

FY22 earnings likely to come at PKR 5.3/share, DPS at PKR 1.2

- HTL's board meeting is scheduled on September 23, 2022 to consider FY22 financial results, where we expect the company to post an EPS of PKR 5.3, up 13% YoY as compared to EPS of PKR 4.7 in corresponding period last year. Along with the result, HTL is expected to announce a final cash dividend of PKR 1.2/share, taking the cumulative dividend payout to PKR 3.0/share in FY22.
- Net sales are likely to clock in at PKR 16.8bn compared to PKR 10.6bn in SPLY, up 58% YoY, primarily contributed by petroleum segment. Lubricant sales are likely to grow by 14% YoY whereas petroleum sales are expected to grow by 2.1x YoY, driven by higher product prices and increased volumetric sales.
- On the contrary, HTL's overall gross margin is likely to contract by 2.3% to 19.1% during FY22. This is mainly due to higher petroleum sales as the segment margins are thin compared to lubricant segment.
- Operating expenses are likely to increase by 25% YoY to PKR 1.8bn, mainly due to inflationary pressures.
- Finance cost is expected to increase to PKR 276mn, up 1.4x YoY due to higher interest rates and increased short-term borrowings.
- HTL's effective tax rate during FY22 is expected at 37% owing to super tax, resulting in constrained earnings growth.
- On a quarterly basis, HTL is expected to post an EPS of PKR 0.9, down 8% YoY. This decline in earnings is mainly attributed to higher tax expense during 4Q.
- We have a 'BUY' stance on HTL. Our Jun-23 price target (PT) of PKR 60.0/share provides an upside of 46% along with a dividend yield of 10%.

Key Data

PSX Ticker	HTL
Target Price (PKR)	60
Current Price (PKR)	41
Upside/(Downside) (%)	+ 46%
Dividend Yield (%)	10%
Total Return (%)	+ 56%
12-month High (PKR)	68
12-month Low (PKR)	35
Outstanding Shares (mn)	139
Market Cap (PKR mn)	5,673
Year End	June

Source: Company Accounts, Akseer Research

Financial Estimates (PKR mn)

	4QFY21	4QFY22E	YoY	FY21	FY22E	YoY
Net Sales	3,344	5,898	76%	10,597	16,780	58%
Cost of Sales	2,764	4,953	79%	8,330	13,580	63%
Gross Profit	579	945	63%	2,268	3,199	41%
Operating Expense	408	484	19%	1,480	1,847	25%
Other Income	24	39	65%	108	93	-13%
Finance cost	38	108	187%	115	276	141%
Profit before tax	158	393	149%	781	1,170	50%
Taxation	14	261	1740%	130	433	234%
Net Income	143	132	-8%	651	737	13%
EPS/ (LPS)	1.0	0.9	-8%	4.7	5.3	13%
DPS	2.0	1.2		4.0	3.0	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
EPS	0.4	1.0	5.6	5.3	6.9	8.0
EPS Growth	-95%	196%	435.7%	-5.7%	30.9%	14.9%
DPS	0.3	0.9	4.0	3.0	4.0	4.0
PER	NM	NM	7.3	7.7	5.9	5.1
Dividend Yield	0.6%	2.2%	9.8%	7.4%	9.8%	9.8%
P/B	9.8	13.9	5.1	3.3	3.0	2.7
ROE	1.2	1.2	1.1	1.0	0.9	0.8

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 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 46%, 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	FY22E	FY23F	FY24F
Net Sales	9,431	5,629	10,597	16,780	27,903	34,326
Cost of Sales	7,362	4,214	8,330	13,580	23,814	29,754
Gross Profit	2,069	1,415	2,268	3,199	4,089	4,572
SG & A	1,344	1,174	1,409	1,619	2,026	2,390
Operating Profit	725	241	859	1,580	2,063	2,182
Other Income	82	130	108	93	175	205
Other Charges	192	60	71	228	351	171
Finance Cost	314	236	115	276	489	562
Profit Before Tax	301	76	781	1,170	1,398	1,655
Taxation	259	(46)	130	433	434	546
Profit After Tax	41	122	651	737	965	1,109

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	6,135	9,946	12,391
Total Assets	7,110	6,482	7,358	10,035	14,130	16,814
Total non-Current liabilities	118	240	514	514	514	514
Total current liabilities	3,095	2,253	2,540	4,897	8,584	10,717
Total Liabilities	3,214	2,493	3,054	5,411	9,098	11,231
Equity	3,897	3,989	4,304	4,624	5,032	5,584
Total Equity & liabilities	7,110	6,482	7,358	10,035	14,130	16,814

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Net Income	41	122	651	737	965	1,109
Non-cash Charges	157	230	255	265	276	296
Operating Cash flows	(493)	1,368	1,267	606	480	945
FCFF	(606)	1,241	832	525	266	806
Net Borrowings	799	(1,165)	(220)	1,247	1,535	891
FCFE	(26)	(89)	533	1,579	1,459	1,303
Net Change in Cash	(258)	(118)	196	1,161	902	746
Closing cash	309	192	388	1,549	2,451	3,197

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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