

## 2QFY22 earnings likely to come at PKR 1.1/share, DPS at PKR 1.5

- HTL's board meeting is scheduled on February 18, 2022 to consider 2QFY22 financial results, where we expect the company to post an EPS of PKR 1.1, down 29% YoY as compared to EPS of PKR 1.55 in corresponding period last year. This will take 1HFY22 earnings to PKR 1.85/share, down 16% YoY. Along with the result, the company is also expected to announce an interim cash dividend of PKR 1.5/share.
- HTL's 2QFY22 top-line is likely to settle at PKR 3.2bn, up 14% YoY, primarily driven by higher product prices. Volumes are expected to remain lower by 6% YoY during 2Q.
- Operating expenses are likely to increase by 30% YoY to PKR 469mn, mainly due to inflationary pressures.
- Other income will decline by 33% to PKR 28mn, whereas finance cost is expected to increase to PKR 80mn, up 2.6x YoY mainly on account of higher interest rates and increased short-term borrowings.
- Effective tax rate is expected at 31% Vs 17% in SPLY, further deteriorating the bottom-line.
- On a sequential basis, HTL is expected to post EPS growth of 46% QoQ, primarily driven by volumetric growth as 2<sup>nd</sup> quarter is seasonally strong for the company.
- We have a 'BUY' stance on the script with our Dec-22 PT of PKR 65/share. Our price target indicates an upside of 37% along with a dividend yield of 6%.

### Key Data

PSX Ticker	HTL
Target Price (PKR)	65
Current Price (PKR)	48
Upside/(Downside) (%)	+ 37%
Dividend Yield (%)	6%
Total Return (%)	+ 43%
12-month High (PKR)	99
12-month Low (PKR)	37
Outstanding Shares (mn)	139
Market Cap (PKR mn)	6,660
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	2QFY21	2QFY22E	YoY	1HFY21	1HFY22E	YoY
Net Sales	2,779	3,165	14%	4,618	6,246	35%
Cost of Sales	2,178	2,421	11%	3,557	4,821	36%
<b>Gross Profit</b>	<b>601</b>	<b>744</b>	<b>24%</b>	<b>1,061</b>	<b>1,424</b>	<b>34%</b>
Operating Expense	361	469	30%	699	978	40%
Other Income	41	28	-33%	55	45	-18%
Finance cost	22	80	263%	52	117	126%
<b>Profit before tax</b>	<b>259</b>	<b>222</b>	<b>-14%</b>	<b>366</b>	<b>374</b>	<b>2%</b>
Taxation	43	70	61%	61	117	93%
<b>Net Income</b>	<b>216</b>	<b>153</b>	<b>-29%</b>	<b>305</b>	<b>257</b>	<b>-16%</b>
EPS/ (LPS)	1.55	1.10	-29%	2.19	1.85	-16%
DPS	2.00	1.50		2.00	1.50	

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	0.4	1.0	5.6	4.4	6.0	7.5
EPS Growth	-95%	196%	435.7%	-21.1%	36.1%	23.9%
DPS	0.3	0.9	4.0	3.0	4.0	4.0
PER	NM	NM	8.5	10.8	7.9	6.4
Dividend Yield	0.5%	1.9%	8.4%	6.3%	8.4%	8.4%
P/B	11.0	15.9	5.8	5.2	4.2	3.4
ROE	1.4	1.4	1.3	1.2	1.2	1.1

Source: Company Accounts, Akseer Research

Aftab Awan

[aftab.awan@akseerresearch.com](mailto:aftab.awan@akseerresearch.com)

### 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 12.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 18.0% and weighted average cost of capital of 15.3%

### Investment Thesis

We have a "BUY" stance on the script with our Dec-22 PT of PKR 65/share. Our price target indicates an upside of 37%, along with a dividend yield of 6%. 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) prolonged economic slowdown which may hinder volumetric recovery.

### 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)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Sales	9,431	5,629	10,597	12,505	13,751	14,940
Cost of Sales	7,362	4,214	8,330	9,566	10,038	10,757
<b>Gross Profit</b>	<b>2,069</b>	<b>1,415</b>	<b>2,268</b>	<b>2,939</b>	<b>3,713</b>	<b>4,183</b>
SG & A	1,344	1,174	1,409	1,769	2,277	2,527
<b>Operating Profit</b>	<b>725</b>	<b>241</b>	<b>859</b>	<b>1,170</b>	<b>1,435</b>	<b>1,656</b>
Other Income	82	130	108	100	138	168
Other Charges	192	60	71	148	109	112
Finance Cost	314	236	115	278	329	325
<b>Profit Before Tax</b>	<b>301</b>	<b>76</b>	<b>781</b>	<b>845</b>	<b>1,135</b>	<b>1,387</b>
Taxation	259	(46)	130	228	295	347
<b>Profit After Tax</b>	<b>41</b>	<b>122</b>	<b>651</b>	<b>617</b>	<b>840</b>	<b>1,041</b>

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
PPE	3,130	3,192	3,452	3,460	3,740	3,977
Other LT assets	28	284	440	440	443	446
Non-Current Assets	3,159	3,476	3,892	3,900	4,184	4,423
Total current assets	3,952	3,006	3,466	4,413	4,681	5,068
<b>Total Assets</b>	<b>7,110</b>	<b>6,482</b>	<b>7,358</b>	<b>8,314</b>	<b>8,864</b>	<b>9,491</b>
Total non-Current liabilities	118	240	514	514	514	514
Total current liabilities	3,095	2,253	2,540	3,296	3,564	3,707
<b>Total Liabilities</b>	<b>3,214</b>	<b>2,493</b>	<b>3,054</b>	<b>3,810</b>	<b>4,077</b>	<b>4,221</b>
Equity	3,897	3,989	4,304	4,504	4,787	5,270
<b>Total Equity &amp; liabilities</b>	<b>7,110</b>	<b>6,482</b>	<b>7,358</b>	<b>8,314</b>	<b>8,864</b>	<b>9,491</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	41	122	651	617	840	1,041
Non-cash Charges	157	230	255	265	276	296
<b>Operating Cash flows</b>	<b>(493)</b>	<b>1,368</b>	<b>1,267</b>	<b>58</b>	<b>1,179</b>	<b>1,510</b>
<b>FCFF</b>	<b>(606)</b>	<b>1,241</b>	<b>832</b>	<b>(13)</b>	<b>866</b>	<b>1,221</b>
Net Borrowings	799	(1,165)	(220)	740	176	15
<b>FCFE</b>	<b>(26)</b>	<b>(89)</b>	<b>533</b>	<b>525</b>	<b>798</b>	<b>991</b>
Net Change in Cash	(258)	(118)	196	107	242	435
<b>Closing cash</b>	<b>309</b>	<b>192</b>	<b>388</b>	<b>495</b>	<b>737</b>	<b>1,171</b>

Source: Company Accounts, Akseer Research

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**Contact Details****Akseer Research (Pvt) Limited**

1st Floor, Shaheen Chambers, KCHS block 7 & 8, off. Shahrah-e-Faisal  
 T: +92-21-34320359 -60  
 E: [info@akseerresearch.com](mailto:info@akseerresearch.com)

**Alpha Capital (Pvt) Limited**

3<sup>rd</sup> Floor, Shaheen Chambers, A-4 Central Commercial Area,  
 KCH Society, Block 7 & 8, Near Virtual University, Karachi  
 T: +92-21-38694242  
 E: [info@alfaadhi.net](mailto:info@alfaadhi.net)