



CHEVRON LUBRICANTS PLC [LLUB.N0000]

MAINTAIN BUY

“A MIXED BAG OF RESULTS”

Fair Value: 2024E - LKR 160.0 [+82%]

Total Return with DPS: 2024E - 95% [AER 79%]

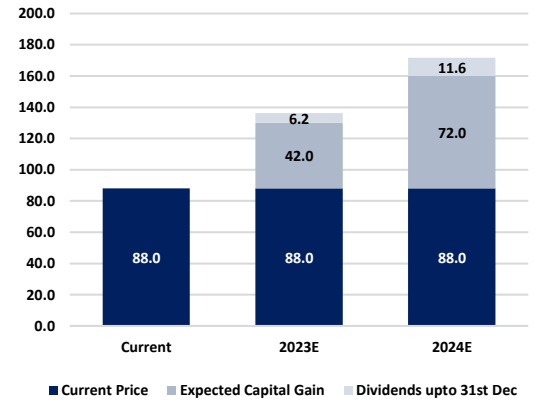
LLUB reported a net profit of LKR 902.6Mn for 3Q2023E (-38.0%YoY), 21.0% below our estimate of LKR 1,142.9Mn. The decline in profitability was largely caused by the contract in gross profit margins, possibly affected by incline in global crude oil prices, which touched a one-year high of USD 91.3/barrel in Sep-23. However, on the flip side, LLUB net profit reported a 13.6%QoQ growth, aided by the strong topline performance (+15.4%QoQ) and expansion in gross profit margins (+176bpsQoQ to 32.1%). Going forward, we expect LLUB volumes to grow at a mid-single digit CAGR between 2022-2025E backed by the recovery in economic activity and the expected uptick in overall lubricant industry, whilst LLUB market share is expected to remain around 50.0% in the medium term. Despite earnings falling short of our quarterly target, we continue to maintain our earnings forecast for 2023E at LKR 3,706.4Mn and 2024E at LKR 4,639.0Mn. The optimistic outlook for 2023E and 2024E was maintained after witnessing a clear pickup in economic activity (Sri Lanka's 2Q2023 GDP degrowth slowed down to -3.1%YoY from -11.5%YoY in 1Q2023). Moreover, downwards revision of interest rates and signing of the second tranche of IMF agreement, are expected to boost business confidence and improve lubricant volumes in the coming months. Meanwhile, in-line with our expectations LLUB paid out a DPS of LKR 4.0 on 3rd November 2023, bringing up the cumulative dividends announced so far to LKR 6.0/share, with a payout of 50.3%. Going forward, we expect LLUB's dividend payout to improve to 60.0% and 80.0% in 2024E and 2025E, respectively, whilst offering a dividend yield of 13.2% and 22.0%, respectively. Moreover, LLUB also trades at a 38.5% discount to its 5Yr trading PE of 9.0x and to the CSE PE of 11.3x. Thus, taking into consideration the deeply discounted trading multiples of LLUB and outlook for earnings, we continue to rate LLUB as **MAINTAIN BUY**.

LKR (Mn)	3Q2022	3Q2023	YoY	9M2022	9M2023	YoY
Earnings (LKR 'Mn)						
Revenue	6,031	6,149	+2%	19,906	17,726	-11%
Gross Profit	2,390	1,973	-17%	8,584	5,670	-34%
Operating Profit	1,656	1,334	-19%	6,529	3,800	-42%
PBT	1,793	1,313	-27%	3,980	4,126	+4%
Net Profit	1,457	903	-38%	3,240	2,862	-12%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	6,972	8,547	+23%	6,972	8,547	+23%
Borrowings	NA	NA	NA	NA	NA	NA
NAVPS	29	36	+23%	29	36	+23%

LLUB net profit down 38.0%YoY to LKR 902.6Mn, -21.0% variance from our 3Q2023 estimate
 LLUB net profit declined by 38.0%YoY to LKR 902.6Mn during 3Q2023, affected by contraction in gross profit margins, as crude oil prices touched a one-year high of USD 91.3/barrel in Sep-23. Furthermore, LLUB's double edged sword strategy to shift its focus to low margin loose oil sales, are also believed to have taken a toll on the gross profit margins during the period. On the flip side LLUB topline showcased a marginal improvement of 2.0%YoY to LKR 6,148.6Mn possibly aided by improved volumes. Meanwhile, despite the poor YoY performance, LLUB's QoQ performance continued to offer encouragement as double-digit growth in turnover (+15.4%QoQ) and expansion in gross profit margins (+176bpsQoQ to 32.1%) enabled LLUB net profit to grow by 13.6%QoQ.

GP woes trickles down to operating profit

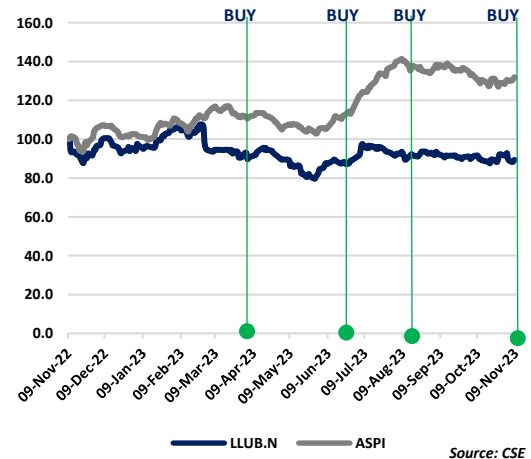
LLUB's operating profit declined by 19.4%YoY to LKR 1,333.8Mn largely because of the contraction in GP margins whilst the decline in operating costs by 12.7%YoY to LKR 641.5Mn offered comfort to the decline in profitability. However, LLUB continues to show resilient QoQ performance, with operating profit recording a growth of 32.1%QoQ, aided by the promising QoQ recovery in the topline coupled with margins.



FIRST CAPITAL RESEARCH

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



Minimum Return for BUY:

Buy Below 2024E - [AER of 23% with DPS]: LKR 135.0
 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.



End of April-holiday rush, takes a toll on volume growth during 2Q2023

According to the PUCSL, total lubricant volumes declined by 11.7%YoY (-5.9%QoQ) to 9,778.4Kl in 2Q2023 with largest contraction recorded from the automotive oils segment, reporting a decline of 5.3%QoQ. Meanwhile, LLUB's lubricant volumes also declined in-line with the overall industry, declining by 12.9%YoY (-12.9%QoQ) to 4,400.3Kl whilst market share dipped to 45.0% from 48.6% in 1Q2023 with increased availability of imported lubricants in the market.

LLUB dividends on track to achieve a payout of 40.0%

Resuming its payouts (since the last payment in Nov-22), LLUB announced its first interim dividend of LKR 2.0/share in Jul-23. Adding to that, LLUB also announced its second interim dividend of LKR 4.0/share on 25th Oct 2023, with a payout of 50.3%. Having already achieved our 2023E dividend of LKR 6.2/share and already paid out 50% of their profits, taking a conservative approach we maintain our dividend payout target of 40% for 2023E. However, with expectations that payout may improve to 60% in 2024E, we forecast a DPS of LKR 11.60/share, offering a dividend yield of 13.2%.

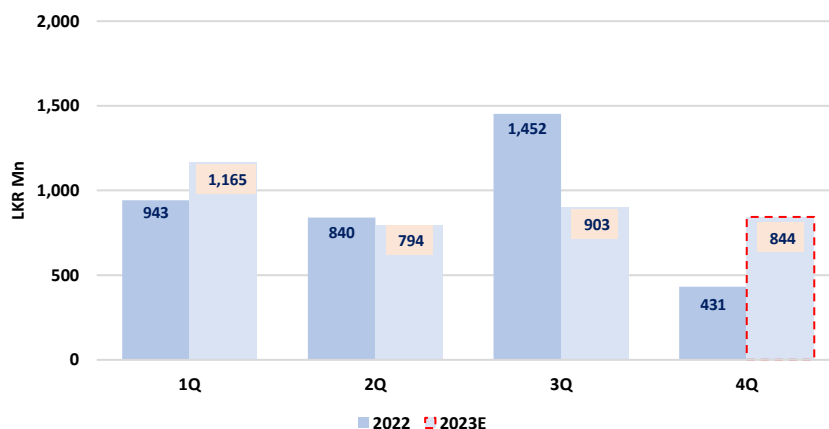
TP maintained for 2024E at LKR 160.0

Despite the underperformance of the LLUB share, affected due to the reduced dividend policy, stagnant lubricant market, and poor performance of the CSE, we maintain our TP at LKR 160.0 for 2024E. However, with a clear pickup in economic activity, together with the improvement in disposable incomes on the backdrop of taming down inflation, we expect overall lubricant volumes to grow at a mid-single digit CAGR between 2022-2025E period. Lifting of import restrictions placed on vehicle imports, coupled with a growth in economy remains key catalyst towards expected volume growth.

LLUB maintained buy with a return of 79.0% for 2024E

Despite falling short of our 3Q2023 estimates by 21.0%, we maintain our earnings outlook for 2023E at LKR 3,706.4Mn and 2024E at LKR 4,639.0Mn. The maintained estimates are largely backed by the optimistic outlook for the 4Q2023E as well as 2024E, with expectations of a turnaround in GDP from 4Q2023E onwards. Moreover, declining interest rate environment and near completion of the IMF staff level agreement for the second tranche are also expected to support business confidence and boost earnings growth during the projected period. Trading at a discount of 38.5% to its 5Yr average of 9.0x, and at massive discount to the CSE PE of 11.3x, we believe the LLUB share is deeply undervalued at its current trading multiples. Moreover, with dividend payout also on the rise, with company gradually increasing the payout, we believe the attractive dividend yield of 13.2% and 22.0% for 2024E and 2025E, respectively, also offers added incentive to accumulate the share at current trading levels. Thus, we rate the LLUB share **MAINTAIN BUY**.

Quarterly Earnings



Valuation Table

YE Dec/LKR Mn	2020	2021	2022	2023E	2024E	2025E
Estimates (LKR 'Mn)						
Revenue	11,637	16,866	24,575	22,086	26,465	31,962
Gross profit	4,617	6,178	10,287	9,276	11,248	13,744
EBIT	3,036	4,363	7,496	6,524	7,553	8,802
Net Profit	2,226	3,926	3,666	3,706	4,639	5,814
Adjusted EPS (LKR)	9.3	16.4	15.3	15.4	19.3	24.2
YoY Growth (%)	6.0%	76.4%	-6.6%	1.1%	25.2%	25.3%
Valuations						
PER (x)	9.5x	5.4x	5.8x	5.7x	4.6x	3.6x
PBV (x)	5.1x	4.2x	3.4x	2.5x	2.1x	1.9x
DPS	9.0	13.0	5.0	6.2	11.6	19.4
DY (%)	10.2%	14.8%	5.7%	7.0%	13.2%	22.0%
Dividend Payout (%)	97.0%	79.5%	32.7%	40.0%	60.0%	80.0%
NAVPS	17.4	20.8	25.7	34.9	42.7	47.5

Estimate Revision

In LKR Mn	FY23E-O	FY23E-R	% Change	FY24E-O	FY24E-R	% Change
Earnings Estimate						
Revenue	22,086	22,086	0%	26,465	26,465	0%
Gross Profit	9,276	9,276	0%	11,248	11,248	0%
EBIT	6,524	6,524	0%	7,553	7,553	0%
Profit before Tax	5,295	5,295	0%	6,627	6,627	0%
Net Profit	3,706	3,706	0%	4,639	4,639	0%
Adjusted EPS	15.4	15.4		19.3	19.3	
Balance Sheet Estimate						
Shareholders' Equity	8,383	8,383	0%	10,239	10,239	0%
Borrowings	NA	NA	NA	NA	NA	NA
Adjusted NAVPS	34.9	34.9		42.7	42.7	

Valuation Summary

Expected LLUB Price	2023E	2024E
PER Valuation based target price	123.5	154.6
DCF Valuation based target price	119.4	164.5
Average Target Price	121.5	159.6
Target Price after Rounding off	130.0	160.0

Return	2023E	2024E
Target Price	130.0	160.0
Current Price	88.0	88.0
Capital Gain (LKR)	42.0	72.0
Dividends upto 31 Dec (LKR)	6.2	11.6
Capital Gain %	48%	82%
Dividend Yield %	7%	13%
Total Return %	55%	95%
Annualized Return %	2043%	79%

Discounted Cash flow Valuation

DCF based Valuation	2023E	2024E
Enterprise Value	25,122	32,677
Debt (-)	(393)	(393)
Cash (+)	3,920	7,203
Total Value of Equity	28,649	39,487
No. of Shares (Mn)	240	240
Target Price	119.4	164.5

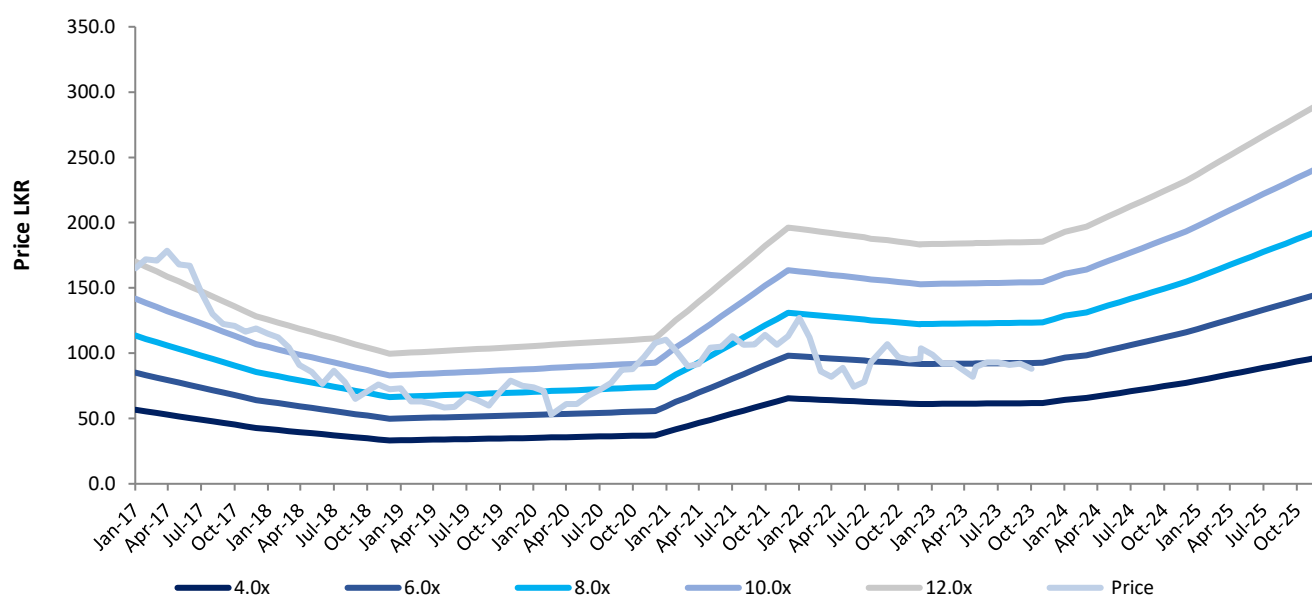
COE	2023E	2024E
Rf	15%	12%
Rm	23%	20%
Growth %	3%	3%
β	1.30	1.30
$K_e = R_f + \beta(R_m - R_f)$	25%	22%

PER valuation

PER based Valuation	2023E	2024E
Earnings (LKR 'Mn)	3,706	4,639
No. of Shares ('Mn)	240	240
EPS	15.4	19.3
Expected PER	8x	8x
Price at 8x Earnings	123.5	154.6

WACC	2023E	2024E
K_e	25%	22%
K_d	18%	18%
D/E Assumption	10/90	10/90
Terminal Growth (%)	5%	5%
WACC	24%	21%

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	22,086	26,465	31,962
Cost of sales	(6,312)	(6,769)	(7,421)	(7,020)	(10,688)	(14,288)	(12,810)	(15,218)	(18,218)
Gross profit	4,741	4,092	4,435	4,617	6,178	10,287	9,276	11,248	13,744
Other operating income	5	8	2	2	8	2	9	10	12
Selling and distribution	(659)	(637)	(789)	(778)	(945)	(1,310)	(1,215)	(1,588)	(2,078)
Admin expenses	(681)	(720)	(730)	(808)	(878)	(1,484)	(1,546)	(2,117)	(2,877)
EBIT	3,406	2,743	2,917	3,033	4,363	7,496	6,524	7,553	8,802
Finance Income	90	17	26	63	(31)	(2,496)	(1,229)	(926)	(496)
PBT	3,496	2,760	2,943	3,097	4,333	5,000	5,295	6,627	8,306
Taxation	(931)	(768)	(844)	(874)	(407)	(1,334)	(1,588)	(1,988)	(2,492)
Net Profit for the Period	2,565	1,992	2,099	2,223	3,926	3,666	3,706	4,639	5,814
<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>15.4</i>	<i>19.3</i>	<i>24.2</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	1,535	1,508	1,509
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	1,947	1,919	1,921
Current Assets									
Inventories	2,046	2,756	1,939	2,691	3,760	5,178	5,764	4,565	5,465
Receivables and prepayment	1,266	1,014	1,080	1,082	1,181	1,978	2,429	2,647	3,196
Short term investments	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	140	259	870	1,899	4,025	3,876	3,920	7,203	7,573
	3,452	4,028	3,889	5,671	8,966	11,033	12,114	14,415	16,234
Total Assets	5,596	6,068	6,236	7,852	10,993	13,034	14,061	16,334	18,155
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	7,783	9,639	10,801
	4,007	3,914	4,136	4,180	4,999	6,159	8,383	10,239	11,401
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	3,843	4,261	4,919
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	4,803	5,220	5,878
Total liabilities	1,589	2,153	2,099	3,671	5,995	6,875	5,678	6,096	6,754
Total equity & liabilities	5,596	6,068	6,236	7,852	10,993	13,034	14,061	16,334	18,155
<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>34.9</i>	<i>42.7</i>	<i>47.5</i>



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