



CHEVRON LUBRICANTS PLC [LLUB.N0000]

MAINTAIN BUY

“GIANT AT A DISCOUNT”

Fair Value: 2023E - LKR 150.0 [+85%]

Total Return with DPS: 2023E - 92% [AER 196%]

2024E - LKR 170.0 [+109%]

2024E - 124% [AER 65%]

LLUB's net profit for 1Q2023 inclined by 23.6%YoY to LKR 1.2Bn largely due to the poor performance during the last comparative quarter, which was affected by forex loss of LKR 1.6Bn incurred on USD denominated trade payables. Moreover, LLUB earnings also grew by 170.3%QoQ aided by strong topline performance which grew at 33.9%QoQ possibly due to increase in volumes as company revised down prices by 15-30% in line with the easing inflation. Moreover, as we predicted in our previous reports GoSL increased the fuel quota system from 4th April 2023. We continue to maintain our stance that the fuel quota system will be completely relaxed aided by strengthening reserves, depressed global crude oil prices and appreciating LKR/USD. Relaxation of fuel quota remains a key catalyst for volume growth in the near term, whilst recovering tourism sector as well as recovering business confidence and possible relaxation of import ban on vehicle imports are expected to drive lubricant volumes in the near term. Hence considering the bright outlook of the company, we forecast a net profit of LKR 3.8Bn for 2023E and LKR 4.9Bn for 2024E. Given that LLUB trades at a discount of 96.1% to the historical 5-yr average PE of 10.0x, we believe the share is deeply undervalued at current multiples. Hence, taking into consideration the future outlook together with attractive dividend yield and trading multiples, we have arrived at a target price of LKR 150.0 for 2023E and LKR 170.0 for 2024E. Thus, we maintain our recommendation **BUY**.

LKR (Mn)	1Q2022	1Q2023	YoY	2021	2022	YoY
Earnings (LKR 'Mn)						
Revenue	7,701	6,251	-19%	16,866	24,575	+46%
Gross Profit	3,316	2,081	-37%	6,178	10,287	+66%
Operating Profit	2,745	1,457	-47%	4,363	7,496	+72%
PBT	1,161	1,671	+44%	4,333	5,000	+15%
Net Profit	943	1,165	+24%	3,926	3,666	-7%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	5,463	7,330	+34%	4,999	6,159	+23%
Borrowings	NA	NA	NA	NA	NA	NA
NAVPS	23	31	+34%	21	26	+23%

LLUB net profit up 23.6%YoY to LKR 1,165.3Mn

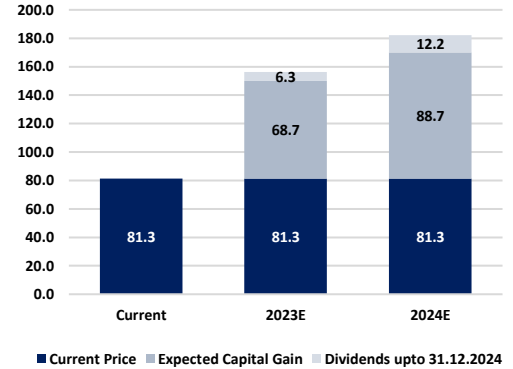
LLUB reported a net profit growth of 23.6%YoY (+170.3%QoQ) to LKR 1,165.3Mn in 1Q2023 largely due to the poor performance during the 1Q2022 quarter. The poor performance during the last comparative period was largely attributable to the significant increase in finance expenses, which included a forex loss of LKR 1.6Bn on USD denominated trade payables as a result of the steep depreciation of the LKR/USD during 1Q2022. Meanwhile, LLUB revenue for 1Q2023 declined by 18.8%YoY to LKR 6.3Bn possibly due to the decline in volumes, which was affected due to imposition of fuel quota and thus curtailed vehicle movement. However, on a QoQ basis, revenue escalated by 33.9%QoQ possibly due to increase in QoQ volumes as raging inflation and fuel prices continue to ease, which positively affected vehicle movement. Yet QoQ revenue increase was partly offset by the downward revision of lubricant prices which have declined between 15%-30% during the quarter. According to the data published by the PUCSL, overall lubricant market expanded by 1.2%QoQ during 4Q2022, whilst LLUB volumes declined by 70.6%YoY and 9.7%QoQ in 4Q2022 with market share contracting to 41.72% from 46.75% in 3Q2022. Operating profit for 1Q2023 declined by 46.9%YoY to LKR 1.5Bn caused by higher operating expenses, which edged up by 9.2%YoY to LKR 624.4Mn. Meanwhile, tax expense for the quarter inclined by 132.0%YoY to LKR 505.8Mn as effective tax rate increased to 30% from 19% with the upward revision of corporate tax rates w.e.f 01st October 2022.

Relaxation of fuel quota to drive future volumes

As we have predicted in our past reports, government increased the fuel quota from 04th April 2023. Accordingly, the fuel quota for passenger three-wheelers (special) has been increased from 10-15L, three-wheelers (general) from 5-8L, motorcycles from 4L to 7L, busses from 40L to 60L, cars from 20L to 30L, land vehicles from 15L to 25L, lorries from 50L to 75L, quadric cycle from 4L to 6L, special purpose vehicles from 20L to 30L and vans from 20L to 30L. Given the decline in global crude oil prices, appreciating LKR/USD and improving reserves position of the country, we continue to maintain our stance that the prevailing fuel quota system will be completely relaxed in the coming years. The lifting of the fuel quota system continues to remain a key catalyst for LLUB volume growth as total market volumes increase whilst LLUB continue to dominate +50% market share in terms of total lubricants sold.

Maintain Buy with 2023E and 2024E TP at LKR 150.0 and LKR 170.0, respectively

Taking into consideration the future outlook of the company together with the near double digit growth in volumes in the coming years, we have arrived at profit of LKR 3.8Bn for 2023E and LKR 4.9Bn for 2024E. Trading at a 4Q trailing PE of 5.1x, LLUB trades at a discount of c. 96.1% to the past 5 year average PE of 10x. Given the future prospects of the company, together with a payout of 40.0-80.0% for the nearby future, we have arrived at a target price of LKR 150.0 for 2023E and LKR 170.0 for 2024E offering a total return of 92.0% and 124.0%, respectively. Hence, we maintain our recommendation at **BUY**.



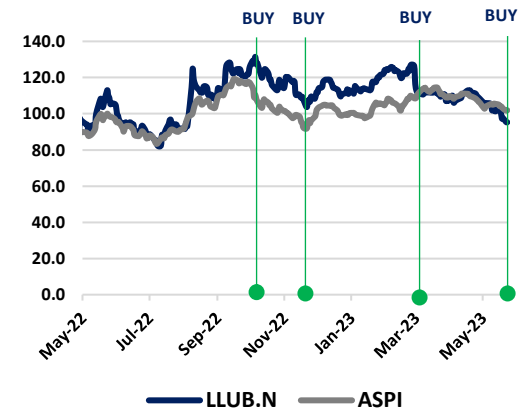
FIRST CAPITAL RESEARCH

Ranjan Ranatunga

+94 11 263 9863

ranjan@firstcapital.lk

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



Source: CSE

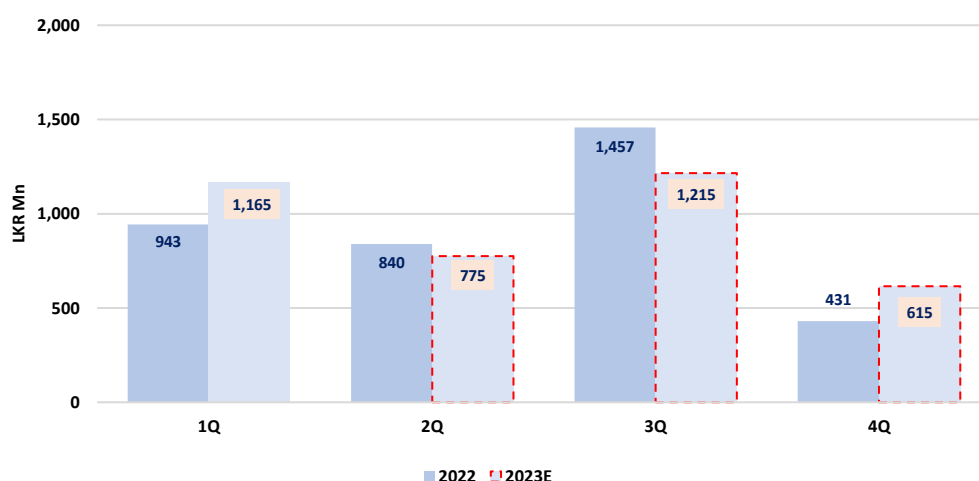
Minimum Return for BUY:

Buy Below 2024E - [AER of 26% with DPS]: LKR 126.0
LLUB 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 LLUB during the five trading days prior to the issuance of this document.

Quarterly Earnings



Valuation Table

YE Dec/LKR Mn	2018	2019	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)								
Revenue	10,861	11,856	11,637	16,866	24,575	22,398	26,840	32,416
Gross profit	4,092	4,435	4,617	6,178	10,287	9,407	11,407	13,939
EBIT	2,743	2,917	3,036	4,363	7,496	6,616	7,660	8,927
Net Profit	1,992	2,099	2,226	3,926	3,666	3,771	4,891	6,148
Adjusted EPS (LKR)	8.3	8.7	9.3	16.4	15.3	15.7	20.4	25.6
YoY Growth (%)	-22.4%	5.4%	6.0%	76.4%	-6.6%	2.9%	29.7%	25.7%
Valuations								
PER (x)	9.8x	9.3x	8.8x	5.0x	5.3x	5.2x	4.0x	3.2x
PBV (x)	5.0x	4.7x	4.7x	3.9x	3.2x	2.3x	1.9x	1.7x
DPS	8.8	7.8	9.0	13.0	5.0	6.3	12.2	20.5
DY (%)	10.8%	9.5%	11.1%	16.0%	6.2%	7.7%	15.0%	25.2%
Dividend Payout (%)	105.4%	88.6%	97.0%	79.5%	32.7%	40.0%	60.0%	80.0%
NAVPS	16	17	17	21	26	35	43	48

Estimate Revision

In LKR Mn	FY23E-O	FY23E-R	% Change	FY24E-O	FY24E-R	% Change
Earnings Estimate						
Revenue	22,398	22,398	-0%	26,840	26,840	-0%
Gross Profit	9,407	9,407	-0%	11,407	11,407	-0%
EBIT	6,616	6,616	-0%	7,660	7,660	-0%
Profit before Tax	5,387	5,387	-0%	6,908	6,987	+1%
Net Profit	3,771	3,771	-0%	4,836	4,891	+1%
Adjusted EPS	15.7	15.7		20.2	20.4	
Balance Sheet Estimate						
Shareholders' Equity	7,295	8,422	+15%	5,449	10,378	+90%
Borrowings	NA	NA	NA	NA	NA	NA
Adjusted NAVPS	30.4	35.1		34.4	43.2	



Valuation Summary

Expected LLUB Price	2023E	2024E	Return	2023E	2024E
PER Valuation based target price	141.4	173.2	Target Price	150.0	170.0
DCF Valuation based target price	155.1	167.5	Current Price	81.3	81.3
Average Target Price	148.2	170.4	Capital Gain (LKR)	68.7	88.7
Target Price after Rounding off	150.0	170.0	Dividends upto 31 Dec (LKR)	6.3	12.2
			Capital Gain %	85%	109%
			Dividend Yield %	8%	15%
			Total Return %	92%	124%
			Annualized Return %	196%	65%

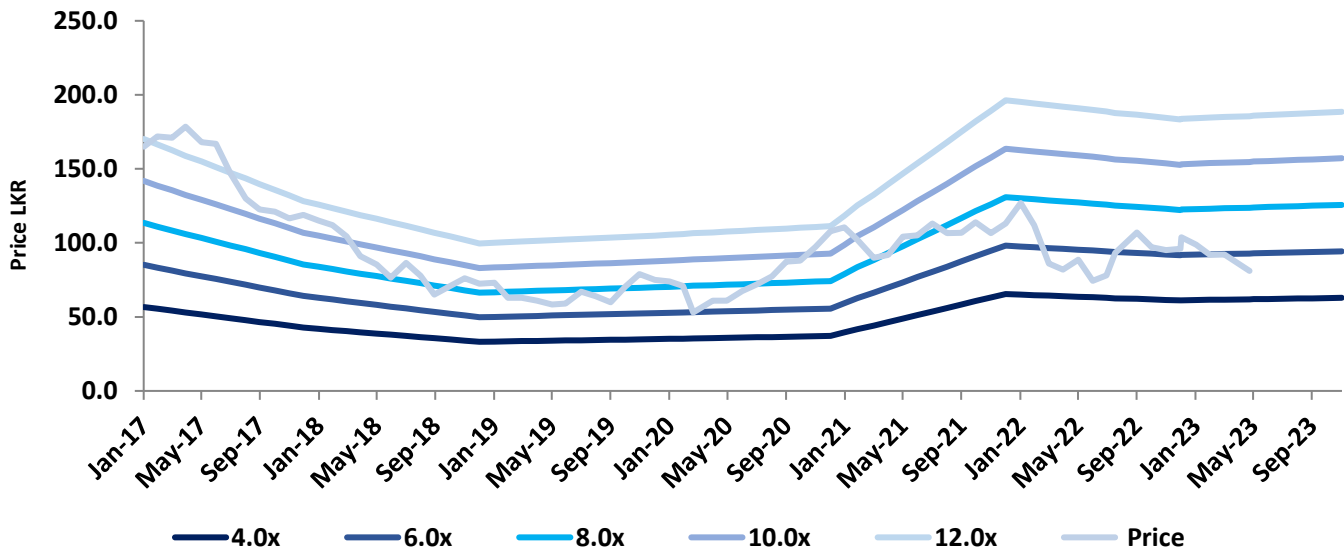
Discounted Cash flow Valuation

DCF based Valuation	2023E	2024E	COE	2023E	2024E
Enterprise Value	25,373	28,264	Rf	21%	18%
Debt (-)	(393)	(393)	Rm	29%	26%
Cash (+)	12,236	12,340	Growth %	3%	3%
Total Value of Equity	37,215	40,211	β	1.30	1.30
No. of Shares (Mn)	240	240	$Ke = Rf + \beta(Rm - Rf)$	31%	28%
Target Price	155.1	167.5			

PER valuation

PER based Valuation	2023E	2024E	WACC	2023E	2024E
Earnings (LKR 'Mn)	3,771	4,891	Ke	31%	28%
No. of Shares ('Mn)	240	240	Kd	18%	18%
EPS	15.7	20.4	D/E Assumption	10/90	10/90
Expected PER	9x	9x	Terminal Growth (%)	5%	5%
Price at 9x Earnings	141.4	173.2	WACC	30%	27%

PER Chart



Appendix I: Statement of Income and Expenses

Profit & Loss Statement									
Y/E 31 December	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenue	11,052	10,861	11,856	11,637	16,866	24,575	22,398	26,840	32,416
Cost of sales	(6,312)	(6,769)	(7,421)	(7,020)	(10,688)	(14,288)	(12,991)	(15,433)	(18,477)
Gross profit	4,741	4,092	4,435	4,617	6,178	10,287	9,407	11,407	13,939
Other operating income	5	8	2	2	8	2	9	10	13
Selling and distribution	(659)	(637)	(789)	(778)	(945)	(1,310)	(1,232)	(1,610)	(2,107)
Admin expenses	(681)	(720)	(730)	(808)	(878)	(1,484)	(1,568)	(2,147)	(2,917)
EBIT	3,406	2,743	2,917	3,033	4,363	7,496	6,616	7,660	8,927
Finance Income	90	17	26	63	(31)	(2,496)	(1,229)	(673)	(143)
PBT	3,496	2,760	2,943	3,097	4,333	5,000	5,387	6,987	8,783
Taxation	(931)	(768)	(844)	(874)	(407)	(1,334)	(1,616)	(2,096)	(2,635)
Net Profit for the Period	2,565	1,992	2,099	2,223	3,926	3,666	3,771	4,891	6,148
<i>Adjusted EPS</i>	<i>10.7</i>	<i>8.3</i>	<i>8.7</i>	<i>9.3</i>	<i>16.4</i>	<i>15.3</i>	<i>15.7</i>	<i>20.4</i>	<i>25.6</i>

Appendix II: Statement of Financial Position

Balance Sheet									
As at 31 December	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Assets									
Non current assets									
Property plant and equipment	2,067	1,963	1,883	1,758	1,661	1,589	1,537	1,511	1,514
Right-of-use assets	-	-	389	343	302	342	342	342	342
Non current receivables	77	76	74	79	64	70	70	70	70
	2,144	2,040	2,347	2,180	2,028	2,001	1,948	1,923	1,926
Current Assets									
Inventories	2,046	2,756	1,939	2,691	3,760	5,178	4,157	4,630	5,174
Receivables and prepayment	1,266	1,014	1,080	1,082	1,181	1,978	2,464	2,684	3,242
Short term investments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	140	259	870	1,899	4,025	3,876	7,533	12,236	12,340
	3,452	4,028	3,889	5,671	8,966	11,033	14,154	19,550	20,755
Total Assets	5,596	6,068	6,236	7,852	10,993	13,034	16,102	21,472	22,681
Equity and Liabilities									
Capital and reserves									
Ordinary shares	600	600	600	600	600	600	600	600	600
Retained Earnings	3,407	3,314	3,536	3,580	4,399	5,559	7,822	9,778	11,008
	4,007	3,914	4,136	4,180	4,999	6,159	8,422	10,378	11,608
Non - current liabilities									
Deferred tax liabilities	162	140	147	192	205	283	283	283	283
Defined benefit obligation	246	258	266	247	157	234	234	234	234
Lease liabilities	-	-	359	332	310	358	358	358	358
	408	397	772	771	672	875	875	875	875
Current liabilities									
Trade and other payables	661	1,423	789	2,167	4,739	5,040	5,846	9,260	9,239
Current tax liabilities	405	333	502	699	552	925	925	925	925
Lease liabilities	-	-	36	34	31	35	35	35	35
Borrowings	115	-	-	-	-	-	-	-	-
	1,181	1,756	1,327	2,900	5,322	5,999	6,805	10,219	10,198
Total liabilities	1,589	2,153	2,099	3,671	5,995	6,875	7,680	11,094	11,073
Total equity & liabilities	5,596	6,068	6,236	7,852	10,993	13,034	16,102	21,472	22,681
<i>Adjusted BVPS</i>	<i>16.7</i>	<i>16.3</i>	<i>17.2</i>	<i>17.4</i>	<i>20.8</i>	<i>25.7</i>	<i>35.1</i>	<i>43.2</i>	<i>48.4</i>



First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000
Fax: +94 11 2145 050

First Capital

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 Rajapoopathy	+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
--------------------	-------------------

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042
-----	------------------	-----------------

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
--------------------	-----------------	--------------------	-----------------

UNIT TRUST SALES

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

BRANCHES

Kandy	Kurunegala	Matara	Negombo
CSE Branch Office, No. 88, Dalada Veediya, Kandy 20000.	No.174/B2, Negombo Road, Kurunegala. Kurunegala 60000.	CSE Branch Office, 1st Floor, E.H.Coorary Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000.	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.