



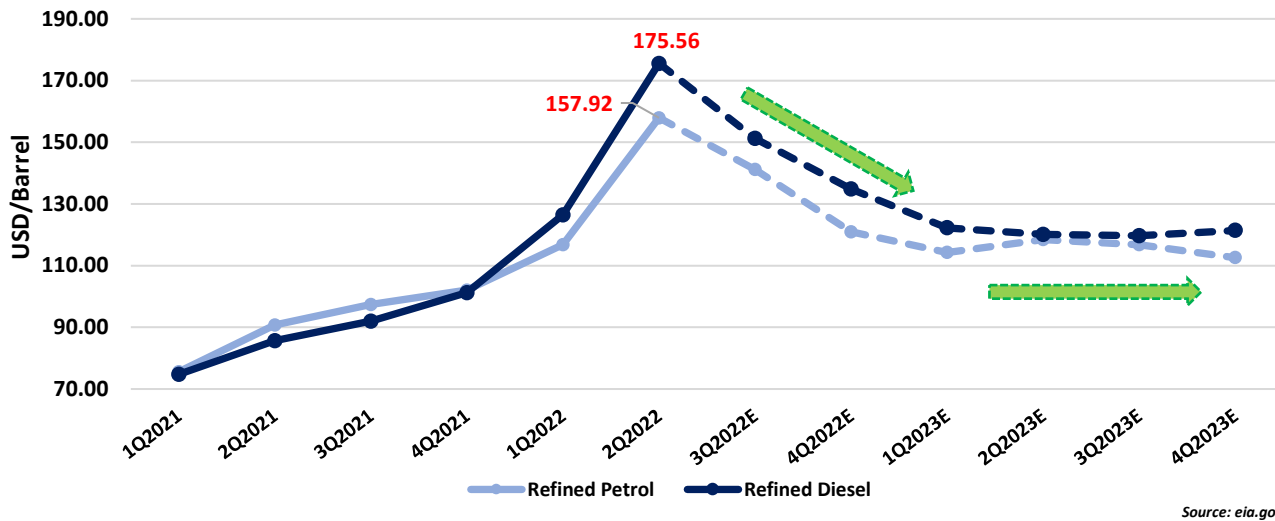
LANKA IOC PLC [LIOC.N0000]

FLASH NOTE

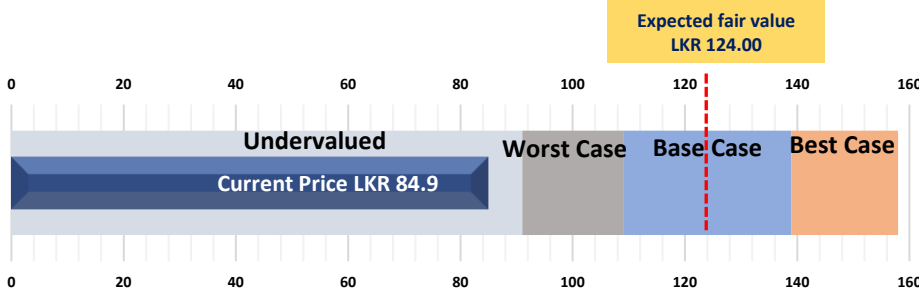
PRICE REVISIONS TO SUPPORT STABLE MARGINS

Fair Value [FY23E]: LKR 124.0 [Range of LKR 91.0-148.0]

Global Refined Oil (USD/Barrel) 2021-2023E



Fair Value Estimates [FY23E]



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**Note: LIOC's fair value is estimated at LKR 124.0 and a range of LKR 91.0 to LKR 148.0 at an average PER of 7x.*

Global oil prices to ease down amidst fears of recession

The decline in energy prices seen since mid-Jun-22 is expected to continue in the face of weak global economic growth. Oil prices have witnessed significant volatility since Covid-19 outbreak while Russia's invasion of Ukraine has added further uncertainty to markets in 2022. Given the prevailing high fuel prices coupled with inflation and economic downturn, EIA expects fuel demand to decline in the upcoming months which may ease the global oil prices. During the month, global Brent oil has crashed to USD 99.0 per barrel from its recent high of USD 124.0 per barrel. However, with the low oil inventory level, we expect global prices to hover at current levels up until the end of 2022E. However, reduced exports of refined petroleum products from Russia due to less global refining capacity and extended Covid-19 restrictions in China have dampened the available supply of refined petroleum products and have led to higher retail prices for gasoline and diesel fuel.

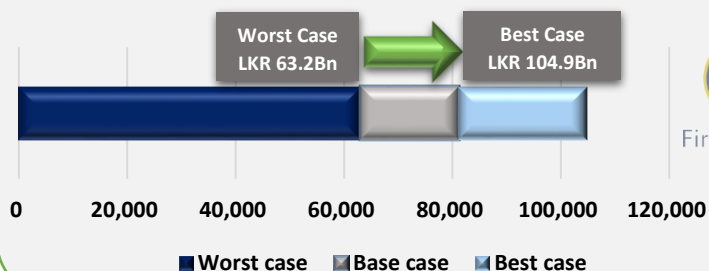
Impact to LIOC

Historically, LIOC's margins have been impacted by the volatility in global crude oil prices, losses incurred pre implementation of fuel price revision formula and LKR depreciation. Thus, developments in the global crude oil and domestic petroleum industry are crucial elements in determining LIOC's prospects. We expect LIOC margins to be stable in the forthcoming quarters as we expect global refined oil prices to remain at the 1Q2022 level until the end of 2023E. Moreover, the upward price revision has been positively reflected in LIOC's latest quarter (4QFY22) bottom line where the company has recorded an abnormal profit as inventory purchased at a lower cost has been sold at a higher price. Considering the healthy relationship with suppliers, strong order book and augmented inflow from other segments we believe LIOC to continue to expand its revenue while maintaining profit margins in FY23E.

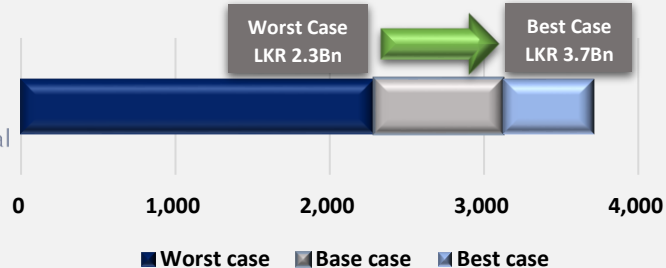
*Positive Outlook

LIOC expects to obtain 50 to 60 sheds of CPC and currently awaiting for an approval from the Ministry of Power and Energy. The potential acquisition may provide nearly 25% upside in the topline where the total fuel market share of LIOC is also expected to increase by another 5%-6% by the end of FY23E. (Market share in 2021- c.20%)

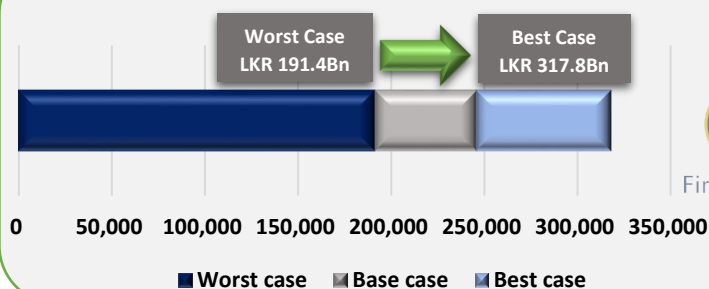
1QFY23E Revenue



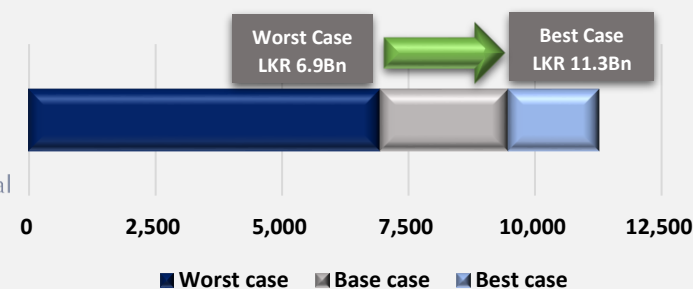
1QFY23E Profitability



FY23E Full Year Revenue



FY23E Full Year Profitability



Peer Comparison - Global

Company	Country	Mkt Cap (LKR' Bn)	Enterprise Value (Bn)	D/E	ROE	P/E	P/B
Lanka IOC PLC	Sri Lanka	38.28	41.73	106.51	21.8%	7.94	1.58
Hengyuan Refining Co Bhd	Malaysia	99.92	144.54	73.77	5.5%	10.78	0.62
Par Pacific Holdings Inc	USA	335.33	582.66	779.99	-77.7%	N/A	7.37
Esso Thailand PCL	Thailand	386.18	666.96	132.71	35.7%	5.15	1.54
Bangchak Corp PLC	Thailand	442.02	1,055.17	110.58	21.2%	4.51	0.87
IRPC PCL	Thailand	647.40	1,042.58	66.76	12.4%	6.28	0.73
Thai Oil PCL	Thailand	1,031.52	2,558.84	157.24	13.6%	6.31	0.81
Hindustan Petroleum Corp Ltd	India	1,508.02	3,168.24	117.13	18.4%	4.55	0.80
Ampol Ltd	Australia	1,940.08	2,230.81	67.63	18.6%	14.33	2.60
S-Oil Corp	South Korea	2,836.14	4,049.07	84.04	27.6%	5.58	1.36
Bharat Petroleum Corp Ltd	India	3,053.46	5,294.12	124.33	22.2%	5.62	1.27

Price revision of LIOC Fuels in 2022

	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
Octane 92 Petrol	177.0	184.0	254.0	338.0	420.0	470.0	450.0
Auto Diesel	121.0	124.0	214.0	289.0	400.0	460.0	440.0



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