

HINOON

9MCY20 Result Review: BUY Stance Maintained

Equity Research | Pharmaceuticals | Monday, 26 October, 2020

HINOON has announced its 3QCY20 result where it posted profit after tax of Rs978mn (EPS: Rs28.25) in 9MCY20 as compared to profit after tax of Rs697mn (EPS: Rs20.19) in same period last year, up by 40.3% YoY.

The company has posted the revenue of Rs7.9bn against Rs6.7bn in SPLY, recording a growth of 18.6% YoY. We note that this growth is attributed to the increase in volumetric growth.

Gross margin has been expanded to 48.8% in 9MCY20 as compared to 45.7% during SPLY on account of lower input cost.

SG&A expenses have been increased by 21.4% to Rs2.4bn as compared to Rs2bn during SPLY.

Finance cost has been decreased by 67.8% YoY to Rs7mn in 9MCY20 as compared to Rs20mn in SPLY.

Lastly, the effective taxation has been decreased to 28.2% as compared to 30.7% during SPLY.

HINOON is currently trading at CY20E PE of 16.28x. Furthermore, it is also trading at a CY20E PB of 4.97x which offers a discount of 51% relative to its historical 5-year average of 10.14x. We maintain our **BUY** stance on the script with a DCF based Jun-21 TP of Rs735 which provides an upside potential of 21%.

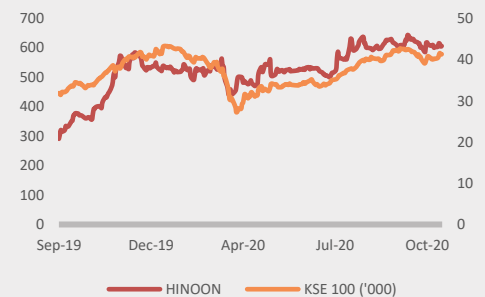
Rupees' millions	3QCY20	3QCY19	YoY	9MCY20	9MCY19	YoY
Net Sales	2,842	2,252	26.2% ▲	7,899	6,660	18.6% ▲
Cost of Sales	1,441	1,239	16.3% ▲	4,046	3,618	11.8% ▲
Gross Profit	1,401	1,012	38.4% ▲	3,853	3,042	26.7% ▲
SG&A Expenses	904	688	31.4% ▲	2,414	1,989	21.4% ▲
Other Expenses	47	27	74.4% ▲	125	87	42.8% ▲
Operating Profit	448	296	51.2% ▲	1,309	961	36.2% ▲
Other Income	19	18	3.5% ▲	59	64	7.2% ▼
Finance Cost	1	6	77.0% ▼	7	20	67.8% ▼
Profit Before Taxation	465	309	50.8% ▲	1,362	1,005	35.5% ▲
Taxation	139	91	53.4% ▲	384	308	24.7% ▲
Profit After Taxation	326	218	49.8% ▲	978	697	40.3% ▲
Earnings Per Share	9.43	6.29	49.8% ▲	28.25	20.13	40.3% ▲
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0%	0%	
Gross Margin	49.3%	45.0%	4.3% ▲	48.8%	45.7%	3.1% ▲
SG&A Expenses to Sales	31.8%	30.5%	1.2% ▲	30.6%	29.9%	0.7% ▲
Other Expenses to Sales	1.7%	1.2%	0.5% ▲	1.6%	1.3%	0.3% ▲
Other Income to Sales	0.7%	0.8%	0.1% ▼	0.8%	1.0%	0.2% ▼
Effective Taxation	29.9%	29.4%	0.5% ▲	28.2%	30.7%	2.5% ▼
Net Margin	11.5%	9.7%	1.8% ▲	12.4%	10.5%	1.9% ▲

Source: ACPL Research, Company Financials

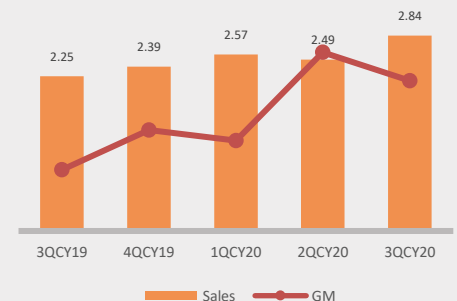
Key Statistics

Symbol	HINOON
TP - Jun 21	735.00
LDCP	605.48
Upside	21%
Free Float (mn)	13
Market Cap. (Rs.mn)	20,959

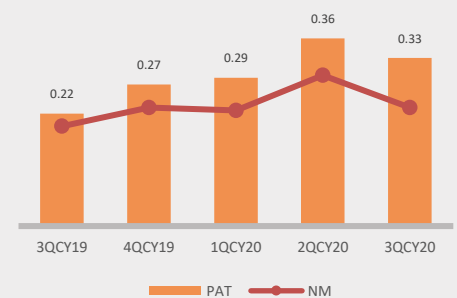
HINOON vs KSE 100



Sales (Rs'bn) vs Gross Margin



PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

M. Fawad Naveed

Phone: (+92) 42 38302028; Ext: 117
Email: fawad@abbasiandcompany.com

Financial Projections

Rupees' millions	CY15A	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
Net sales	4,404	5,071	5,971	7,503	9,048	10,910	13,156	15,865	19,130
Cost of sale	2,312	2,693	3,125	4,003	4,886	5,782	6,979	8,430	10,167
Gross profit	2,092	2,378	2,846	3,500	4,162	5,128	6,177	7,434	8,963
Selling and distribution	1,126	1,279	1,600	2,027	2,387	2,815	3,394	4,093	4,936
Administration expenses	245	245	270	350	370	415	500	603	727
Research and development	3	4	4	4	5	5	7	8	10
Other operating expenses	73	74	84	89	120	164	197	238	287
Operating Profit	646	777	888	1,032	1,280	1,729	2,079	2,492	3,004
Other operating income	30	19	29	33	85	76	92	111	134
Finance cost	9	6	5	8	24	24	24	24	24
Profit before taxation	667	790	912	1,056	1,341	1,782	2,147	2,579	3,114
Taxation	223	255	286	330	370	495	596	716	864
Profit after taxation	444	535	626	726	971	1,287	1,551	1,863	2,250
EPS	12.83	15.46	18.10	20.97	28.05	37.18	44.81	53.83	64.99

Source: ACPL Research, Company Financials

Horizontal Analysis

	CY15A	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
Net sales	22.9%	19.2%	15.1%	17.8%	25.7%	20.6%	20.6%	20.6%	20.6%
Cost of sale	14.8%	13.3%	16.5%	16.1%	28.1%	22.1%	18.3%	20.7%	20.8%
Gross profit	34.5%	26.4%	13.7%	19.7%	23.0%	18.9%	23.2%	20.5%	20.3%
Selling and distribution	29.0%	16.2%	13.6%	25.1%	26.7%	17.8%	17.9%	20.6%	20.6%
Administration expenses	6.4%	11.4%	0.2%	10.1%	29.5%	5.8%	12.1%	20.6%	20.6%
Research and development	0.8%	-22.3%	20.1%	-1.3%	5.3%	31.9%	8.8%	20.6%	20.6%
Other operating expenses	45.3%	58.3%	0.7%	14.9%	4.9%	35.6%	36.1%	20.6%	20.6%
Operating Profit	75.6%	54.9%	20.3%	14.4%	16.2%	24.1%	35.1%	20.2%	19.9%
Other operating income	-34.8%	198.8%	-34.9%	50.8%	12.9%	157.9%	-10.4%	20.6%	20.6%
Finance cost	-39.4%	-29.2%	-30.6%	-18.3%	69.1%	185.2%	0.0%	0.0%	0.0%
Profit before taxation	78.4%	60.9%	18.5%	15.5%	15.8%	27.0%	32.9%	20.5%	20.1%
Taxation	85.6%	56.3%	14.5%	12.1%	15.6%	12.0%	33.6%	20.5%	20.1%
Profit after taxation	74.8%	63.3%	20.5%	17.1%	15.9%	33.8%	32.6%	20.5%	20.1%
EPS	74.8%	63.3%	20.5%	17.1%	15.9%	33.8%	32.6%	20.5%	20.1%

Source: ACPL Research, Company Financials

Key Ratios

Profitability Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
GP Margin	%	47.51	46.90	47.66	46.65	46.00	47.00	46.95	46.86	46.85
NP Margin	%	10.08	10.55	10.49	9.67	10.73	11.80	11.79	11.75	11.76
OP Margin	%	14.66	15.31	14.87	13.75	14.14	15.85	15.80	15.71	15.70
ROE	%	36.23	29.49	25.93	25.29	28.21	30.53	30.73	30.81	31.01
ROCE	%	28.63	24.64	22.07	21.78	24.59	27.25	27.92	28.43	28.98
ROA	%	19.39	18.88	18.63	19.25	20.98	17.79	16.07	14.84	14.01
Liquidity Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
Current	x	2.66	2.80	4.19	5.83	4.76	7.56	8.97	10.15	11.16
Acid-test	x	1.77	1.61	2.80	3.73	3.21	3.28	3.34	3.39	3.43
Cash to current liab.	x	0.67	1.03	1.17	1.78	1.26	3.99	5.33	6.45	7.42
Activity Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
Inventory Turnover	x	3	3	3	3	3	3	3	3	3
Inventory Days		118	126	123	113	117	123	122	122	122
Receivables Days		6	6	17	15	17	17	17	17	17
Payables Days		65	67	46	31	45	45	45	45	45
Operating Cycle		59	65	93	97	90	96	95	95	95
Investment Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
EPS		12.83	15.46	18.10	20.97	28.05	37.18	44.81	53.83	64.99
DPS		7.50	8.50	10.00	13.00	13.00	17.23	20.77	24.95	30.12
Div. Yield	%	1.24	1.40	1.65	2.15	2.15	2.85	3.43	4.12	4.97
Dividend Cover	x	1.71	1.82	1.81	1.61	2.16	2.16	2.16	2.16	2.16
BVPS		35.41	52.42	69.80	82.93	99.42	121.80	145.85	174.73	209.60
Payout	%	58.47	55.00	55.25	61.99	46.34	46.34	46.34	46.34	46.34
Retention	%	41.53	45.00	44.75	38.01	53.66	53.66	53.66	53.66	53.66
No. of Shares	'000	34,615	34,615	34,615	34,615	34,615	34,615	34,615	34,615	34,615
P/E		47.20	39.18	33.46	28.87	21.58	16.28	13.51	11.25	9.32
Sales per share		127.23	146.49	172.50	216.76	261.38	315.19	380.07	458.32	552.67
P/BV		17.10	11.55	8.68	7.30	6.09	4.97	4.15	3.47	2.89
Price to Sales		5.77	5.01	4.26	3.39	2.81	2.33	1.93	1.60	1.33
Gearing Ratios		CY15A	CY16A	CY17A	CY18A	CY19E	CY20E	CY21E	CY22E	CY23E
Debt to Equity	x	0.03	0.09	0.02	0.03	0.02	0.02	0.02	0.01	0.01
Interest Cover	x	73.75	127.91	179.03	122.99	53.50	72.29	86.91	104.19	125.59

Source: ACPL Research, Company Financials

DISCLAIMER

This report has been prepared by Abbasi & Company (Private) Limited and is provided for information purposes only. Under no circumstances, this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, Abbasi & Company (Private) Limited and or any of its officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professional advisers who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and Abbasi & Company (Private) Limited accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of Abbasi & Company (Private) Limited Research Department and do not necessarily reflect those of the company or its directors. Abbasi & Company (Private) Limited as a firm may have business relationships, including investment-banking relationships, with the companies referred to in this report. Abbasi & Company (Private) Limited does not act as a market maker in the securities of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives do not have a financial interest in the securities of the subject company to an amount exceeding 1% of the value of the securities of the subject company at the time of issuance of this report. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives are not currently serving or have served in the past three years as a director or officer of the subject company. Abbasi & Company (Private) Limited or any officers, directors, associates or close relatives have not received compensation from the subject company in the previous 12 months. The subject company currently is not, or during the 12-month period preceding the date of publication or distribution of this report, was not, a client of Abbasi & Company (Private) Limited. We have not managed or co-managed a public offering or any take-over, buyback or delisting offer of securities for the subject company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the subject company in the past 12 months. Abbasi & Company (Private) Limited does not expect to receive or intend to seek compensation for corporate advisory services or underwriting services from the subject company in the next 3 months

All rights reserved by Abbasi & Company (Private) Limited. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of Abbasi & Company (Private) Limited. Action could be taken for unauthorized reproduction, distribution or publication

VALIDITY OF THE PUBLICATION OR REPORT

The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report. The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report and were based upon several estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Abbasi & Company (Private) Limited and/or its other associated and affiliated companies, that:

- I. Such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- II. There is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein

DEFINITION OF TERMS

TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

VALUATION METHODOLOGY

To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

RATINGS CRITERIA

Abbasi & Company (Private) Limited employs a three-tier ratings system to rate a stock and sector, as mentioned below, which is based upon the level of expected return for a specific stock and outlook of sector. The rating is based on the following with stated time horizon

Stock Rating	Expected Total Return
BUY	Greater than 15%
HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

RESEARCH DISSEMINATION POLICY

Abbasi & Company (Private) Limited endeavors to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc. Nevertheless, all clients may not receive the material at the same time

OTHER DISCLOSURES

The research analyst is primarily involved in the preparation of this report, certifies that:

- I. The views expressed in this report accurately reflect his/her personal views about the subject company/stock /sector and economy
- II. No part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report

The Research Analyst is not and was not involved in issuing of a research report on any of the subject company's associated companies

RESEARCH DEPARTMENT

6 - Shadman, Lahore

Phone: (+92) 42 38302028; Ext 116, 117

Email: research@abbasiandcompany.com

web: www.abbasiandcompany.com

HEAD OFFICE

6 - Shadman, Lahore

Phone: (+92) 42 38302028

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com

BRANCH OFFICE

42 - Mall Road, Lahore

Phone: (+92) 42 37320707

Email: info@abbasiandcompany.com

web: www.abbasiandcompany.com