

2QFY22 earnings clock in at PKR 2.1/share, up 35% YoY, DPS at PKR 1.8

- HTL announced its 2QFY22 financial results today where the company reported net earnings of PKR 2.1/share, up 35% YoY as compared to EPS of PKR 1.55 in corresponding period last year. The result came in above our expectation primarily due to lower effective tax rate and lower operating expenses. This takes 1HFY22 earnings to PKR 2.85/share, up 30% YoY. Along with the result, the company also declared an interim cash dividend of PKR 1.8/share.
- HTL's top-line settled at PKR 3.9bn in 2Q as compared to PKR 2.8bn in SPLY, up 43% YoY, primarily driven by higher product prices.
- Operating expenses went up by 20% YoY to PKR 434mn, mainly due to inflationary pressures.
- Other income declined by 58% to PKR 17mn, whereas finance cost increased to PKR 60mn, up 1.7x YoY mainly on account of higher interest rates and increased short-term borrowings during 2Q.
- Moreover, lower effective tax rate of 20% Vs 17% in SPLY, further supported the bottom-line growth.
- On a sequential basis, HTL posted an earnings growth of 30% QoQ, primarily driven by volumetric growth as 2nd 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 38% along with a dividend yield of 6%.

Key Data

PSX Ticker	HTL
Target Price (PKR)	65
Current Price (PKR)	48
Upside/(Downside) (%)	+ 38%
Dividend Yield (%)	6%
Total Return (%)	+ 44%
12-month High (PKR)	98
12-month Low (PKR)	37
Outstanding Shares (mn)	139
Market Cap (PKR mn)	6,614
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY21	2QFY22	YoY	1HFY21	1HFY22	YoY
Net Sales	2,779	3,985	43%	4,618	7,066	53%
Cost of Sales	2,178	3,146	44%	3,557	5,546	56%
Gross Profit	601	839	40%	1,061	1,520	43%
Operating Expense	361	434	20%	699	943	35%
Other Income	41	17	-58%	55	35	-36%
Finance cost	22	60	171%	52	97	87%
Profit before tax	259	363	40%	366	515	41%
Taxation	43	71	64%	61	118	95%
Net Income	216	292	35%	305	396	30%
EPS/ (LPS)	1.55	2.10	35%	2.19	2.85	30%
DPS	2.00	1.80		2.00	1.80	

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	10.7	7.9	6.4
Dividend Yield	0.5%	1.9%	8.4%	6.3%	8.4%	8.4%
P/B	10.9	15.8	5.8	5.2	4.1	3.4
ROE	1.4	1.4	1.3	1.2	1.2	1.0

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 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 38%, 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
Gross Profit	2,069	1,415	2,268	2,939	3,713	4,183
SG & A	1,344	1,174	1,409	1,769	2,277	2,527
Operating Profit	725	241	859	1,170	1,435	1,656
Other Income	82	130	108	100	138	168
Other Charges	192	60	71	148	109	112
Finance Cost	314	236	115	278	329	325
Profit Before Tax	301	76	781	845	1,135	1,387
Taxation	259	(46)	130	228	295	347
Profit After Tax	41	122	651	617	840	1,041

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
Total Assets	7,110	6,482	7,358	8,314	8,864	9,491
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
Total Liabilities	3,214	2,493	3,054	3,810	4,077	4,221
Equity	3,897	3,989	4,304	4,504	4,787	5,270
Total Equity & liabilities	7,110	6,482	7,358	8,314	8,864	9,491

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
Operating Cash flows	(493)	1,368	1,267	58	1,179	1,510
FCFF	(606)	1,241	832	(13)	866	1,221
Net Borrowings	799	(1,165)	(220)	740	176	15
FCFE	(26)	(89)	533	525	798	991
Net Change in Cash	(258)	(118)	196	107	242	435
Closing cash	309	192	388	495	737	1,171

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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Rating	Expected Total Return
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