

HTL - FY21 earnings clocked in at PKR 5.62/share, up 4.3x YoY, 4Q EPS 1.24

- HTL announced its FY21 financial results today where the company reported consolidated net earnings of PKR 5.62/share, up 4.3x YoY as compared to PKR 1.05/share in same period last year.
- The company also announced a final cash dividend of PKR 2.0/share in addition to already declared interim dividend of PKR 2.0/share in 2QFY21, taking the cumulative dividend payout to PKR 4.0/share in FY21. Furthermore, company also announced 20% bonus shares along with the result.
- HTL's topline settled PKR 10.6bn, up 88% YoY, primarily driven by volumetric recovery. Gross margins, however, declined during F21 clocking in at 21.4% as against 25.1% in same period last year.
- Operating expenses increased by 20% to PKR 1.5bn mainly due to higher distribution cost during the year. Moreover, other income declined by 17% YoY possibly due to high base effect as HTL booked exchange gain and reversal of allowance against expected credit loss amounting to PKR ~26bn during FY20.
- On the contrary, Finance cost settled at PKR 115mn, down 51% YoY, mainly due to decrease in short term borrowings and lower interest rates which supported the growth in bottomline.
- Effective tax rate remained 17% in FY21 as against tax reversal in SPLY.
- On quarterly basis, HTL recorded decline of 33% YoY in earnings primarily due to tax reversal booked in 4QFY20.
- We have a 'BUY' stance on the script with the Dec-21 PT of PKR 89/share. Our price target indicates an upside of 14% along with a dividend yield of 5%.

Key Data

PSX Ticker	HTL
Target Price (PKR)	89
Current Price (PKR)	78
Upside/(Downside) (%)	+ 14%
Dividend Yield (%)	5%
Total Return (%)	+ 19%
12-month High (PKR)	99
12-month Low (PKR)	37
Outstanding Shares (mn)	116
Market Cap (PKR mn)	9,034
Year End	June

Source: Company Accounts, Akseer Research

Financial Highlights (PKR mn)

	4QFY20	4QFY21	YoY	FY20	FY21	YoY
Net Sales	1,916	3,344	74%	5,629	10,597	88%
Cost of Sales	1,464	2,764	89%	4,214	8,330	98%
Gross Profit	452	579	28%	1,415	2,268	60%
Operating Expense	317	408	29%	1,234	1,480	20%
Other Income	24	24	0%	130	108	-17%
Finance cost	44	38	-14%	236	115	-51%
Profit before tax	116	158	36%	76	781	9.3x
Taxation	(98)	14	NM	(46)	130	NM
Net Income	214	143	-33%	122	651	4.3x
EPS	1.85	1.24	-33%	1.05	5.62	4.3x
DPS	0.90	2.00		0.90	4.00	

Source: Company Accounts, Akseer Research

Key Financial Ratios

	FY18A	FY19A	FY20A	FY21A	FY22E	FY23F
EPS	6.5	0.4	1.0	5.6	6.7	7.8
EPS Growth	2%	-95%	196%	435.7%	19.8%	16.6%
DPS	3.5	0.3	0.9	4.0	4.0	4.0
PER	11.9	NM	NM	13.9	11.6	9.9
Dividend Yield	4.5%	0.3%	1.2%	5.1%	5.1%	5.1%
EV/EBITDA	7.4	16.0	24.3	10.9	7.2	6.3
P/B	2.2	2.3	2.3	2.2	2.0	1.8
ROE	19.4%	1.0%	3.1%	16.0%	18.0%	19.3%

Source: Company Accounts, Akseer Research

Aftab Awan, ACCA
aftab.awan@akseerresearch.com

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 11.0%, beta of 1.0 & market risk premium of 6% to arrive at cost of equity of 17.0% and weighted average cost of capital of 13.5%

Investment Thesis

We have a "BUY" stance on the script with the Dec-21 PT of PKR 89/share. Our price target indicates an upside of 14%, along with a dividend yield of 5%. We believe that the stock is attractive on current levels due to the recent price correction. 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 investment 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)						
	FY18A	FY19A	FY20A	FY21A	FY22E	FY23F
Net Sales	9,255	9,431	5,629	10,597	11,100	13,219
Cost of Sales	6,860	7,362	4,214	8,330	7,992	9,518
Gross Profit	2,395	2,069	1,415	2,268	3,108	3,701
SG & A	1,081	1,344	1,174	1,409	1,776	2,113
Operating Profit	1,315	725	241	859	1,332	1,588
Other Income	71	82	130	108	161	172
Other Charges	108	192	60	71	61	102
Finance Cost	127	314	236	115	363	428
Profit Before Tax	1,151	301	76	781	1,069	1,230
Taxation	391	259	(46)	130	289	320
Profit After Tax	760	41	122	651	780	910

Source: Company Accounts, Akseer Research

Balance sheet (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
PPE	2,955	3,130	3,192	3,106	3,113	3,102
Other LT assets	41	28	284	283	283	283
Non-Current Assets	2,997	3,159	3,476	3,389	3,395	3,385
Total current assets	3,612	3,952	3,002	4,915	4,883	6,015
Total Assets	6,608	7,110	6,478	8,304	8,279	9,400
Total non-Current liabilities	213	118	240	240	240	240
Total current liabilities	2,308	3,095	2,249	3,888	3,546	4,222
Total Liabilities	2,522	3,214	2,489	4,128	3,785	4,461
Equity	4,087	3,897	3,989	4,177	4,493	4,939
Total Equity & liabilities	6,608	7,110	6,478	8,304	8,279	9,400

Source: Company Accounts, Akseer Research

Cashflow statement (PKR mn)						
	FY18A	FY19A	FY20A	FY21E	FY22F	FY23F
Net Income	760	41	122	651	780	910
Non-cash Charges	136	157	230	229	226	226
Operating Cash flows	1,360	(493)	1,368	(529)	1,066	732
FCFF	854	(606)	1,241	(576)	1,098	833
Net Borrowings	(18)	799	(1,169)	1,394	(101)	458
FCFE	752	(26)	(93)	722	731	974
Net Change in Cash	346	(258)	(122)	258	267	510
Closing cash	567	309	188	446	713	1,223

Source: Company Accounts, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alfa Adhi Securities (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 Alfa Adhi Securities 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

Alfa Adhi Securities (Pvt) Limited

3rd 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