



LANKA IOC PLC [LIOC.N0000]

MAINTAIN BUY

“FUELING UP FOR THE POSITIVE OUTLOOK”

Fair Value: FY23E - LKR 275.0 [+110%] FY24E - LKR 300.0 [+129%]

Total Return with DPS: FY23E - 127% [AER 260%] FY24E - 147% [AER 73%]

LIOC stunned the market while recording an exceptional profit growth of 3,534.7%YoY to LKR 9.9Bn in 1QFY23 on the back of a steep rise in top-line by 196.1%YoY aided by the upward fuel price adjustment as a result of the implementation of fuel pricing formula. GP margin notably improved by 2,592bps to 31% owing to the gradual decline in global oil prices. Meanwhile, lubricant segment witnessed a healthy performance with the SERVO brand gaining a market share of 20% during the quarter as a result of competitive pricing strategies whilst, the steep devaluation of LKR and growth in port activity further aided bunkering segment's top line. Hence, considering the positive outlook of fuel station expansion and the potential for the port of Hambantota, we arrived at a fair value of LKR 275.0 for FY23E and LKR 300.0 for FY24E.

MAINTAIN BUY

LKR (Mn)	1QFY22	1QFY23	YoY	FY21	FY22	YoY
Earnings (LKR 'Mn)						
Revenue	16,863	49,934	+196%	66,686	89,951	+35%
Gross profit	860	15,490	+1701%	3,113	8,845	+184%
EBIT	78	13,252	+16851%	161	5,410	+3251%
PBT	307	11,897	+3774%	988	5,612	+468%
Net Profit	273	9,926	+3535%	883	4818	+446%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	20,197	34,212	+69%	19,924	24,286	+22%
Borrowings	26,568	27,530	+4%	20,590	25,778	+25%
NAVPS	37.9	64.3		37.4	45.6	

LIOC's bottom-line expanded to LKR 9.9Bn owing to the fuel price revision formula

LIOC delivered a remarkable growth in the bottom-line of 3,534.7%YoY to LKR 9,926.1Mn for the 1QFY23 compared to LKR 273.1Mn in 1QFY22. The growth in profitability was mainly driven by a steep increase in revenue to LKR 49.9Bn amidst the back-to-back rise in local pump prices as a result of the implementation of the fuel pricing formula which came into effect on May-22. Further, LIOC also managed to increase its market share to c.20% during 1QFY23, benefitted from a near monopoly as CPC distribution was limited. Moreover, additional sales was also observed with LIOC supplying fuel stocks to CPC and local exporters. GP margin significantly rose by 2,592bps to 31% due to the gradual decline in global oil prices. Lubricant segment witnessed a rise in market share upto 20% during the quarter amidst the massive increase in sales, while competitive pricing strategies in the midst of inflationary pressure and currency depreciation also contributed to the segments' top-line. Moreover, demand for bunker fuel is considerably on the rise amidst higher activity levels witnessed at Port of Trincomalee and Colombo during the period.

Drop in oil prices to support higher stockpiling

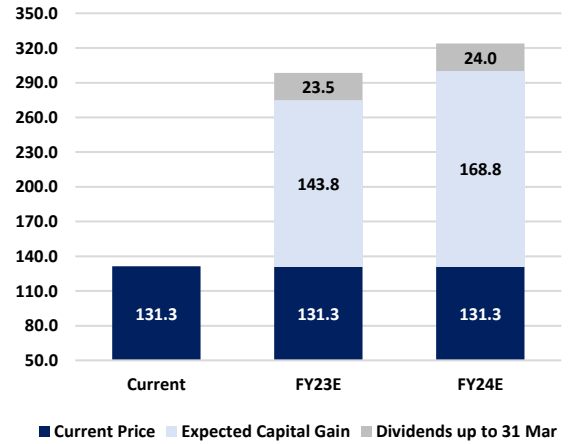
LIOC's inventory level soared 36.7%QoQ to LKR 37.6Bn during the quarter. Global Brent oil price has crashed to USD 103.7 per barrel towards the end of Jun-22 from its recent high of USD 123.5 per barrel recorded in Mar-22 which directly benefits LIOC to lock inventory at a lower cost for future use.

Commissioning of new sheds on the cards while posing a positive outlook on bunkering

As LIOC has been granted permission by the government to open 50 new fuel stations Island wide, (Total number of fuel stations after the additions will be 257) we expect the top line to upsurge by 25% in the 2HFY23 while the total fuel market share of LIOC is also expected to increase by further 5%. Moreover, the initiation of bunkering activities at the port of Hambantota in Mar-21 is expected to further strengthen with the strategic tie-ups with shipping line operators to cater for the upbeat in future bunkering earnings whilst the elevated global bunker fuel prices amidst the steep LKR dip may expect to expand the margins of bunkering.

FV for FY23E revised to LKR 275.0 with a total return of 127.0%

Considering the higher than expected results at the top-line as well as the bottom-line, we have scaled up the revenue target of LIOC while also advancing the earnings target for FY23E to LKR 31.1Bn and FY24E to LKR 31.8Bn. Therefore, considering the steep rise in profits with continuous improvement in all major segments, we expect a fair value of LKR 275.0 for FY23E and LKR 300.0 for FY24E with a total return of 127.0% and 147.0%, respectively. **MAINTAIN BUY**

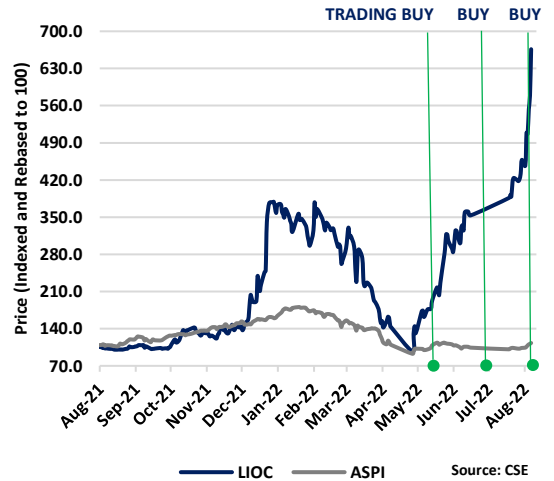


■ Current Price ■ Expected Capital Gain ■ Dividends up to 31 Mar

FIRST CAPITAL RESEARCH

Tharusha Ashokgar +94 11 263 9866
tharushaash@firstcapital.lk

Price Movement of LIOC vs ASPI (Indexed and rebased to 100)



Minimum Return for BUY:

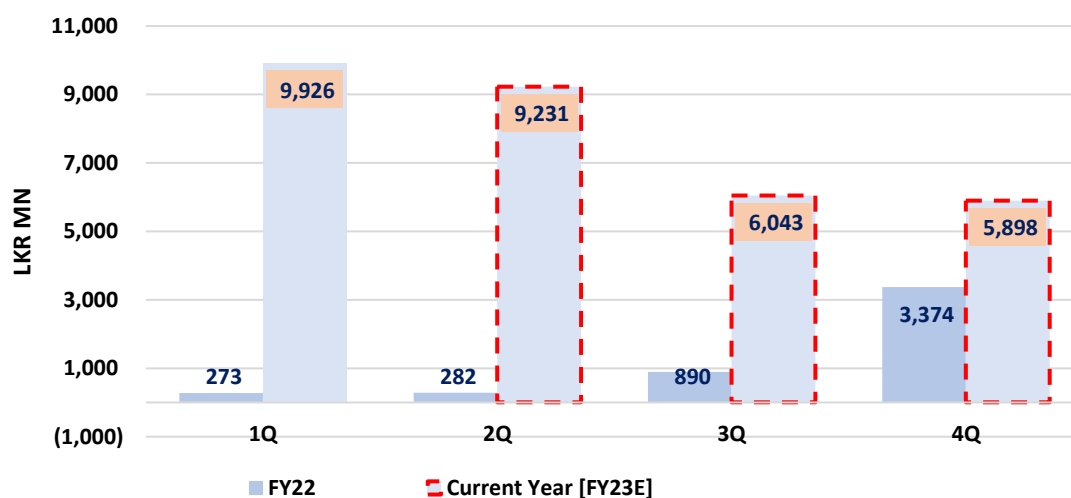
Buy Below for FY23E [AER of 23.0% with DPS]: LKR 261.4.
LIOC categorized as 'Grade B' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of LIOC during the five trading days prior to the issuance of this document

Price Movement of LIOC Fuels	Jan-22	Mar-22	May-22	Jul-22	Aug-22
Octane 92 Petrol	177.0	254.0	420.0	450.0	450.0
Auto Diesel	121.0	214.0	400.0	440.0	430.0

Quarterly Earnings



Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)								
Revenue	91,343	86,322	81,947	66,686	89,951	260,640	320,190	373,716
Gross profit	1,800	4,133	4,106	3,113	8,845	53,246	53,637	57,525
EBIT	(1,385)	854	635	161	5,410	42,920	43,491	44,545
Net Profit	(744)	403	422	883	4,818	31,098	31,846	32,676
Basic EPS (LKR)	(1.4)	0.8	0.8	1.7	9.0	58.4	59.8	61.4
YoY Growth (%)		-154%	5%	109%	446%	545%	2%	3%
Valuations								
PER (x)	(93.9)	173.2	165.7	79.2	14.5	2.2	2.2	2.1
PBV (x)	3.6	3.6	3.6	3.5	2.9	1.4	1.1	1.0
Dividend Yield (%)	0.5%	0.6%	0.6%	0.6%	1.7%	17.9%	18.3%	18.7%
NAVPS	36.4	36.5	36.5	37.4	45.6	93.8	115.5	135.0
DPS (LKR)	0.7	0.8	0.8	0.9	2.3	23.5	24.0	24.5
Dividend Payout	0%	99%	95%	51%	25%	40%	40%	40%

Valuation Summary

Expected LIOC price	FY23E	FY24E
PER based target price	292.0	299.0
DCF Valuation based target price	255.8	304.3
Average Target Price	273.9	301.7
Target price after Rounding off	275.0	300.0

Return	FY23E	FY24E
Target Price	275.0	300.0
Current Price	131.3	131.3
Capital Gain (LKR)	143.75	168.75
Dividends upto 31 Mar (LKR)	23.50	24.00
Capital Gain %	110%	129%
Dividend Yield %	18%	18%
Total Return %	127%	147%
Annualized Return %	260%	73%

Discounted Cash flow Valuation

DCF based Valuation	FY23E	FY24E
Enterprise Value	162,805	190,257
(-) Debt	(28,356)	(29,774)
(+) Cash	1,756	1,551
Total Value of Equity	136,205	162,035
No. of shares	532	532
Target Price	256	304

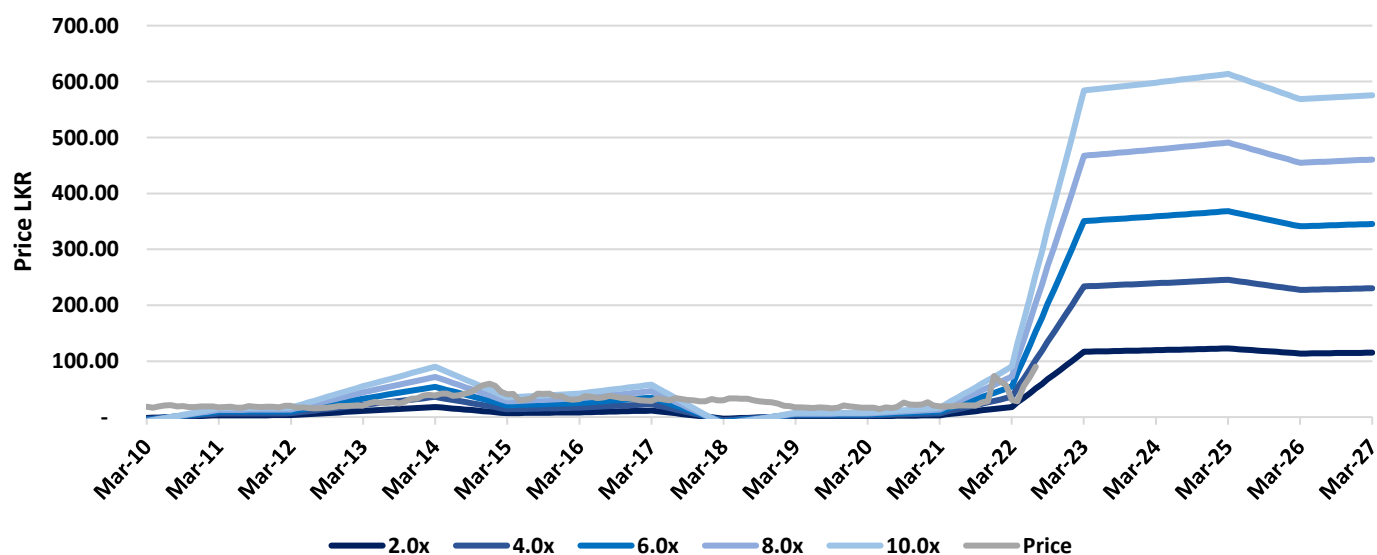
COE	FY23E	FY24E
R_f	15.0%	15.0%
R_m	23%	23%
Growth %	3%	3%
β	1.50	1.60
$K_e = R_f + \beta (R_m - R_f)$	27%	28%

PER Valuation

PER based Valuation	FY23E	FY24E
Earnings (LKR 'Mn)	31,098	31,846
No. of Shares ('Mn)	532	532
EPS	58.4	59.8
Expected Average PER	5.0x	5.0x
Target Price	292	299

WACC	FY23E	FY24E
K_e	27%	28%
K_d (Post Tax)	15%	15%
D/E Assumption	30 / 70	30 / 70
Terminal Growth (%)	3%	3%
WACC	23%	24%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
P/E 31st Mar								
Revenue	91,343	86,322	81,947	66,686	89,951	260,640	320,190	373,716
Cost of Sales	-89,543	-82,189	-77,841	-63,573	-81,107	-207,394	-266,552	-316,190
Gross Profit	1,800	4,133	4,106	3,113	8,845	53,246	53,637	57,525
Other Operating Income / (Expense)	444	190	83	252	116	100	100	100
Administrative Expenses	-1,152	-1,432	-1,505	-1,401	-1,639	-2,606	-3,202	-5,606
Selling and Distribution Expenses	-2,478	-2,037	-2,049	-1,803	-1,912	-7,819	-7,044	-7,474
Operating Profit	-1,385	854	635	161	5,410	42,920	43,491	44,545
Finance Income	915	430	942	1,303	1,364	1,623	1,676	1,927
Finance Expenses	-306	-953	-978	-476	-1,162	-5,671	-5,359	-5,627
Profit Before Taxation	-776	331	599	988	5,612	38,872	39,808	40,845
Income Tax Expense	32	73	-177	-105	-793	-7,774	-7,962	-8,169
Profit for the Year	-744	403	422	883	4,818	31,098	31,846	32,676
EPS	-1.4	0.8	0.8	1.7	9.0	58.4	59.8	61.4

Appendix III: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
as at 31st Mar								
ASSETS								
Non Current Assets								
Property, Plant and Equipment	4,269	4,294	4,113	4,019	3,857	5,797	5,783	5,864
Investment	4,394	4,394	4,394	4,394	4,394	4,394	6,394	7,993
TPTL Investment	-	-	-	-	49	49	49	49
Intangible Assets	676	675	675	674	674	674	674	674
Right -of-use Assets	-	-	91	63	80	80	80	80
Other Receivables at Amortized Cost	106	127	149	119	142	142	142	142
Bank Deposits	-	-	-	10,222	1,462	-	3,578	14,141
Deferred Tax Asset (Net)	-	203	189	261	-	-	-	-
	9,445	9,694	9,610	19,753	10,658	11,136	16,699	28,942
Current Assets								
Inventories	10,110	13,996	13,295	9,625	27,257	46,915	48,028	44,846
Trade Receivables	4,551	3,267	3,568	2,585	4,741	5,213	4,803	5,606
Other Receivables at Amortized Cost	-	-	323	1,707	-	-	4,372	-
Other Current Assets	-	-	65	79	-	-	-	-
Income Tax Receivables	445	342	186	18	-	-	-	-
Short Term Investments	7,962	673	12,660	12,041	19,892	20,290	23,942	27,533
Cash and Bank Balances	445	272	51	599	2,524	1,756	1,551	5,638
	23,514	18,551	30,149	26,654	54,413	74,174	82,696	83,623
Total Assets	32,959	28,245	39,760	46,407	65,071	85,310	99,395	112,565
EQUITY AND LIABILITIES								
Equity								
Stated Capital	7,577	7,577	7,577	7,577	7,577	7,577	7,577	7,577
Retained Earnings	11,793	11,851	11,870	12,347	16,709	42,380	53,939	64,282
Total Equity	19,369	19,427	19,446	19,924	24,286	49,956	61,515	71,858
Non Current Liabilities								
Defined Benefit Obligation (Net)	20	7	11	14	12	2	2	2
Right -of-use Lease Liability	-	-	63	38	46	46	46	46
Deferred Tax Liability	-	-	-	-	380	380	-	-
	20	7	74	52	438	428	47	47
Current Liabilities								
Trade and Other Payables	8,552	6,484	3,251	5,808	14,504	6,516	8,005	9,343
Right -of-use Lease Liability	-	-	34	33	42	32	32	32
Interest Bearing Borrowings	5,018	2,327	16,955	20,590	25,778	28,356	29,774	31,263
Income Tax Payable	-	-	-	-	22	22	22	22
	13,570	8,811	20,239	26,431	40,347	34,926	37,833	40,660
Total Equity and Liabilities	32,959	28,245	39,760	46,407	65,071	85,310	99,395	112,565
NAVPS	36.4	36.5	36.5	37.4	45.6	93.8	115.5	135.0



First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Vidushika Perera	+94 11 2639 865
Hiruni Perera	+94 11 2639 864	Tharusha Ashokgar	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Zaeema Jihan	+94 11 2639 868

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Tharusha Ekanayake	+ 94 77 7 809 154
--------------------	-------------------

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042		
Colombo				
Rasika Indra Kumara		+94 77 7072 698	Chandika Jayawardana	+94 77 3940 070
Isuru Jayawardena		+94 76 7084 953	Anjelo LaBrooy	+94 77 7546 645
Nishantha Mudalige		+94 70 2910 041	Dillon Lowe	+94 76 616 0647
Ifadh Marikar		+94 77 9625 679	Evelyn John	+94 77 779 2452
Anushka Buddhika		+94 71 4310 600	Yudheshan Kannadasan	+94 77 415 5809
Thushara Pathiraja		+94 70 2910 037		
Negombo				
Priyanka Anuruddha		+94 70 2910 035	Priyantha Wijesiri	+94 70 2910 036

UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
---------------------	-----------------	-----------------------	-----------------

BRANCHES

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1 st Floor, E.H.Cooray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager:	Manager: Rohana Jayakody	Manager:
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 4937 072

Disclaimer:

This Review is prepared and issued by First Capital Holdings PLC based on information in the public domain, internally developed and other sources, believed to be correct. Although all reasonable care has been taken to ensure the contents of the Review are accurate, First Capital Holdings PLC and/or its Directors, employees, are not responsible for the accuracy, usefulness, reliability of same. First Capital Holdings PLC may act as a Broker in the investments which are the subject of this document or related investments and may have acted on or used the information contained in this document, or the research or analysis on which it is based, before its publication. First Capital Holdings PLC and/or a connected person or associated person may also have a position or be otherwise interested in the investments referred to in this document. This is not an offer to sell or buy the investments referred to in this document. This Review may contain data which are inaccurate and unreliable. You hereby waive irrevocably any rights or remedies in law or equity you have or may have against First Capital Holdings PLC with respect to the Review and agree to indemnify and hold First Capital Holdings PLC and/or its principal, their respective directors and employees harmless to the fullest extent allowed by law regarding all matters related to your use of this Review. No part of this document may be reproduced, distributed or published in whole or in part by any means to any other person for any purpose without prior permission.

About us:

This report providing a snapshot of fixed income, equity and unit trust is composed and circulated by First Capital Holdings PLC an investment bank in Sri Lanka. The company operates in the capital market of Sri Lanka with operations in government securities - treasury bills and bonds, stock brokering and share market investments, asset management, private wealth management, retirement planning, personal financial planning, unit trust, margin trading, capital market research, trustee services, corporate finance advisory services including corporate debt structuring (debentures, trust certificates, commercial papers), valuations, restructuring, mergers and acquisitions, initial public offerings (IPOs) and project advisory. The First Capital Group consists of First Capital Treasuries PLC, First Capital Limited, First Capital Markets Limited, First Capital Asset Management Limited and First Capital Equities (Private) Limited covering Colombo, Negombo, Matara, Kandy and Kurunegala.