

3QFY22 earnings likely to come at PKR 1.5/share

- HTL's board meeting is scheduled on April 22, 2022 to consider 3QFY22 financial results, where we expect the company to post an EPS of PKR 1.5, up 18% YoY as compared to EPS of PKR 1.46 in corresponding period last year. This will take 9MFY22 earnings to PKR 4.4/share, up 20% YoY.
- During the quarter, company's top-line is likely to settle at PKR 3.2bn, up 22% YoY, primarily driven by higher product prices and increased volumetric sales.
- Operating expenses are likely to increase by 8% YoY to PKR 404mn, mainly due to inflationary pressures.
- Other income will increase by 18% to PKR 34mn, whereas finance cost is expected to increase to PKR 92mn, up 2.6x YoY mainly on account of higher interest rates and increased short-term borrowings.
- On a sequential basis, HTL is expected to post EPS decline of 28% QoQ, primarily due to lower volumetric sales. Just to recall, 2Q is seasonally strong quarter for the company.
- We have a 'BUY' stance on the script with our Dec-22 PT of PKR 62/share. Our price target indicates an upside of 36% along with a dividend yield of 7%.

Key Data

PSX Ticker	HTL
Target Price (PKR)	62
Current Price (PKR)	46
Upside/(Downside) (%)	+ 36%
Dividend Yield (%)	7%
Total Return (%)	+ 42%
12-month High (PKR)	84
12-month Low (PKR)	37
Outstanding Shares (mn)	139
Market Cap (PKR mn)	6,376
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	3QFY21	3QFY22E	YoY	9MFY21	9MFY22E	YoY
Net Sales	2,636	3,228	22%	7,254	10,294	42%
Cost of Sales	2,008	2,470	23%	5,565	8,016	44%
Gross Profit	627	759	21%	1,688	2,279	35%
Operating Expense	373	404	8%	1,072	1,347	26%
Other Income	29	34	18%	84	69	-18%
Finance cost	25	92	262%	77	189	144%
Profit before tax	258	297	15%	624	812	30%
Taxation	55	86	57%	116	205	77%
Net Income	203	211	4%	508	607	20%
EPS/ (LPS)	1.46	1.51	4%	3.65	4.36	20%
DPS	0.00	0.00		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	5.5	6.1	7.5
EPS Growth	-95%	196%	435.7%	-2.3%	11.2%	23.1%
DPS	0.3	0.9	4.0	3.0	4.0	4.0
PER	NM	NM	8.2	8.3	7.5	6.1
Dividend Yield	0.5%	2.0%	8.7%	6.6%	8.7%	8.7%
P/B	10.6	15.3	5.6	4.3	3.9	3.2
ROE	1.4	1.3	1.2	1.1	1.1	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 62/share. Our price target indicates an upside of 36%, along with a dividend yield of 7%. 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	12,659	13,751	14,940
Cost of Sales	7,362	4,214	8,330	9,684	10,038	10,757
Gross Profit	2,069	1,415	2,268	2,975	3,713	4,183
SG & A	1,344	1,174	1,409	1,547	2,277	2,527
Operating Profit	725	241	859	1,428	1,435	1,656
Other Income	82	130	108	103	147	177
Other Charges	192	60	71	205	105	114
Finance Cost	314	236	115	280	329	325
Profit Before Tax	301	76	781	1,046	1,148	1,394
Taxation	259	(46)	130	282	298	348
Profit After Tax	41	122	651	764	849	1,045

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	4,600	4,837	5,229
Total Assets	7,110	6,482	7,358	8,501	9,020	9,652
Total non-Current liabilities	118	240	514	514	514	514
Total current liabilities	3,095	2,253	2,540	3,336	3,564	3,707
Total Liabilities	3,214	2,493	3,054	3,850	4,077	4,221
Equity	3,897	3,989	4,304	4,650	4,943	5,431
Total Equity & liabilities	7,110	6,482	7,358	8,501	9,020	9,652

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	41	122	651	764	849	1,045
Non-cash Charges	157	230	255	265	276	296
Operating Cash flows	(493)	1,368	1,267	187	1,206	1,514
FCFF	(606)	1,241	832	118	893	1,225
Net Borrowings	799	(1,165)	(220)	759	157	15
FCFE	(26)	(89)	533	673	807	996
Net Change in Cash	(258)	(118)	196	255	250	439
Closing cash	309	192	388	643	893	1,332

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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