



LANKA IOC PLC [LIOC.N0000]

FLASH NOTE

MAINTAIN BUY

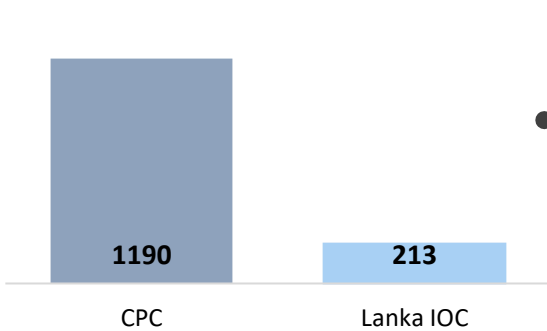
LIBERALIZATION OF THE SRI LANKAN FUEL RETAIL MARKET

FIRST CAPITAL RESEARCH

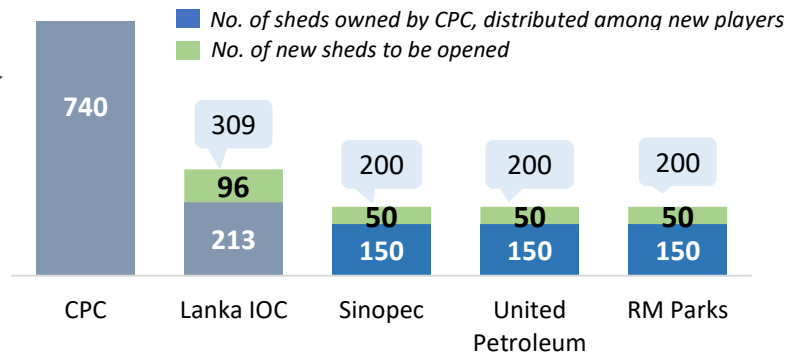
LIOC Fair Value [FY24E]: LKR 250.0 [+53%]

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

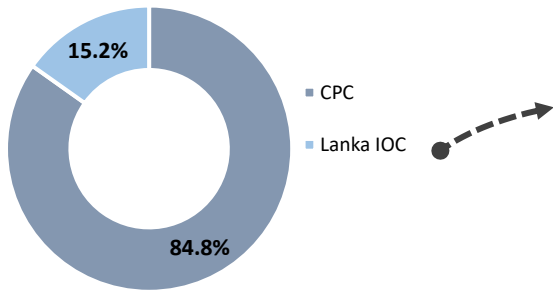
No. of sheds: Pre-liberalization of the fuel market



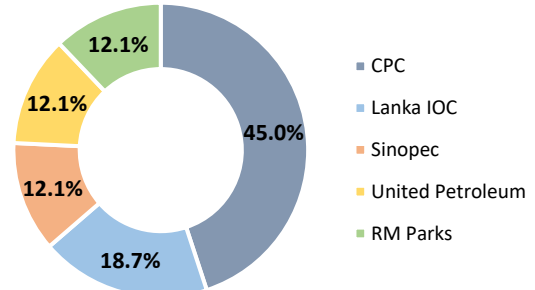
No. of sheds: Post-liberalization of the fuel market



Market share in terms of no. of sheds Pre-liberalization



Market share in terms of no. of sheds Post-liberalization



New players entering into fuel retail market in Sri Lanka

- In 2022, the cabinet decided to open up the retail market to new players amidst the inflated fuel and forex crisis in the country. Accordingly, the Cabinet approval was granted on 27th Mar 2023, to award licenses to three foreign entities from China, Australia and USA; China's Sinopec, United Petroleum of Australia and RM Parks of USA have collaborated with Shell PLC to enter the local fuel retail market in Sri Lanka. The licenses are to be granted to operate for 20-years to import, store, distribute and sell petroleum products in the country. Each of the companies will be allocated 150 fuel stations which are currently operated by the Ceylon Petroleum Corporation (CPC) (Total no. of sheds owned by CPC is 1,190) and a further 50 fuel stations at new locations.
- Moreover, refining operations are currently confined to CPC whilst LIOC also has interests in storage. The energy minister also stated that 7 companies from Nigeria, China, Malaysia, Singapore, Iran and UAE have submitted EOIs for the proposed new refinery in Hambantota and the technical evaluation committee is expected to accelerate the process to evaluate EOIs and issue the request for proposals to a suitable applicant.

How does the entrance of new players impact LIOC?

- In the liberalization process, LIOC has already obtained approval to open up 96 new sheds out of which, LIOC commissioned 34 new sheds and plans to commence physical operation by the end of Mar 2023 (commenced operations of 3 sheds on 25th Mar 2023) while the remaining is expected to be opened on a monthly basis (8 to 10 sheds monthly). Meanwhile, in terms of fuel retail sales, LIOC holds an average market share of 20%.

- Despite the new entrants, LIOC is expected to hold the market leadership position among the private companies, and we believe there is either no or less impact on the market share of LIOC as the new players are given licenses to operate existing sheds owned by CPC, and only 50 new sheds each. However, we anticipate that the move may intensify the competition in the next two years of the fuel retail market.
- Moreover, the opening of new sheds by the new entrants is expected to be challenging as the process involves a considerable time period as it includes issuing of LOIs, advertising, inspection, shortlisting the dealer and analyzing the financial strength etc. However, LIOC has an advantage compared to the new local peers, as the company has already undergone the process, established a brand presence and commenced operations of 34 new sheds.
- Meanwhile, the implementation of the fuel pricing formula which came into effect in May 2022, is expected to create an efficient and stable operating environment for all the retail fuel market participants. As anticipated, in line with the global oil price trend which plunged below USD 70.0/barrel, Octane 92 and Auto Diesel have been revised down to LKR 340.0 (-15%) and LKR 325.0 (-20%), respectively effective from 30th Mar 2023.

Fuel demand recovery to drive volume growth of LIOC

- We have factored the market liberalization in our valuation and anticipate a GP margin contraction from 19.4% to 14.2% from FY23E to FY24E and expect it to stabilize at 13.5% afterwards. As LIOC continued to witness overall volume growth on a QoQ basis despite the economic crisis, we assume that the volumes would continue to improve amidst the recovery in demand on the back of frequent price revisions based on Singapore Platts price. Hence, given the expansion of new sheds, recovery in demand amidst the price stabilization, and the expected growth in other segments including bunkering, lubricants and Grease production, we have forecasted LIOC to record a top-line growth of 11.8%YoY to LKR 317.7Bn in FY24E.

We maintain our earnings and FV target for FY24E

- Considering the resilience in key revenue streams and strong growth outlook of the industry, we are broadly maintaining LIOC's earnings forecast at LKR 26.8Bn and the FV target at LKR 250.0. At a current market price of LKR 163.75, it is expected to provide an annualized return of 58% for FY24E **MAINTAIN BUY**.

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%



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	Tharusha Ashokgar	+94 11 2639 866
Ranjan Ranatunga	+94 11 2639 863	Zaeema Jihan	+94 11 2639 863
Vinodhini Rajapopathy	+94 11 2639 863		

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
Anushka Buddhika	+94 71 4310 600	Evelyn John	+94 77 779 2452
Thushara Pathiraja	+94 70 2910 037	Yudheshan Kannadasan	+94 77 415 5809

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