

# HINOON

## CY20 Result Review: BUY Stance Maintained

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HINOON has announced its annual result where it posted profit after tax of Rs1.4bn (EPS: Rs41.04) in CY20 as compared to profit after tax of Rs971mn (EPS: Rs28.05) in same period last year, up by 46.3% YoY.

The company has posted the revenue of Rs10.7bn against Rs9.04bn in SPLY, recording a growth of 18.2% YoY. We note that this growth is attributed to the increase in volumetric sales.

Gross margin has been expanded to 47.9% as compared to 46% during SPLY on account of lower input cost.

SG&A expenses have been increased by 12.2% to Rs3.1bn as compared to Rs2.8bn during SPLY.

Lastly, the effective taxation has been decreased to 26.1% as compared to 27.6% during SPLY.

HINOON is currently trading at CY21E PE of 11.73x. Furthermore, it is also trading at a CY20E PB of 3.90x which offers a discount of 52% relative to its historical 5-year average of 8.13x. We maintain our **BUY** stance on the script with a DCF based Dec-21 TP of Rs850 which provides an upside potential of 32%.

Rupees' millions	4QCY20	4QCY19	YoY	CY20	CY19	YoY
Net Sales	2,798	2,388	17.2% ▲	10,698	9,048	18.2% ▲
Cost of Sales	1,530	1,268	20.7% ▲	5,576	4,886	14.1% ▲
<b>Gross Profit</b>	<b>1,268</b>	<b>1,120</b>	<b>13.2% ▲</b>	<b>5,121</b>	<b>4,162</b>	<b>23.1% ▲</b>
SG&A Expenses	680	767	11.4% ▼	3,094	2,757	12.2% ▲
Other Expenses	54	33	65.5% ▲	179	120	49.0% ▲
<b>Operating Profit</b>	<b>533</b>	<b>319</b>	<b>67.2% ▲</b>	<b>1,842</b>	<b>1,280</b>	<b>43.9% ▲</b>
Other Income	44	21	108.8% ▲	104	85	21.7% ▲
Finance Cost	18	4	376.4% ▲	24	24	0.8% ▲
Profit Before Taxation	559	336	66.5% ▲	1,922	1,341	43.3% ▲
Taxation	117	62	88.5% ▲	501	370	35.4% ▲
<b>Profit After Taxation</b>	<b>443</b>	<b>274</b>	<b>61.5% ▲</b>	<b>1,421</b>	<b>971</b>	<b>46.3% ▲</b>
<b>Earnings Per Share</b>	<b>12.79</b>	<b>7.92</b>	<b>61.5% ▲</b>	<b>41.04</b>	<b>28.05</b>	<b>46.3% ▲</b>
<b>Dividend</b>	<b>15.00</b>	<b>13.00</b>		<b>15.00</b>	<b>13.00</b>	
<b>Bonus</b>	<b>10%</b>	<b>10%</b>		<b>10%</b>	<b>10%</b>	

Closing Period: 26 Apr 2021 - 08 May 2021

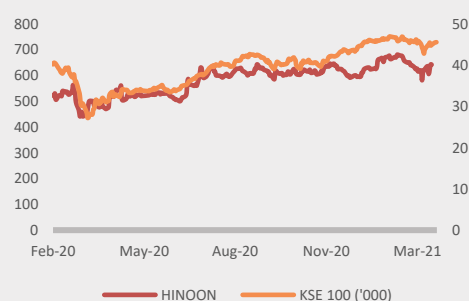
	4QCY20	4QCY19	YoY	CY20	CY19	YoY
Gross Margin	45.3%	46.9%	1.6% ▼	47.9%	46.0%	1.9% ▲
SG&A Expenses to Sales	24.3%	32.1%	7.8% ▼	28.9%	30.5%	1.5% ▼
Other Expenses to Sales	1.9%	1.4%	0.6% ▲	1.7%	1.3%	0.3% ▲
Other Income to Sales	1.6%	0.9%	0.7% ▲	1.0%	0.9%	0.0% ▲
Effective Taxation	20.8%	18.4%	2.4% ▲	26.1%	27.6%	1.5% ▼
Net Margin	15.8%	11.5%	4.3% ▲	13.3%	10.7%	2.5% ▲

Source: ACPL Research, Company Financials

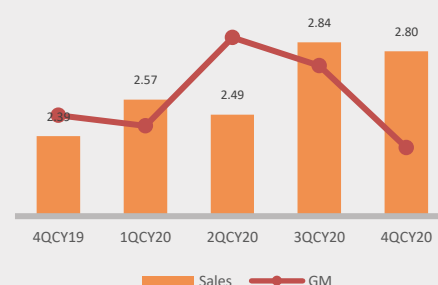
### Key Statistics

Symbol	HINOON
TP - Dec 21	850.00
LDCP	641.61
Upside	32%
Free Float (mn)	14
Market Cap. (Rs.mn)	22,209

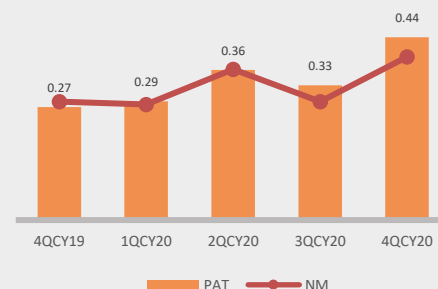
### HINOON vs KSE 100



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



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



Sources: ACPL Research, Company Financials

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## Financial Projections

Rupees' millions	CY15A	CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
Net sales	4,404	5,071	5,971	7,503	9,048	10,698	13,092	15,711	18,853
Cost of sale	2,312	2,693	3,125	4,003	4,886	5,576	6,926	8,322	9,982
<b>Gross profit</b>	<b>2,092</b>	<b>2,378</b>	<b>2,846</b>	<b>3,500</b>	<b>4,162</b>	<b>5,121</b>	<b>6,166</b>	<b>7,389</b>	<b>8,871</b>
Selling and distribution	1,126	1,279	1,600	2,027	2,387	2,645	2,880	3,456	4,148
Administration expenses	245	245	270	350	370	448	581	698	837
Research and development	3	4	4	4	5	6	8	9	11
Other operating expenses	73	74	84	89	120	179	262	314	377
<b>Operating Profit</b>	<b>646</b>	<b>777</b>	<b>888</b>	<b>1,032</b>	<b>1,280</b>	<b>1,842</b>	<b>2,435</b>	<b>2,911</b>	<b>3,498</b>
Other operating income	30	19	29	33	85	104	209	251	302
Finance cost	9	6	5	8	24	24	24	24	24
Profit before taxation	667	790	912	1,056	1,341	1,922	2,621	3,139	3,775
Taxation	223	255	286	330	370	501	727	871	1,048
<b>Profit after taxation</b>	<b>444</b>	<b>535</b>	<b>626</b>	<b>726</b>	<b>971</b>	<b>1,421</b>	<b>1,893</b>	<b>2,267</b>	<b>2,727</b>
EPS	<b>12.83</b>	<b>15.46</b>	<b>18.10</b>	<b>20.97</b>	<b>28.05</b>	<b>41.04</b>	<b>54.69</b>	<b>65.50</b>	<b>78.79</b>

Source: ACPL Research, Company Financials

## Horizontal Analysis

	CY15A	CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
Net sales	22.9%	19.2%	15.1%	17.8%	25.7%	20.6%	18.2%	22.4%	20.0%
Cost of sale	14.8%	13.3%	16.5%	16.1%	28.1%	22.1%	14.1%	24.2%	20.2%
<b>Gross profit</b>	<b>34.5%</b>	<b>26.4%</b>	<b>13.7%</b>	<b>19.7%</b>	<b>23.0%</b>	<b>18.9%</b>	<b>23.1%</b>	<b>20.4%</b>	<b>19.8%</b>
Selling and distribution	29.0%	16.2%	13.6%	25.1%	26.7%	17.8%	10.8%	8.9%	20.0%
Administration expenses	6.4%	11.4%	0.2%	10.1%	29.5%	5.8%	21.2%	29.7%	20.0%
Research and development	0.8%	-22.3%	20.1%	-1.3%	5.3%	31.9%	27.2%	22.4%	20.0%
Other operating expenses	45.3%	58.3%	0.7%	14.9%	4.9%	35.6%	49.0%	46.2%	20.0%
<b>Operating Profit</b>	<b>75.6%</b>	<b>54.9%</b>	<b>20.3%</b>	<b>14.4%</b>	<b>16.2%</b>	<b>24.1%</b>	<b>43.9%</b>	<b>32.2%</b>	<b>19.6%</b>
Other operating income	-34.8%	198.8%	-34.9%	50.8%	12.9%	157.9%	21.7%	102.0%	20.0%
Finance cost	-39.4%	-29.2%	-30.6%	-18.3%	69.1%	185.2%	0.8%	-0.8%	0.0%
Profit before taxation	78.4%	60.9%	18.5%	15.5%	15.8%	27.0%	43.3%	36.4%	19.8%
Taxation	85.6%	56.3%	14.5%	12.1%	15.6%	12.0%	35.4%	45.2%	19.8%
<b>Profit after taxation</b>	<b>74.8%</b>	<b>63.3%</b>	<b>20.5%</b>	<b>17.1%</b>	<b>15.9%</b>	<b>33.8%</b>	<b>46.3%</b>	<b>33.2%</b>	<b>19.8%</b>
EPS	<b>74.8%</b>	<b>63.3%</b>	<b>20.5%</b>	<b>17.1%</b>	<b>15.9%</b>	<b>33.8%</b>	<b>46.3%</b>	<b>33.2%</b>	<b>19.8%</b>

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	47.87	47.10	47.03	47.05
NP Margin	%	10.08	10.55	10.49	9.67	10.73	13.28	14.46	14.43	14.47
OP Margin	%	14.66	15.31	14.87	13.75	14.14	17.22	18.60	18.53	18.55
ROE	%	36.23	29.49	25.93	25.29	28.21	32.09	33.23	31.18	29.63
ROCE	%	28.63	24.64	22.07	21.78	24.59	28.80	30.52	29.15	28.09
ROA	%	19.39	18.88	18.63	19.25	20.98	19.55	19.03	17.34	16.23
Liquidity Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20E	CY21E	CY22E	CY23E
Current	x	2.66	2.80	4.19	5.83	4.76	7.85	9.35	10.74	11.93
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	4.28	5.71	7.05	8.19
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	125	121	123	123
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	98	93	95	95
Investment Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
EPS		12.83	15.46	18.10	20.97	28.05	41.04	54.69	65.50	78.79
DPS		7.50	8.50	10.00	13.00	13.00	15.00	18.00	20.00	23.00
Div. Yield	%	1.17	1.32	1.56	2.03	2.03	2.34	2.81	3.12	3.58
Dividend Cover	x	1.71	1.82	1.81	1.61	2.16	2.74	3.04	3.28	3.43
BVPS		35.41	52.42	69.80	82.93	99.42	127.89	164.58	210.09	265.88
Payout	%	58.47	55.00	55.25	61.99	46.34	36.55	32.91	30.53	29.19
Retention	%	41.53	45.00	44.75	38.01	53.66	63.45	67.09	69.47	70.81
No. of Shares	'000	34,615	34,615	34,615	34,615	34,615	34,615	34,615	34,615	34,615
P/E		50.02	41.51	35.45	30.60	22.87	15.63	11.73	9.80	8.14
Sales per share		127.23	146.49	172.50	216.76	261.38	309.05	378.23	453.87	544.65
P/BV		18.12	12.24	9.19	7.74	6.45	5.02	3.90	3.05	2.41
Price to Sales		6.68	5.80	4.93	3.92	3.25	2.75	2.25	1.87	1.56
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	0.01	0.01	0.01
Interest Cover	x	73.75	127.91	179.03	122.99	53.50	76.41	101.79	121.70	146.22

Source: ACPL Research, Company Financials

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<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

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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

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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