

NAWALOKA HOSPITALS PLC

NHL.N: LKR 8.90

RECOMMENDATION : BUY
FAIR VALUE : 15.73

RESULTS RELEASED : 16/9/2021
REPORT PUBLISHED : 17/9/2021

COMPANY PROFILE

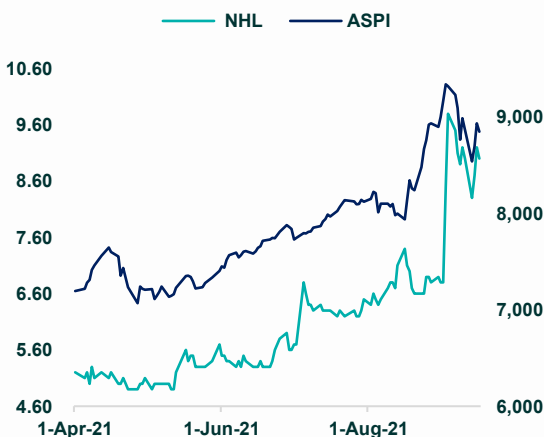
Nawaloka Hospital PLC stepped foot into the state dominated healthcare sector in 1985 and since, has progressed to be **one of the largest private hospital chains in Sri Lanka**. Being Sri Lanka's first premier multi-specialty hospital, Nawaloka has established six centers of excellence from which the bone marrow transplant center is a unique specialty to the hospital. The Group's geographical exposure is broadly limited to the Western province with 89% of the revenue generated from the Colombo district in FY 2020/21.

COMPANY DATA

| | |
|-------------------------|-------------|
| Price | 8.90 |
| Date of Price | 16-Sep-21 |
| 52-week Range (Rs.) | 3.70 – 9.80 |
| Market Cap (Rs. Mn) | 12,545 |
| Fiscal Year End | 31-Mar |
| Shares Outstanding (Mn) | 1,410 |

| As at 16- Sep 2021 | PER | PBV |
|--------------------|--------|-------|
| NHL | 11.71x | 2.97x |
| ASPI | 10.73x | 1.24x |

PRICE PERFORMANCE

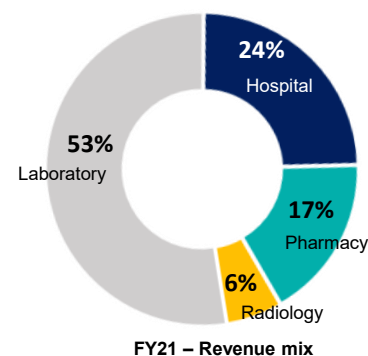
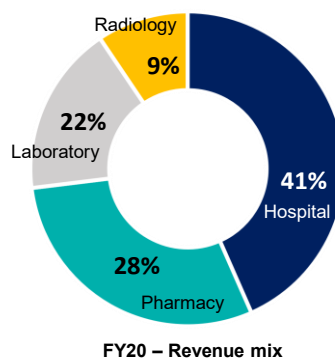


KEY HIGHLIGHTS

(R.s in Mn)

| Y/E 31 st Mar | FY18 | FY19 | FY20 | FY21 |
|--------------------------|-------|----------|---------|-----------|
| Revenue | 7,955 | 8,534 | 9,036 | 11,828 |
| YoY % | | 7.28% | 5.88% | 30.90% |
| Gross Profit | 4,404 | 4,390 | 4,788 | 5,542 |
| YoY % | | -0.31% | 9.05% | 15.77% |
| EBIT | 1,174 | 802 | 1,180 | 1,504 |
| YoY % | | -31.67% | 47.03% | 27.44% |
| Net Profit | 180 | (587) | 16 | 501 |
| YoY % | | -426.27% | 102.72% | 3,036.68% |

NHL's net profit grew drastically by 3,037% YoY to LKR 501mn supported by the 38% steep growth in revenue. Overshadowing the negative growth of hospital, pharmaceutical and radiology revenues, laboratory revenue grew by 316% YoY allowing the group to earn lucrative profits compared to previous financial years. Reduced interest expenses induced by restructured long-term debt and internal cost reduction mechanisms further aided the bottom-line profits to grow.

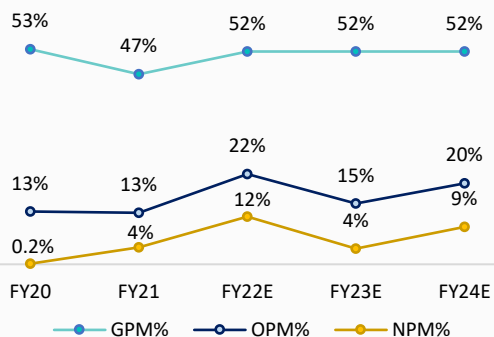
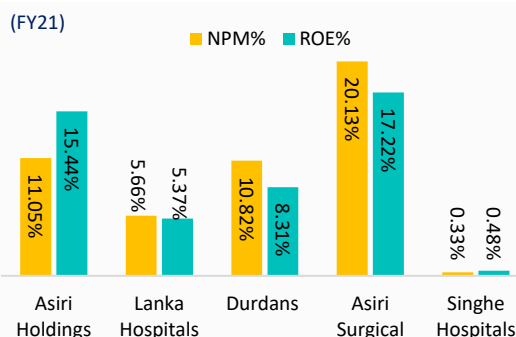


NON-FINANCIAL INDICATORS

| Beds | Consultants | Nurses | Theatres | Laboratory | Collection centers | Pharmacies |
|------|-------------|--------|----------|------------|--------------------|------------|
| 475 | 700+ | 525 | 18 | 7 | 812 | 5 |

INVESTMENTS

- The hospital annually invests approximately **Rs. 150 Mn** in new medical technology to keep up with the industry. However, the continuing pandemic has forced the hospital to divert some of their investments towards COVID-19 care.
- The **second wing of the Negombo hospital** which amounted to 400mn is soon to be completed contributing to the expansion of the OPD, ETU, pharmacy, channel consultations, and inward patient rooms expanding the capacity of the hospital.
- A dedicated **cardiac unit and cancer care unit** are in the pipeline which was temporarily delayed by the pandemic's immediate care requirement and infrastructure investments.
- Further investments are made in **surgical and diagnostics** areas to increase accessibility, accuracy and speed of healthcare services

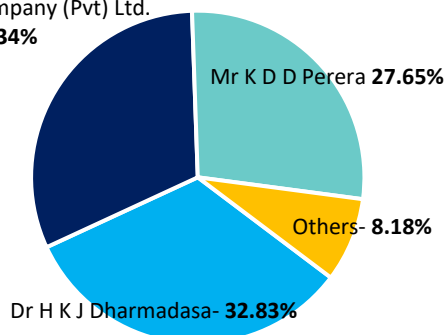
PROFIT MARGINS**PEER COMPARISON****FUTURE OUTLOOK**

The group's concentration is on developing the services for the domestic sector in the short term, with the diminishing revenue from the tourism sector. The hospital identifies a new category of patients who regularly sought medical attention in countries like India and Singapore turning to local expertise, a brighter side of this pandemic.

The outlook for the overall private healthcare sector remains attractive as the ageing population and prevalence of noncommunicable diseases increase in Sri Lanka requiring long term care with hospitalization and palliative care. Funding of private sector healthcare being supported by the healthy growth in Health Insurance is likely to boost demand further.

TOP SHAREHOLDERS

Nawaloka Construction Company (Pvt) Ltd.
31.34%

**EARNINGS FORECAST**

(R.s in Mn)

| Y/E 31st Mar | FY20 | FY21 | FY22E | FY23E | FY24E | |
|-------------------|-------|--------|--------|--------|---------|--------|
| Revenue | 9,036 | 11,828 | 12,559 | 10,198 | 11,849 | |
| YoY % | | 5.88% | 30.90% | 6.18% | -18.80% | 16.19% |
| Gross Profit | 4,788 | 5,542 | 6,582 | 5,344 | 6,209 | |
| EBIT | 1,180 | 1,504 | 2,792 | 1,529 | 2,366 | |
| Net Profit | 16 | 501 | 1,475 | 396 | 1,094 | |
| EPS | 0.01 | 0.36 | 1.05 | 0.28 | 0.78 | |
| NVPS | 2.43 | 2.78 | 1.90 | 1.14 | 1.63 | |
| Ratios | | | | | | |
| ROA % | 0.09% | 2.68% | 8.46% | 2.33% | 6.24% | |
| ROE % | 0.47% | 12.23% | 54.99% | 24.71% | 47.53% | |
| Valuations | | | | | | |
| PER | 290 | 12.82 | 7.91 | 49.76 | 20.28 | |
| PBR | 1.19 | 1.76 | 4.35 | 12.30 | 9.97 | |

- As the FY21 began under a COVID-19 lockdown, insignificant number of patients were received by the **consultation and in-patient treatment units** reducing the hospital revenue to 24% of total revenue. The footfall is expected to decline further in FY22 with the continuing pandemic. However, this is believed to be a short-term challenge, given the essential need for healthcare hence the numbers are expected to increase after FY23 when restrictions are eased, and public movement improves.
- The slow start to the year picked up pace with the increased **demand for laboratory services**. From over the 1,000,000 lab tests conducted during the year, 480,000 were PCR testing that drove the revenue. As normalcy is expected after FY22, a drop in laboratory revenue is likely to drive down the total revenue by 19%. However, the hospital has mentioned that laboratory services will be a key area of expansion in the future and other testing facilities provided at the regional medical centers.
- Annual report mentions the initiations to analyze and address **cost management concerns** with a dedicated team to reduce waste in clinical and non-clinical waste and effective consumption will be continued reducing direct costs in upcoming financial years improving GP margins.
- The soon to be completed **second wing of the Negombo hospital and other investments** are expected to enhance the capacity and increase net cash flow of the group.
- Valuation:** By applying the DCF model, we recommend a purchase of NHL shares expecting a revenue growth of 6.18% YoY for FY22, at a fair price of LKR 15.73.

KEY CHALLENGES AND RISKS

- Additional health and safety protocols are required to be in place to safeguard the employees and patients which has increased operational costs of NHL. Paucity of qualified physicians and nursing staff is a long living challenge faced by the health sector of Sri Lanka.

EQUITY RESEARCH

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