

## FY22 earnings clock in at PKR 4.4/share, DPS at PKR 2.0

- HTL announced its FY22 financial results today, where the company reported an EPS of PKR 4.4, down 10% YoY as compared to EPS of PKR 4.9 in corresponding period last year. The result came in lower than our expectation owing to higher than expected tax expense. Along with the result, HTL announced a final cash dividend of PKR 2.0/share, taking the cumulative dividend payout to PKR 3.8/share in FY22.
- Net sales grew by 67% YoY to PKR 17.7bn compared to PKR 10.6bn in SPLY, primarily contributed by petroleum segment on the back of higher product prices and increased volumetric sales.
- HTL's overall gross margin contracted marginally by 0.3% to 21.1% during FY22 suggesting company booked higher margins on lubricant segment throughout the year.
- Operating expenses went up by 60% YoY to PKR 2.4bn as compared to PKR1.5bn in SPLY, mainly due to inflationary pressures.
- Finance cost increased to PKR 288mn, up 1.5x YoY due to higher interest rates and increased short-term borrowings.
- HTL's effective tax rate during FY22 remained 49.3% (as against our expectation of 37%) owing to super tax, resulting in constrained earnings.
- On a quarterly basis, HTL reported an EPS of PKR 0.1, down 93% YoY during 4Q. This decline in earnings is mainly attributed to higher tax expense with effective tax rate increasing to 97.3% as against 7.5% in SPLY.
- We have a 'BUY' stance on HTL. Our Jun-23 price target (PT) of PKR 60.0/share provides an upside of 51% along with a dividend yield of 10%.

### Key Data

PSX Ticker	HTL
Target Price (PKR)	60
Current Price (PKR)	40
Upside/(Downside) (%)	+ 51%
Dividend Yield (%)	10%
Total Return (%)	+ 61%
12-month High (PKR)	66
12-month Low (PKR)	35
Outstanding Shares (mn)	139
Market Cap (PKR mn)	5,571
Year End	June

Source: Company Accounts, Akseer Research

### Financial Highlights (PKR mn)

	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Net Sales	3,344	6,862	105%	10,597	17,744	67%
Cost of Sales	2,764	5,379	95%	8,330	14,007	68%
<b>Gross Profit</b>	<b>579</b>	<b>1,484</b>	<b>156%</b>	<b>2,268</b>	<b>3,737</b>	<b>65%</b>
Operating Expense	408	1,011	148%	1,480	2,373	60%
Other Income	56	88	57%	140	142	1%
Finance cost	38	120	221%	115	288	151%
<b>Profit before tax</b>	<b>190</b>	<b>441</b>	<b>132%</b>	<b>813</b>	<b>1,218</b>	<b>50%</b>
Taxation	14	429	2921%	130	600	363%
<b>Net Income</b>	<b>176</b>	<b>12</b>	<b>-93%</b>	<b>684</b>	<b>617</b>	<b>-10%</b>
EPS/ (LPS)	1.3	0.1	-93%	4.9	4.4	-10%
DPS	2.0	2.0		4.0	3.8	

Source: Company Accounts, Akseer Research

### Key Financial Ratios

	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
EPS	0.3	0.9	4.9	4.4	6.9	8.0
EPS Growth	-95%	196%	462.1%	-9.7%	56.3%	14.9%
DPS	0.3	0.9	4.0	3.8	4.0	4.0
PER	NM	NM	8.2	9.0	5.8	5.0
Dividend Yield	0.6%	2.2%	10.0%	9.5%	10.0%	10.0%
P/B	9.6	13.6	5.0	3.4	3.1	2.7
ROE	1.2	1.2	1.1	1.1	1.0	0.9

Source: Company Accounts, Akseer Research

Aftab Awan

[aftab.awan@alphacapital.com.pk](mailto:aftab.awan@alphacapital.com.pk)

### 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 14.3%.

### Investment Thesis

We have a "BUY" stance on the script with our Jun-23 PT of PKR 60/share. Our price target indicates an upside of 51%, along with a dividend yield of 10%. 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)						
	FY19A	FY20A	FY21A	FY22A	FY23F	FY24F
Net Sales	9,431	5,629	10,597	17,744	27,903	34,326
Cost of Sales	7,362	4,214	8,330	14,007	23,814	29,754
<b>Gross Profit</b>	<b>2,069</b>	<b>1,415</b>	<b>2,268</b>	<b>3,737</b>	<b>4,089</b>	<b>4,572</b>
SG & A	1,344	1,174	1,409	1,835	2,026	2,390
<b>Operating Profit</b>	<b>725</b>	<b>241</b>	<b>859</b>	<b>1,902</b>	<b>2,063</b>	<b>2,182</b>
Other Income	82	130	140	142	175	205
Other Charges	192	60	71	538	351	171
Finance Cost	314	236	115	288	489	562
<b>Profit Before Tax</b>	<b>301</b>	<b>76</b>	<b>813</b>	<b>1,218</b>	<b>1,398</b>	<b>1,655</b>
Taxation	259	(46)	130	600	434	546
<b>Profit After Tax</b>	<b>41</b>	<b>122</b>	<b>684</b>	<b>617</b>	<b>965</b>	<b>1,109</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	6,058	9,715	12,160
<b>Total Assets</b>	<b>7,110</b>	<b>6,482</b>	<b>7,358</b>	<b>9,958</b>	<b>13,899</b>	<b>16,583</b>
Total non-Current liabilities	118	240	514	514	514	514
Total current liabilities	3,095	2,253	2,540	5,051	8,584	10,717
<b>Total Liabilities</b>	<b>3,214</b>	<b>2,493</b>	<b>3,054</b>	<b>5,565</b>	<b>9,098</b>	<b>11,231</b>
Equity	3,897	3,989	4,304	4,393	4,801	5,353
<b>Total Equity &amp; liabilities</b>	<b>7,110</b>	<b>6,482</b>	<b>7,358</b>	<b>9,958</b>	<b>13,899</b>	<b>16,583</b>

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	41	122	684	617	965	1,109
Non-cash Charges	157	230	255	265	276	296
<b>Operating Cash flows</b>	<b>(493)</b>	<b>1,368</b>	<b>1,300</b>	<b>451</b>	<b>515</b>	<b>945</b>
<b>FCFF</b>	<b>(606)</b>	<b>1,241</b>	<b>865</b>	<b>379</b>	<b>301</b>	<b>806</b>
Net Borrowings	799	(1,165)	(220)	1,311	1,471	891
<b>FCFE</b>	<b>(26)</b>	<b>(89)</b>	<b>565</b>	<b>1,488</b>	<b>1,430</b>	<b>1,303</b>
Net Change in Cash	(258)	(118)	196	959	873	746
<b>Closing cash</b>	<b>309</b>	<b>192</b>	<b>388</b>	<b>1,347</b>	<b>2,220</b>	<b>2,966</b>

Source: Company Accounts, Akseer Research

**Disclaimer**

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

**Valuation Methodology**

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.

**Ratings Criteria**

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

**Research Dissemination Policy**

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

**Analyst Certification**

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

**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** (Formerly: Alfa Adhi Securities (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)