



CHEVRON LUBRICANTS PLC [LLUB.N0000]

MAINTAIN HOLD

"READY, GET SET, HOLD"

Fair Value: 2024E - LKR 140.0 [+8%]

Total Return with DPS: 2024E - 20% [AER 244%]

2025E - LKR 150.0 [+16%]

2025E - 29% [AER 25%]

LLUB reported earnings of LKR 1.0Bn, reflecting a 14.3%YoY (37.9%QoQ) growth, surpassing our forecast of LKR 823.6Mn by 25.3%. The bottom-line growth can be primarily attributed a 316bps improvement in gross profit margin, a 3.0%YoY (1.3%QoQ) reduction in administrative expenses, and a significant over 100%YoY (51.7%QoQ) increase in net finance income, despite a 19.8%YoY (3.7%QoQ) rise in sales and distribution expenses. Looking ahead, we maintain our earnings forecasts for LLUB at LKR 3.8Bn for 2024E and LKR 4.2Bn for 2025E as LLUB is expected to benefit from several positive factors, including the removal of vehicle import restrictions and favourable developments in the rubber industry (where LLUB has significant exposure which should provide tailwinds for the company). However, given that LLUB operates in a matured industry, we anticipate that volume growth will be slower despite these macroeconomic tailwinds. Additionally, increased competition within the industry is likely to pressure LLUB to continue offering discounts to customers, which may further challenge in expansion of the operating margin. Given these factors, we maintain our target prices at LKR 140.0 per share for 2024E and LKR 150.0 per share for 2025E, as we maintain our recommendation **HOLD**.

| LKR (Mn) | 3Q2023 | 3Q2024 | YoY | 9M2023 | 9M2024 | YoY |
|--------------------------------|--------|--------|------|--------|--------|------|
| Earnings (LKR 'Mn) | | | | | | |
| Revenue | 6,149 | 5,994 | -3% | 17,726 | 18,341 | +3% |
| Gross Profit | 1,973 | 2,113 | +7% | 5,670 | 6,425 | +13% |
| Operating Profit | 1,334 | 1,429 | +7% | 3,800 | 4,361 | +15% |
| PBT | 1,313 | 1,477 | +12% | 4,126 | 4,551 | +10% |
| Net Profit | 903 | 1,031 | +14% | 2,862 | 3,181 | +11% |
| Balance Sheet (LKR 'Mn) | | | | | | |
| Shareholder's Equity | 8,547 | 7,919 | -7% | 8,547 | 7,919 | -7% |
| Borrowings | NA | NA | NA | NA | NA | NA |
| NAVPS | 35.6 | 33.0 | -7% | 35.6 | 33.0 | -7% |

LLUB's net profit up by 14.3%YoY to LKR 1.0Bn, +25.3% variance in our 3Q2024 estimates

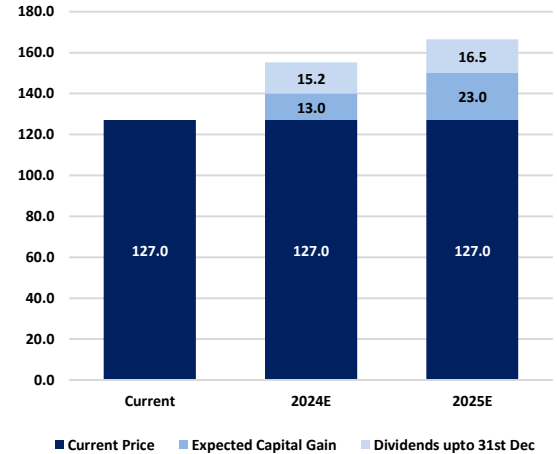
LLUB reported earnings of LKR 1.0Bn, reflecting a 14.3%YoY (37.9%QoQ) growth, surpassing our forecast of LKR 823.6Mn by 25.3%. The bottom-line growth can be primarily attributed a 316bps improvement in gross profit margin, a 3.0%YoY (1.3%QoQ) reduction in administrative expenses, and a significant over 100%YoY (51.7%QoQ) increase in net finance income, despite a 19.8%YoY (3.7%QoQ) rise in sales and distribution expenses. The gross profit margin improvement was mainly driven by higher demand for the high-margin canned oil and loose oil products, as well as a 7.1%YoY (-8.8%QoQ) reduction in cost of sales (COS), which was partly due to a 2.2% appreciation in the Sri Lankan rupee during 3Q2024, lowering raw material costs. Despite product price reductions in response to increased competition, which led to a 2.5%YoY decline in revenue (+13.4%QoQ), the company benefited from higher sales volumes due to increased product discounts, which boosted overall profitability. Additionally, a 59.6%YoY (2.5%QoQ) decrease in finance costs supported the bottom-line performance stemming from decrease in the AWPLR to a single-digit level.

FCR forecasts that LLUB will maintain a dividend payout ratio of 95% for 2024E

Looking ahead, we expect LLUB to maintain a dividend payout ratio of 95.0% for the 2024E and 2025E, a slight decrease from the Covid-19 adjusted 6-year average payout ratio of 105.2%, as FCR adopts a more conservative approach considering about LLUB's maturity stage. For 2024E, we project a total dividend of LKR 15.2 per share, followed by LKR 16.5 per share in 2025E. This would result in a dividend yield of 11.7% in 2024E and 12.8% in 2025E, reflecting LLUB as a consistent dividend player.

FCR maintains the recommendation as HOLD

We maintain our earnings forecasts for LLUB at LKR 3.8Bn for 2024E and LKR 4.2Bn for 2025E. LLUB is expected to benefit from several positive factors, including the removal of vehicle import restrictions, favourable developments in the rubber industry (where LLUB has significant exposure), and a general economic recovery, which should provide tailwinds for the company. However, given that LLUB operates in a matured industry, we anticipate that volume growth will be slower despite these macroeconomic tailwinds. Additionally, increased competition within the industry is likely to pressure LLUB to continue offering discounts to customers, which may further challenge in expansion of the operating margin. Given these factors, we maintain our target prices at LKR 140.0 per share for 2024E and LKR 150.0 per share for 2025E, as we maintain our recommendation **HOLD**.



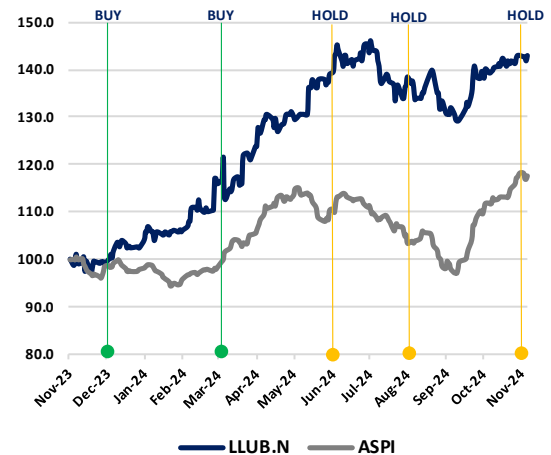
FIRST CAPITAL RESEARCH

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



Source: CSE

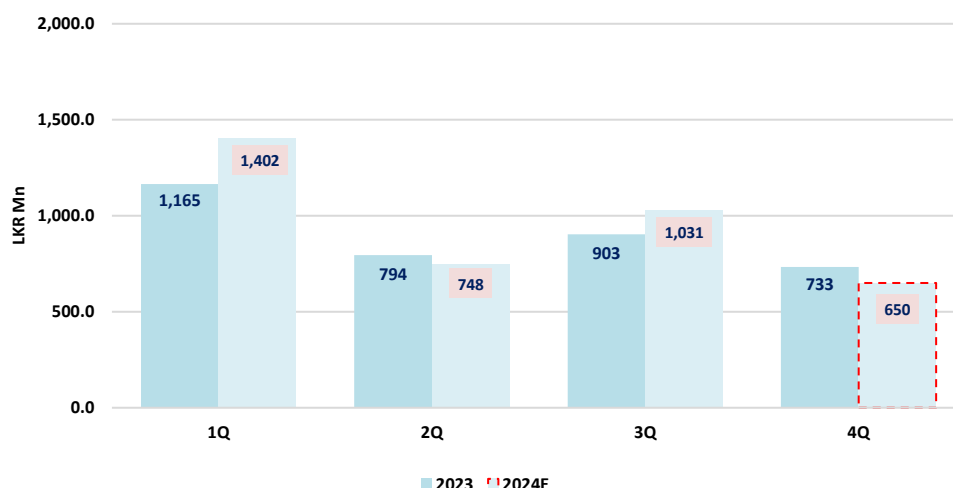
Minimum Return for BUY:

Buy Below 2025E - [AER of 19% with DPS]: LKR 150.0
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



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% | 44.9% | | 47.8% | 47.8% | |
| PER (x) | 8.5 | 8.5 | | 8.6 | 8.6 | |

Valuation Table

| YE Dec/LKR Mn | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E | 2027E |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Estimates (LKR 'Mn) | | | | | | | | |
| Revenue | 11,637 | 16,866 | 24,575 | 23,253 | 22,930 | 25,506 | 26,084 | 29,119 |
| Gross profit | 4,617 | 6,178 | 10,287 | 7,423 | 7,567 | 8,672 | 9,129 | 10,483 |
| EBIT | 3,033 | 4,363 | 7,496 | 4,790 | 5,008 | 5,800 | 6,166 | 7,145 |
| Net Profit | 2,223 | 3,926 | 3,666 | 3,603 | 3,831 | 4,172 | 4,446 | 5,161 |
| Adjusted EPS (LKR) | 9.3 | 16.4 | 15.3 | 15.0 | 16.0 | 17.4 | 18.5 | 21.5 |
| YoY Growth (%) | 5.9% | 76.6% | -6.6% | -1.7% | 6.3% | 8.9% | 6.6% | 16.1% |
| Valuations | | | | | | | | |
| PER (x) | 14.0x | 7.9x | 8.5x | 8.6x | 8.1x | 7.4x | 7.0x | 6.0x |
| PBV (x) | 7.4x | 6.2x | 5.0x | 3.7x | 3.6x | 3.6x | 3.5x | 3.4x |
| DPS | 9.0 | 13.0 | 5.0 | 14.0 | 15.2 | 16.5 | 17.6 | 20.4 |
| DY (%) | 7.0% | 10.1% | 3.9% | 10.8% | 11.7% | 12.8% | 13.6% | 15.8% |
| Dividend Payout (%) | 97.2% | 79.5% | 32.7% | 93.3% | 95.0% | 95.0% | 95.0% | 95.0% |
| NAVPS | 17.4 | 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 | 146.3 | 143.4 |
| Average Target Price | 145.0 | 149.9 |
| Target Price after Rounding off | 140.0 | 150.0 |

| Return | 2024E | 2025E |
|-----------------------------|------------|------------|
| Target Price | 140.0 | 150.0 |
| Current Price | 129.3 | 129.3 |
| Capital Gain (LKR) | 10.8 | 20.8 |
| Dividends upto 31 Dec (LKR) | 15.2 | 16.5 |
| Capital Gain % | 8% | 16% |
| Dividend Yield % | 12% | 13% |
| Total Return % | 20% | 29% |
| Annualized Return % | 244% | 25% |

Discounted Cash flow Valuation

| DCF based Valuation | 2024E | 2025E |
|-----------------------|--------|--------|
| Enterprise Value | 31,928 | 31,511 |
| Debt (-) | (500) | (500) |
| Cash (+) | 3,679 | 3,405 |
| Total Value of Equity | 35,107 | 34,415 |
| No. of Shares (Mn) | 240 | 240 |
| Target Price | 146.3 | 143.4 |

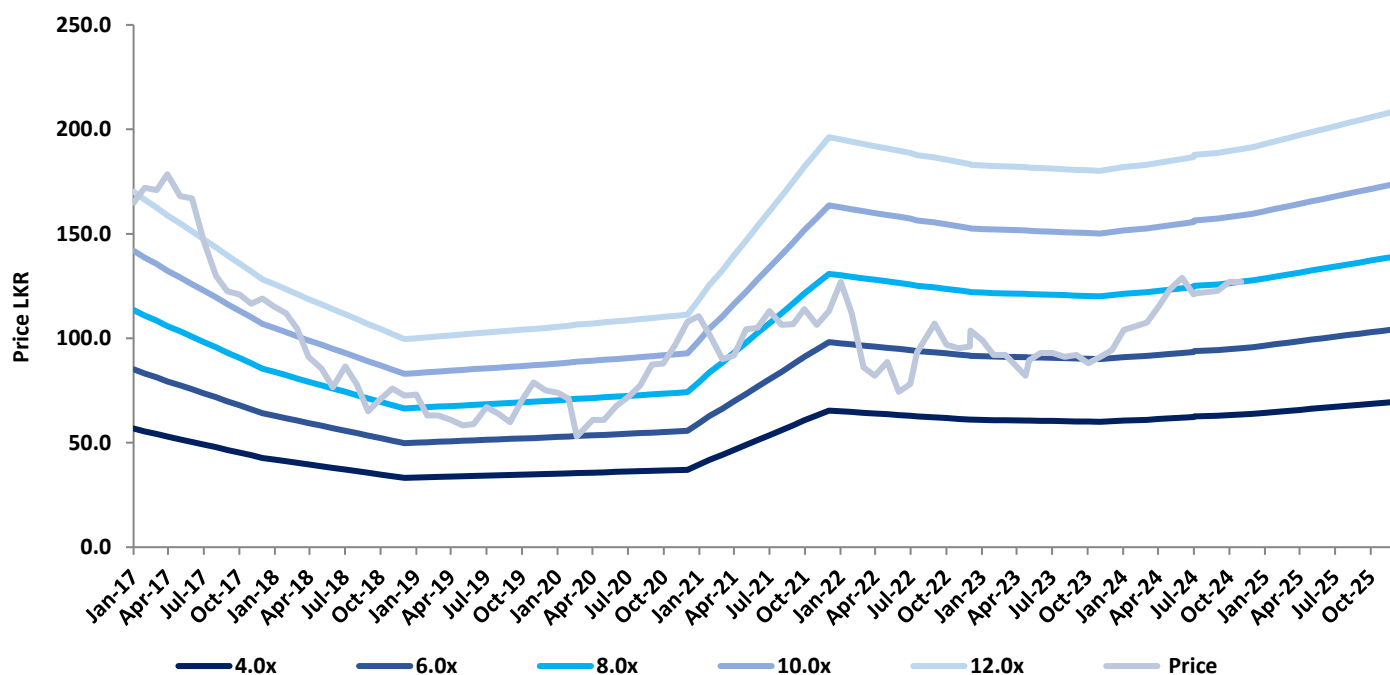
| COE | 2024E | 2025E |
|--------------------------------|-------|-------|
| Rf | 10% | 11% |
| Rm | 18% | 19% |
| Growth % | 3% | 3% |
| β | 1.20 | 1.20 |
| $K_e = R_f + \beta(R_m - R_f)$ | 20% | 21% |

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 | 19% | 20% |

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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RESEARCH

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| Vinodhini Rajapoopathy | +94 11 2639 866 | Manusha Kandanaarachchi | +94 11 2639 866 |
| Tharusha Ashokgar | +94 11 2639 866 | | |

GOVERNMENT SECURITIES SALES

| | | | |
|---------------------|-----------------|----------------|-----------------|
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| Anushka Dissanayake | +94 77 2220 021 | | |
| Anushi Ranawaka | +94 77 3876 819 | | |

CORPORATE DEBT SALES

| | |
|--------------------|------------------|
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|--------------------|------------------|

EQUITY SALES

| | | Equity Branches | |
|----------------------|------------------|---------------------|--|
| CEO | Jaliya Wijeratne | +94 71 5329 602 | |
| | | Negombo | Priyanka Anuruddha +94 77 4546 070 Priyantha Wijesiri +94 77 9065 779 |
| Colombo | | | |
| Rasika Vidanalage | +94 77 7072 698 | | |
| Isuru Jayawardana | +94 76 7084 953 | | |
| Nishantha Mudalige | +94 77 3204 929 | | |
| Anushka Buddhika | +94 71 4310 600 | Agents | |
| Thushara Pathiraja | +94 77 0076 314 | Colombo | Kithsiri Jayasinghe +94 77 7790 657 |
| Anjelo LaBrooy | +94 77 7546 645 | Anuradhapura | Amila Luwishewa +94 71 0628 195 |
| Dillon Lowe | +94 76 6160 647 | Galle | Nuwan Abeynayake +94 77 7288 274 |
| Evelyn John | +94 77 779 2452 | Kandy | Ajith Ihalawatta +94 77 8477 530 |
| Yudheshan Kannadasan | +94 77 415 5809 | Embilipitiya | Ruwan Wanniarachchi +94 77 3877 734 |

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, 1 st Floor, E.H.Coaray Tower, No.24, Anagarika Dharmapala Mawatha, Matara 81000. | Colombo Stock Exchange Negombo Branch Office, No. 72 A, 2/1, Old Chilaw Road, Negombo 11500. |
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