



LANKA IOC PLC [LIOC.N0000]

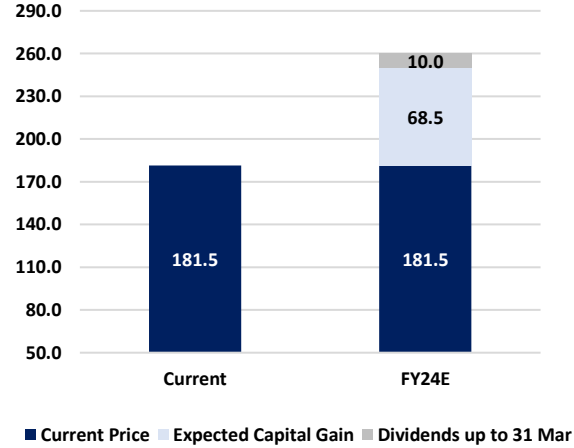
MAINTAIN BUY

“FUELING UP FOR A SUSTAINABLE GROWTH”

Fair Value: FY24E - LKR 250.0 [+38%]

Total Return with DPS: FY24E - 43% [AER 40%]

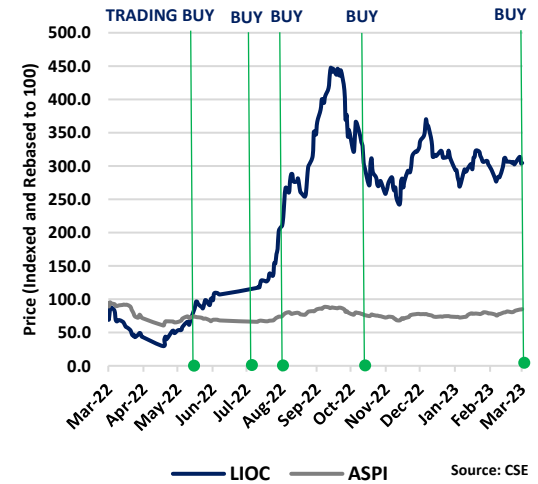
LIOC earnings for 3QFY23 recorded at LKR 8,233.2Mn striking a growth of 825.5%YoY compared to LKR 889.6Mn recorded in 3QFY22 driven by the steep rise in top-line by 225.6%YoY aided by fuel pricing formula. Accordingly, GP margin notably improved by 782bps to 16.0% owing to the gradual decline in global oil prices during the quarter. However, operating and finance expenses escalated by 206.1% and 104.2%, respectively, on the back of inflated costs and significant rise in interest rates. 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. Hence, considering the positive outlook of fuel station expansion, refurbishment of oil tanks, the commission of a new grease plant and the tax and excise duty hike, we have estimated an earnings target for FY24E to LKR 26.8Bn. On the backdrop of the revision of earnings forecast and higher risk-free rate applicable for valuations in the midst of high interest environment, we have downgraded the fair value of LIOC for FY24E to LKR 250.0. At a current market price of LKR 181.5, LIOC provides a capital gain of 38.0% for FY24E. Hence, given the strong upside and positive outlook of the company, we have maintained our recommendation at **MAINTAIN BUY**



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LKR (Mn)	3QFY22	3QFY23	YoY	9MFY22	9MFY23	YoY
Earnings (LKR 'Mn)						
Revenue	22,993	74,872	+226%	60,464	212,766	+252%
Gross profit	1,892	12,013	+535%	3,831	43,797	+1043%
EBIT	980	9,163	+835%	1,327	36,610	+2659%
PBT	1,035	9,724	+840%	1,655	36,169	+2085%
Net Profit	890	8,233	+826%	1,444	30,516	+2013%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	20,915	53,604	+156%	20,915	53,604	+156%
Borrowings	21,556	10,526	-51%	21,556	10,526	-51%
NAVPS	39.3	100.7		39.3	100.7	

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



Topline magnified by 225.6%YoY backed by the fuel pricing formula

LIOC continued to remain resilient and recorded earnings of LKR 8.2Bn (+825.5%YoY) in 3QFY23 amidst the strong topline growth. Accordingly, revenue surged by 225.6%YoY to LKR 74.9Bn (-14.9%QoQ) as sales volume depicted an improvement of 19.1%YoY to 158,162MT on the back of improved consumer demand with the fuel price deduction. Moreover, volume growth witnessed during the quarter was also supported by the implementation of multiple downward price revisions (Octane 92 and Auto Diesel were revised down by 18% and 2%, respectively). Meanwhile, GP margin maintained at 16.0% in 3QFY23, as the global Brent oil prices displayed significant volatility and fell up to USD 76.6 per barrel in Dec 2022. Accordingly, on a YoY basis, GP margin expanded by 782bps (QoQ -248bps). Meanwhile, with the continuation of vehicle import ban and economic crisis, lubricant segment faced challenges during the quarter. However, we expect the lubricant market to recover in the upcoming period with a recovery in demand from the thermal energy generating sector as the government decided to impose no power outages following the electricity tariff hike and is likely to heavily rely on diesel and other fossil fuels to ensure 24/7 electricity island-wide. Meanwhile, considering the increase in excise duty to LKR 52.0 and LKR 31.0 imposed on fuel and Diesel and the possible fuel price stabilization ahead, we have estimated LIOC to record a revenue of LKR 36.8Bn in FY23E and LKR 26.8Bn in FY24E.

Decline in global oil prices to support higher stockpiling

LIOC's inventory level surged by 8.1%QoQ to LKR 38.8Bn as the global Brent oil price has crashed to USD 76.6 per barrel in Dec 2022 from its recent high of USD 102.9 per barrel recorded in Aug 2022 (Diesel Singapore Platts Price crashed down by 36.5%QoQ to USD 105.3 in Dec 2022) due to the economic slowdown which dampened the global energy demand. This has directly benefitted LIOC to lock inventory at a lower cost for future use. Meanwhile, efficiency in inventory management and a lower premium incurred per litre of imported fuel would also allow LIOC to maintain profitability at a higher level compared to CPC.

Minimum Return for BUY:
Buy Below for FY23E [AER of 23.0% with DPS]: LKR 198.5.
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	Aug-22	Oct-22	Dec-22	Jan-23	Feb-23	Mar-23
Octane 92 Petrol	450.0	370.0	370.0	370.0	400.0	400.0
Auto Diesel	430.0	415.0	420.0	405.0	405.0	405.0

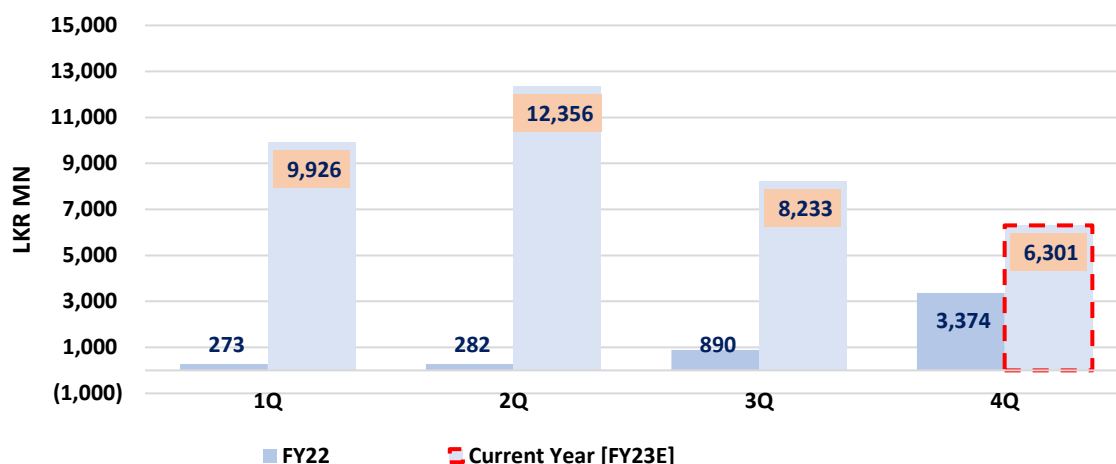
Promising outlook ahead

As intended, LIOC commissioned 25 new sheds in Jan 2023 and expects to open the remaining 71 sheds on a monthly basis (8 to 10 sheds to be opened every month). The newly opened sheds are expected to be fully operational by mid-Mar 2023 with the delivery of 120 dispensing units from India. Moreover, the health assessment was completed for the 7 tanks out of 10 at the Trincomalee Oil Tank Farm while phase 1 is expected to be completed in 2023 which costs around USD 15-20Mn. The capacity of each tank holds 12,000 tonnes which provide high storage capacity for bunker that may provide an advantage over the fluctuation of global oil prices. In addition to that, the 3,000MT capacity grease plant commissioned by LIOC in 2QFY23 has more-than-sufficient capacity to fulfil the country’s requirement (cf. 2,500MT). As a result, the excess capacity would be utilized by the company to increase its export volumes. Nevertheless, the plant has been operating at only 30% of its capacity and expects to operate at its full in 3 years. We anticipate that the government may review the import ban on vehicles in the coming months after securing the IMF bailout, as a result, lubricant market is high likely to record substantial growth in volumes.

FV estimated at LKR 250.0 for FY24E – BUY

Considering the resilience in key revenue streams and strong growth outlook of the industry mainly after finalizing the IMF bailout, we estimated LIOC’s earnings for FY24E at LKR 26.8Bn. Considering the impact of higher risk-free rate applicable for valuations, we have rolled down our fair value to LKR 250.0 for FY24E and at a current market price of LKR 181.5, it is expected to provide an annualized return of 40% for FY24E **MAINTAIN BUY.**

Quarterly Earnings



Estimate Revision

In LKR Mn	FY23E-O	FY23E-R	% Change	FY24E-O	FY24E-R	% Change
Earnings Estimate						
Revenue	280,009	284,234	+2%	325,039	317,685	-2%
Profit Before Tax	43,784	46,021	+5%	44,483	38,224	-14%
Net Profit	34,152	36,817	+8%	32,027	26,757	-16%
Adjusted EPS (LKR)	64.1	69.1		60.1	50.3	
YoY Growth (%)	609%	664%		-6%	-27%	
Balance Sheet Estimate						
Shareholders' Equity	52,800	58,064	+10%	65,640	64,967	-1%
Borrowings	12,889	11,600	-10%	13,534	12,180	-10%
Adjusted NAVPS	99.2	109.0		123.3	122.0	
Ratio Estimate						
ROE (%)	65%	63%		49%	41%	
PER (x)	2.8	2.6		3.0	3.6	
PBV (x)	1.8	1.7		1.5	1.5	

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)							
Revenue	86,322	81,947	66,686	89,951	284,234	317,685	372,742
Gross profit	4,133	4,106	3,113	8,845	55,200	45,126	48,888
EBIT	854	635	161	5,410	46,062	38,554	42,651
Net Profit	403	422	883	4,818	36,817	26,757	30,077
Basic EPS (LKR)	0.8	0.8	1.7	9.0	69.1	50.3	56.5
YoY Growth (%)	-154%	5%	109%	446%	664%	-27%	12%
Valuations							
PER (x)	239.6	229.1	109.5	20.1	2.6	3.6	3.2
PBV (x)	5.0	5.0	4.9	4.0	1.7	1.5	1.3
Dividend Yield (%)	0.4%	0.4%	0.5%	1.2%	5.8%	5.5%	7.7%
NAVPS	36.5	36.5	37.4	45.6	109.0	122.0	139.4
DPS (LKR)	0.8	0.8	0.9	2.3	10.5	10.0	14.0
Dividend Payout	99%	95%	51%	25%	15%	20%	25%

Valuation Summary

Expected LIOC price	FY24E
PER based target price	251.3
DCF Valuation based target price	246.3
Average Target Price	248.8
Target price after Rounding off	250.0

Return	FY24E
Target Price	250.0
Current Price	181.5
Capital Gain (LKR)	68.50
Dividends upto 31 Mar (LKR)	10.00
Capital Gain %	38%
Dividend Yield %	6%
Total Return %	43%
Annualized Return %	40%

Discounted Cash flow Valuation

DCF based Valuation	FY24E
Enterprise Value	140,146
(-) Debt	(12,180)
(+) Cash	3,158
Total Value of Equity	131,123
No. of shares	532
Target Price	246

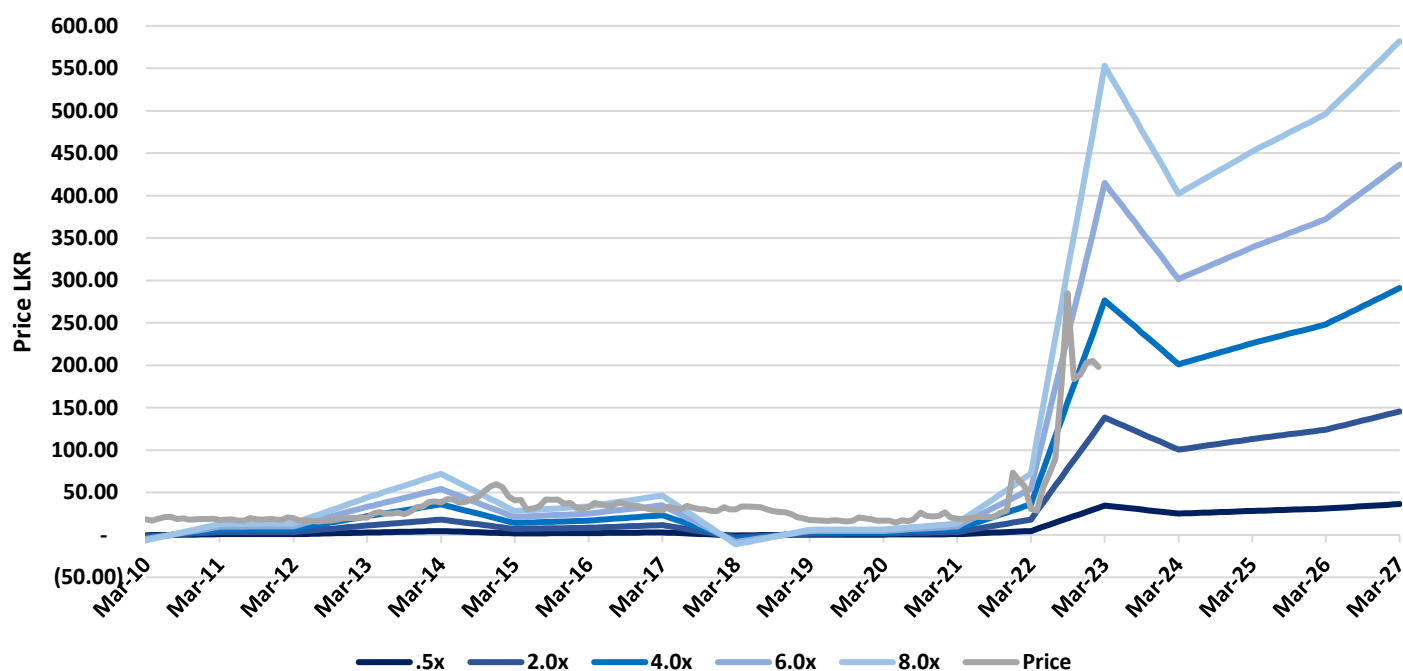
COE	FY24E
R _f	21.0%
R _m	29%
Growth %	3%
β	1.9
$K_e = R_f + \beta (R_m - R_f)$	36%

PER Valuation

PER based Valuation	FY24E
Earnings (LKR 'Mn)	26,757
No. of Shares ('Mn)	532
EPS	50.3
Expected Average PER	5.0x
Target Price	251

WACC	FY24E
Ke	36%
Kd (Post Tax)	14%
D/E Assumption	30 / 70
Terminal Growth (%)	3%
WACC	27%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
P/E 31st Mar							
Revenue	86,322	81,947	66,686	89,951	284,234	317,685	372,742
Cost of Sales	-82,189	-77,841	-63,573	-81,107	-229,034	-272,560	-323,855
Gross Profit	4,133	4,106	3,113	8,845	55,200	45,126	48,888
Other Operating Income / (Expense)	190	83	252	116	100	100	100
Administrative Expenses	-1,432	-1,505	-1,401	-1,639	-2,984	-1,906	-2,236
Selling and Distribution Expenses	-2,037	-2,049	-1,803	-1,912	-6,253	-4,765	-4,100
Operating Profit	854	635	161	5,410	46,062	38,554	42,651
Finance Income	430	942	1,303	1,364	2,859	1,862	2,235
Finance Expenses	-953	-978	-476	-1,162	-2,900	-2,192	-1,918
Profit Before Taxation	331	599	988	5,612	46,021	38,224	42,967
Income Tax Expense	73	-177	-105	-793	-9,204	-11,467	-12,890
Profit for the Year	403	422	883	4,818	36,817	26,757	30,077
EPS	0.8	0.8	1.7	9.0	69.1	50.3	56.5

Appendix III: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
as at 31st Mar							
ASSETS							
Non Current Assets							
Property, Plant and Equipment	4,294	4,113	4,019	3,857	4,255	5,422	5,872
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	-	-	-
Deferred Tax Asset (Net)	203	189	261	-	-	-	-
	9,694	9,610	19,753	10,658	9,593	10,761	11,211
Current Assets							
Inventories	13,996	13,295	9,625	27,257	39,793	44,476	52,320
Trade Receivables	3,267	3,568	2,585	4,741	7,106	4,765	5,591
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	26,605	27,083
Cash and Bank Balances	272	51	599	2,524	5,908	3,158	2,551
	18,551	30,149	26,654	54,413	77,671	79,004	87,546
Total Assets	28,245	39,760	46,407	65,071	87,264	89,765	98,756
EQUITY AND LIABILITIES							
Stated Capital							
Stated Capital	7,577	7,577	7,577	7,577	7,577	7,577	7,577
Retained Earnings							
Retained Earnings	11,851	11,870	12,347	16,709	50,487	57,391	66,662
Total Equity	19,427	19,446	19,924	24,286	58,064	64,967	74,238
Non Current Liabilities							
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	457	457	457
	7	74	52	438	514	514	514
Current Liabilities							
Trade and Other Payables	6,484	3,251	5,808	14,504	17,054	12,072	11,182
Right -of-use Lease Liability	-	34	33	42	32	32	32
Interest Bearing Borrowings	2,327	16,955	20,590	25,778	11,600	12,180	12,789
Income Tax Payable	-	-	-	22	-	-	-
	8,811	20,239	26,431	40,347	28,686	24,284	24,003
Total Equity and Liabilities	28,245	39,760	46,407	65,071	87,264	89,766	98,756
NAVPS	36.5	36.5	37.4	45.6	109.0	122.0	139.4



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