

**CHEVRON LUBRICANTS PLC [LLUB.N0000]****MAINTAIN BUY****“RETURN OF THE OLD HABITS”****Fair Value: 2024E - LKR 140.0 [+22%]**

Total Return with DPS: 2024E - 35% [AER 51%]

**2025E - LKR 150.0 [+31%]**

2025E - 45% [AER 24%]

LLUB net profits inclined by 71.9%YoY to LKR 733.0Mn during 4Q2023 driven primarily by the growth in revenue whilst reduction in admin expenses (-8.1%YoY) and taxes (-51.8%YoY) also contributed towards the improved profitability. Moreover, in line with our expectations, recovery in the economy aided LLUB lubricant volumes to show a 15.5%YoY growth to 5,124.1Kl in 3Q2023, reversing the 4 quarters of continuous decline shown during the previous quarters. Going forward, we expect the LLUB volumes to continue its upward trajectory, as completion of the 1<sup>st</sup> review of the IMF agreement continue to instill confidence in the business community as well the economy. Moreover, LLUB announced the 3<sup>rd</sup> interim dividend of LKR 8.0/share on Feb-24, taking up the total DPS for 2023 to LKR 14.0, with a payout of 93.5%. Considering the positive outlook for LLUB earnings in the medium term, together with the normalized dividend payout of 95.0% between 2024E-2026E and attractive upside to our 2025E TP of LKR 150.0, we continue to maintain our recommendation of LLUB at **BUY**.

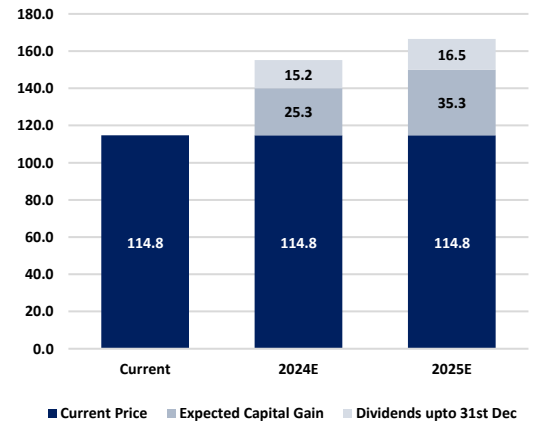
LKR (Mn)	4Q2022	4Q2023	YoY	2022	2023	YoY
<b>Earnings (LKR 'Mn)</b>						
Revenue	4,669	5,526	+18%	24,575	23,253	-5%
Gross Profit	1,703	1,754	+3%	10,287	7,423	-28%
Operating Profit	967	990	+2%	7,496	4,790	-36%
PBT	1,019	1,018	-0%	5,000	5,145	+3%
Net Profit	426	733	+72%	3,666	3,595	-2%
<b>Balance Sheet (LKR 'Mn)</b>						
Shareholder's Equity	6,159	8,325	+35%	6,159	8,325	+35%
Borrowings	NA	NA	NA	NA	NA	NA
NAVPS	25.7	34.7	+35%	25.7	34.7	+35%

**LLUB net profits up by 71.9%YoY to LKR 733.0Mn in 4Q2023**

LLUB recorded a substantial growth in profitability during 4Q2023, driven primarily by the 18.4%YoY growth in revenue whilst reduction in expenses from Admin (8.1%YoY), Finance Cost (82.7%YoY) and Taxes (51.8%YoY) also contributed positively towards profitability. The growth in revenue during 4Q2023 is possibly driven by improved volumes as PUCSL relaxed fuel quota and economy continued to improve, with the pickup in business activities (CBSL published PMI index crossed the neutral threshold to 52.7 in Dec-23 cf. 44.8 in Dec-22). Moreover, improvement in disposable incomes aided by the drastic slowdown in YoY inflation (CCPI inflation declined to 4.0% in Dec-23 from 57.2% in Dec-22) coupled with the revival of key employment sectors including tourism and construction also possibly aided towards the recovery in volumes during Dec-23 ended quarter.

**Margins continues to remain under pressure during 4Q2023**

LLUB GP margins continued to remain challenged during 4Q2023, contracting by 473bpsYoY to 31.7%, largely owing to the LLUB strategy of concentrating on low margin loose oil from high-margin canned oil products. Moreover, the growth in cost of sales (27.2%YoY) caused by volatile global crude oil prices and higher freight rates were also key catalyst towards the margin contraction during the period. Furthermore, EBIT margin (declined by 279bpsYoY to 17.9%) of LLUB also came down in-line with the GP margin yet was partly offset by the reduction in Admin Expenses, possibly due to LKR appreciation and positive impact on royalties paid to the parent.

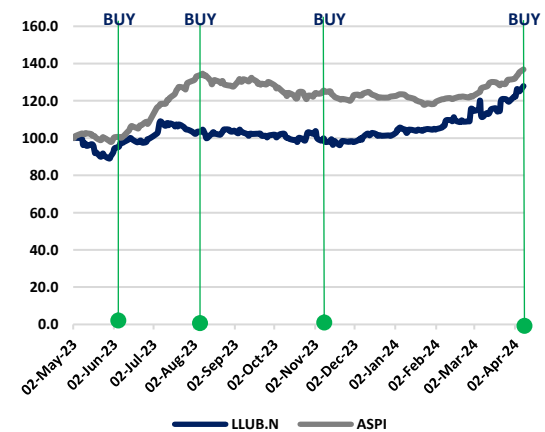
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Price movement of LLUB vs ASPI (indexed and rebased to 100)



Source: CSE

**Minimum Return for BUY:**

**Buy Below 2024E - [AER of 23% with DPS]: LKR 116.0**  
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.

### Overall lubricant industry upticks in 3Q2023

According to the PUCSL, total lubricant volumes inclined by 25.1%YoY (+21.4%QoQ) to 11,868.9Kl in 3Q2023 with the largest contributor (contributes to c. 72.2% of total lubricant sales in 3Q2023 cf. 68.3% in 3Q2022), Automobile lubricants showcasing a growth of 32.2%YoY to 8,565.3Kl sold in 3Q2023. Meanwhile, LLUB’s lubricant volumes also improved in-line with the overall industry, growing by 15.5%YoY (+16.4%QoQ) to 5,124.1Kl whilst market share contracted to 43.2% in 3Q2023 from 45.0% in 2Q2023 and 46.7% in 3Q2022.

### LLUB dividend payout improves to 93.5% in 2023

In-line with our expectations, LLUB dividend payout continued to rise from 32.7% offered in 2022 to 93.5% in 2023, to LKR 14.00/share from LKR 5.00/share announced in 2022. The easing of business operations together with the improvements in FX liquidity are amongst the key drivers of the higher dividend payout during the concerned period. Going forward, we expect LLUB to maintain dividend payout at 95.0% for the foreseeable future, with payment of LKR 15.2/share for 2024E and LKR 16.5/share in 2025E, offering a dividend yield of 13.2% and 14.4%, respectively.

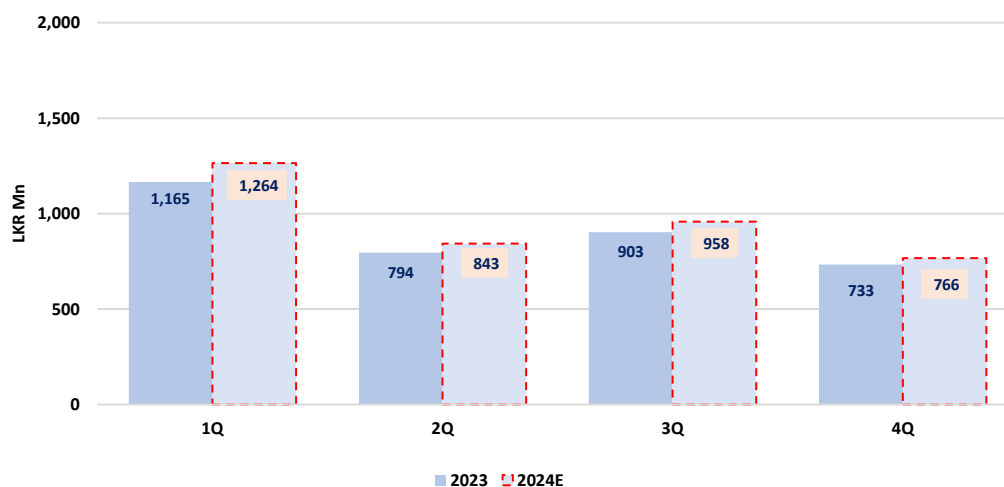
### TP reduced to LKR 140.0 for 2024E

The downward revision of the 2024E target price from LKR 160.0 to LKR 140.0, is largely due to the downward adjustment to the 2024E earnings (revised down by 17.4%YoY to LKR 3.8Bn), of which’s growth is expected to be tepid, given the slower than expected growth in the lubricant volumes. Furthermore, we also expect LLUB market share to remain challenged in the medium term (expected to remain around 47.0% levels with the next 3years), amidst challenges posed from imported and subpar quality lubricants.

### LLUB maintained buy with a total return of 35.2% for 2025E

LLUB volumes declined by 29.1%YoY to 14,573.7Kl during the 9M2023, affected by multiple factors from limited new registrations on vehicle imports to tripling of lubricant and fuel prices in the wake of high inflation. However, as predicted previously, the successful completion of the IMF 1<sup>st</sup> review reinstated the lost confidence of the business sector, as CBSL published purchasing managers Index crossed the neutral threshold of 50 in Nov-23, for the 1<sup>st</sup> time since Mar-23. The positive sentiment also trickled down to lubricant volumes, which showcased a YoY growth during 3Q2023. Considering the expected improvement in earnings together with the return of the normalized dividend payout of +95%, we believe that the current trading multiples of LLUB, isn’t justified given that the share trades at a 36.3% discount to the 10yr average PER of 9.0x against 2025E earnings. Therefore, taking into consideration the total annualized return of 24.0% on 2025E TP of LKR 150.0, we continue to maintain our rating on LLUB with **BUY**.

## Quarterly Earnings



## Estimate Revision

In LKR Mn	FY24E-O	FY24E-R	% Change	FY25E-O	FY25E-R	% Change
<b>Earnings Estimate</b>						
Revenue	26,465	22,930	-13%	31,962	25,506	-20%
Gross Profit	11,248	7,567	-33%	13,744	8,672	-37%
EBIT	7,553	5,008	-34%	8,802	5,800	-34%
Profit before Tax	6,627	5,473	-17%	8,306	5,960	-28%
Net Profit	4,639	3,831	-17%	5,814	4,172	-28%
Adjusted EPS	15.4	16.0		24.2	17.4	
<b>Balance Sheet Estimate</b>						
Shareholders' Equity	10,239	8,516	-17%	11,401	8,725	-23%
Borrowings	NA	NA	NA	NA	NA	NA
<b>Adjusted NAVPS</b>	<b>42.7</b>	<b>35.5</b>		<b>47.5</b>	<b>36.4</b>	

## Valuation Table

YE Dec/LKR Mn	2021	2022	2023	2024E	2025E	2026E
<b>Estimates (LKR 'Mn)</b>						
Revenue	16,866	24,575	23,253	22,930	25,506	26,084
Gross profit	6,178	10,287	7,423	7,567	8,672	9,129
EBIT	4,363	7,496	4,790	5,008	5,800	6,166
<b>Net Profit</b>	<b>3,926</b>	<b>3,666</b>	<b>3,595</b>	<b>3,831</b>	<b>4,172</b>	<b>4,446</b>
Adjusted EPS (LKR)	16.4	15.3	15.0	16.0	17.4	18.5
YoY Growth (%)	76.6%	-6.6%	-1.9%	6.6%	8.9%	6.6%
<b>Valuations</b>						
PER (x)	7.0x	7.5x	7.7x	7.2x	6.6x	6.2x
PBV (x)	5.5x	4.5x	3.3x	3.2x	3.2x	3.1x
DPS	13.0	5.0	14.0	15.2	16.5	17.6
DY (%)	11.3%	4.4%	12.2%	13.2%	14.4%	15.3%
Dividend Payout (%)	79.5%	32.7%	93.5%	95.0%	95.0%	95.0%
NAVPS	20.8	25.7	34.7	35.5	36.4	37.3

## Valuation Summary

Expected LLUB Price	2024E	2025E
PER Valuation based target price	143.7	156.5
DCF Valuation based target price	135.0	138.5
Average Target Price	139.4	147.5
Target Price after Rounding off	140.0	150.0

Return	2024E	2025E
Target Price	140.0	150.0
Current Price	114.8	114.8
Capital Gain (LKR)	25.3	35.3
Dividends upto 31 Dec (LKR)	15.2	16.5
Capital Gain %	22%	31%
Dividend Yield %	13%	14%
<b>Total Return %</b>	<b>35%</b>	<b>45%</b>
Annualized Return %	51%	24%

## Discounted Cash flow Valuation

DCF based Valuation	2024E	2025E
Enterprise Value	29,231	30,334
Debt (-)	(500)	(500)
Cash (+)	3,679	3,405
<b>Total Value of Equity</b>	<b>32,410</b>	<b>33,239</b>
No. of Shares (Mn)	240	240
Target Price	135.0	138.5

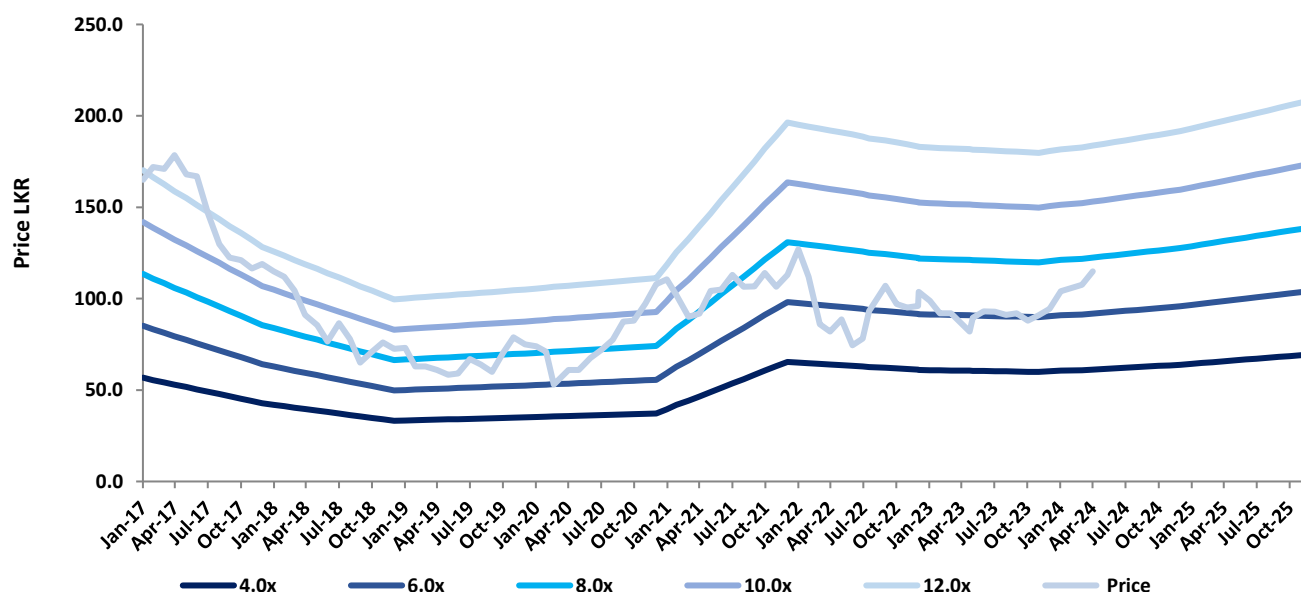
COE	2024E	2025E
Rf	11%	11%
Rm	19%	19%
Growth %	3%	3%
$\beta$	1.30	1.30
<b>Ke = Rf + <math>\beta</math>(Rm-Rf)</b>	<b>21%</b>	<b>21%</b>

## PER valuation

PER based Valuation	2024E	2025E
Earnings (LKR 'Mn)	3,831	4,172
No. of Shares ('Mn)	240	240
EPS	16.0	17.4
Expected PER	9x	9x
Price at 9x Earnings	143.7	156.5

WACC	2024E	2025E
Ke	21%	21%
Kd	18%	18%
D/E Assumption	10/90	10/90
Terminal Growth (%)	5%	5%
<b>WACC</b>	<b>21%</b>	<b>21%</b>

## PER Chart



## Appendix I: Statement of Income and Expenses

<b>Profit &amp; Loss Statement</b>						
<b>Y/E 31 December</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
Revenue	16,866	24,575	23,253	22,930	25,506	26,084
Cost of sales	(10,688)	(14,288)	(15,829)	(15,363)	(16,834)	(16,954)
<b>Gross profit</b>	<b>6,178</b>	<b>10,287</b>	<b>7,423</b>	<b>7,567</b>	<b>8,672</b>	<b>9,129</b>
Other operating income	8	2	12	9	10	10
Selling and distribution	(945)	(1,310)	(1,176)	(1,192)	(1,352)	(1,409)
Admin expenses	(878)	(1,484)	(1,469)	(1,376)	(1,530)	(1,565)
<b>EBIT</b>	<b>4,363</b>	<b>7,496</b>	<b>4,790</b>	<b>5,008</b>	<b>5,800</b>	<b>6,166</b>
Finance Income	(31)	(2,496)	354	465	160	186
PBT	4,333	5,000	5,145	5,473	5,960	6,352
Taxation	(407)	(1,334)	(1,549)	(1,642)	(1,788)	(1,906)
<b>Net Profit for the Period</b>	<b>3,926</b>	<b>3,666</b>	<b>3,595</b>	<b>3,831</b>	<b>4,172</b>	<b>4,446</b>
<b>Adjusted EPS</b>	<b>16.4</b>	<b>15.3</b>	<b>15.0</b>	<b>16.0</b>	<b>17.4</b>	<b>18.5</b>

## Appendix II: Statement of Financial Position

<b>Balance Sheet</b>						
<b>As at 31 December</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>
<b>Assets</b>						
<b>Non current assets</b>						
Property plant and equipment	1,661	1,589	1,612	1,560	1,525	1,497
Right-of-use assets	302	342	432	432	432	432
Non current receivables	64	70	59	59	59	59
	<b>2,028</b>	<b>2,001</b>	<b>2,102</b>	<b>2,050</b>	<b>2,016</b>	<b>1,987</b>
<b>Current Assets</b>						
Inventories	3,760	5,178	4,473	4,302	4,730	4,781
Receivables and prepayment	1,181	1,978	2,097	2,087	2,347	2,426
Short term investments	-	-	-	-	-	-
Cash and cash equivalents	4,025	3,876	3,257	3,679	3,405	3,555
	<b>8,966</b>	<b>11,033</b>	<b>9,827</b>	<b>10,067</b>	<b>10,482</b>	<b>10,762</b>
<b>Total Assets</b>	<b>10,993</b>	<b>13,034</b>	<b>11,929</b>	<b>12,118</b>	<b>12,497</b>	<b>12,749</b>
<b>Equity and Liabilities</b>						
<b>Capital and reserves</b>						
Ordinary shares	600	600	600	600	600	600
Retained Earnings	4,399	5,559	7,725	7,916	8,125	8,347
	<b>4,999</b>	<b>6,159</b>	<b>8,325</b>	<b>8,516</b>	<b>8,725</b>	<b>8,947</b>
<b>Non - current liabilities</b>						
Deferred tax liabilities	205	283	329	329	329	329
Defined benefit obligation	157	234	228	228	228	228
Lease liabilities	310	358	465	465	465	465
	<b>672</b>	<b>875</b>	<b>1,023</b>	<b>1,023</b>	<b>1,023</b>	<b>1,023</b>
<b>Current liabilities</b>						
Trade and other payables	4,739	5,040	1,617	1,613	1,784	1,814
Current tax liabilities	552	925	931	931	931	931
Lease liabilities	31	35	35	35	35	35
Borrowings	-	-	-	-	-	-
	<b>5,322</b>	<b>5,999</b>	<b>2,582</b>	<b>2,579</b>	<b>2,750</b>	<b>2,780</b>
<b>Total liabilities</b>	<b>5,995</b>	<b>6,875</b>	<b>3,605</b>	<b>3,601</b>	<b>3,773</b>	<b>3,802</b>
<b>Total equity &amp; liabilities</b>	<b>10,993</b>	<b>13,034</b>	<b>11,929</b>	<b>12,118</b>	<b>12,497</b>	<b>12,749</b>
<b>Adjusted BVPS</b>	<b>20.8</b>	<b>25.7</b>	<b>34.7</b>	<b>35.5</b>	<b>36.4</b>	<b>37.3</b>



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