

1QFY23 earnings likely to come at PKR 2.1/share

- HTL's board meeting is scheduled on October 28, 2022 to consider 1QFY23 financial results, where we expect the company to post consolidated EPS of PKR 2.1, up 1.8x YoY as compared to EPS of PKR 0.7 in corresponding period last year. This increase in earnings could mainly be attributed to higher product prices and increased contribution from petroleum segment.
- Net sales are likely to clock in at PKR 5.8bn compared to PKR 3.1bn in SPLY, up 88% YoY on the back of higher product prices. On the contrary, HTL's overall gross margin is likely to contract by 3.8% to 18% during 1Q. This is mainly due to higher petroleum sales as the segment margins are thin compared to lubricant segment.
- Finance cost is expected to increase to PKR 118mn, up 2.2x YoY due to higher interest rates and increased short-term borrowings.
- On a sequential basis, HTL is expected post earnings growth of 23.7x QoQ mainly due to low base effect. Just to recall, the company booked massive tax expense owing to super tax, thus eroding the earnings growth in preceding quarter.
- We have a 'BUY' stance on HTL. Our Jun-23 price target (PT) of PKR 55.0/share provides an upside of 57% along with a dividend yield of 11%.

Key Data

PSX Ticker	HTL
Target Price (PKR)	55
Current Price (PKR)	35
Upside/(Downside) (%)	+ 57%
Dividend Yield (%)	11%
Total Return (%)	+ 68%
12-month High (PKR)	62
12-month Low (PKR)	35
Outstanding Shares (mn)	139
Market Cap (PKR mn)	4,908
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	1QFY22	1QFY23E	YoY
Net Sales	3,080	5,798	88%
Cost of Sales	2,400	4,739	97%
Gross Profit	680	1,060	56%
Operating Expense	509	551	8%
Other Income	18	51	189%
Finance cost	37	118	221%
Profit before tax	152	441	190%
Taxation	48	146	206%
Net Income	104	296	183%
EPS/ (LPS)	0.7	2.1	183%
DPS	-	-	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	0.9	4.9	4.4	7.6	8.7	9.9
EPS Growth	196%	462.1%	-9.7%	71.0%	15.1%	13.1%
DPS	0.9	4.0	3.8	4.0	5.0	5.0
PER	NM	7.4	8.2	4.8	4.2	3.7
Dividend Yield	2.5%	11.0%	10.4%	11.0%	13.7%	13.7%
P/B	12.7	4.6	3.6	2.3	2.1	1.8
ROE	1.1	1.0	0.7	0.6	0.6	0.5

Source: Company Accounts, Akseer Research

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Valuation Basis

Our PT for Hi tech Lubricants limited (HTL) has been computed using Free cash flow to firm (FCFF) method. We have used a risk free rate of 13%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 19% and weighted average cost of capital of 14.8%.

Investment Thesis

We have a "BUY" stance on the script with our Jun-23 PT of PKR 55/share. Our price target indicates an upside of 57%, along with a dividend yield of 11%. Our investment case on HTL is based on 1) Strong volumetric recovery post pandemic, and 2) Margins growth due to 85% local blending, enabling company to enter mid-teir segment. Successful penetration in OMC business and increase in market share may provide another upside trigger for the company, going forward.

Risks

Key downside risks to our investments thesis are: 1) significant devaluation of PKR against USD, 2) unexpected increase in prices of international base oil/lubricants & 3) Economic slowdown hindering volumetric growth.

Company Description

The principal activity of the HTL is to import and distribute petroleum products. OGRA has granted license to the Holding Company to establish an OMC, subject to some conditions. Hi-Tech Blending (Pvt) Ltd. ("the Subsidiary Company") principal activity is to construct, own and operate lubricating oil blending plant.

Financial Highlights - HTL

Income Statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Sales	5,629	10,597	17,744	30,506	37,597	44,977
Cost of Sales	4,214	8,330	14,007	26,137	32,776	39,481
Gross Profit	1,415	2,268	3,737	4,369	4,820	5,495
SG & A	1,174	1,409	1,835	2,169	2,569	2,986
Operating Profit	241	859	1,902	2,200	2,252	2,509
Other Income	130	140	142	205	179	210
Other Charges	60	71	538	427	173	189
Finance Cost	236	115	288	395	443	478
Profit Before Tax	76	813	1,218	1,583	1,814	2,052
Taxation	(46)	130	600	527	599	677
Profit After Tax	122	684	617	1,056	1,215	1,375

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
PPE	3,192	3,452	5,981	5,458	5,687	5,877
Other LT assets	284	472	777	772	774	776
Non-Current Assets	3,476	3,924	6,758	6,230	6,461	6,653
Total current assets	3,006	3,466	5,922	11,083	13,658	16,452
Total Assets	6,482	7,390	12,680	17,313	20,119	23,104
Total non-Current liabilities	240	514	1,510	1,510	1,510	1,510
Total current liabilities	2,253	2,540	4,915	9,049	11,335	13,642
Total Liabilities	2,493	3,054	6,426	10,559	12,846	15,152
Equity	3,989	4,336	6,254	6,754	7,273	7,952
Total Equity & liabilities	6,482	7,390	12,680	17,313	20,119	23,104

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	122	684	617	1,056	1,215	1,375
Non-cash Charges	230	255	342	415	404	420
Operating Cash flows	1,368	1,267	145	1,560	1,119	1,616
FCFF	1,241	832	(2,525)	1,945	796	1,341
Net Borrowings	(1,165)	(220)	1,699	1,421	899	908
FCFE	(89)	533	(1,028)	3,090	1,385	1,915
Net Change in Cash	(118)	196	273	2,533	689	1,219
Closing cash	192	388	660	3,194	3,882	5,101

Source: Company Accounts, Akseer Research

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To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

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