



CHEVRON LUBRICANTS PLC [LLUB.N0000]

HOLD

“YELLOW LIGHTS AHEAD”

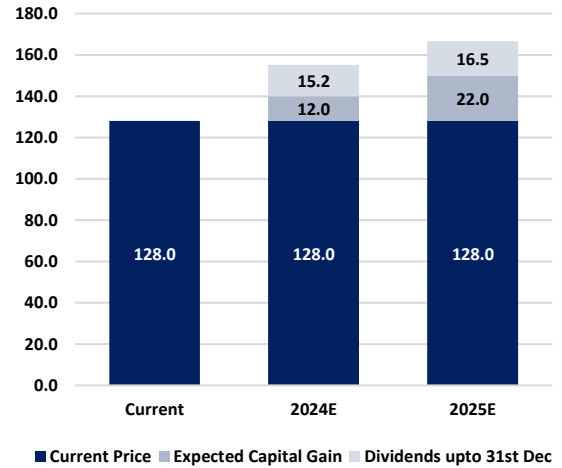
Fair Value: 2024E - LKR 140.0 [+9%]

Total Return with DPS: 2024E - 21% [AER 40%]

2025E - LKR 150.0 [+17%]

2025E - 30% [AER 18%]

LLUB's net profits increased by 91.3%QoQ and 20.3%YoY to LKR 1.4Bn during 1Q2024, driven primarily by a 27.8%QoQ and 13.0%YoY rise in revenue. The notable increase in gross margins by 341bpsYoY and 496bpsQoQ was primarily driven by a shift in consumer demand towards higher-margin canned products compared to the 1Q2023. This expansion is further aided by taming down inflation and improvement in disposable income, collectively contributing to the increase in volume. The optimistic projections for 2024E and 2025E stand strong, supported by a marked increase in economic activity. Additionally, the reduction in interest rates and the anticipated receipt of the third tranche of the IMF agreement are set to enhance business confidence and bolster disposable income. These factors are poised to stimulate growth in lubricant volumes in the upcoming months as policy relaxation persists. However, considering the past 12 months, the LLUB price has seen a sharp increase of 46.1%. As a result, the AER has decreased to 18% in 2025, leading us to downgrade our recommendation for LLUB to HOLD.



FIRST CAPITAL RESEARCH

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LKR (Mn)	1Q2023	1Q2024	YoY	2022	2023	YoY
Earnings (LKR 'Mn)						
Revenue	6,251	7,061	+13%	24,575	23,253	-5%
Gross Profit	2,081	2,591	+25%	10,287	7,423	-28%
Operating Profit	1,457	1,889	+30%	7,496	4,790	-36%
PBT	1,671	2,000	+20%	5,000	5,145	+3%
Net Profit	1,165	1,402	+20%	3,666	3,603	-2%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	7,330	7,820	+7%	6,159	8,332	+35%
Borrowings	NA	NA	NA	NA	NA	NA
NAVPS	30.5	32.6	+7%	25.7	34.7	+35%

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



Source: CSE

LLUB's net profit up by 20.3%YoY to LKR 1.4Bn, +9.9% variance in our 1Q2024 estimates

LLUB posted a noteworthy 20.3%YoY increase in net profit to LKR 1.4Bn in 1Q2024, surpassing our estimate by 9.9% at LKR 1.3Bn. This marks a significant improvement compared to the preceding five quarters. The surge in profitability can be attributed primarily to a 27.8%QoQ rise in revenue as improvements in the product mix, accompanied by reductions in selling and distribution expenses by 15.5%QoQ, administrative expenses by 2.2%QoQ, and a substantial 177.4%QoQ increase in finance income. The growth in revenue is primarily driven by increased volume, supported by price reductions passed onto the market coupled with the taming down inflation and enhancements in disposable income, has contributed to the expansion in volumes. Additionally other operating income has decreased due to appreciation of the Sri Lankan rupee.

Minimum Return for BUY:

Buy Below 2025E - [AER of 18% with DPS]: LKR 127
 LLUB categorized as 'Grade A' 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.

Margins upsurge modestly in 1Q2024, signaling recovery from the prior quarter's decline

LLUB witnessed a significant uptick in gross profit margins, surging by 341bpsYoY and 496bpsQoQ. This improvement is attributed to the sustained enhancement in disposable income, driving heightened demand for canned oil, a high-margin product. In the previous year, amidst disposable income constraints, consumers leaned towards purchasing cheaper loose oil. However, as disposable income continues to rise, we anticipate a gradual enhancement in canned oil demand, thereby bolstering margins in the forthcoming months. Additionally, despite experiencing EBIT margin erosion in 4Q2023, LLUB rebounded with a 26.8% in 1Q2024, attributed to reductions in S&M and administrative expenses despite declines in other operating income by 16.9%YoY and 95.4%QoQ. Nevertheless, net profit margins experienced a marginal uptick by 122bpsYoY and 660bpsQoQ, propelled by the favorable impact of finance income on the bottom-line expansion.

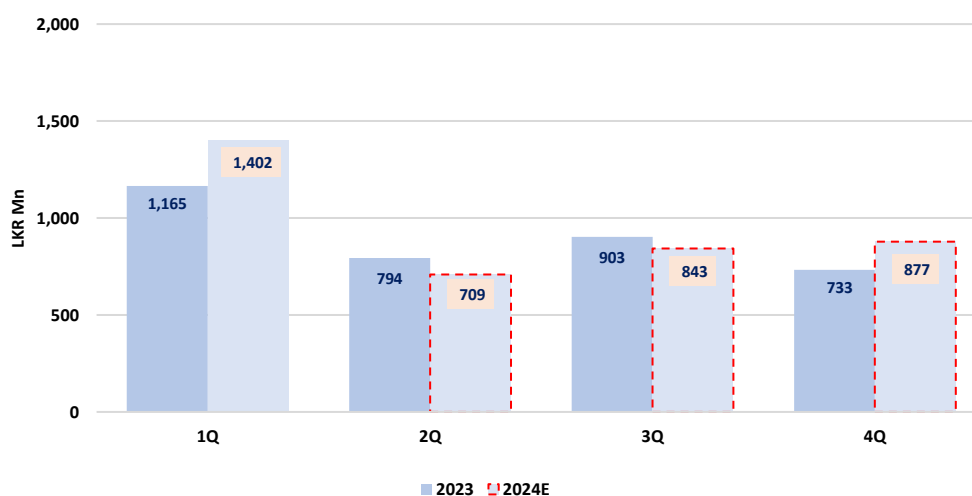
LLUB declared its first interim dividend of LKR 4.0/share for 2024E

Looking ahead, we anticipate LLUB will sustain a dividend payout ratio of 95.0%. For 2024E, we project a dividend payment of LKR 15.2/share, followed by LKR 16.5/share in 2025E. This translates to a dividend yield of 11.9% in 2024E and 13.0% in 2025E, reflecting the company's promising growth prospects.

LLUB revised down to HOLD

The volumes of LLUB experienced a YoY decline of -29.1% between Jan-23 and Sep-23, largely due to depressed operating climate witnessed during the past 12 months. However, there was a noticeable QoQ volumes growth within the first three quarters of 2023, as business confidence improved evident by LMD PEPPERCUBE Business Confidence Index (BCI) increased during first three quarters in 2023 compared to same period in 2022. Since we anticipate LLUBs volumes to grow at a 4-year CAGR of 2.3%, considering the nature of the lubricants industry and macro-economic tailwinds coupled with LLUB's future prospects such as capacity to growth with capacity utilization, we maintain our estimates for 2024E and 2025E. Over the past 12 months, the LLUB price has seen a sharp increase of 46.1%. As a result, the AER has decreased to 18% in 2025, leading us to downgrade our recommendation for LLUB to **HOLD**.

Quarterly Earnings



Estimate Revision

In LKR Mn	2024E-O	2024E-R	% Change	2025E-O	2025E-R	% Change
Earnings Estimate						
Revenue	22,930	22,930	0.0%	25,506	25,506	0.0%
Gross Profit	7,567	7,567	0.0%	8,672	8,672	0.0%
EBIT	5,008	5,008	0.0%	5,800	5,800	0.0%
Profit before Tax	5,473	5,473	0.0%	5,960	5,960	0.0%
Net Profit	3,831	3,831	0.0%	4,172	4,172	0.0%
Adjusted EPS	16.0	16.0		17.4	17.4	
Balance Sheet Estimate						
Shareholders' Equity	8,524	8,524	0.0%	8,732	8,732	0.0%
Borrowings	NA	NA	NA	NA	NA	NA
Adjusted NAVPS	35.5	35.5		36.4	36.4	
Ratio Estimate						
ROE (%)		44.9%			47.8%	
PER (x)		8.4			8.5	

Valuation Table

YE Dec/LKR Mn	2021	2022	2023	2024E	2025E	2026E	2027E
Estimates (LKR 'Mn)							
Revenue	16,866	24,575	23,253	22,930	25,506	26,084	29,119
Gross profit	6,178	10,287	7,423	7,567	8,672	9,129	10,483
EBIT	4,363	7,496	4,790	5,008	5,800	6,166	7,145
Net Profit	3,926	3,666	3,603	3,831	4,172	4,446	5,161
Adjusted EPS (LKR)	16.4	15.3	15.0	16.0	17.4	18.5	21.5
YoY Growth (%)	76.6%	-6.6%	-1.7%	6.3%	8.9%	6.6%	16.1%
Valuations							
PER (x)	7.8x	8.4x	8.5x	8.0x	7.4x	6.9x	6.0x
PBV (x)	6.1x	5.0x	3.7x	3.6x	3.5x	3.4x	3.3x
DPS	13.0	5.0	14.0	15.2	16.5	17.6	20.4
DY (%)	10.2%	3.9%	10.9%	11.8%	12.9%	13.8%	16.0%
Dividend Payout (%)	79.5%	32.7%	93.3%	95.0%	95.0%	95.0%	95.0%
NAVPS	20.8	25.7	34.7	35.5	36.4	37.3	38.4

Valuation Summary

Expected LLUB Price	2024E	2025E
PER Valuation based target price	143.7	156.5
DCF Valuation based target price	141.0	138.5
Average Target Price	142.3	147.5
Target Price after Rounding off	140.0	150.0

Return	2024E	2025E
Target Price	140.0	150.0
Current Price	128.0	128.0
Capital Gain (LKR)	12.0	22.0
Dividends upto 31 Dec (LKR)	15.2	16.5
Capital Gain %	9%	17%
Dividend Yield %	11.8%	12.9%
Total Return %	21%	30%
Annualized Return %	40%	18%

Discounted Cash flow Valuation

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

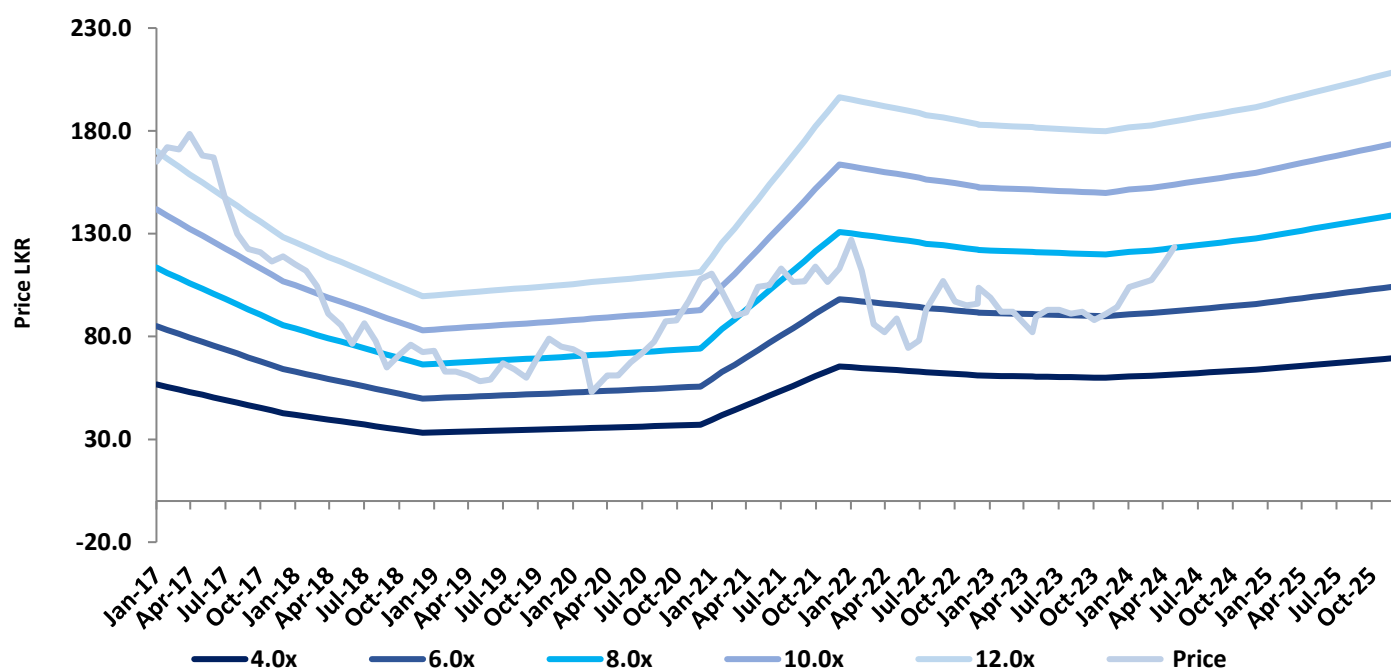
COE	2024E	2025E
Rf	10%	11%
Rm	18%	19%
Growth %	3%	3%
β	1.30	1.30
$K_e = R_f + \beta(R_m - R_f)$	20%	21%

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
K_e	20%	21%
K_d	18%	18%
D/E Assumption	10/90	10/90
Terminal Growth (%)	5%	5%
WACC	20%	21%

PER Chart



Appendix I: Statement of Income and Expenses

Profit & Loss Statement							
Y/E 31 December	2020	2021	2022	2023	2024E	2025E	2026E
Revenue	11,637	16,866	24,575	23,253	22,930	25,506	26,084
Cost of sales	(7,020)	(10,688)	(14,288)	(15,829)	(15,363)	(16,834)	(16,954)
Gross profit	4,617	6,178	10,287	7,423	7,567	8,672	9,129
Other operating income	2	8	2	12	9	10	10
Selling and distribution	(778)	(945)	(1,310)	(1,176)	(1,192)	(1,352)	(1,409)
Admin expenses	(808)	(878)	(1,484)	(1,469)	(1,376)	(1,530)	(1,565)
EBIT	3,033	4,363	7,496	4,790	5,008	5,800	6,166
Finance Income	63	(31)	(2,496)	354	465	160	186
PBT	3,097	4,333	5,000	5,145	5,473	5,960	6,352
Taxation	(874)	(407)	(1,334)	(1,541)	(1,642)	(1,788)	(1,906)
Net Profit for the Period	2,223	3,926	3,666	3,603	3,831	4,172	4,446
Adjusted EPS	9.3	16.4	15.3	15.0	16.0	17.4	18.5

Appendix II: Statement of Financial Position

Balance Sheet							
As at 31 December	2020	2021	2022	2023	2024E	2025E	2026E
Assets							
Non current assets							
Property plant and equipment	1,758	1,661	1,589	1,612	1,560	1,525	1,497
Right-of-use assets	343	302	342	432	432	432	432
Non current receivables	79	64	70	59	59	59	59
	2,180	2,028	2,001	2,102	2,050	2,016	1,987
Current Assets							
Inventories	2,691	3,760	5,178	4,473	4,302	4,730	4,781
Receivables and prepayment	1,082	1,181	1,978	2,113	2,087	2,347	2,426
Short term investments	-	-	-	-	-	-	-
Cash and cash equivalents	1,899	4,025	3,876	3,257	3,679	3,405	3,555
	5,671	8,966	11,033	9,843	10,067	10,482	10,762
Total Assets	7,852	10,993	13,034	11,945	12,118	12,497	12,749
Equity and Liabilities							
Capital and reserves							
Ordinary shares	600	600	600	600	600	600	600
Retained Earnings	3,580	4,399	5,559	7,732	7,924	8,132	8,355
	4,180	4,999	6,159	8,332	8,524	8,732	8,955
Non - current liabilities							
Deferred tax liabilities	192	205	283	329	329	329	329
Defined benefit obligation	247	157	234	207	207	207	207
Lease liabilities	332	310	358	465	465	465	465
	771	672	875	1,002	1,002	1,002	1,002
Current liabilities							
Trade and other payables	2,167	4,739	5,040	1,632	1,613	1,784	1,814
Current tax liabilities	699	552	925	944	944	944	944
Lease liabilities	34	31	35	35	35	35	35
Borrowings	-	-	-	-	-	-	-
	2,900	5,322	5,999	2,611	2,592	2,763	2,793
Total liabilities	3,671	5,995	6,875	3,613	3,594	3,765	3,795
Total equity & liabilities	7,852	10,993	13,034	11,945	12,118	12,497	12,749
Adjusted BVPS	17.4	20.8	25.7	34.7	35.5	36.4	37.3



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