Pakistan Oil & Gas Marketing Sector

Hi-Tech Lubricants Limited

Lubricating profits with High-Octane growth

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REP - 300

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Best Securities House: 2023

Best Investment Bank:

Best Equity House:

Best Equity Advisor:

Best Brokerage House: 2023
Corporate Finance House: 2023
Best Economic Research House: 2023
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Lubricating Profits with High-Octane Growth

We initiate coverage on Hi-Tech Lubricants Limited (HTL), one of the fastest growing lubricants and petroleum products companies in Pakistan, with a 'Buy' call and Jun'25 target price of PKR 63.6/share, offering an upside potential of 62% from the last closing. Our optimistic outlook is supported by i) strategic alliance with SK Enmove, resulting in reduced custom duties for lubricant blending business, ii) unlocking global reach with SK Enmove partnership iii) expanding petroleum business with new fuel stations, and iv) diversified business portfolio. We project the company to generate a 5-year forward earnings CAGR of 17%. Hence, we recommend a strong 'BUY' on the scrip. Currently the stock is trading at an attractive forward P/E (x) for FY25f / FY26f of 3.7 / 2.6 and also offering a dividend yield of 13% / 18%.

Strategic Alliance with SK Enmove to boost profitability

Hi-Tech Lubricants Limited (HTL) has recently signed a Memorandum of Understanding (MOU) with its supplier, SK Enmove Co. Ltd., for the supply of specific additives, ingredients, and formulas for blending and packaging of international-grade lubricant products. This strategic partnership will enable HTL to blend these products locally, resulting in significant cost reductions due to lower import duties and taxes. About 26% of duty is imposed on the import of fully blended and packaged lubricant products, whereas custom duty on raw material for lubricant is 13%. This reduction in import duties is expected to substantially boost profitability of the company.

Unlocking global reach with SK Enmove partnership

The partnership with SK Enmove Co. Ltd. opens significant export opportunities for Hi-Tech Lubricants Limited (HTL). SK Enmove's extensive network, with production hubs in Europe and Asia and joint ventures with global partners, would allow HTL to tap into a supply chain that serves 50 regions worldwide. This strategic alignment enhances HTL's potential to expand its market presence beyond Pakistan and capitalize on international demand for high-quality lubricants. Moreover, it is pertinent to note that SK Enmove's ZIC products capture a global premium base oil market share of over 40%.

Expanding petroleum business with new fuel stations

Hi-Tech Lubricants Limited (HTL), since 2020, has been actively expanding its footprint in the oil marketing segment, now operating 52 fuel stations, with plans to increase this number to 130 by the end FY26. This strategic expansion positions HTL to effectively increase its volumetric sales, further strengthening the company's bottom line.

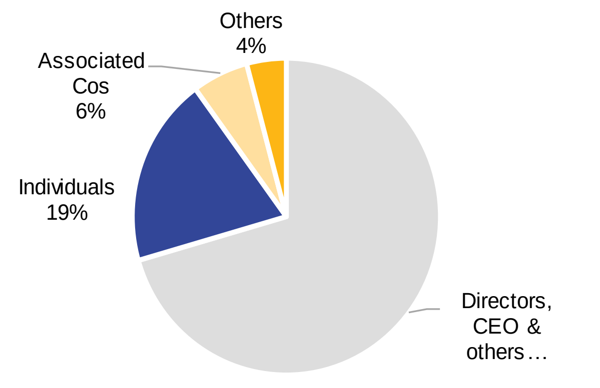
Diversified business portfolio

HTL, through its wholly owned subsidiary High-tech blending (private) limited (HTBL), has diversified into manufacturing of bottles, caps, and polymer products. In FY23 the capacity utilization for bottles, caps and injection moulding parts were recorded at 64%, 51%, and 58%, respectively. This polymer segment is all set to cater the need of plastic products (bottles, caps and injection moulding parts) for its external customers, which will support the bottom-line of the company, also broadening its revenue stream.

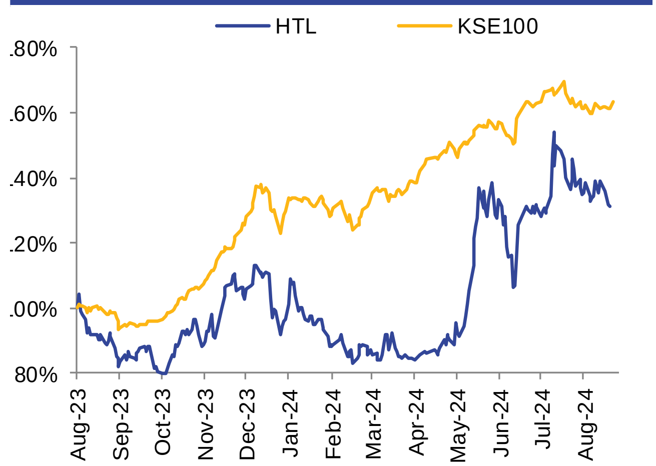
HTL PA			
Recommendation			**Buy**
Target Price (Jun-25)			63.6
Last Closing			39.4
Upside (%)			61.5
Shares (mn)			139.2
Free float (%)			25.0
Market Cap. (PKR mn)			5,480.5
Market Cap. (USD mn)			19.7
Price Performance			
	3M	**6M**	**12M**
Return (%)	2.0	63.7	54.7
Avg. Volume (000)	2,576	2,001	1,370
ADTV (mn) - PKR	95	69	44
ADTV (000) - USD	341	248	159
High Price - PKR	41.8	41.8	41.8
Low Price - PKR	28.9	22.8	21.7

Source: PSX, AHL Research

Shareholding Pattern



Source: Company Financials, AHL Research



Source: Bloomberg AHL Research

Exhibit: Valuation Snapshot						
		FY23a	FY24e	FY25f	FY26f	FY27f
EPS	PKR	(1.77)	(1.70)	10.56	14.95	17.30
DPS	PKR	-	-	5.28	7.47	8.65
D/Y	%	-	-	12.70	17.78	22.86
P/E	x	nm	nm	3.73	2.63	2.28
P/B	x	0.50	0.94	0.84	0.72	0.62
ROE	%	(4.02)	(3.99)	23.81	29.46	29.42

Source (s): Company Financials, AHL Research

Valuation

We have valued HTL using DCF-based valuation whereby our Jun'25 target price is set at PKR 63.6/share, which translates into an upside potential of 62% from last closing of PKR 39.4/share. Our valuation parameters include 5-yr adjusted beta of 1.5, risk free rate of 15.0% and a risk premium of 6.0%, which gives a cost of equity of 24.0%. Currently the stock is trading at FY25f and FY26f P/E of 3.7 and 2.6, respectively. The stock is also offering an attractive dividend yield of 13% / 18%. Hence, we recommend 'BUY' on the stock.

Exhibit: Valuation Snapshot					
PKR mn	FY25f	FY26f	FY27f	FY28f	FY29f
EBIT after tax	1,903	2,451	2,738	2,970	3,173
Add: Depreciation	349	409	477	549	624
Capital Expenditure	(649)	(759)	(791)	(825)	(861)
▲ in Working Capital	(468)	(278)	(248)	(612)	(801)
Free Cash Flow to the Firm	1,136	1,822	2,176	2,081	2,135
Discounted Factor	1.00	0.84	0.70	0.58	0.48
Discounted Cash Flows	1,136	1,526	1,526	1,210	1,026
PV of Future Cash Flows	6,424				
PV of Terminal Value	5,257				
Net Debt	2,824				
Equity Value	8,857				
Outstanding shares (mn)	139				
Target price per share	63.6				

Source (s): Company Financials, AHL Research

About the company

Hi-Tech Lubricants Limited (HTL) is a prominent name in the lubricants industry, with a strong presence in the Pakistani market for over 26 years. Known for its flagship ZIC products, HTL has established an extensive distribution network, with products available at around 20,000 retail outlets and wash stations. This is supported by a dedicated sales and technical team of 174 employees and over 300 distribution vans ensuring door-to-door delivery to customers.

HTL operates a state-of-the-art blending plant through its wholly owned subsidiary, Hi-Tech Blending (Private) Limited (HTBL). This facility is designed to produce lubricants that meet international quality standards, complete with a comprehensive bottle processing unit and advanced automated filling lines.

In 2017, the Company entered the retail service industry with HTL Express Centers, offering a one-stop vehicle maintenance solution. In 2020-2021, the Company shifted its strategy to a franchise model. Currently, franchises have been established in four major cities of Pakistan: Lahore, Gujranwala, Rawalpindi, and Karachi.

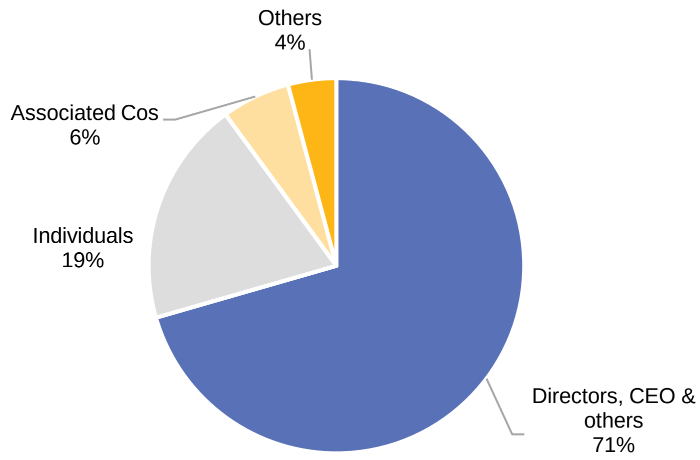
In 2020, the company entered into the sale and marketing of petroleum products in Punjab under the brand name HTL Fuel Stations.

Further diversifying its portfolio, HTL has ventured into the polymer segment through HTBL. This initiative includes the installation of cutting-edge machinery for the production of polymer products for external customers.

Shareholding pattern

HTL boasts a shareholder base of 6,068 individuals, collectively holding 139.204mn outstanding shares. The largest stake of 70.54% belongs to Directors, CEOs, their spouses, and minor children. The general public follows with a significant ownership of 20.04% of the shares. Associated companies, Modarabas & Mutual Funds, and others hold smaller portions, with 5.9%, 1.0%, and 2.6% of HTL shares respectively

Figure: Shareholding pattern (as of FY23)



Source (s): Company Financials, AHL Research

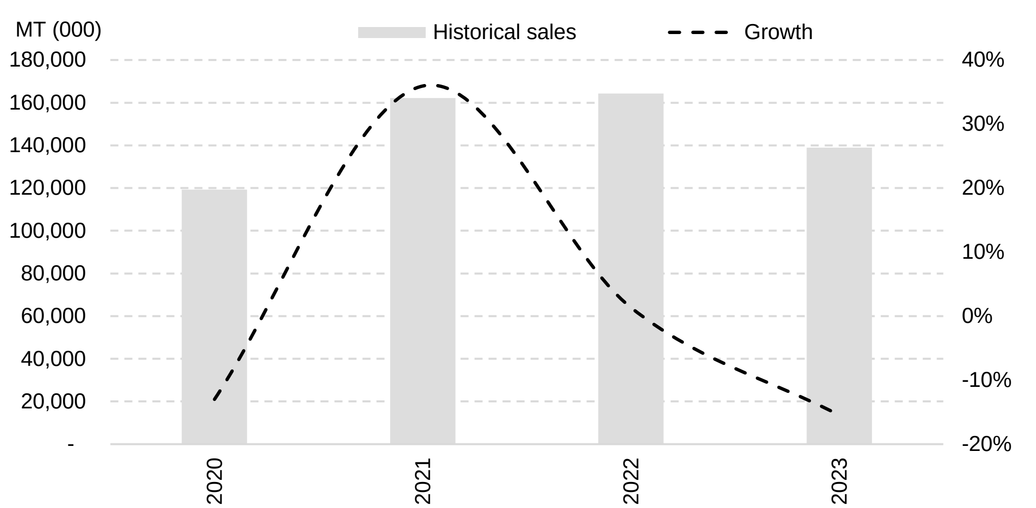
Strategic alliance with SK Enmove to boost profitability

HTL has recently signed a Memorandum of Understanding (MoU) with its supplier, SK Enmove Co. Ltd, to acquire specific additives, ingredients, and formulas for blending and packaging high-quality, international-grade synthetic lubricants, rather than importing pre-blended products. Utilizing its state-of-the-art blending facility operated by its wholly owned subsidiary, Hi-Tech Blending Limited, HTL will convert mineral oil into finished blended products.

To highlight, SK Enmove (formerly known as SK Lubricants) is a South Korean company specializing in the production and distribution of high-quality lubricants. It is a subsidiary of SK Innovation, which is part of the larger SK Group, one of the leading conglomerates in South Korea. SK Enmove is renowned for its advanced base oil, particularly the "SK Yubase" brand, which is one of the world's leading Group III base oils used in the formulation of high-performance lubricants. SK Enmove holds an estimated market share of over 40% in the global Group III base oil market.

This strategic partnership is expected to significantly reduce production cost by lowering customs duties and taxes, as opposed to importing fully blended and packaged lubricants. This move is anticipated to boost the company's market share, driven by a more flexible pricing strategy. Currently, duty of approximately 26% is levied on the import of blended finished lubricant, but would be reduced to 13% amid import of raw material of lubricant. Consequently, HTL margins are anticipated to rise substantially to 18.0% in FY25f as compared to 3-year historical average of 15.8% (FY22-FY24e), leading to a surge in profitability. It is also worth noting that the total lubricant market size in Pakistan is ~400,000 tons, as per our estimates.

Figure: Historical sales of lubricant



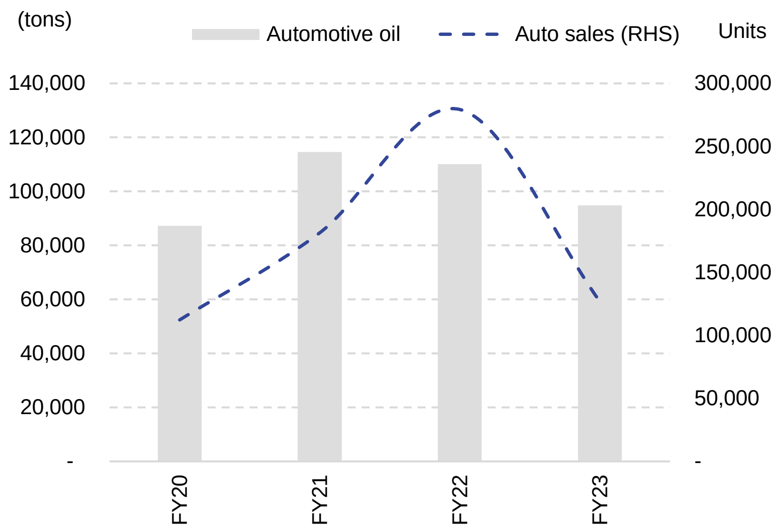
Source (s): Company Financials, AHL Research

Expected recovery in auto sales to drive Pakistan's lubricant market

The lubricant market in Pakistan is segmented by product type and end-user industry. Product types include engine oil, transmission and hydraulic fluid, general industrial oil, gear oils, grease, and others such as process oil and turbine oil. In terms of end-user industries, the market serves sectors like power generation, automotive and transportation, textile, heavy equipment, and food and beverage, along with construction and other industries.

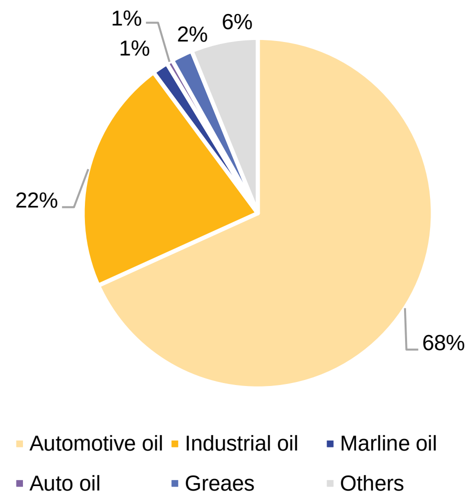
It is pertinent to note that, out of the above-mentioned sectors, Pakistan's lubricant market is mainly concentrated into two industries, namely automotive and textile industry. The auto sector of Pakistan holds the largest share of the lubricant market, and with anticipated growth in auto sales driven by lower financing costs and easing inflation, the demand for lubricants is expected to rise. Moreover greases, heat transfer fluids, gear oils, engine oils, transmission and hydraulic fluids, and anti-static oils are all essential lubricants used in the textile sector, each engineered to withstand various operational loads. With global interest rates beginning to decline, the demand for textile products is expected to rise, leading to an increase in lubricant consumption within the industry.

Exhibit: Automotive oil and auto sales



Source (s): OCAC, AHL Research

Exhibit: Lubricant categories

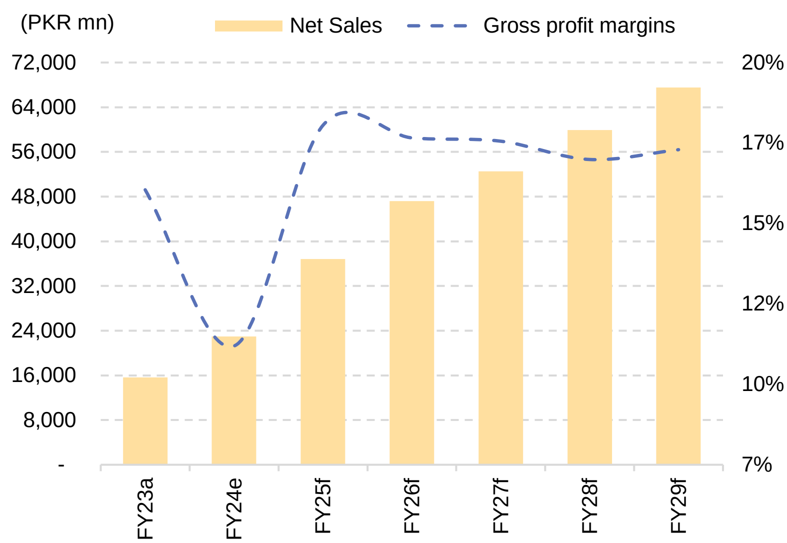


Source (s): OCAC, AHL Research

Lower-duty raw materials imports to boost margins

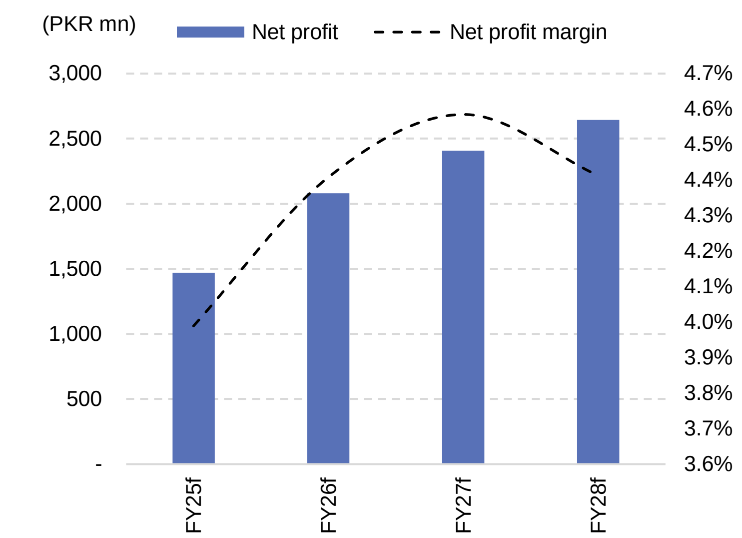
We expect, due to lower import duties and taxes on raw materials, the gross margins are expected to propel, reaching 18% in FY25f. No major cash outflow is anticipated for the local blending of lubricants by the company, as during FY23 the company's capacity utilization stood at 5.8% for blending and 6.7% for filing. Furthermore, with the new agreement with SK Enmove, we anticipate a significant increase in volumetric sales for the company.

Exhibit: Net sales and gross profit margins



Source (s): Company Financials, AHL Research

Exhibit: Net profit and net profit margins



Source (s): Company Financials, AHL Research

Mid-tier segment having a lion's share in the lubricant market

The lubricant market can be divided into three key segments i) Mineral/Classical oil, ii) Premium segment (fully synthetic) and iii) mid-tier segment (Semi-synthetic). Mineral oil, a conventional option derived from refining crude oil, is known for its cost-effectiveness. In contrast, synthetic oil is chemically engineered to meet specific vehicle requirements. Due to its high cost, this segment captures only a small share of the overall lubricants market and is primarily dominated by HTL and SHEL. Semi-synthetic oils, a blend of mineral and synthetic oils, offer a balance of both and account for ~60% of the total lubricant market share. It is imperative to note that, in contrast to conventional oil, synthetic oil provides greater engine protection and cleaner engine due to its higher viscosity level. However, the conventional oil is two to three times cheaper then fully synthetic oil.

Exhibit: Comparison of synthetic & conventional oil

Specifications	Composition	Extreme temperature	Longevity	Protection	Fuel efficiency	Cost
Synthetic	Uniform structure	Good performance	Higher resistance	Enhance	High	High
Conventional oil	Contains impurities	Poor performance	Less resistance	Adequate	Less	Low

Source: AHL Research

Hi-Tech Lubricants Limited portfolio composition

Currently, HTL has a premium brand mostly focused on passenger cars motor oil (PCMO), diesel engine oil (DEO) and motorcycle oil (MCO).

Key Products offered by HTL

- **Gasoline Engine Oils (GEO):** ZIC Synthetic Oil, based on Very High Viscosity Index (VHVI) technology, offers superior engine protection and fuel efficiency. Products include ZIC Top, X9, X7, X5, X3, and X1, suitable for vehicles running on petrol, LPG, and CNG.
- **Motorcycle Oils (M**CO): The range includes fully synthetic ZIC M9 and M7, high-quality semi-synthetic M5, and classic M3 oil blended with refined base oil and additives. M1 is a multi-viscosity oil designed for three-wheelers.
- **Diesel Engine Oils (DEO):** For heavy-duty engines, ZIC offers X7000 and X5000 synthetic oils, X3000 mineral oil, and X1000 blended at HTBL.

Exhibit: Lubricant variants

GASOLINE ENGINE OILS (GEO)

X9-0W-40 (Fully Synthetic)	X5-20W-50 (Synthetic)	X7-5W-20 (Fully Synthetic)

MOTOR CYCLE OILS (MCO)

M3-20W-50	M5-20W-40	M9-10W-40

DIESEL ENGINE OILS (DEO)

X1000-50 (CF/SF) (Economy)	X3000-15W-40 (CF-4/SG) (Classic)	X5000-15W-40 (CH-4) (Synthetic)

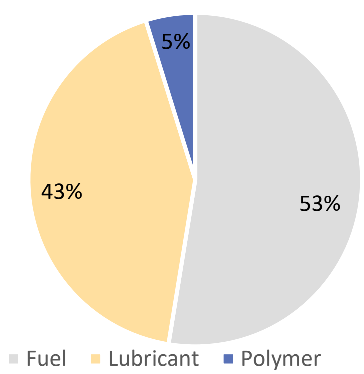
X7000-10W-40 (CI-4)	Zic X7000 10W-40	

Source: AHL Research, PakWheels

Local blending and surge in fuel stations set to boost lubricant market share

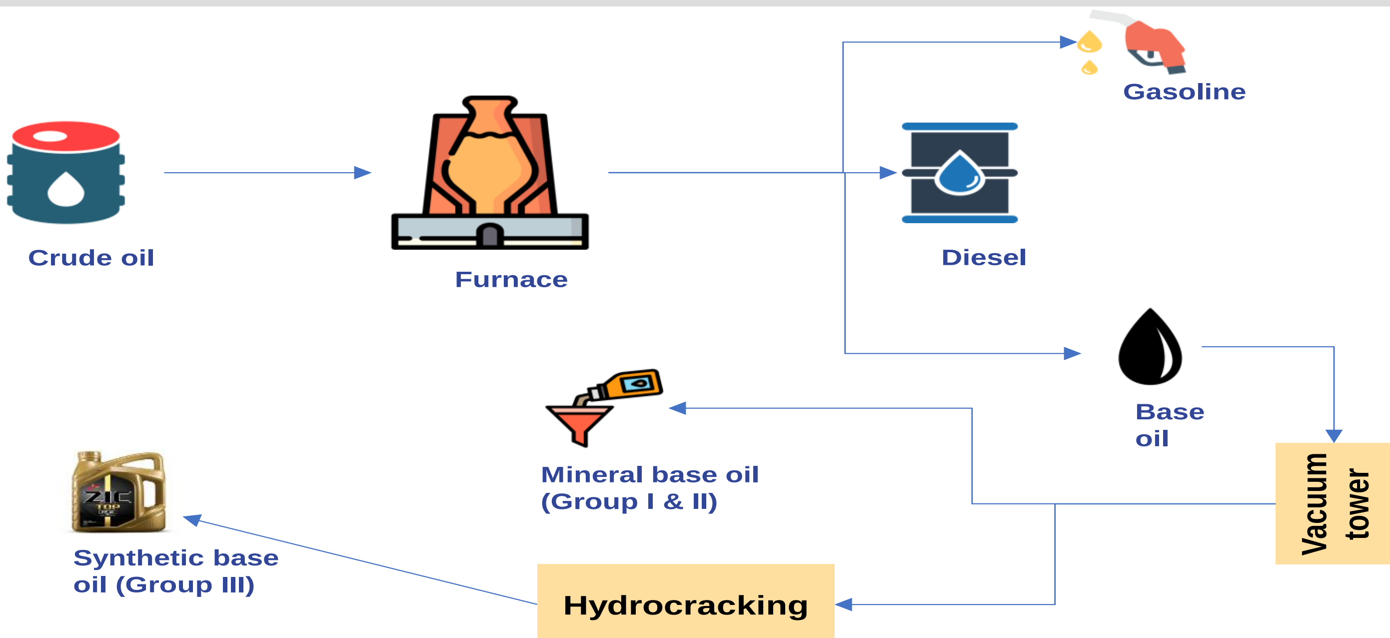
The mid-tier segment in Pakistan holds the largest share in the lubricant market, accounting for approximately 60%. Atlas Honda, dominates the premium motorcycle oil market with a 90% share, offering a retail price of around PKR 670 for a 0.7/liter bottle of CD70 bike oil. In comparison, HTL's price for the same specification was PKR 1,000. However, following a recent shift to local blending, resulting in the company to import raw material instead of imported finished product, HTL was able to successfully reduced its price to PKR 650, making it more competitive. This strategic move is expected to boost HTL's market share by leveraging a competitive pricing strategy. Additionally, HTL's plan to expand its OMC segment will serve a dual purpose: increasing its presence in the OMC market and providing mid-tier lubricant consumers with direct access to lubricants, ultimately driving profitability for the company.

Figure: Revenue contribution (FY25f)



Source (s): Company Financials, AHL Research

Exhibit: Flow chart of lubricant process



Source: AHL Research

Unlocking global reach with SK Enmove partnership

In addition to domestic growth, HTL is exploring opportunities in the export market. HTL aims to meet regional demand from SK Enmove Co.'s international customers by exporting lubricant products, thereby expanding its clientele across regional countries. This initiative will also provide HTL with a crucial safeguard against unexpected fluctuations of PKR against the greenback.

SK Enmove Co. has established production hubs in Europe and Asia and has formed joint ventures with global partners, enabling it to supply to 50 regions worldwide. Furthermore, SK Enmove's ZIC products captures a global premium base oil (Group III/III+ base oil) market share of over 40%. Group III base oil has a viscosity index of 120 or above, whereas Group III+ base oil is composed of a viscosity index of 130 or above.

Exhibit: SK Enmove Global base oil terminals

Source: SK Enmove website, AHL Research

ZIC brand products export to the Afghanistan

In 2021, the Company strategically expanded its market presence internationally by entering into a Non-Exclusive Distribution Agreement with M/S Osman Ghani Limited, a company based in Afghanistan. This agreement facilitates the export of locally blended ZIC brand products to the Afghan market. This has resulted the company to tap expand its customer base, leading to higher sales volumes and revenue growth.

Exhibit: Afghanistan petroleum imports country wise

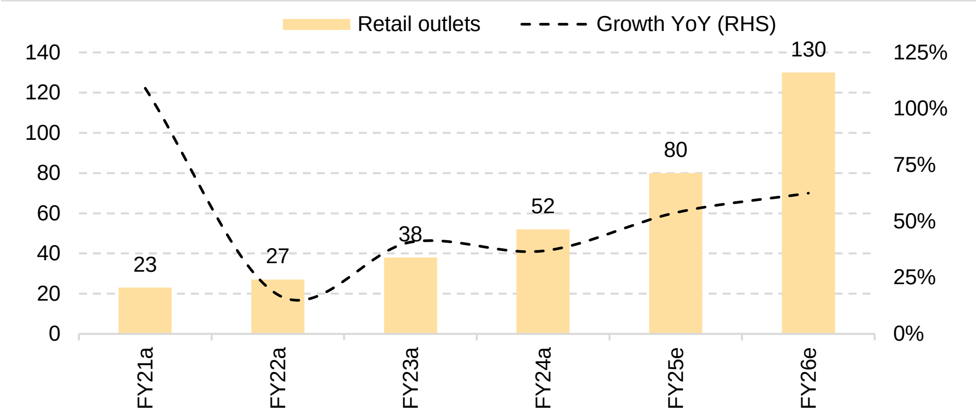
Country	Import (USD mn)	Market share
United Arab Emirates	48.1	46.20%
Uzbekistan	44.4	42.70%
Pakistan	7.6	7.30%
Spain	0.9	0.60%
Kyrgyzstan	0.7	0.70%
Others	1.9	2.51%

Source: Central statistics organization of Afghanistan, AHL Research

Expanding petroleum business with new fuel outlets to drive growth

Hi-Tech Lubricants Limited (HTL) is one of the fastest growing OMC in the country. The company successfully manages the marketing and sale of petroleum products through its network of HTL Fuel Stations, which are operated by dealers primarily in the Punjab Province. Currently, there are a total of 52 fuel stations across Punjab and KPK, which are expected to rise to 80 fuel stations by the end of FY25 on the back of formal approval from the Oil and Gas Regulatory Authority (OGRA). Furthermore, the company is all set to increase its presence in Sindh, as the company anticipates to receive Shikarpur depot license which is a pre-requisite for operations of fuel stations. Additionally, we expect the company to achieve a total of 130 fuel stations by the end of FY26.

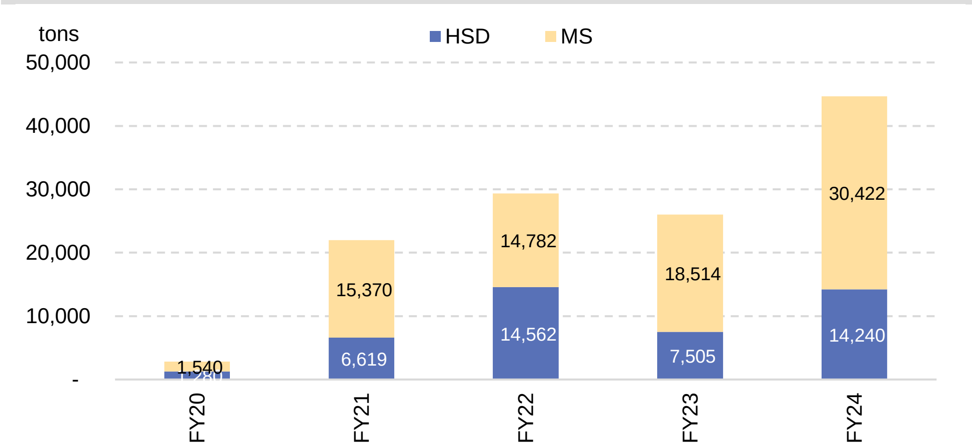
Exhibit: Fuel stations projections



Source: Company Financials, AHL Research

HTL's white oil sales during FY24 witnessed a jump of 71% YoY to arrive at 0.45mn tons. The company's market share witnessed a massive jump of 81% to 0.29% in FY24 compared to 0.16% in SPLY. We expect the company's white oil sales to increase by 45% in FY25f amid rise in fuel stations to 80.

Exhibit: Historical volumetric sales of HSD & MS



Source: OCAC, AHL Research

Exhibit: Number of fuel stations as at FY23

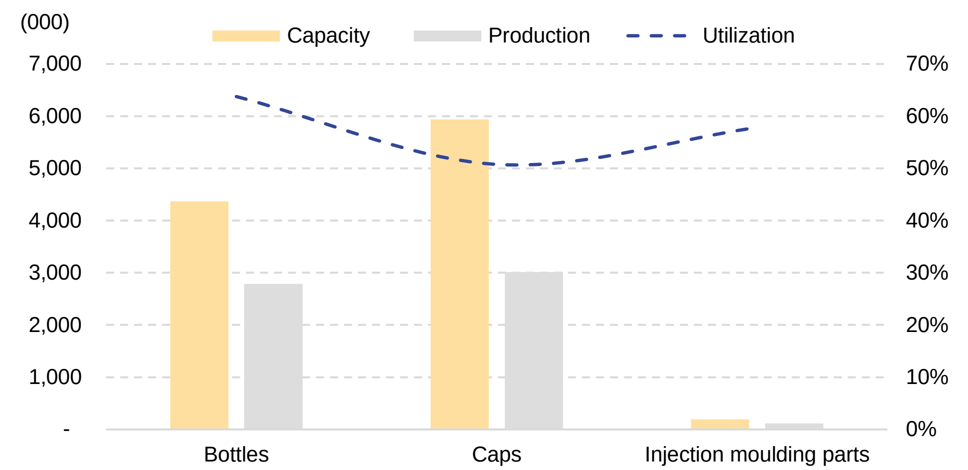
City Name	Number of HTL Fuel stations
Lahore	3
Multan	3
Lalian	1
Faisalabad	2
Toba Tek Singh	1
Jaranwala	1
Hasilpur	1
Jhang	2
Gujranwala	3
Arifwala	1
Wazirabad	1
Lalamusa	1
Okara	3
Chakwal	1
Bahawalpur	1
Rahim Yar Khan	1
Dera Ghazi Khan	1
Rawalpindi	1
Islamabad	1
Swat	3
Lower Dir	1
Malakand	1
Di Khan	2
Bannu	1
Mansehra	1
Total	**38**

Source: Company Accounts, AHL Research

Diversified business portfolio

HTL has expanded its operations into the plastic packaging sector through its subsidiary, Hi-Tech Blending (Pvt.) Ltd. (HTBL), which is equipped with state-of-the-art technology. In 2023, the company commenced commercial operations within the polymer segment, strategically broadening its customer base by supplying polymer products to external customers. During the reporting period, HTL sold 2.78mn bottles, 3.02mn caps and 0.114mn injection moulding parts, achieving capacity utilization rates of 64%, 51%, and 58%, respectively. This move not only positions the company to improve profitability but also diversifies its risk broadening its revenue stream.

Exhibit: Polymer business capacity utilization



Source: Company's financials', AHL Research

Massive surge in profitabilty

In FY25, we anticipate the company to achieve a significant surge in earnings to PKR 1,451mn (EPS: PKR 10.4). This surge is expected to be driven by improved margins resulting from the import of raw materials rather than blended finished products, benefiting from reduced customs duties and thereby enhancing profitability. Additionally, the expansion of fuel stations is likely to sustain elevated profit levels. We project the company to generate a 5-year forward earnings CAGR of 17%.

Key risk(s)

- Failure to establish a presence in the mid-tier lubricant market could significantly impact HTL's profitability
- Insufficient development of storage facilities and outlets across the country could diminish profitability in the OMC segment and constrain lubricant sales.
- Higher than expected devaluation of PKR against the greenback could deteriorate the profitability for the company.
- Higher use of electric vehicles could result in lower demand for lubricants.
- Changes in international markets, trade relations, or economic downturns could influence demand for the company's products and services.

Exhibit: Key Financial Highlights

PKR mn	FY24e	FY25f	FY26f	FY27f	FY28f
Income Statement Items (PKR mn)					
Revenue	22,970	36,857	47,203	52,513	59,905
Cost of Sales	19,959	30,389	39,104	43,557	50,029
Gross Profit	2,456	6,468	8,100	8,956	9,876
Distribution Cost	1,188	1,907	2,442	2,717	3,099
Administrative Expenses	985	1,063	1,149	1,240	1,340
Other Expenses	88	545	697	776	885
Other Income	513	167	206	265	316
Finance Cost	730	710	607	541	535
PBT	(22)	2,410	3,411	3,947	4,334
PAT	(237)	1,470	2,081	2,408	2,644
Balance Sheet Items (PKR mn)					
Total Equity	5,807	6,542	7,583	8,786	10,108
Current Liabilities	5,807	9,233	10,748	11,753	13,157
Non-Current Liabilities	1,349	1,287	1,234	1,189	1,151
Current Assets	5,895	9,695	11,847	13,697	16,108
Non-Current Assets	7,068	7,368	7,718	8,032	8,308
Total Assets	12,963	17,062	19,565	21,729	24,416

	Unit	FY24e	FY25f	FY26f	FY27f	FY28f
Per Share						
Earnings	PKR	(1.7)	10.6	14.9	17.3	19.0
Dividend	PKR	-	5.00	7.00	9.00	9.00
Book Value	PKR	41.7	47.0	54.5	63.1	72.6
Valuation						
P/E	x	nm	3.7	2.6	2.3	2.1
Dividend Yield	%	-	12.7	17.8	22.9	22.9
P/B (x)	x	0.9	0.8	0.7	0.6	0.5
RoE	%	(4.0)	23.8	29.5	29.4	28.0
RoA	%	(1.9)	9.8	11.4	11.7	11.5
D/E	x	0.58	0.53	0.48	0.43	0.39
Turnover & Activity						
Asset Turnover	x	1.8	2.5	2.6	2.5	2.6
Current Ratio	x	1.0	1.1	1.1	1.2	1.2
Margins						
Gross Margin	%	10.7	17.5	17.2	17.1	16.5
EBITDA Margin	%	-	9.4	9.4	9.5	9.0
Net Profit Margin	%	(1.0)	4.0	4.4	4.6	4.4

Source (s): Company Financials, AHL Research

Disclaimer

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Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return form current market price, with Target period as Jun'25 for Target Price. In addition, return excludes all type of taxes. For more details kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

* Upside for Power Generation Companies is upside plus dividend yield.

Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- **Discounted Cash Flow (DCF)**
- **Dividend Discounted Model (DDM)**
- **Sum of the Parts (SoTP)**
- **Justified Price to Book (JPTB)**
- **Reserved Base Valuation (RBV)**

Risks

The following risks may potentially impact our valuations of subject security (ies);

- **Market risk**
- **Interest Rate Risk**
- **Exchange Rate (Currency) Risk**

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