



Recommendation : SUBSCRIBE

IPO Price: LKR 12.50

hBS's topline to increase by 13% in FY22E

YE Mar	2019	2020	2021	2022E	2023E	2024E
Income Statement (LKR Mns)						
Revenue	826	955	961	1,088	1,390	1,812
Gross Profit	446	491	513	598	806	1,087
Selling & Distribution Expenses -	207 -	149 -	143 -	150 -	188 -	226
Admin Expenses -	65 -	121 -	115 -	136 -	195 -	272
PBT	140	182	223	283	388	541
PAT	137	168	209	272	361	503
Ratios & Other						
GP Margin	54%	51%	53%	55%	58%	60%
EBIT Margin	17%	19%	23%	26%	28%	30%
NP Margin	17%	18%	22%	25%	26%	28%
EPS post IPO	0.49	0.61	0.76	0.98	1.31	1.82
NAVPS post IPO	2.25	3.03	4.52	4.53	4.93	5.48
PE (x) post IPO	25.32	20.63	16.53	12.73	9.58	6.87
PBV (x) post IPO	5.55	4.12	2.77	2.76	2.53	2.28
Dividend payout	18%	12%	14%	14%	14%	15%
Dividend yield	0.7%	0.6%	0.9%	1.1%	1.5%	2.2%

Issue Highlights

Total issue of shares	55,339,076
Price per share	12.50
Market cap. (LKR Bn)	3.5
% of holding to the public	20%
Opening of the subscription list	03rd December 2021
Closure of the subscription list	22nd December 2021

Basis of allotment

Investor category	% of issue
Unit trusts	10%
Retail individual	40%
Non retail	50%

**Investors who apply for up to a maximum of 8000 (value of not more than LKR 100,000) shares will be considered as retail investors*

Shareholding Pattern

	Pre IPO
hSenid Ventures (Private) Limited	31.10%
Rusi Sohli Captain	12.71%
Dinesh B Saparamadu	12.56%
K.P.R Bernard De Silva	12.18%
Otto Edvard Husby Kalvo	8.94%
	Post IPO
hSenid Ventures (Private) Limited	24.88%
IPO Shareholders	20.00%
Rusi Sohli Captain	10.17%
Dinesh B Saparamadu	10.05%
K.P.R Bernard De Silva	9.75%

Earnings multiples of large scale global peers hovers around 23.3x-40.8x

Company	Country of origin	PE (x)
eChannelling PLC	Sri Lanka	23.28
Dareway Software Co	China	40.75
Hilan Ltd.	Israel	31.44
Cornerstone OnDemand, Inc	USA	NA
Ceridian HCM Holding Inc	USA	NA
Average		31.82

- hSenid Business Solutions Limited (hBS) is the leader in Sri Lanka's Human Capital Management related software with an installed base market share of >80%. hBS has marked its presence in >40 countries in Asia, APAC (contributed to 25% of sales in FY21) and African regions (contributed to 24% of sales in FY21) including Singapore, Malaysia, Thailand, Brunei, Bangladesh, Uganda, Rwanda, Kenya, Tanzania and South Africa.

- hBS's product portfolio consists of 'PeoplesHR on Premise' (includes all aspects of HCM and the client should purchase the software/hardware) accounts to 39% of sales whereas 'PeoplesHR Cloud' (client can pay a subscription to use the software without purchasing) accounts to 29% of revenue. Further, 'hSenid HRO' (allows client to outsource HR functions) contributes to 10% of topline while 'hSenid tracking solutions' (offers security, time and attendance management) accounts to 7% of revenue. 'Peoples HR Turbo' (a simplified version of PeoplesHR specialized for SMEs), 'Juraa' (an enterprise social network that allows employees to connect) and 'PeoplesHR Marketplace' (a global software store with a range of business solutions) are still in the growth stage.

- The funds are expected to be utilized to accelerate product development road map (cost of LKR 140Mn) by Dec'23, improvement of 'PeoplesHR Marketplace' platform (cost of LKR 62Mn) by Dec'23, partner acceleration and to acquire global talent (cost of LKR 140Mn) by Dec'23. Further, hBS plans to spend the excess LKR 350Mn for potential strategic acquisitions in APAC and East African regions by March'24.

- We forecast a topline growth of 13%YoY in FY22E, 28%YoY in FY23E and 31%YoY in FY24E backed by high demand for 'PeoplesHR Cloud' driven by growth in SMEs, acquisitions in APAC and African regions and product development.

- Cloud based software is forecasted to grow in line with the HRM software market due to the scalability and decline in infrastructure and maintenance costs for the client, making the product attractive to SMEs. Moreover, according to the World Bank's statistics, 90% of businesses are SMEs and 40% of contribution to GDP in emerging economies are by SMEs. Further, SMEs in the APAC (Asia Pacific) region has grown by a CAGR of 7.6% over the last 10 years. Hence, we expect 'PeoplesHR Cloud' to be the major revenue contributor by FY24 with a revenue contribution of 43% compared to 29% in FY21.

- We have arrived at an intrinsic value of LKR 14.58 (upside of 17% to the issue price of LKR 12.50) based on the discounted cashflow method. Further, hBS trades at a forward PE of 12.7x whereas global peers trade between 23.3x to 40.8x. Hence, even after taking a discount to the relative valuations, hBS has the potential to trade above LKR 20.00. Thus, we recommend SUBSCRIBE.

Source : IPO prospectus, Investing.com, www.worldbank.org

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