

# HINOON

## 9MCY22 Result Review: BUY Stance Maintained

Equity Research | Pharmaceuticals | Monday, 31 October, 2022

HINOON has announced its 9MCY22 result where it posted a profit after tax of Rs1.73bn (EPS: Rs41.34) as compared to a profit after tax of Rs1.23bn (EPS: Rs29.3) in the same period last year, up by 41.1% YoY. We note that this growth is attributed to the increase in volumetric sales.

The company has posted a revenue of Rs12.032bn against Rs9.580bn in SPLY, recording a growth of 25.6% YoY. The gross margin has slightly dropped to 49.5% as compared to 49.6% during SPLY.

SG&A expenses have been increased by 16.9% to Rs3.51bn as compared to Rs3.0bn during SPLY. Lastly, effective taxation has slightly decreased to 27% as compared to 27.4% during SPLY.

HINOON is currently trading at CY23E PE of 8.93x. Furthermore, it is also trading at a CY23E PB of 2.44x which offers a discount of 39% relative to its historical 3-year average of 3.97x. We maintain our **BUY** stance on the scrip with a DCF based Jun-23 TP of Rs650 which provides an upside potential of 20%. Further, the scrip provides a dividend yield of 5%, which makes the cumulative return 25%.

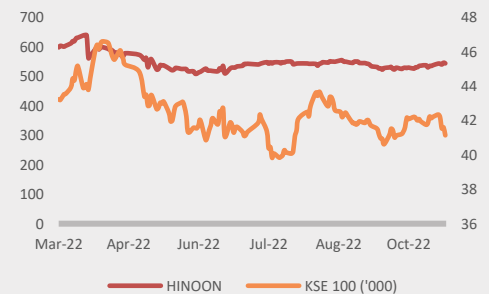
Rupees' millions	3QCY22	3QCY21	YoY	9MCY22	9MCY21	YoY
Net Sales	4,192	3,210	30.6% ▲	12,032	9,580	25.6% ▲
Cost of Sales	2,150	1,615	33.2% ▲	6,073	4,830	25.7% ▲
Gross Profit	2,042	1,595	28.0% ▲	5,959	4,749	25.5% ▲
SG&A Expenses	1,151	1,059	8.6% ▲	3,508	3,001	16.9% ▲
Other Expenses	88	38	131.0% ▲	263	149	77.0% ▲
Operating Profit	801	495	61.7% ▲	2,181	1,593	36.9% ▲
Other Income	83	41	101.3% ▲	224	114	95.7% ▲
Finance Cost	17	2	614.0% ▲	32	17	86.9% ▲
Profit Before Taxation	867	534	62.3% ▲	2,373	1,690	40.4% ▲
Taxation	206	157	30.7% ▲	641	463	38.5% ▲
Profit After Taxation	662	377	75.5% ▲	1,731	1,227	41.1% ▲
Earnings Per Share	15.80	9.00	75.5% ▲	41.34	29.30	41.1% ▲
Dividend	0.00	0.00		0.00	0.00	
Bonus	0%	0%		0.00	0.00	
Gross Margin	48.7%	49.7%	1.0% ▼	49.5%	49.6%	0.0% ▼
SG&A Expenses to Sales	27.5%	33.0%	5.5% ▼	29.2%	31.3%	2.2% ▼
Other Expenses to Sales	2.1%	1.2%	0.9% ▲	2.2%	1.6%	0.6% ▲
Other Income to Sales	2.0%	1.3%	0.7% ▲	1.9%	1.2%	0.7% ▲
Effective Taxation	23.7%	29.4%	5.7% ▼	27.0%	27.4%	0.4% ▼
Net Margin	15.8%	11.7%	4.0% ▲	14.4%	12.8%	1.6% ▲

Source: ACPL Research, Company Financials

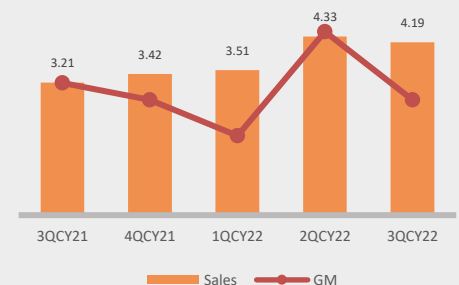
### Key Statistics

Symbol	HINOON
TP - Jun 23	650
LDCP	543.82
Upside	20%
Free Float (mn)	19
Market Cap. (Rs.mn)	22,777

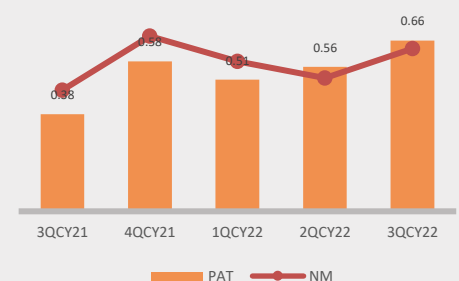
### HINOON vs KSE 100



### Sales (Rs'bn) vs Gross Margin



### PAT (Rs'bn) vs Net Margin



Sources: ACPL Research, Company Financials

Muhammad Ahmed

Phone: (+92) 42 38302028; Ext: 118

Email: mahmed@abbasiandcompany.com

## Financial Projections

Rupees' millions	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E	CY26E
Net sales	10,698	13,001	16,060	19,065	22,634	26,876	31,915
Cost of sale	5,576	6,585	8,110	9,938	11,798	14,009	16,636
<b>Gross profit</b>	<b>5,121</b>	<b>6,416</b>	<b>7,950</b>	<b>9,127</b>	<b>10,836</b>	<b>12,866</b>	<b>15,279</b>
Selling and distribution	2,645	3,416	4,038	4,793	5,690	6,757	8,023
Administration expenses	448	531	646	766	910	1,080	1,283
Research and development	6	9	10	11	14	16	19
Other operating expenses	179	214	350	416	493	586	696
<b>Operating Profit</b>	<b>1,842</b>	<b>2,245</b>	<b>2,907</b>	<b>3,141</b>	<b>3,729</b>	<b>4,427</b>	<b>5,258</b>
Other operating income	104	154	299	355	421	500	594
Finance cost	24	27	42	44	46	46	45
Profit before taxation	1,922	2,372	3,163	3,451	4,103	4,881	5,806
Taxation	501	564	855	901	1,072	1,275	1,516
<b>Profit after taxation</b>	<b>1,421</b>	<b>1,808</b>	<b>2,309</b>	<b>2,550</b>	<b>3,032</b>	<b>3,607</b>	<b>4,290</b>
EPS	<b>33.92</b>	<b>43.17</b>	<b>55.12</b>	<b>60.88</b>	<b>72.38</b>	<b>86.11</b>	<b>102.42</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	CY20A	CY21A	CY22E	CY23E	CY24E	CY25E	CY26E
Net sales	20.6%	18.2%	21.5%	23.5%	18.7%	18.7%	18.7%
Cost of sale	22.1%	14.1%	18.1%	23.2%	22.5%	18.7%	18.7%
<b>Gross profit</b>	<b>18.9%</b>	<b>23.1%</b>	<b>25.3%</b>	<b>23.9%</b>	<b>14.8%</b>	<b>18.7%</b>	<b>18.7%</b>
Selling and distribution	17.8%	10.8%	29.1%	18.2%	18.7%	18.7%	18.7%
Administration expenses	5.8%	21.2%	18.5%	21.6%	18.7%	18.7%	18.7%
Research and development	31.9%	27.2%	36.0%	11.1%	18.7%	18.7%	18.7%
Other operating expenses	35.6%	49.0%	19.6%	63.4%	18.7%	18.7%	18.7%
<b>Operating Profit</b>	<b>24.1%</b>	<b>43.9%</b>	<b>21.9%</b>	<b>29.5%</b>	<b>8.0%</b>	<b>18.7%</b>	<b>18.7%</b>
Other operating income	157.9%	21.7%	48.2%	94.4%	18.7%	18.7%	18.7%
Finance cost	185.2%	0.8%	11.7%	57.2%	4.7%	4.5%	-1.1%
Profit before taxation	27.0%	43.3%	23.4%	33.4%	9.1%	18.9%	19.0%
Taxation	12.0%	35.4%	12.6%	51.5%	5.4%	18.9%	19.0%
<b>Profit after taxation</b>	<b>33.8%</b>	<b>46.3%</b>	<b>27.3%</b>	<b>27.7%</b>	<b>10.4%</b>	<b>18.9%</b>	<b>19.0%</b>
EPS	<b>33.8%</b>	<b>46.3%</b>	<b>27.3%</b>	<b>27.7%</b>	<b>10.4%</b>	<b>18.9%</b>	<b>19.0%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		CY20A	CY21A	CY22E	CY23E	CY24E	CY25E	CY26E
GP Margin	%	47.87	49.35	49.50	47.87	47.87	47.87	47.87
NP Margin	%	13.28	13.91	14.37	13.37	13.39	13.42	13.44
OP Margin	%	17.22	17.27	18.10	16.47	16.47	16.47	16.47
ROE	%	31.67	31.38	29.05	27.28	27.57	27.81	28.02
ROCE	%	26.59	28.08	26.77	25.44	25.97	26.43	26.83
ROA	%	22.09	22.49	20.34	16.70	15.24	14.20	13.43
Liquidity Ratios		CY20A	CY21A	CY22E	CY23E	CY24E	CY25E	CY26E
Current	x	4.30	3.87	5.98	7.39	8.85	10.23	11.52
Acid-test	x	3.24	3.10	3.57	3.58	3.59	3.61	3.62
Cash to current liab.	x	0.76	0.51	2.16	3.55	4.97	6.33	7.60
Activity Ratios		CY20A	CY21A	CY22E	CY23E	CY24E	CY25E	CY26E
Inventory Turnover	x	3	3	3	3	3	3	3
Inventory Days		128	123	117	119	120	120	120
Receivables Days		12	18	16	16	16	16	16
Payables Days		36	54	42	42	42	42	42
Operating Cycle		103	86	91	92	94	94	94
Investment Ratios		CY20A	CY21A	CY22E	CY23E	CY24E	CY25E	CY26E
EPS		33.92	43.17	55.12	60.88	72.38	86.11	102.42
DPS		15.00	20.00	25.00	27.50	33.00	39.00	46.50
Div. Yield	%	2.76	3.68	4.60	5.06	6.07	7.17	8.55
Dividend Cover	x	2.26	2.16	2.20	2.21	2.19	2.21	2.20
BVPS		107.11	137.59	189.77	223.14	262.53	309.64	365.55
Payout	%	44.22	46.33	45.36	45.17	45.59	45.29	45.40
Retention	%	55.78	53.67	54.64	54.83	54.41	54.71	54.60
No. of Shares	'000	41,884	41,884	41,884	41,884	41,884	41,884	41,884
P/E		16.03	12.60	9.87	8.93	7.51	6.32	5.31
Sales per share		255.41	310.40	383.45	455.18	540.41	641.67	761.99
P/BV		5.08	3.95	2.87	2.44	2.07	1.76	1.49
Price to Sales		2.55	2.09	1.70	1.43	1.20	1.01	0.85
Gearing Ratios		CY20A	CY21A	CY22E	CY23E	CY24E	CY25E	CY26E
Debt to Equity	x	0.11	0.06	0.04	0.04	0.03	0.03	0.02
Interest Cover	x	76.41	83.37	68.65	70.83	80.46	96.58	115.96

Source: ACPL Research, Company Financials

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

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