



LANKA IOC PLC [LIOC.N0000]

MAINTAIN BUY

“PROGRESSING TOWARDS STABILIZATION”

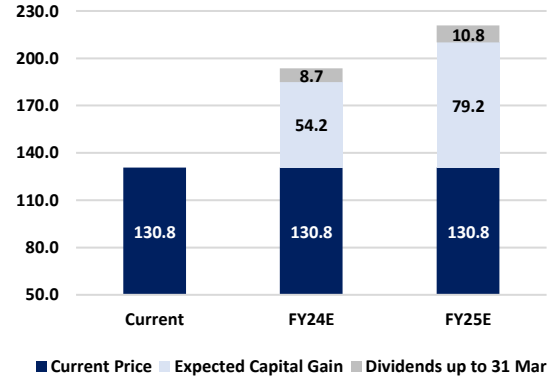
Fair Value: FY24E - LKR 185.0 [+41%] **Fair Value: FY25E - LKR 210.0 [+61%]**
Total Return with DPS: FY24E - 48% [AER 58%] *Total Return with DPS: FY25E - 69% [AER 33%]*

LIOC recorded earnings of LKR 7.2Bn (+112.8%YoY) in 4QFY23E, performing beyond our expectations, supported by the notable increase in topline of 133.1%YoY to LKR 68.7Bn owing to the price growth of c.109%YoY coupled with volume growth of 12.8%YoY, although on a QoQ basis top-line reported degrowth of 8.2% amidst the decline in fuel sales volume by 17.3%. Also, GP margin contracted to 15.1% amidst the significant price revisions on Octane 92 (-15%) and Auto Diesel (-20%) in line with the global oil price trend. Although operating costs continued to remain high at LKR 2.8Bn, finance costs depicted a steep decline of 23.1%QoQ owing to the settlement of borrowings of LKR 6.1Bn in 4QFY23. 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 steep appreciation of the currency, we have estimated an earnings target for FY24E to LKR 25.6Bn and FY25E to 28.8Bn. On the backdrop of the revision of earnings forecast and the overall market re-rating, we have re-rated the fair value of LIOC from LKR 250.0 to LKR 185.0 for FY24E and FY25E to LKR 210.0. At a current market price of LKR 130.8, LIOC provides a capital gain of 41.0% for FY24E. Hence, given the strong upside and positive outlook of the company, we have maintained our recommendation at MAINTAIN BUY

LKR (Mn)	4QFY22	4QFY23	YoY	FY22	FY23	YoY
Earnings (LKR 'Mn)						
Revenue	29,488	68,721	+133%	89,951	281,488	+213%
Gross profit	5,013	10,385	+107%	8,845	54,182	+513%
EBIT	4,083	7,567	+85%	5,410	44,177	+717%
PBT	3,956	8,532	+116%	5,612	44,702	+697%
Net Profit	3,374	7,180	+113%	4,818	37,696	+682%
Balance Sheet (LKR 'Mn)						
Shareholders' Equity	24,286	61,233	+152%	24,286	61,233	+152%
Borrowings	25,778	4,468	-83%	25,778	4,468	-83%
NAVPS	45.6	115.0		45.6	115.0	

Topline continued to expand by 133.1%YoY; GP margin trimmed down over volatile pricing

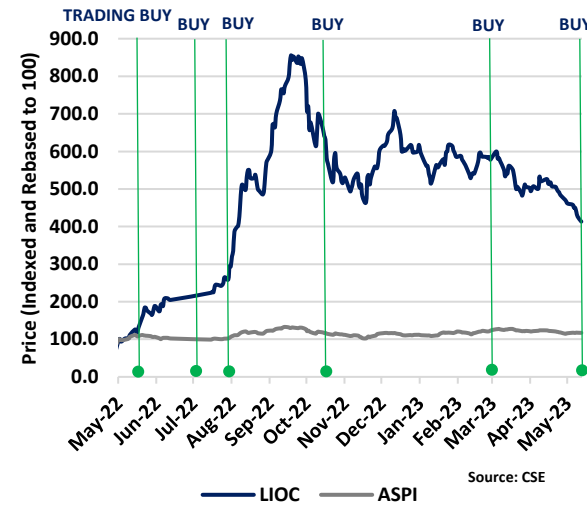
LIOC continued to deliver robust performance in 4QFY23 where the earnings reported a significant growth of 112.8%YoY to LKR 7.2Bn. The growth in profitability was mainly driven by the steep increase in revenue to LKR 68.7Bn (+133.1%YoY) as the local fuel prices continued to remain high, yet on a QoQ basis it is a degrowth of 8.2% amidst the record low volumes of 130,752 reported during the quarter (Volume:+12.8YoY, -17.3%QoQ). Meanwhile, GP margin contracted by 189bps to 15.1% as Octane 92 and Auto Diesel have been revised down to LKR 340.0 (-15%) and LKR 325.0 (-20%), respectively towards the end of the quarter amidst the significant volatility in global Brent oil prices which fell up to USD 72.70 per barrel in mid-Mar 2023. As the global oil prices dipped to near 15-month low due to the global economic slowdown, LIOC's inventory level surged to an all-time high. Meanwhile, efficiency in inventory management and a lower premium incurred per litre of imported fuel allow LIOC to maintain profitability at a higher level compared to CPC. Going forward, the International Energy Agency (IEA) projected that global oil prices to turn bullish and stabilize following the supply cut of OPEC+ oil producers and the recovery of China's economy. Besides, after the arrivals of the new competitors, we anticipate the possibility of the removal of QR restrictions from 2HFY24E which may drive the volume growth. Also considering the possible stability in the local fuel prices following the implementation of the fuel price ceiling and floor, we have estimated LIOC to record a revenue of LKR 303.3Bn in FY24E and LKR 373.1Bn in FY25E.



FIRST CAPITAL RESEARCH

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

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



Minimum Return for BUY:

Buy Below for FY24E [AER of 29.0% with DPS]: LKR 155.6.
 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

Retail prices of LIOC Fuels	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Octane 92 Petrol	370.0	370.0	400.0	340.0	333.0	333.0
Auto Diesel	420.0	405.0	405.0	325.0	310.0	310.0

Finance cost slumps to LKR 410.1Mn in 4QFY23

Finance cost for 4QFY23 has significantly dropped by 23.1%QoQ to LKR 410.1Mn amidst the settlement of borrowings of LKR 6.1Bn 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 above 25.0%.

Liberalization of local retail fuel market

New entrants to the local retail fuel market are expected to finalise the agreement by Jun 2023. In the liberalization process, LIOC has already obtained approval to open up 96 new sheds out of which, LIOC commissioned 37 new sheds by the end of FY23 and planning to commission the remaining by the end of FY24E. Meanwhile, in terms of retail fuel 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 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.

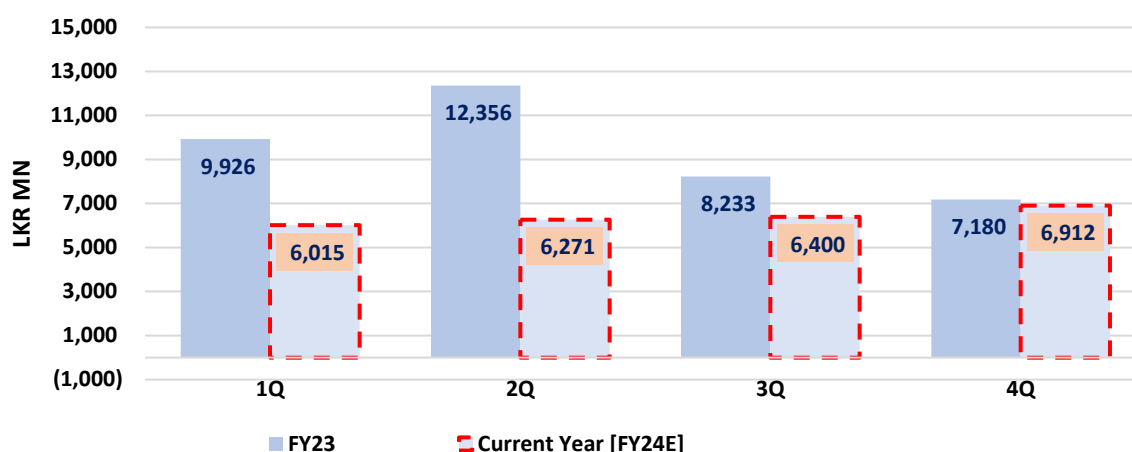
Promising outlook on the cards

The first phase of the redevelopment of the 10 upper oil tanks at Trinco terminal (JV between CPC and LIOC) is expected to be completed by the end of 2023 with an investment of around USD 20Mn-USD 25Mn. The capacity of each tank holds 12,000 tons which provide high storage capacity for bunkering 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 FY23 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 40% of its capacity and expects to operate at its full in 2-3 years.

FV estimated at LKR 185.0 for FY24E – BUY

Considering the growth potential stemming from multiple avenues and the recovery of the economy with the steep fall in inflation and appreciation of USD/LKR, we estimated LIOC to record earnings of LKR 25.6Bn for FY24E (revised from LKR 26.8Bn) and LKR 28.8Bn for FY25E. Hence, considering the market re-rating and the price stabilization, the fair value for LIOC revised down from LKR 250.0 to LKR 185.0 for FY24E and LKR 210.0 for FY25E with a capital gain of 41.0% and 61.0%, respectively. **MAINTAIN BUY.**

Quarterly Earnings



Estimate Revision

In LKR Mn	FY24E-O	FY24E-R	% Change	FY25E-O	FY25E-R	% Change
Earnings Estimate						
Revenue	317,685	303,297	-5%	372,742	373,093	+0%
Profit Before Tax	38,224	36,569	-4%	42,967	41,100	-4%
Net Profit	26,757	25,598	-4%	30,077	28,770	-4%
Adjusted EPS (LKR)	50.3	48.1		56.5	54.0	
YoY Growth (%)	-27%	-32%		12%	12%	
Balance Sheet Estimate						
Shareholders' Equity	64,967	81,506	+25%	74,238	105,668	+42%
Borrowings	12,180	4,022	-67%	12,789	3,820	-70%
Adjusted NAVPS	122.0	115.0		139.4	153.1	
Ratio Estimate						
ROE (%)	41%	31%		41%	27%	
PER (x)	2.6	1.8		2.3	2.7	
PBV (x)	1.1	1.1		0.9	0.9	

Valuation Table

P/E 31 March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Estimates (LKR 'Mn)								
Revenue	86,322	81,947	66,686	89,951	281,488	303,297	373,093	419,864
Gross profit	4,133	4,106	3,113	8,845	54,182	43,134	49,541	52,752
EBIT	854	635	161	5,410	44,177	34,151	39,209	41,531
Net Profit	403	422	883	4,818	37,696	25,598	28,770	30,021
Basic EPS (LKR)	0.8	0.8	1.7	9.0	70.8	48.1	54.0	56.4
YoY Growth (%)	-154%	5%	109%	446%	682%	-32%	12%	4%
Valuations								
PER (x)	172.6	165.1	78.9	14.5	1.8	2.7	2.4	2.3
PBV (x)	3.6	3.6	3.5	2.9	1.1	0.9	0.7	0.5
Dividend Yield (%)	0.6%	0.6%	0.6%	1.7%	7.6%	6.6%	8.3%	9.5%
NAVPS	36.5	36.5	37.4	45.6	115.0	153.1	198.5	244.0
DPS (LKR)	0.8	0.8	0.9	2.3	10.0	8.7	10.8	12.4
Dividend Payout	99%	95%	51%	25%	14%	18%	20%	22%

Valuation Summary

Expected LIOC price	FY24E	FY25E
PER based target price	192.3	216.1
DCF Valuation based target price	183.8	209.2
Average Target Price	188.0	212.7
Target price after Rounding off	185.0	210.0

Return	FY24E	FY25E
Target Price	185.0	210.0
Current Price	130.8	130.8
Capital Gain (LKR)	54.20	79.20
Dividends upto 31 Mar (LKR)	8.65	10.81
Capital Gain %	41%	61%
Dividend Yield %	7%	8%
Total Return %	48%	69%
Annualized Return %	58%	33%

Discounted Cash flow Valuation

DCF based Valuation	FY24E	FY25E
Enterprise Value	70,023	82,540
(-) Debt	(4,022)	(3,820)
(+) Cash	31,858	32,693
Total Value of Equity	97,859	111,412
No. of shares	532	532
Target Price	184	209

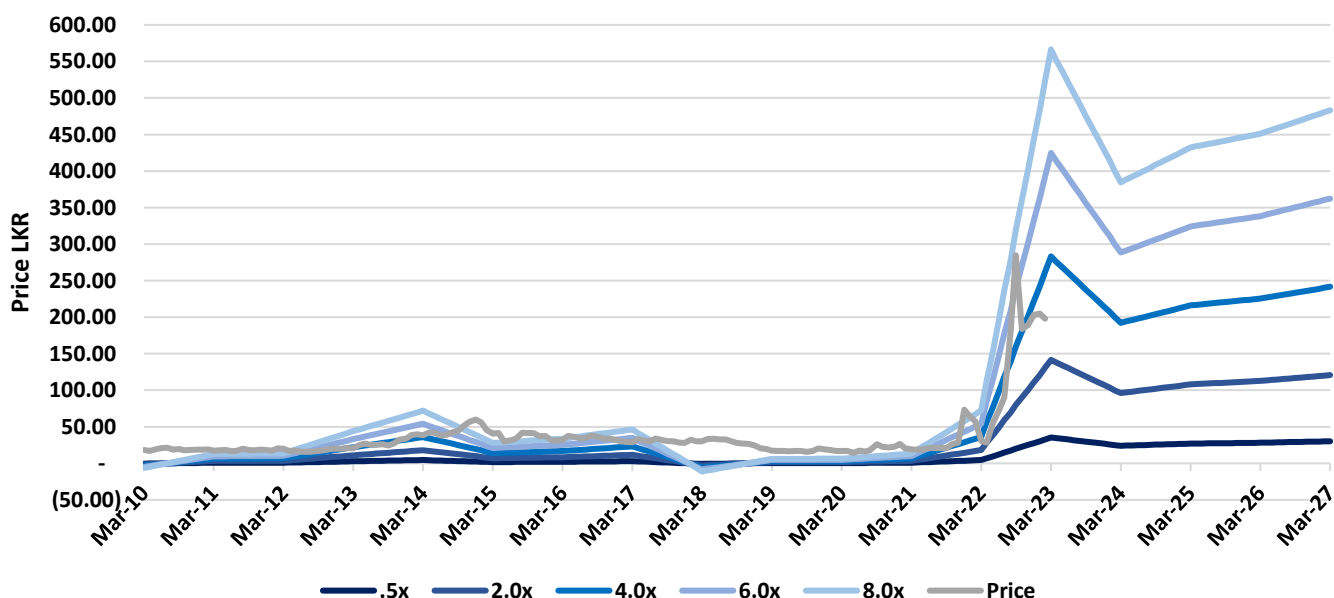
COE	FY24E	FY25E
R_f	21.0%	18.0%
R_m	29%	26%
Growth %	3%	3%
β	2.0	2.0
$K_e = R_f + \beta (R_m - R_f)$	37%	34%

PER Valuation

PER based Valuation	FY24E	FY25E
Earnings (LKR 'Mn)	25,598	28,770
No. of Shares ('Mn)	532	532
EPS	48.1	54.0
Expected Average PER	4.0x	4.0x
Target Price	192	216

WACC	FY24E	FY25E
K_e	37%	34%
K_d (Post Tax)	18%	18%
D/E Assumption	30 / 70	30 / 70
Terminal Growth (%)	3%	3%
WACC	31%	29%

PER Chart



Appendix I: Statement of Income and Expenses

Statement of Financial Performance (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
P/E 31st Mar								
Revenue	86,322	81,947	66,686	89,951	281,488	303,297	373,093	419,864
Cost of Sales	-82,189	-77,841	-63,573	-81,107	-227,306	-260,162	-323,552	-367,112
Gross Profit	4,133	4,106	3,113	8,845	54,182	43,134	49,541	52,752
Other Operating Income / (Expense)	190	83	252	116	116	116	116	116
Administrative Expenses	-1,432	-1,505	-1,401	-1,639	-3,314	-3,033	-3,731	-3,779
Selling and Distribution Expenses	-2,037	-2,049	-1,803	-1,912	-6,807	-6,066	-6,716	-7,558
Operating Profit	854	635	161	5,410	44,177	34,151	39,209	41,531
Finance Income	430	942	1,303	1,364	3,454	3,946	2,578	1,769
Finance Expenses	-953	-978	-476	-1,162	-2,929	-1,528	-688	-413
Profit Before Taxation	331	599	988	5,612	44,702	36,569	41,100	42,887
Income Tax Expense	73	-177	-105	-793	-7,006	-10,971	-12,330	-12,866
Profit for the Year	403	422	883	4,818	37,696	25,598	28,770	30,021
EPS	0.8	0.8	1.7	9.0	70.8	48.1	54.0	56.4

Appendix III: Statement of Financial Position

Statement of Financial Position (LKR Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
as at 31st Mar								
ASSETS								
Non Current Assets								
Property, Plant and Equipment	4,294	4,113	4,019	3,857	3,904	5,248	5,894	6,614
Investment	4,394	4,394	4,394	4,394	4,901	4,901	4,901	4,901
TPTL Investment	-	-	-	49	-	-	-	-
Intangible Assets	675	675	674	674	674	674	674	674
Right -of-use Assets	-	91	63	80	48	48	48	48
Other Receivables at Amortized Cost	127	149	119	142	148	148	148	148
Bank Deposits	-	-	10,222	1,462	-	-	-	-
Deferred Tax Asset (Net)	203	189	261	-	-	-	-	-
	9,694	9,610	19,753	10,658	9,675	11,019	11,665	12,385
Current Assets								
Inventories	13,996	13,295	9,625	27,257	38,027	47,011	64,172	83,973
Trade Receivables	3,267	3,568	2,585	3,965	4,515	7,582	14,178	20,153
Other Receivables at Amortized Cost	-	323	1,707	667	806	806	806	806
Other Current Assets	-	65	79	108	2,154	2,585	2,585	2,585
Income Tax Receivables	342	186	18	-	-	-	-	-
Short Term Investments	673	12,660	12,041	19,892	21,046	26,307	25,781	25,265
Cash and Bank Balances	272	51	599	2,524	5,990	5,551	6,912	6,686
	18,551	30,149	26,654	54,413	72,538	89,842	114,433	139,468
Total Assets	28,245	39,760	46,407	65,071	82,213	100,861	126,097	151,853
EQUITY AND LIABILITIES								
Equity								
Stated Capital	7,577	7,577	7,577	7,577	7,577	7,577	7,577	7,577
Retained Earnings	11,851	11,870	12,347	16,709	53,198	73,472	97,634	121,901
Other Reserves	-	-	-	-	458	458	458	458
Total Equity	19,427	19,446	19,924	24,286	61,233	81,506	105,668	129,935
Non Current Liabilities								
Defined Benefit Obligation (Net)	7	11	14	12	15	15	15	15
Right -of-use Lease Liability	-	63	38	46	50	50	50	50
Deferred Tax Liability	-	-	-	380	541	541	541	541
	7	74	52	438	606	606	606	606
Current Liabilities								
Trade and Other Payables	6,484	3,251	5,808	14,504	14,827	13,648	14,924	16,795
Lease Liability	-	34	33	42	2	2	2	2
Interest Bearing Borrowings	2,327	16,955	20,590	25,778	4,468	4,022	3,820	3,438
Income Tax Payable	-	-	-	22	1,077	1,077	1,077	1,077
	8,811	20,239	26,431	40,347	20,374	18,749	19,823	21,312
Total Equity and Liabilities	28,245	39,760	46,407	65,071	82,213	100,861	126,097	151,853
NAVPS	36.5	36.5	37.4	45.6	115.0	153.1	198.5	244.0



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 Rajapooopathy	+94 11 2639 866	Nethmi Fernando	+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
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EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042
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Colombo

Rasika Indra Kumara	+94 77 7072 698	Anjelo LaBrooy	+94 77 7546 645
Isuru Jayawardena	+94 76 7084 953	Dillon Lowe	+94 76 616 0647
Nishantha Mudalige	+94 70 2910 041	Evelyn John	+94 77 779 2452
Anushka Buddhika	+94 71 4310 600	Yudheshan Kannadasan	+94 77 415 5809
Thushara Pathiraja	+94 70 2910 037		

Negombo

Priyanka Anuruddha	+94 70 2910 035	Priyantha Wijesiri	+94 70 2910 036
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UNIT TRUST SALES

Kavin Karunamoorthy	+94 77 0328 060	Imali Abeygunawardena	+94 77 1764 799
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BRANCHES

Kandy CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	Kurunegala No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	Matara CSE Branch Office, 1 st 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

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