

## HTL: 2QFY23 earnings likely to come at PKR 0.7/share

- HTL's board meeting is scheduled today to consider 2QFY23 financial results. We expect the company to post consolidated EPS of PKR 0.7, down 69% YoY as compared to EPS of PKR 2.1 in corresponding period last year. This decline in earnings comes from gross margin contraction and elevated finance cost. This will take 1HFY23 LPS to PKR 1.4, against EPS of PKR 2.8 in SPLY. We do not expect the company to announce any interim dividend.
- Net sales are likely to clock in at PKR 4.4bn compared to PKR 3.9bn in SPLY, up 12% YoY on the back of higher product prices. On the contrary, HTL's overall gross margin is likely to contract by 4ppts to 17% during 2Q. This is mainly due to higher petroleum sales as the segment margins are thin compared to lubricant segment. Moreover, HTL is likely to incur inventory loss in its OMC segment during the quarter.
- Finance cost is expected to increase to PKR 171mn, up 1.9x YoY due to higher interest rates and increased short-term borrowings.
- On a sequential basis, HTL's earnings are likely to recover on the back of improved gross margins and absence of exchange loss booked in preceding quarter. Just to recall, exchange rate volatility and lower volumetric sales due to floods, resulted in net loss of 2.0/share in 1QFY23.
- We have a 'BUY' stance on HTL. Our Dec-23 price target (PT) of PKR 48/share provides an upside of 109%, along with a dividend yield of 11%.

### Key Data

PSX Ticker	HTL
Target Price (PKR)	48
Current Price (PKR)	23
Upside/(Downside) (%)	+ 109%
Dividend Yield (%)	11%
Total Return (%)	+ 120%
12-month High (PKR)	48
12-month Low (PKR)	22
Outstanding Shares (mn)	139
Market Cap (PKR mn)	3,211
Year End	June

Source: Company Accounts, Akseer Research

### Financial Estimates (PKR mn)

	2QFY22	2QFY23E	YoY	1HFY22	1HFY23E	YoY
Net Sales	3,985	4,447	12%	7,066	8,389	19%
Cost of Sales	3,146	3,694	17%	5,546	7,284	31%
<b>Gross Profit</b>	<b>839</b>	<b>754</b>	<b>-10%</b>	<b>1,520</b>	<b>1,105</b>	<b>-27%</b>
Operating Expense	434	482	11%	943	1,072	14%
Other Income	17	36	108%	35	64	82%
Finance cost	60	171	186%	97	317	228%
<b>Profit before tax</b>	<b>363</b>	<b>136</b>	<b>-62%</b>	<b>515</b>	<b>(220)</b>	<b>NM</b>
Taxation	71	45	-37%	118	(31)	NM
<b>Net Income</b>	<b>292</b>	<b>91</b>	<b>-69%</b>	<b>396</b>	<b>(189)</b>	<b>NM</b>
EPS/ (LPS)	2.1	0.7	-69%	2.8	(1.4)	NM
DPS	1.8	-		1.8	-	

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
EPS	0.9	4.9	4.4	3.9	4.2	8.0
EPS Growth	196%	462.1%	-9.7%	-12.9%	9.3%	89.6%
DPS	0.9	4.0	3.8	2.0	3.0	5.0
PER	NM	4.7	5.2	6.0	5.5	2.9
Dividend Yield	3.9%	17.3%	16.5%	8.7%	13.0%	21.7%
P/B	8.9	3.1	2.7	3.1	2.9	2.3
ROE	0.7	0.6	0.4	0.4	0.4	0.4

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 17%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 23% and weighted average cost of capital of 17.8%.

### Investment Thesis

We have a "BUY" stance on the script with our Dec-23 PT of PKR 48/share. Our price target indicates an upside of 109%, along with a dividend yield of 11%. Our investment case on HTL is based on 1) Volumetric recovery, 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. Company markets petroleum products in the province of Punjab. OGRA has granted permission to the Company to apply for No Objection Certificates (NOCs) from concerned departments to setup petrol pumps in Khyber Pakhtunkhwa Province. 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	25,133	33,032	42,580
Cost of Sales	4,214	8,330	14,007	21,356	28,527	36,933
<b>Gross Profit</b>	<b>1,415</b>	<b>2,268</b>	<b>3,737</b>	<b>3,776</b>	<b>4,506</b>	<b>5,647</b>
SG & A	1,174	1,409	1,835	2,059	2,511	3,050
<b>Operating Profit</b>	<b>241</b>	<b>859</b>	<b>1,902</b>	<b>1,717</b>	<b>1,994</b>	<b>2,596</b>
Other Income	130	140	142	199	151	184
Other Charges	60	71	538	476	359	244
Finance Cost	236	115	288	634	904	863
<b>Profit Before Tax</b>	<b>76</b>	<b>813</b>	<b>1,218</b>	<b>806</b>	<b>882</b>	<b>1,672</b>
Taxation	(46)	130	600	269	294	557
<b>Profit After Tax</b>	<b>122</b>	<b>684</b>	<b>617</b>	<b>538</b>	<b>588</b>	<b>1,115</b>

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	8,986	11,348	14,347
<b>Total Assets</b>	<b>6,482</b>	<b>7,390</b>	<b>12,680</b>	<b>15,215</b>	<b>17,809</b>	<b>20,999</b>
Total non-Current liabilities	240	514	1,510	1,510	1,510	1,510
Total current liabilities	2,253	2,540	4,915	7,191	9,615	12,385
<b>Total Liabilities</b>	<b>2,493</b>	<b>3,054</b>	<b>6,426</b>	<b>8,701</b>	<b>11,125</b>	<b>13,896</b>
Equity	3,989	4,336	6,254	6,514	6,684	7,103
<b>Total Equity &amp; liabilities</b>	<b>6,482</b>	<b>7,390</b>	<b>12,680</b>	<b>15,215</b>	<b>17,809</b>	<b>20,999</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY20A	FY21A	FY22A	FY23E	FY24F	FY25F
Net Income	122	684	617	538	588	1,115
Non-cash Charges	230	255	342	415	404	420
<b>Operating Cash flows</b>	<b>1,368</b>	<b>1,267</b>	<b>145</b>	<b>(338)</b>	<b>291</b>	<b>809</b>
<b>FCFF</b>	<b>1,241</b>	<b>832</b>	<b>(2,525)</b>	<b>214</b>	<b>290</b>	<b>804</b>
Net Borrowings	(1,165)	(220)	1,699	773	971	1,139
<b>FCFE</b>	<b>(89)</b>	<b>533</b>	<b>(1,028)</b>	<b>544</b>	<b>629</b>	<b>1,339</b>
Net Change in Cash	(118)	196	273	266	211	643
<b>Closing cash</b>	<b>192</b>	<b>388</b>	<b>660</b>	<b>926</b>	<b>1,137</b>	<b>1,780</b>

Source: Company Accounts, Akseer Research

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