

HTL: 2QFY23 LPS clocked in at PKR 0.6/share

- HTL announced its 2QFY23 financial results today, wherein the company reported consolidated LPS of PKR 0.6, as compared to an EPS of PKR 2.1 in corresponding period last year. This decline is mainly attributable to gross margin contraction and elevated finance cost. This will take 1HFY23 LPS to PKR 2.7, against an EPS of PKR 2.8 in SPLY.
- Net sales declined by 14% YoY to PKR 3.4bn, compared to PKR 3.9bn in SPLY, on the back of lower volumetric sales. On the contrary, HTL's overall gross margin contract by 9ppts to 12% during 2Q. This is possibly due to inventory losses booked during the quarter.
- Finance cost grew by ~2x to PKR 179mn in 2QFY23 vs 60mn to PKR 171mn, due to higher interest rates and increased short-term borrowings.
- Sequentially, HTL's gross margins slightly recovered by 3ppts QoQ to 12%. Similarly, other charges also came down by 90% QoQ to PKR 19mn, owing to absence of exchange losses. However, 13% QoQ decline in sales and 22% QoQ increase in finance cost resulted in bottomline erosion.
- We have a 'BUY' stance on HTL. Our Dec-23 price target (PT) of PKR 48/share provides an upside of 110%, along with a dividend yield of 11%.

Key Data

PSX Ticker	HTL
Target Price (PKR)	48
Current Price (PKR)	23
Upside/(Downside) (%)	+ 110%
Dividend Yield (%)	11%
Total Return (%)	+ 121%
12-month High (PKR)	48
12-month Low (PKR)	22
Outstanding Shares (mn)	139
Market Cap (PKR mn)	3,206
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
Net Sales	3,985	3,428	-14%	7,066	7,370	4%
Cost of Sales	3,146	3,009	-4%	5,546	6,599	19%
Gross Profit	839	419	-50%	1,520	771	-49%
Operating Expense	434	412	-5%	943	1,002	6%
Other Income	17	35	104%	35	63	80%
Finance cost	60	179	199%	97	325	236%
Profit before tax	363	(137)	NM	515	(493)	NM
Taxation	71	(48)	NM	118	(124)	NM
Net Income	292	(89)	NM	396	(369)	NM
EPS/ (LPS)	2.1	(0.6)	NM	2.8	(2.7)	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%	17.4%	16.5%	8.7%	13.0%	21.7%
P/B	8.8	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 110%, 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. Successful penetration in OMC business and increase in market share may provide another upside trigger for the company.

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
Gross Profit	1,415	2,268	3,737	3,776	4,506	5,647
SG & A	1,174	1,409	1,835	2,059	2,511	3,050
Operating Profit	241	859	1,902	1,717	1,994	2,596
Other Income	130	140	142	199	151	184
Other Charges	60	71	538	476	359	244
Finance Cost	236	115	288	634	904	863
Profit Before Tax	76	813	1,218	806	882	1,672
Taxation	(46)	130	600	269	294	557
Profit After Tax	122	684	617	538	588	1,115

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
Total Assets	6,482	7,390	12,680	15,215	17,809	20,999
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
Total Liabilities	2,493	3,054	6,426	8,701	11,125	13,896
Equity	3,989	4,336	6,254	6,514	6,684	7,103
Total Equity & liabilities	6,482	7,390	12,680	15,215	17,809	20,999

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
Operating Cash flows	1,368	1,267	145	(338)	291	809
FCFF	1,241	832	(2,525)	214	290	804
Net Borrowings	(1,165)	(220)	1,699	773	971	1,139
FCFE	(89)	533	(1,028)	544	629	1,339
Net Change in Cash	(118)	196	273	266	211	643
Closing cash	192	388	660	926	1,137	1,780

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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