



CHEVRON LUBRICANTS PLC [LLUB.N0000]

MAINTAIN HOLD

“GIANT BACK IN ITS STRIDE”

Fair Value: 2024E - LKR 140.0 [+14%]

Total Return with DPS: 2024E - 21% [AER 58%]

2025E - LKR 150.0 [+22%]

2025E - 36% [AER 24%]

LLUB reported a net profit of LKR 747.6Mn for 2Q2024, inline with our estimates (variance of +5.5%). The profitability for 2Q2024 declined marginally owing to the 76.1%YoY decline in net finance income and +11.8%YoY escalation in operating expenses. However, despite the off-season month for volumes, LLUB managed to maintain revenues at LKR 5.3Bn (-0.8%YoY) whilst gross profit margin improved by 222bpsYoY to 32.5% aided by shift in demand for high margin products benefitted through decline in inflation and improvement in real wages. Furthermore, much awaited news on the resumption of vehicle imports was also announced during the quarter, which we expect to augur well towards volumes in the coming months. Meanwhile, having already considered the positive developments of the company, we maintain our earnings estimates for LLUB at LKR 3.8Bn for 2024E and LKR 4.2Bn for 2025E. Given the limited upside to our 2025E target price of LKR 150.0, we continue to maintain our recommendation at HOLD.

LKR (Mn)	2Q2023	2Q2024	YoY	1H2023	1H2024	YoY
Earnings (LKR 'Mn)						
Revenue	5,327	5,285	-1%	11,577	12,347	+7%
Gross Profit	1,616	1,720	+6%	3,696	4,312	+17%
Operating Profit	1,009	1,043	+3%	2,466	2,932	+19%
PBT	1,142	1,074	-6%	2,813	3,074	+9%
Net Profit	794	748	-6%	1,960	2,150	+10%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	8,125	7,608	-6%	8,125	7,608	-6%
Borrowings	NA	NA	NA	NA	NA	NA
NAVPS	33.9	31.7	-6%	33.9	31.7	-6%

LLUB net profits inline with our estimates (+5.5% variance)

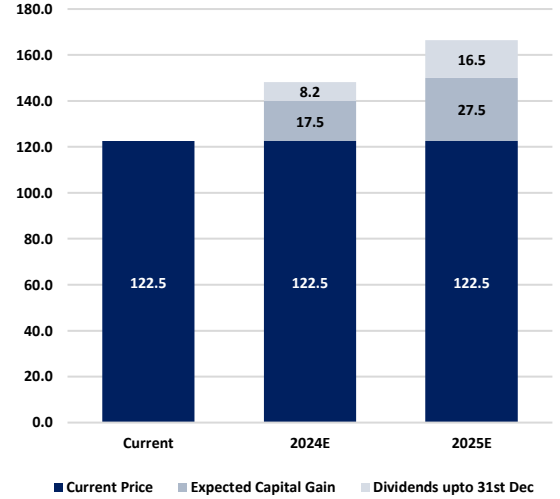
LLUB reported a net profit declined by 5.9%YoY to LKR 747.6Mn in 2Q2024, in line with our estimates (+5.5% variance). The decline in profitability during the period was largely owing to the decline in net finance income by 76.1%YoY to LKR 31.7Mn, whilst operating expenses also edged up by 11.8%YoY to LKR 678.1Mn. Meanwhile, on the flip side, despite the stagnant revenues during the quarter (-0.8%YoY to LKR 5.3Bn) largely owing to unchanged prices, gross profit margin improved by 222bpsYoY to 32.5% in 2Q2024, benefitted by better capacity utilization at its manufacturing plant whilst crude oil prices edged up marginally (+9.7%YoY to USD 80.63/barrel) during the period under review. Furthermore, in tandem with the improvement in real wages, a recovery in high margin canned oil sales was observed, shifting back from increased demand that was seen to the loose oil segment.

LLUB declared its first interim dividend of LKR 3.0/share for 2Q2024

Back in its routine as a consistent dividend player, LLUB announced its second dividend on 30th July 2024 of LKR 3.0/share, bringing the total paid for the 2024E to LKR 7.0/share. Having previously paid out around 95% of their earnings through dividends, we expect LLUB total dividend for 2024E to sum up to LKR 15.2/share whilst 2025E dividend is expected to be LKR 16.5/share, offering a dividend yield of 12.4% and 13.5%, respectively.

LLUB maintained at HOLD, earnings forecast maintained

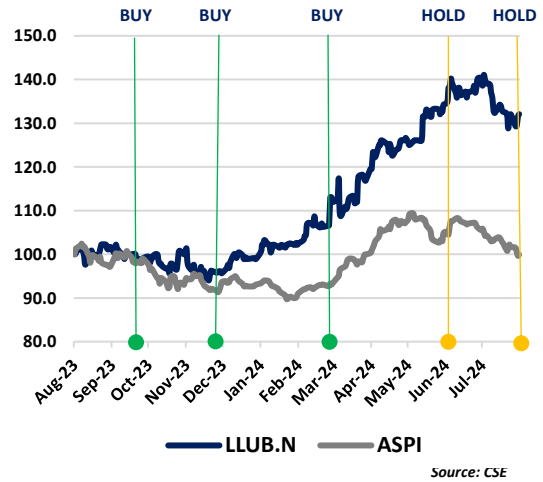
With results largely inline with our estimates, we maintain our earnings at LKR 3.8Bn for 2024E and LKR 4.2Bn for 2025E. Since our last update, few positive developments have occurred which we believe is positive for LLUB, including downward revision of fuel prices and a plan to gradually lift vehicle imports. Having already considered the above developments in our target price and earnings, and with the limited upside on the share, we continue to maintain our recommendation at HOLD.



FIRST CAPITAL RESEARCH

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



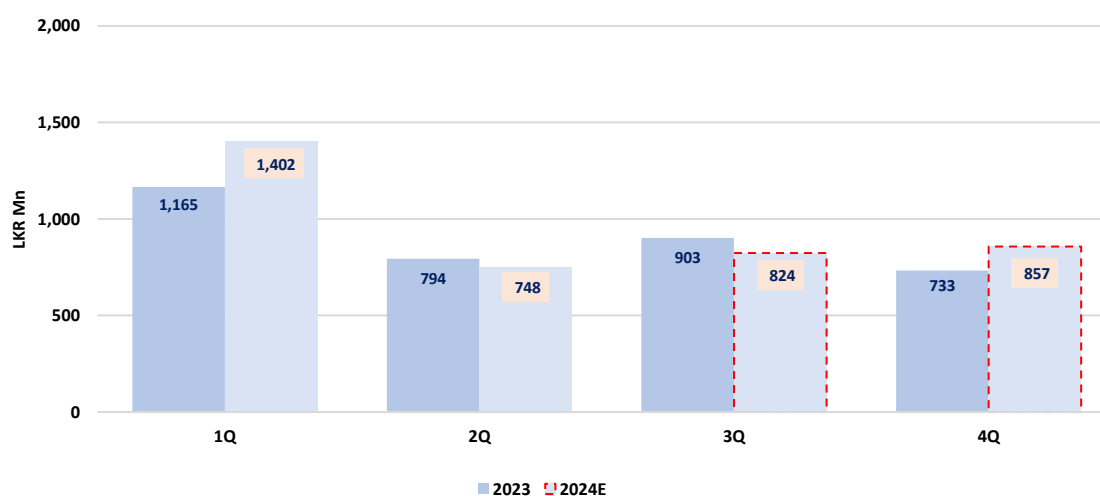
Minimum Return for BUY:

Buy Below 2025E - [AER of 18% with DPS]: LKR 126.8
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



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)	7.5x	8.0x	8.2x	7.7x	7.0x	6.6x	5.7x
PBV (x)	5.9x	4.8x	3.5x	3.4x	3.4x	3.3x	3.2x
DPS	13.0	5.0	14.0	15.2	16.5	17.6	20.4
DY (%)	10.6%	4.1%	11.4%	12.4%	13.5%	14.4%	16.7%
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	122.5	122.5
Capital Gain (LKR)	17.5	27.5
Dividends upto 31 Dec (LKR)	15.2	16.5
Capital Gain %	14%	22%
Dividend Yield %	12.4%	13.5%
Total Return %	27%	36%
Annualized Return %	77%	24%

Discounted Cash flow Valuation

DCF based Valuation	2024E	2025E
Enterprise Value	30,663	30,334
Debt (-)	(500)	(500)
Cash (+)	3,679	3,405
Total Value of Equity	33,842	33,239
No. of Shares (Mn)	240	240
Target Price	141.0	138.5

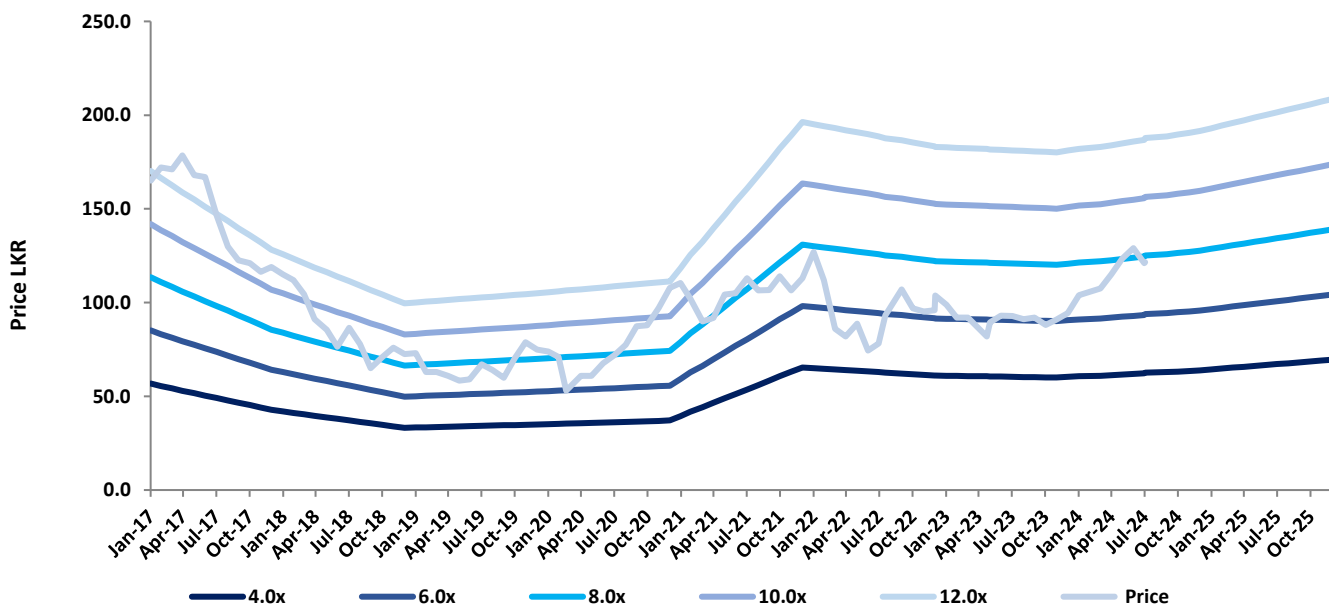
COE	2024E	2025E
Rf	10%	11%
Rm	18%	19%
Growth %	3%	3%
β	1.30	1.30
$K_e = R_f + \beta(R_m - R_f)$	20%	21%

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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