

## Hi-Tech Lubricants.... Lovely lass!

- Marketing SK lubricant brand in Pakistan
- New blending plant capacity utilization may increase; currently operating at 40% ~ its optimal utilization is a trigger
- HTL margins increasing albeit increase in sales volume; top line increasing ~ we expect company to report gross sales of Rs8bn in FY17
- Around Rs1bn inventory to be sold in coming months
- Company books are debt free
- Company shareholder's equity remained pumped up
- Earlier company announced to have obtained OMC licence from OGRA; we expect HTL may bring new sites at certain locations going forward
- Company's cash flow remained positive with extensive investments in TDR
- We expect 3Q & 4Q consolidated sales and subsequent earnings may increase to Rs9bn & Rs900mn respectively wherein

### Consolidated P&L

Rs mn	1HFY17	1HFY16	Chg
Gross sales	4,383	4,147	6%
Net sales	3,781	3,432	10%
GP	1,024	994	3%
PAT	371	284	31%
adj. EPS	3.20	2.45	31%
Dividend	1.35	1.30	4%

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### Main brand...

HTL is marketing SK lubricant brand in Pakistan. SK lubricant brand, ZIC, is a well-known lubricant brand in South Korea and has been nominated as the no.1 engine oil for 17 consecutive years in South Korea by *Korea Power Brand Index*.

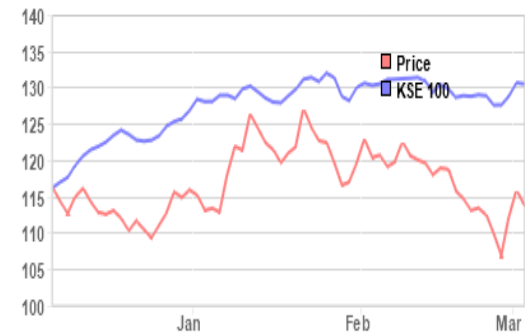
Further, HTL is looking forward to open 300 fuel stations nationwide by the end of 2020, having already received OMC license from OGRA. This will help HTL to gain some market share in retail segment. The first station is expected to become operational by the end of FY17, as per books.

Furthermore, HTL express centres operations in various parts of the country would add to revenue stream. At present, HTL is aiming to provide a ONE STOP SOLUTION to all the car care needs. This strategy, as we see, is a forward integration strategy and hence put HTL in growth trajectory.

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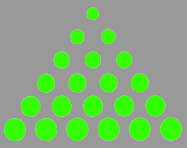
- HTL @ 112.35
- 52 Week Low 54.25
- 52 Week High 127.35
- Total no. of shares 116mn
- Enterprise Value 13.08bn
- Market Capitalization 13.20bn
- Beta 1.11

- Underperforming KSE 100 Index in recent months



- HTL approved an interim cash dividend for 1HFY17 at Rs 1.35/sh
- Projected FY17 net sales Rs 9bn vs Rs 8.5bn reported in FY16
- Projected FY17 consol. EPS Rs 7.75/sh vs Rs 4.46 reported in FY16
- HTL has a history of paying 58% payout out of profits

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### 1HFY17 remained sanguine...

HTL attained net sales of PKR 3,432 mn in 1HFY17 as compared to PKR 3,432 mn reported in the previous corresponding year which shows an increase of 10%. The company showed an improvement of 117% in the bottom-line compared to last corresponding period.

HTL reported increase in earnings of PKR 341 mn from PKR 292 mn reported same period last year, which was mainly due to revenue growth and price stability.

### Blending plant...

During ongoing year, HTL's wholly owned subsidiary company *Hi-Tech Blending (Pvt) Ltd (HTBL)*, contributed a net profit of PKR 30 mn in the 1HFY17.

We anticipate, increasing demand and the upcoming growth in automobile sector both via import and local manufacturing which would induce demand for lubricants. Hence potential for HTL is huge as the company now owns a subsidiary, HTBL, ready to cater to the increased demand.

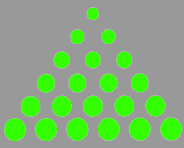
Keeping in mind that the subsidiary, HTBL is operating at 40% we see consolidated earnings to increase once capacity utilization to increase.

### Valuations...developing story

HTL's books are debt free with mere short term financing. We also see inventory of around Rs1bn which is likely to be converted into sales in following quarters.

We anticipate Rs9bn consolidated net sales in FY17, wherein company net earnings could be around Rs900mn (FY17E EPS: Rs7.75/sh showing jump from corresponding year adjusted EPS of Rs4.46).

HTL is hold.



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