCG business and earnings from investments in Thermal Power and more recently in Hydro Power.

FMCG

- The FMCG sector manufactures and markets personal care and homecare products with a small foot print in the food category business. The sector accounted for 29.5% of group revenue while recording revenue growth of 10.6% in FY09 despite consumer demand being depressed for much of the financial year due to high double digit inflation. Continued investment on key brands and growth of its distribution network helped the company retain market share on its key products amid stiff competition from larger multinationals. A.C. Nielsen ranked Hemas as having the second strongest distribution reach in the country.

- The company's flagship brand 'Baby Cheremy' retained its market leader position in its category along with the company's hair oil category brand 'kumarika'. 'Velvet' soap increased its market share in the toilet soap category while the company strengthened its efforts on promoting its 'Clogard' toothpaste brand. In the homecare space, the company increased its market leader position to 28% in the washing powder category with its brand 'Diva'.

- Operating profits for the year increased by 16% assisted by lower commodity prices in the latter half of the year and greater efficiencies across the supply chain. The sector is expected to lead the organic growth in the group with revenue expected to increase annually by 12% - 15% over the next few years on the back of 7% to 10% annual growth in volumes as well as an expansion of its product portfolio under its exiting umbrella of brands. Gross margins are expected to remain static.

- The sector recorded EBIT of Rs. 623mn in FY09 and is expected to increase to Rs. 738mn in FY10 and Rs. 856mn in FY11 with the company benefiting from increased sales in the North and East once it establishes its distribution reach in the area.

HHL			
Reuters Code			HHL.CM
Bloomberg Code			HHL.SL
Share Price LKR			104.00
Issued Share Capital (Shares)			
Voting			101,958,124
12 mth High/Low (Rs.)			112.00 / 55.00
Market Capitalisation (Rs.mn)			10,604
Average Daily Volume (Shares)			15,796
Price Performance (%)			
	1 mth	6 mth	12 mth
ASPI	4.42	38.68	2.53
HHL	9.47	57.58	30.00

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Power

- The group's joint venture power project with Lakdhanavi, a 100MW thermal power plant called Heladhanavi Ltd accounts for a bulk of the earnings in the sector. The power purchase agreement (PPA) with the state utility CEB commenced in December 2004 extends up to 2014, after which it is uncertain as to whether it would be renewed given the fact that several large state power plants are expected to come on stream over the next 2 years. Even if the state does renew the PPA since it is the cheapest thermal power plant of a significant size, it is likely that the tariffs would be a fraction of the current rates.

- The group also owns a 2MW Hydro power plant with a 15 year PPA which commenced in October last year while also commissioning a 2.3MW mini hydro project this year with a 20 year PPA. The group is looking to further expand its presence in Hydro Power.

- The sector accounted for 37.2% of group revenue in FY09 with an EBIT Rs. 502mn. Revenue was down year on year as a result of a sharp decline in oil prices (a pass through cost for its thermal power plant) while a 12% decline in EBIT was as a result of higher operations and maintenance costs. We expect the sector to post an EBIT of Rs. 496mn in FY10 with the 100MW thermal power plant expected to undergo a routine overhaul in the current financial year.

Healthcare

- The group's pharmaceutical business which has been a main stay of the sector increased its market share to 16.2% in FY09 from 15.2% the previous year. Revenue is expected to grow by 15% to 20% over the next few years. The group also ventured into the hospital business investing Rs. 2bn in a 100 bed hospital in the sub urban town of Wattala in the out skirts of Colombo as well as a 50 bed hospital in southern city of Galle. The hospitals average occupancy of 60% and 30% respectively while having 350 and 450 out-patients respectively each day.

- The hospitals which are yet to breakeven contributes approximately Rs. 0.5bn in turnover to the sector compared to Rs. 3.7bn from the pharmaceutical distribution business. We expect the sector to record an EBIT of Rs. 187mn in FY10 up from Rs. 154mn in FY09.

Leisure

- The leisure sector includes a medium scale destination management company as well as a 51% stake in the Serendib Hotels group which owns 3 listed hotel companies. Hotel Serendib with 89 rooms and Hotel Sigiriya with 79 rooms has a current average occupancy of 65% with average room rates at US$ 30 while the 148 room Club Hotel Dolphin located closer to the country's international airport has an average occupancy of 85% with average room rates of US$ 35. Non room revenue accounts for approximately 25% of room revenue at these hotels. The company is expected to invest in upgrading the hotel properties in order to increase room rates and take advantage of the expected increase in tourist arrivals following the end of the war.

- The destination management company was transferred to Diethelm Travel Sri Lanka with Hemas Holdings retaining 80% ownership with the company now coming under the Deithelm Network facilitating better promotion of the destination.

- We expect the leisure sector to record an EBIT of Rs. 96mn in FY10 from Rs. 56mn the previous year stemming from an anticipated increase in both occupancy and room rates.

Transportation

- The sector contributed just 4% of the groups revenue in FY09 and includes exposure to aviation via GSA's with Emirates, Malaysian Airlines and more recently with Maldivian Airlines and Rossiya Airlines. The sector also engages in Freight Management and Maritime business via its fully owned subsidiary Far Shipping Ltd a feeder agency company. With trade volumes declining we expect revenue to decline coming of a high base in FY09 to amount to Rs. 645mn down from Rs. 679mn. EBIT for FY10 is expected to amount to Rs. 168n.

Valuations and Outlook

- The group has continued to grow its core FMCG and Pharmaceutical distribution business despite stiff competition from brands of large multinational firms like Unilever and P & G. The consumer business are expected to grow steadily on an anticipated increase in consumer spending along with new markets in the north and east of the country.

- Further investment made in the Hospital sector as well as investment in leisure are expected to yield higher returns. The company is eying opportunities to enter into Bangladesh via acquisition of businesses engaged in the consumer space particularly personal care while also looking for acquisitions of more small size Hydro Power plants in Sri Lanka.

- With expected earnings of Rs. 954mn in FY10, the counter trades at a PER of 11.12x FY10E at a market price of Rs. 104/- trading at a 15.8% discount to the market and a 22% discount to the sector. We recommend **BUY**.

INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH	2007 Rs. 'mn	2008 Rs. 'mn	2009 Rs. 'mn	2010E Rs. 'mn	2011E Rs. 'mn	2012E Rs. 'mn
Revenue						
FMCG	3,845	4,182	4,626	5,181	5,907	6,793
Healthcare	2,855	3,135	3,820	4,393	5,140	6,065
Leisure	864	945	934	1,167	1,459	1,824
Transportation	507	571	679	645	710	781
Power	3,643	5,266	5,172	5,223	5,746	6,033
Others	64	65	111	122	135	148
Total Revenue	11,778	14,164	15,342	16,733	19,096	21,644
Operating Profit						
FMCG	622	537	623	738	856	1,002
Healthcare	227	266	154	187	231	273
Leisure	95	43	56	93	175	219
Transportation	150	157	212	168	234	273
Power	523	571	502	496	575	603
Others	(103)	(112)	(214)	(184)	(236)	(259)
Total Profit from Operations	1,513	1,462	1,333	1,499	1,836	2,111
Change in Fair Value of Investment Properties	163	144	-	-	-	-
Net finance income / expenses	(273)	(347)	(472)	(356)	(246)	(176)
Share of Associate Company Profit / (Loss)	4		(4)			
Profit Before Tax	1,407	1,259	857	1,143	1,590	1,935
Income Tax Expenses	(388)	(109)	(138)	(189)	(250)	(294)
Net Profit for the Period	1,020	1,151	719	954	1,340	1,641
Minority Interest	14	15	(56)			
Profit attributable to shareholders	1,006	1,135	775	954	1,340	1,641

BALANCE SHEET AS AT 31ST MARCH	2007 Rs. 'mn	2008 Rs. 'mn	2009 Rs. 'mn	2010E Rs. 'mn	2011E Rs. 'mn	2012E Rs. 'mn
ASSETS						
Non-Current Assets						
Property, Plant and Equipment	4,705	5,182	7,181	6,980	6,725	6,408
Investment Property	964	1,179	1,179	1,179	1,179	1,179
Intangible Assets	156	174	191	191	191	191
Leasehold Property	71	68	65	62	59	56
Deferred Tax Assets	-	18	22	23	24	25
Investments In Associates	43	206	-	-	-	-
Other Long Term Receivables		47	44	48	48	48
Other Investments	24	26	80	80	80	80
	5,962	6,900	8,762	8,563	8,305	7,987
Current Assets						
Inventories	991	1,263	1,309	1,427	1,629	1,846
Trade and Other Receivables	3,304	3,643	3,578	3,902	4,453	5,047
Lans Due from Related Parties	-	20	-	-	-	-
Tax Recoverable	48	92	100	125	134	141
Amounts Due from Related Parties	-	13	-	-	-	-
Short Term Cash Investments	631	631	602	726	670	639
Cash and cash equivalents	460	568	485	530	673	1,570
	5,434	6,231	6,074	6,711	7,559	9,243
Total Assets	11,395	13,131	14,836	15,274	15,864	17,231
EQUITY AND LIABILITIES						
Equity Attributable to Equity Holders						
Stated Capital	1,329	1,329	1,369	1,369	1,369	1,369
Perference Share Capital	75	58	42	25	8	0
Reserves	635	783	765	765	765	765
Retained Earnings	3,235	4,263	4,853	5,677	6,888	8,399
Shareholders Funds	5,274	6,434	7,028	7,836	9,030	10,533
Minority Interest	589	605	837	862	993	1,159
Total Shareholders' Funds & Minority Interest	5,863	7,039	7,865	8,698	10,023	11,692
Non Current Liabilties						
Non Interest Bearing Loans and Borrowings	21	26	14	12	11	10
Interest Bearing Loans and Borrowings	1,278	823	1,710	1,603	985	705
Deferred Tax Liabilities	171	140	136	123	110	99
Retirement Benefit Liability	121	146	141	148	155	163
Provisions	7	22	12	13	14	14
	1,597	1,156	2,013	1,899	1,275	991
Current Liabilities						
Trade and Other Payables	2,169	2,519	2,754	2,677	3,055	3,463
Dividends Payable	3	2	3	3	3	3
Income Tax Liabilities	158	18	47	37	30	24
Non Interest Bearing Loans and Borrowings	1	1	1	-	-	-
Interest Bearing Loans and Borrowings	1,606	2,396	2,152	1,959	1,477	1,057
	3,936	4,936	4,957	4,677	4,566	4,547
Total Equity and Liabilities	11,396	13,131	14,836	15,274	15,864	17,231

CASHFLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH	2007 Rs. 'mn	2008 Rs. 'mn	2009 Rs. 'mn	2010E Rs. 'mn	2011E Rs. 'mn	2012E Rs. 'mn	2013E Rs. 'mn
Net Cash from (used in) operating sctivities	177	929	1,459	1,381	1,739	2,085	2,415
Investing Activities							
Purchase of Property, Plant and Equipment	(365)	(1,069)	(1,667)	(350)	(350)	(350)	(1,200)
Acquisitions & Disposals of Subs./Assoc.	(27)	(115)	25	-	-	-	-
Investment in Other assets	(55)	(4)	42	-	-	-	-
Other Investments	0	(2)	(54)	-	-	-	-
Proceeds from Disposal of Property, Plant & Equip.	48	18	78	-	-	-	-
Proceeds from Disposal of Investments	14	1	17	-	-	-	-
Redemption of Preference Shares	(17)	(17)	(17)	(17)	(17)	(8)	
Dividends Received from Associates	6			-	-	-	-
Investment Income	1	1	0	-	-	-	-
Net Cash from (used in) Investing Activities	(395)	(1,186)	(1,575)	(367)	(367)	(358)	(1,200)
Financing Activities							
Interest Bearing Loans and Borrowings	(356)	13	201	(300)	(1,100)	(700)	(200)
Proceeds from Issue of Share Options	143	-	40	-	-	-	-
Proceeds from minority shareholders	92	137	85	-	-	-	-
Dividends Paid	(384)	(129)	(129)	(129)	(129)	(129)	(129)
Rental Deposits Received	10	5	-	-	-	-	-
Finance Lease Paid	(3)	(3)	-	-	-	-	-
Net Cash from (used in) Financing Activities	(498)	24	197	(429)	(1,229)	(829)	(329)
Net inc./(dec.) in cash & cash equivalents	(716)	(233)	81	585	143	897	885
Cash and cash equivalents at the beginning	813	98	(135)	(54)	530	673	1,570
Cash and cash equivalents at end	98	(135)	(54)	530	673	1,570	2,456