

# HINOON

## 1QCY21 Result Review: BUY Stance Maintained

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HINOON has announced its 1QCY21 result where it posted profit after tax of Rs409mn (EPS: Rs10.74) as compared to profit after tax of Rs288mn (EPS: Rs7.55) in same period last year, up by 42.2% YoY.

The company has posted the revenue of Rs3.1bn against Rs2.6bn in SPLY, recording a growth of 21.5% YoY. We note that this growth is attributed to the increase in volumetric sales.

Gross margin has been expanded to 48.9% as compared to 46.4% during SPLY on account of lower input cost.

SG&A expenses have been increased by 23% to Rs934mn as compared to Rs759mn during SPLY.

Lastly, the effective taxation has been decreased to 27.1% as compared to 29% during SPLY.

HINOON is currently trading at CY21E PE of 12.59x. Furthermore, it is also trading at a CY20E PB of 3.79x which offers a discount of 50% relative to its historical 5-year average of 7.54x. We maintain our **BUY** stance on the script with a DCF based Dec-21 TP of Rs750 which provides an upside potential of 26%.

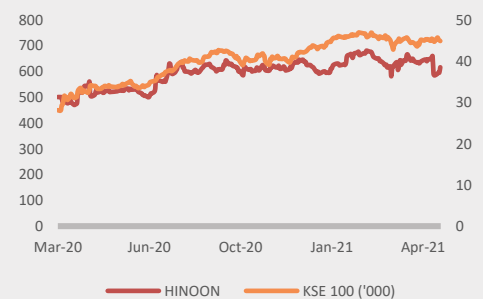
Rupees' millions	1QCY21	1QCY20	YoY	CY20	CY19	YoY
Net Sales	3,117	2,566	21.5% ▲	10,698	9,048	18.2% ▲
Cost of Sales	1,593	1,376	15.8% ▲	5,576	4,886	14.1% ▲
<b>Gross Profit</b>	<b>1,524</b>	<b>1,190</b>	<b>28.1% ▲</b>	<b>5,121</b>	<b>4,162</b>	<b>23.1% ▲</b>
SG&A Expenses	934	759	23.0% ▲	3,094	2,757	12.2% ▲
Other Expenses	50	36	40.5% ▲	179	120	49.0% ▲
<b>Operating Profit</b>	<b>538</b>	<b>393</b>	<b>36.8% ▲</b>	<b>1,842</b>	<b>1,280</b>	<b>43.9% ▲</b>
Other Income	31	15	100.0% ▲	104	85	21.7% ▲
Finance Cost	7	3	115.5% ▲	24	24	0.8% ▲
Profit Before Taxation	561	405	38.5% ▲	1,922	1,341	43.3% ▲
Taxation	152	118	29.3% ▲	501	370	35.4% ▲
<b>Profit After Taxation</b>	<b>409</b>	<b>288</b>	<b>42.2% ▲</b>	<b>1,421</b>	<b>971</b>	<b>46.3% ▲</b>
<b>Earnings Per Share</b>	<b>10.74</b>	<b>7.55</b>	<b>42.2% ▲</b>	<b>37.31</b>	<b>25.50</b>	<b>46.3% ▲</b>
<b>Dividend</b>	<b>0.00</b>	<b>0.00</b>		<b>15.00</b>	<b>13.00</b>	
<b>Bonus</b>	<b>0%</b>	<b>0%</b>		<b>10%</b>	<b>10%</b>	
Gross Margin	48.9%	46.4%	2.5% ▲	47.9%	46.0%	1.9% ▲
SG&A Expenses to Sales	30.0%	29.6%	0.4% ▲	28.9%	30.5%	1.5% ▼
Other Expenses to Sales	1.6%	1.4%	0.2% ▲	1.7%	1.3%	0.3% ▲
Other Income to Sales	1.0%	0.6%	0.4% ▲	1.0%	0.9%	0.0% ▲
Effective Taxation	27.1%	29.0%	1.9% ▼	26.1%	27.6%	1.5% ▼
Net Margin	13.1%	11.2%	1.9% ▲	13.3%	10.7%	2.5% ▲

Source: ACPL Research, Company Financials

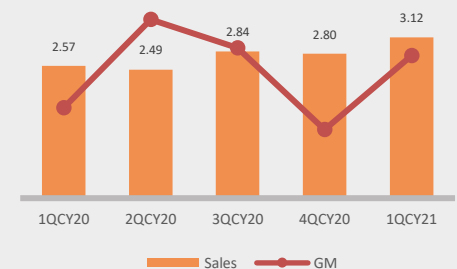
### Key Statistics

Symbol	HINOON
TP - Dec 21	750.00
LDCP	595.00
Upside	26%
Free Float (mn)	15
Market Cap. (Rs.mn)	22,655

### 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	12,547	14,429	16,593
Cost of sale	2,312	2,693	3,125	4,003	4,886	5,576	6,411	7,600	8,728
<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>6,135</b>	<b>6,829</b>	<b>7,865</b>
Selling and distribution	1,126	1,279	1,600	2,027	2,387	2,645	3,262	3,751	4,314
Administration expenses	245	245	270	350	370	448	497	571	657
Research and development	3	4	4	4	5	6	7	9	10
Other operating expenses	73	74	84	89	120	179	203	234	269
<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>2,166</b>	<b>2,264</b>	<b>2,615</b>
Other operating income	30	19	29	33	85	104	123	141	163
Finance cost	9	6	5	8	24	24	24	24	24
Profit before taxation	667	790	912	1,056	1,341	1,922	2,265	2,381	2,754
Taxation	223	255	286	330	370	501	629	661	765
<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>1,636</b>	<b>1,720</b>	<b>1,990</b>
EPS	<b>11.66</b>	<b>14.05</b>	<b>16.45</b>	<b>19.06</b>	<b>25.50</b>	<b>37.31</b>	<b>42.97</b>	<b>45.18</b>	<b>52.25</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%	17.3%	15.0%
Cost of sale	14.8%	13.3%	16.5%	16.1%	28.1%	22.1%	14.1%	15.0%	18.5%
<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>19.8%</b>	<b>11.3%</b>
Selling and distribution	29.0%	16.2%	13.6%	25.1%	26.7%	17.8%	10.8%	23.3%	15.0%
Administration expenses	6.4%	11.4%	0.2%	10.1%	29.5%	5.8%	21.2%	10.9%	15.0%
Research and development	0.8%	-22.3%	20.1%	-1.3%	5.3%	31.9%	27.2%	17.3%	15.0%
Other operating expenses	45.3%	58.3%	0.7%	14.9%	4.9%	35.6%	49.0%	13.5%	15.0%
<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>17.6%</b>	<b>4.5%</b>
Other operating income	-34.8%	198.8%	-34.9%	50.8%	12.9%	157.9%	21.7%	18.6%	15.0%
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%	17.8%	5.2%
Taxation	85.6%	56.3%	14.5%	12.1%	15.6%	12.0%	35.4%	25.5%	5.2%
<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>15.2%</b>	<b>5.2%</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>15.2%</b>	<b>5.2%</b>

Source: ACPL Research, Company Financials

## Key Ratios

Profitability Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
GP Margin	%	47.51	46.90	47.66	46.65	46.00	47.87	48.90	47.33	47.40
NP Margin	%	10.08	10.55	10.49	9.67	10.73	13.28	13.04	11.92	11.99
OP Margin	%	14.66	15.31	14.87	13.75	14.14	17.22	17.26	15.69	15.76
ROE	%	36.23	29.49	25.93	25.29	28.21	32.22	30.52	27.22	26.77
ROCE	%	28.63	24.64	22.07	21.78	24.59	28.90	27.89	25.20	25.06
ROA	%	19.39	18.88	18.63	19.25	20.98	19.41	16.79	13.91	12.94
Liquidity Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
Current	x	2.66	2.80	4.19	5.83	4.76	7.92	9.79	10.98	12.27
Acid-test	x	1.77	1.61	2.80	3.73	3.21	3.28	3.33	3.37	3.40
Cash to current liab.	x	0.67	1.03	1.17	1.78	1.26	4.35	6.15	7.31	8.56
Activity Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
Inventory Turnover	x	3	3	3	3	3	3	3	3	3
Inventory Days		118	126	123	113	117	125	125	123	125
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	97	95	97
Investment Ratios		CY15A	CY16A	CY17A	CY18A	CY19A	CY20A	CY21E	CY22E	CY23E
EPS		11.66	14.05	16.45	19.06	25.50	37.31	42.97	45.18	52.25
DPS		7.50	8.50	10.00	13.00	13.00	15.00	18.00	20.00	23.00
Div. Yield	%	1.26	1.43	1.68	2.18	2.18	2.52	3.03	3.36	3.87
Dividend Cover	x	1.55	1.65	1.65	1.47	1.96	2.49	2.39	2.26	2.27
BVPS		32.19	47.65	63.45	75.39	90.39	115.81	140.78	165.96	195.21
Payout	%	64.31	60.50	60.78	68.19	50.98	40.20	41.89	44.27	44.02
Retention	%	35.69	39.50	39.22	31.81	49.02	59.80	58.11	55.73	55.98
No. of Shares	'000	38,076	38,076	38,076	38,076	38,076	38,076	38,076	38,076	38,076
P/E		51.02	42.35	36.16	31.21	23.33	15.95	13.85	13.17	11.39
Sales per share		115.66	133.17	156.82	197.05	237.62	280.95	329.52	378.94	435.78
P/BV		18.49	12.49	9.38	7.89	6.58	5.14	4.23	3.59	3.05
Price to Sales		6.52	5.67	4.81	3.83	3.18	2.69	2.29	1.99	1.73
Gearing Ratios		CY15A	CY16A	CY17A	CY18A	CY19E	CY20A	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	76.41	90.53	94.64	109.34

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

### 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

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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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