

## Hi-Tech Lubricants Limited (HTL)

REP-091  
February 23, 2018

- **HTL recently published their 1HFY18 report where company update regarding their future plans, including an increase in capacity of blending plant (molding machine), further expansion of the HTL Express center and first OMC retail outlet expected in 4QFY18.**
- **To recall HTL post 1HFY18 consolidated profit after tax of Rs512.19mn (EPS: Rs4.42) up by 38% YoY mainly due to increase in volumetric sales by 37%.**
- **HTL plans to start blending through its plant and is expected to commence blending in 4QFY18 at present company import finish lubricant in bulk quantity and fills in bottle through its blending plant. After the start of blending operation, we expect it will further improve the gross margins.**
- **HTL recently inaugurates their 2nd express center in Lahore while the remaining outlets will be in completion phase. This enables the company to improve volumetric sales couple with improved gross margins.**
- **HTL is in the process to setup OMC business and company recently completes its storage facility at Sahiwal and plan to build another storage facility at Tarun Jabba, KPK. Further OGRA granted permission to acquire NOC from concern department for setting 26 retail outlets in Punjab. We expect the first retail outlet will be operational in 4QFY18.**
- **Stock is currently trading at FY18E and FY19E P/E of 11.79x and 9.54x respectively. We have a BUY stance on the stock with DCF based Dec-18 target price of Rs123, providing 26.19% upside from LDCP.**

**1HFY18 profit up by 38% YoY** HTL posted 1HFY17 PAT of Rs512.19mn (EPS: Rs4.42), up by 38% YoY. The surge in earning is coming from the higher volumetric sales (up by 37% YoY) and stable gross margins. HTL also announced dividend of Rs1.75/share.

**Blending of lubricant locally will further improve gross margins** Company plan to start blending locally, as per the discussion with the management company expected to start the blending of lubricant from 4QFY18. To recall previous company import in bulk quantity from SK Lubricant (Korea) and packing it. This will improve the consolidated gross margins by 3 to 4 percent (EPS Impact 1.72/share). Further company is also in the process to increase the capacity of blow molding (use to manufacture bottle) from existing 4,000MT/annum to 8,000MT/ annum.

**HTL Express Center** HTL recently inaugurate its 2nd express center in Lahore as per the management company plan to open total 11 express centers which are in the planning and development phase, while the company plans to open further express centers in their OMC retail outlet in coming period. This will improve volumetric sales and gross margins going forward (Express Center Business gross margin around 40 to 45 percent).

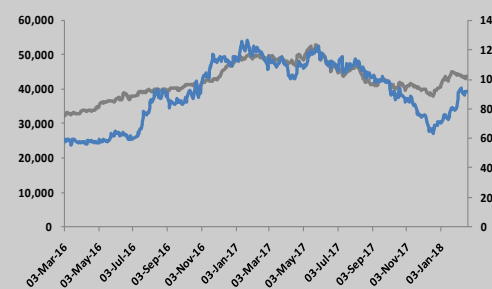
**HTL ready for the first OMC Retail Outlet** HTL completed its depot at Sahiwal (Punjab) and plan to setup another storage at Tarun Jabba (KPK). OGRA also granted permission to acquire NOC from the concern department to setup retail fuel outlets. In first phase company plan to setup 26 retail outlets in Punjab while planning to open 360 retail outlets in next 5 years with the CAPEX of Rs3.8bn. As per company report first fuel station will become operational in 4QFY18. However, we have not incorporated this to our valuation but as per our estimate with 1% market share it would add ~Rs1.50/share to the bottom line.

### Valuation

The stock is currently trading at FY18E and FY19E P/E of 11.79x and 9.54x respectively. We have buy stance on the script with DCF based Dec'18 target price of Rs123/-, providing 26.19% upside from LDCP.

KATS Symbol	HTL
Reuters Symbol	HITE.KA
Target Price	Rs123
LDCP	Rs97.47
Outstanding Shares (mn)	116.00
Free Float (mn)	28.60
Market Cap (mn Rs)	11,306

Price Performance Against KSE100 Index



Source: PSX

### HTL Key Indicators (Consolidated)

	FY17A	FY18E	FY19F	FY20F
EPS	6.41	8.27	10.21	12.89
P/E	15.21	11.79	9.54	7.56
DPS	3.10	3.50	4.00	5.50

Source: Co Financials, AS Research

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**Valuation Methodology**

To arrive at period end target price, Abbasi Securities uses different valuation methodologies:

- Comparable Method ( P/E, P/B etc.)
- Discounted Cash flow Method
- Equity and Asset based valuation

**Rating**

BUY	Total return more than 20% from last closing of market price
HOLD	Total return is in between 10% and 20% from last closing of market price
REDUCE	Total return is less than 10% from last closing market price