



# LANKA IOC PLC [LIOC.N0000]

**MAINTAIN BUY**

## “PROMISING GROWTH STORY ON THE CARDS”

**Fair Value: FY23E - LKR 275.0 [+50%] FY24E - LKR 300.0 [+63%]**

Total Return with DPS: FY23E - 61% [AER 214%] FY24E - 76% [AER 49%]

LIOC delivered another remarkable earnings growth of over 100%YoY in 2QFY23 mainly driven by the significant growth in top-line (+326.8%YoY) owing to the high fuel prices prevailed during the quarter. Moreover, the implementation of the fuel pricing formula and the improvement in sales volume by 24.6%YoY to 160,468MT amidst the contract sales with export industries further aided the growth. Meanwhile, being the market leader (30% market share) in the bunkering segment, LIOC continued to witness robust performance supported by the steep devaluation of LKR and growth in port activity. Hence, considering the positive outlook of fuel station expansion and the commission of a new grease plant, we maintain the fair value for FY23E at LKR 275.0 and for FY24E at LKR 300.0. Since our previous report on LIOC, which was published in Aug 22, price appreciated substantially reaching our FV for FY23E (LKR 275.0) on 20th Sep-22 providing a return of 110.0%. However, after reaching an all-time high of LKR 296.0, LIOC displayed a significant fall in value. **MAINTAIN BUY**

LKR (Mn)	2QFY22	2QFY23	YoY	1HFY22	1HFY23	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	20,607	87,960	+327%	37,470	137,894	+268%
Gross profit	1,080	16,293	+1409%	1,940	31,783	+1539%
EBIT	268	14,194	+5191%	346	27,446	+7822%
PBT	313	14,549	+4545%	620	26,446	+4164%
Net Profit	282	12,356	+4289%	555	22,283	+3917%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholders' Equity	20,478	45,371	+122%	20,478	45,371	+122%
Borrowings	19,386	9,282	-52%	19,386	9,282	-52%
NAVPS	38.5	85.2		38.5	85.2	

**LIOC recorded highest quarterly revenue of LKR 88.0Bn aided by Fuel and Bunkering segments**  
LIOC continued to deliver robust performance for 2QFY23 where the earnings reported a significant growth of 4,288.7%YoY to LKR 12.4Bn. Profit growth was mainly attributable to the steep increase in revenue by 326.8%YoY to LKR 88.0Bn as the local fuel prices continued to remain at a higher level where no significant downward price revisions were applied during the quarter. Meanwhile, despite the restriction on volume due to the implementation of the QR system, sales volume depicts an improvement of 24.6%YoY to 160,468MT amidst the contract sales of diesel to export industries in terms of USD. Although GP margin witnessed a notable improvement of 1,328bps to 18.5% on a YoY basis, it plunged by 1,250bps on a QoQ as the global oil prices continued to remain high during the period which escalated the COS. Bunkering segment contributes c.25% to the group's topline which holds the market leadership with a market share of 30% as LIOC bunkering has an exclusive privilege of supplying bunker oil for both local and foreign vessels at Trincomalee port.

### Finance cost slumps to LKR 194Mn cf. LKR 1.8Bn in 1QFY23

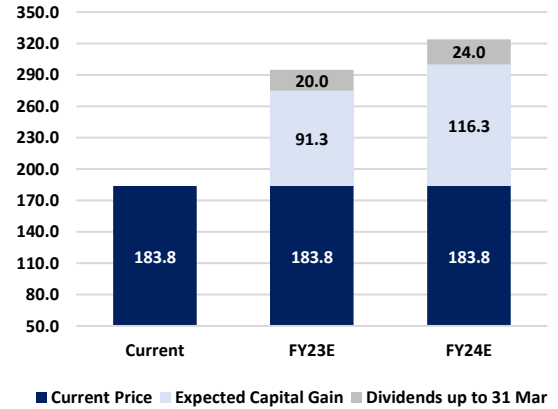
Finance cost for the 2QFY23 has significantly dropped by 89.2%QoQ to LKR 193.6Mn amidst the settlement of borrowings of LKR 18.2Bn during the quarter. In the midst of a high interest rate environment, the management has decided to utilize the portion of earnings to cover the working capital requirement instead of debt as the cost of LKR borrowings has drastically risen to nearly 27.0%.

### Positive outlook across major segments

Prior to the new 50 sheds, LIOC already had 46 sheds on the cards which was not commenced till date (in total 96 sheds). The management of LIOC is in the process of finalizing the proposal for the 86 sheds and expects to start commissioning the first 10 sheds in Dec 2022 where the remaining will be opened monthly (8 to 10 sheds to be opened every month). Hence, we expect the top-line to surge by 25% in the 2HFY23 while the total fuel market share of LIOC is also expected to increase by further 5%. Moreover, the first phase of the redevelopment of the 10 upper oil tanks at Trinco terminal (JV between CPC and LIOC) commenced during the quarter and expect to be operational in about 10 months. The capacity of each tank holds 12,000 tons which provides high storage capacity for bunker that may provide an advantage over the fluctuation of global oil prices. In addition to that, LIOC has commenced commercial operations of Sri Lanka's first grease manufacturing plant in Trincomalee, which has the capacity to produce 3,000MT of grease per annum. Nevertheless, the plant has been operating at only 30% of its capacity and expects to operate at its full in 3 years. The plant is expected to serve Sri Lanka's entire grease requirement (cf. 2,500MT) which was previously imported.

### FV maintained at LKR 275.0 for FY23E and at LKR 300.0 for FY24E

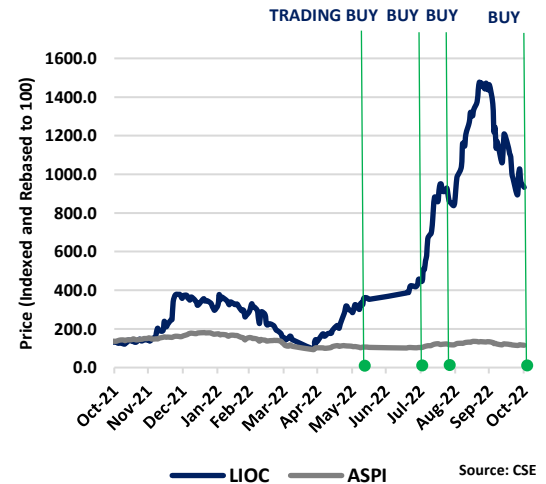
Despite an upward revision in earnings for FY23E to LKR 34.2Bn from the previous forecast of LKR 31.1Bn, we maintain the FV of LIOC at LKR 275.0 for FY23E and at LKR 300.0 for FY24E. At the current market price of LKR 183.75, LIOC is expected to provide an annualized return of 214.0% for FY23E and 49.0% for FY24E. **MAINTAIN BUY**



### FIRST CAPITAL RESEARCH

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



### Minimum Return for BUY:

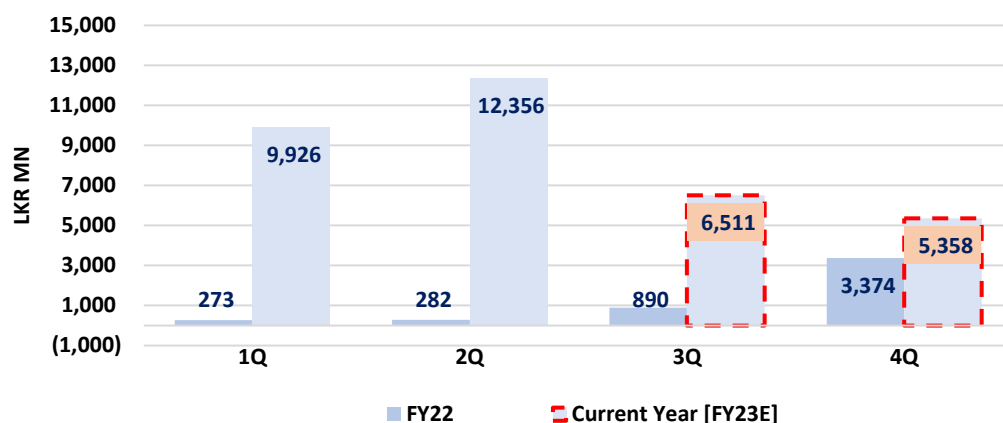
**Buy Below for FY23E [AER of 23.0% with DPS]: LKR 270.0.**  
LIOC categorized as 'Grade B' counter

### 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	May-22	Jul-22	Aug-22	Oct-22
Octane 92 Petrol	420.0	450.0	450.0	370.0
Auto Diesel	400.0	440.0	430.0	415.0

## Quarterly Earnings



## Estimate Revision

In LKR Mn	FY23E-O	FY23E-R	% Change	FY24E-O	FY24E-R	% Change
<b>Earnings Estimate</b>						
Revenue	260,640	280,009	+7%	320,190	325,039	+2%
Profit Before Tax	38,872	43,784	+13%	39,808	44,483	+12%
Net Profit	31,098	34,152	+10%	31,846	32,027	+1%
Adjusted EPS (LKR)	58.4	64.1		59.8	60.1	
YoY Growth (%)	545%	609%		2%	-6%	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	49,956	52,800	+6%	61,515	65,640	+7%
Borrowings	28,356	12,889	-55%	29,774	13,534	-55%
<b>Adjusted NAVPS</b>	<b>93.82</b>	<b>99.16</b>		<b>115.53</b>	<b>123.28</b>	
<b>Ratio Estimate</b>						
<b>ROE (%)</b>	<b>62%</b>	<b>65%</b>		<b>52%</b>	<b>49%</b>	
<b>PER (x)</b>	<b>2.2</b>	<b>2.9</b>		<b>2.2</b>	<b>3.1</b>	
<b>PBV (x)</b>	<b>1.4</b>	<b>1.9</b>		<b>1.1</b>	<b>1.5</b>	

## Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Estimates (LKR 'Mn)</b>							
Revenue	86,322	81,947	66,686	89,951	280,009	325,039	380,394
Gross profit	4,133	4,106	3,113	8,845	52,673	54,040	56,820
EBIT	854	635	161	5,410	44,373	45,039	46,269
<b>Net Profit</b>	<b>403</b>	<b>422</b>	<b>883</b>	<b>4,818</b>	<b>34,152</b>	<b>32,027</b>	<b>33,028</b>
<b>Basic EPS (LKR)</b>	<b>0.8</b>	<b>0.8</b>	<b>1.7</b>	<b>9.0</b>	<b>64.1</b>	<b>60.1</b>	<b>62.0</b>
YoY Growth (%)	-154%	5%	109%	446%	609%	-6%	3%
<b>Valuations</b>							
<b>PER (x)</b>	<b>242.5</b>	<b>232.0</b>	<b>110.9</b>	<b>20.3</b>	<b>2.9</b>	<b>3.1</b>	<b>3.0</b>
<b>PBV (x)</b>	<b>5.0</b>	<b>5.0</b>	<b>4.9</b>	<b>4.0</b>	<b>1.9</b>	<b>1.5</b>	<b>1.3</b>
<b>Dividend Yield (%)</b>	<b>0.4%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>1.2%</b>	<b>10.9%</b>	<b>13.1%</b>	<b>13.3%</b>
NAVPS	36.5	36.5	37.4	45.6	99.2	123.3	143.3
DPS (LKR)	0.8	0.8	0.9	2.3	20.0	24.0	24.5
Dividend Payout	99%	95%	51%	25%	31%	40%	39%

## Valuation Summary

Expected LIOC price	FY23E	FY24E
PER based target price	288.6	300.7
DCF Valuation based target price	268.6	307.3
Average Target Price	278.6	304.0
Target price after Rounding off	275.0	300.0

Return	FY23E	FY24E
Target Price	275.0	300.0
Current Price	183.8	183.8
Capital Gain (LKR)	91.25	116.25
Dividends upto 31 Mar (LKR)	20.00	24.00
Capital Gain %	50%	63%
Dividend Yield %	11%	13%
<b>Total Return %</b>	<b>61%</b>	<b>76%</b>
Annualized Return %	214%	49%

## Discounted Cash flow Valuation

DCF based Valuation	FY23E	FY24E
Enterprise Value	150,859	171,781
(-) Debt	(12,889)	(13,534)
(+) Cash	5,070	5,360
Total Value of Equity	143,040	163,607
No. of shares	532	532
Target Price	269	307

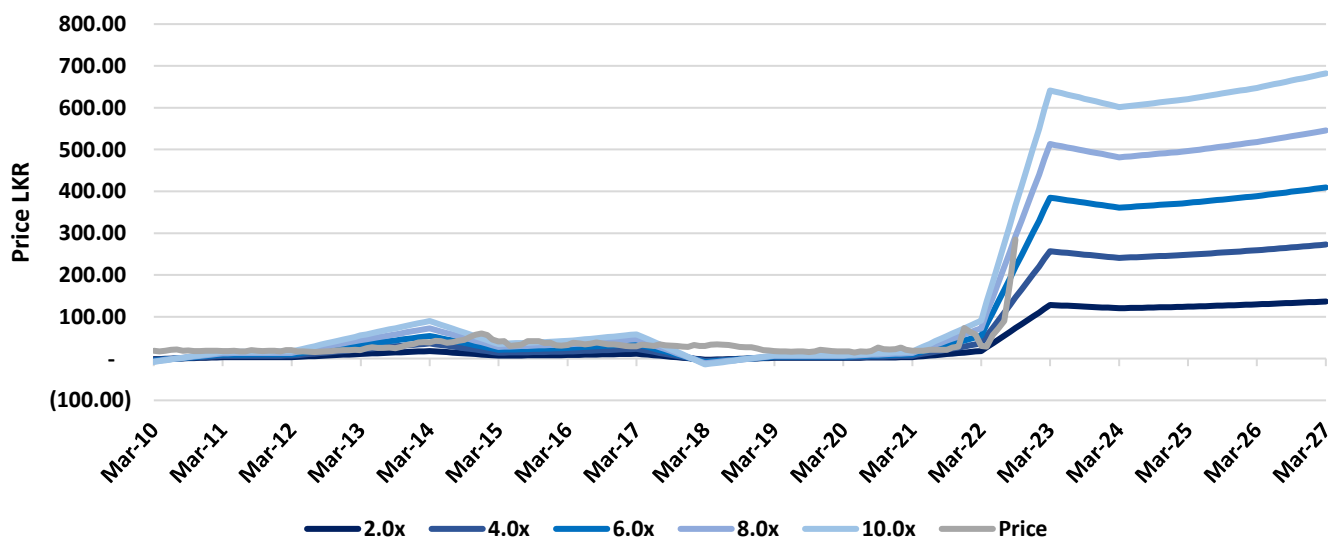
COE	FY23E	FY24E
$R_f$	15.0%	15.0%
$R_m$	23%	23%
Growth %	3%	3%
$\beta$	2.00	2.00
$K_e = R_f + \beta (R_m - R_f)$	31%	31%

## PER Valuation

PER based Valuation	FY23E	FY24E
Earnings (LKR 'Mn)	34,152	32,027
No. of Shares ('Mn)	532	532
EPS	64.1	60.1
Expected Average PER	4.5x	5.0x
Target Price	289	301

WACC	FY23E	FY24E
$K_e$	31%	31%
$K_d$ (Post Tax)	15%	14%
D/E Assumption	30 / 70	30 / 70
Terminal Growth (%)	3%	3%
<b>WACC</b>	<b>25%</b>	<b>24%</b>

## PER Chart



## Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>P/E 31st Mar</b>							
Revenue	86,322	81,947	66,686	89,951	280,009	325,039	380,394
Cost of Sales	-82,189	-77,841	-63,573	-81,107	-227,335	-270,999	-323,574
<b>Gross Profit</b>	<b>4,133</b>	<b>4,106</b>	<b>3,113</b>	<b>8,845</b>	<b>52,673</b>	<b>54,040</b>	<b>56,820</b>
Other Operating Income / (Expense)	190	83	252	116	100	100	100
Administrative Expenses	-1,432	-1,505	-1,401	-1,639	-2,800	-3,250	-3,804
Selling and Distribution Expenses	-2,037	-2,049	-1,803	-1,912	-5,600	-5,851	-6,847
<b>Operating Profit</b>	<b>854</b>	<b>635</b>	<b>161</b>	<b>5,410</b>	<b>44,373</b>	<b>45,039</b>	<b>46,269</b>
Finance Income	430	942	1,303	1,364	1,989	1,880	2,162
Finance Expenses	-953	-978	-476	-1,162	-2,578	-2,436	-2,558
<b>Profit Before Taxation</b>	<b>331</b>	<b>599</b>	<b>988</b>	<b>5,612</b>	<b>43,784</b>	<b>44,483</b>	<b>45,873</b>
Income Tax Expense	73	-177	-105	-793	-9,633	-12,455	-12,844
<b>Profit for the Year</b>	<b>403</b>	<b>422</b>	<b>883</b>	<b>4,818</b>	<b>34,152</b>	<b>32,027</b>	<b>33,028</b>
EPS	0.8	0.8	1.7	9.0	64.1	60.1	62.0

## Appendix III: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>as at 31st Mar</b>							
<b>ASSETS</b>							
<b>Non Current Assets</b>							
Property, Plant and Equipment	4,294	4,113	4,019	3,857	4,255	4,242	4,311
Investment	4,394	4,394	4,394	4,394	4,394	4,394	4,394
TPTL Investment	-	-	-	49	49	49	49
Intangible Assets	675	675	674	674	674	674	674
Right -of-use Assets	-	91	63	80	80	80	80
Other Receivables at Amortized Cost	127	149	119	142	142	142	142
Bank Deposits	-	-	10,222	1,462	1,430	10,220	10,220
Deferred Tax Asset (Net)	203	189	261	-	-	-	-
	<b>9,694</b>	<b>9,610</b>	<b>19,753</b>	<b>10,658</b>	<b>11,023</b>	<b>19,801</b>	<b>19,869</b>
<b>Current Assets</b>							
Inventories	13,996	13,295	9,625	27,257	39,201	45,505	52,320
Trade Receivables	3,267	3,568	2,585	4,741	5,600	4,876	5,706
Other Receivables at Amortized Cost	-	323	1,707	-	-	-	-
Other Current Assets	-	65	79	-	-	-	-
Income Tax Receivables	342	186	18	-	-	-	-
Short Term Investments	673	12,660	12,041	19,892	24,865	26,854	30,882
Cash and Bank Balances	272	51	599	2,524	5,070	5,360	3,637
	<b>18,551</b>	<b>30,149</b>	<b>26,654</b>	<b>54,413</b>	<b>74,736</b>	<b>82,595</b>	<b>92,545</b>
<b>Total Assets</b>	<b>28,245</b>	<b>39,760</b>	<b>46,407</b>	<b>65,071</b>	<b>85,760</b>	<b>102,396</b>	<b>112,414</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Stated Capital	7,577	7,577	7,577	7,577	7,577	7,577	7,577
Retained Earnings	11,851	11,870	12,347	16,709	45,223	58,064	68,705
<b>Total Equity</b>	<b>19,427</b>	<b>19,446</b>	<b>19,924</b>	<b>24,286</b>	<b>52,800</b>	<b>65,640</b>	<b>76,281</b>
<b>Non Current Liabilities</b>							
Defined Benefit Obligation (Net)	7	11	14	12	12	12	12
Right -of-use Lease Liability	-	63	38	46	46	46	46
Deferred Tax Liability	-	-	-	380	380	380	380
	<b>7</b>	<b>74</b>	<b>52</b>	<b>438</b>	<b>438</b>	<b>438</b>	<b>438</b>
<b>Current Liabilities</b>							
Trade and Other Payables	6,484	3,251	5,808	14,504	19,601	22,753	21,453
Right -of-use Lease Liability	-	34	33	42	32	32	32
Interest Bearing Borrowings	2,327	16,955	20,590	25,778	12,889	13,534	14,210
Income Tax Payable	-	-	-	22	-	-	-
	<b>8,811</b>	<b>20,239</b>	<b>26,431</b>	<b>40,347</b>	<b>32,522</b>	<b>36,318</b>	<b>35,695</b>
<b>Total Equity and Liabilities</b>	<b>28,245</b>	<b>39,760</b>	<b>46,407</b>	<b>65,071</b>	<b>85,760</b>	<b>102,396</b>	<b>112,414</b>
<b>NAVPS</b>	<b>36.5</b>	<b>36.5</b>	<b>37.4</b>	<b>45.6</b>	<b>99.2</b>	<b>123.3</b>	<b>143.3</b>



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