



CHEVRON LUBRICANTS PLC [LLUB.N0000]

TRADING BUY

Company Profile

- Operating in an oligopoly with 22 players in the industry, Chevron Lubricants (LLUB) is the market leader for lubricants in Sri Lanka with a market share of +50%. LLUB's Sri Lankan operations mainly consist of Retail Segment (contributes c. 70% to total volumes), Commercial & Industrial segment, and exports segment which caters lubricants to Maldives and Bangladesh markets. LLUB which manufactures +90% of their products locally at its blending plant located at Lindel Estate, Sapugaskanda, markets and distributes their products under the brands of Texaco, Chevron and Caltex.

Earnings Update

- LLUB reported a net income growth of 82.1%YoY to LKR 840.0Mn for 2Q2022, backed by strong performance in revenue (+123.5%YoY) and improved margins (GP Margin improved by 1,083bpsYoY to 46.6%). The strong revenue performance during 2Q2022 was largely attributable to increased volumes, which grew as a result of LLUB's strong distribution network and aggressive marketing campaigns. Given the tough operating climate, coupled with limited availability of competitor products (partly owing to import restrictions), LLUB managed to increase its market share to c. 53% during 1Q2022. Moreover, despite the significant increase in global oil prices and thus input costs, price revisions made since 2021 enabled LLUB to expand margins during the concerned quarter.

Global Outlook

- Global Brent oil prices had soared significantly and hit a recent high of USD 128.0 per barrel in Mar-22, on account of supply chain disruptions due to Ukraine and Russia war. However, in recent times, global crude oil prices have been gradually declining amid fears of a possible recession in the global economy followed by aggressive monetary policy tightening by central banks.

Future Outlook

- Given the prevailing FX crisis, we expect the government to continue its position on vehicle import restrictions for the foreseeable future. This is expected to positively impact LLUB, backed by relatively shorter oil drain intervals compared to new vehicles. However, limited travel prompted by significantly high fuel prices and shortages of available fuel is expected to cause headwinds to demand growth.
- With the expectation of SL reaching a staff level agreement with IMF towards the latter part of August and reaching a board level agreement by end of December 2022, we expect a robust recovery in tourist arrivals and reach pre-pandemic level by 2025E. The volumes are expected to bounce back with increased demand from inbound tour operators and related ancillary industries.
- Competition is expected to be limited in the near term due to limited operations at CPC blending facilities due to FX crisis and importing of crude oil. Limited operations at CPC blending plant during the past few months resulted in limited availability of CPC lubricant products in the market. This enabled LLUB to recapture lost market share from CPC and increase volumes during 2Q2022. Further, with the expectation that present crisis will prevail in 2022 and 1H2023, we expect LLUB to increase volumes as mobility recovers in the country.

Valuations

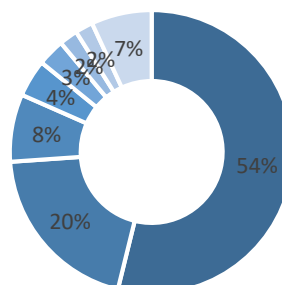
- Trading at 4Q trailing PE of 6.2x LLUB share is currently at a premium of c. 20% to the material sector PE of 5.2x. However, given the +53% of market share of LLUB and incremental volumes expected from reduced drain intervals due to the use of reconditioned vehicles, recovery in tourism, recovery in mobility, and limited availability of imported products and limited availability of CPC products, we believe LLUB should reiterate and trade at a higher multiple. Further, LLUB also offers a very attractive dividend yield of 13.7% with a payout of 80%, which also support an argument for a higher trading multiple. Therefore, considering the potential volume growth and attractive dividend yield, we rate the share **TRADING BUY**.

YE Dec/LKR Mn	2017	2018	2019	2020	2021
Estimates (LKR 'Mn)					
Revenue	11,052	10,861	11,856	11,637	16,866
Gross profit	4,741	4,092	4,435	4,617	6,178
EBIT	3,406	2,743	2,917	3,036	4,363
Net Profit	2,565	1,992	2,099	2,226	3,926
Adjusted EPS (LKR)	10.7	8.3	8.7	9.3	16.4
YoY Growth (%)	-26%	-22%	5%	6%	76%
Valuations					
PER (x)	8.9x	11.4x	10.8x	10.2x	5.8x
PBV (x)	5.7x	5.8x	5.5x	5.4x	4.5x
DPS	12.3	8.8	7.8	9.0	13.0
DY (%)	12.9%	9.2%	8.2%	9.5%	13.7%
Dividend Payout (%)	114.6%	105.4%	88.6%	97.0%	79.5%
NAVPS	16.7	16.3	17.2	17.4	20.8

YE Dec/LKR Mn	2Q2022	2Q2021	YoY	6M2022	6M2021	YoY
Revenue	6,174.2	2,762.2	123.5%	13,875.6	7,115.5	95.0%
Gross Profit	2,877.9	988.3	191.2%	6,193.9	2,822.9	119.4%
EBIT	2,128.7	578.8	267.8%	4,873.5	2,007.5	142.8%
PBT	1,026.6	572.6	79.3%	2,187.5	1,966.0	11.3%
Net Profit	840.0	461.2	82.1%	1,782.8	2,000.1	-10.9%

YE Dec/LKR Mn	3Q2021	4Q2021	1Q2022	2Q2022	QoQ
Revenue	5,195.9	4,554.9	7,701.4	6,174.2	-19.8%
Gross Profit	1,742.0	1,613.5	3,315.9	2,877.9	-13.2%
EBIT	1,270.1	1,085.6	2,744.8	2,128.7	-22.4%
Net Profit	1,019.8	906.2	942.8	840.0	-10.9%

Lubricant market share 1Q2022



- Chevron Ceylon Limited
- Indian Oil Corporation Limited
- ExxonMobil Asia Pacific Pte. Limited.
- Laugfs Holdings Limited
- Toyota Tsusho Corporation
- BP Middle East LLC
- Valvoline LLC
- Other

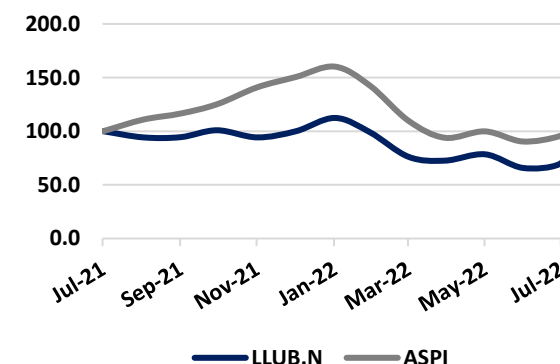
KEY DATA

CSE Ticker	LLUB.N0000
Bloomberg Ticker	LLUB SL
Share Price (LKR)	94.7
52w High (LKR)	135.5
52w Low (LKR)	65.2
Issued Share Capital (Shares 'Mn)	240.0
Market Cap (LKR 'Mn)	22,728
Market Cap (USD 'Mn)	63

*1 USD = LKR 360.0

Price Performance (%)	1 mth	3 mths	12mths
LLUB	31%	18%	-15%
ASPI	15%	12%	4%

Price movement of LLUB vs ASPI (indexed and rebased to 100)



Source: CSE

Top 5 shareholders (30th June 2022)

CHEVRON CEYLON LIMITED	51.0%
BNYM RE-BARCA GLOBAL MASTER FUND LP	5.4%
RENUKA HOTELS PLC	2.2%
SSBT-CHANGE GLOBAL FRONTIER MARKETS,LP	2.1%
CARGO BOAT DEVELOPMENT COMPANY PLC	1.4%



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