



Recommendation: BUY

Target price - LKR 125.00

Sector- Materials

**Market leadership to spur the bottom-line**

YE DEC/(LKR Mn)	2019	2020	2021	2022	2023E	2024E	2025E
Net Profit	2,099	2,226	3,926	3,666	3,912	4,430	4,884
YoY growth (%)	5%	6%	76%	-7%	7%	13%	10%
EPS (LKR)	8.7	9.3	16.4	15.3	16.3	18.5	20.4
DPS (LKR)	7.8	9.0	13.0	7.0	9.8	11.1	16.3
BVPS (LKR)	17.2	17.4	20.8	25.7	42.0	49.3	53.4
PE (X)	10.3	9.7	5.5	5.9	5.5	4.9	4.4
PBV (x)	5.2	5.2	4.3	3.5	2.2	1.8	1.7
Dividend Payout	89%	97%	79%	46%	60%	60%	80%
Div Yield (%)	8.6%	10.0%	14.4%	7.7%	10.8%	12.3%	18.0%

Prices as at 08.12.2023

- Chevron Lubricants Lanka PLC's (LLUB)- market leader in lubricant market-topline for 3Q'23 stood at LKR 6.1Bn (+2% YoY) despite, recording a decline in bottom line of 38% YoY of LKR 902.5Mn. GP margins however improved to 32% in 3Q'23 after dropping significantly over the quarters due to amplified headwinds faced due to cost pressures . We expect the volumes to pick up on the back of economic revival and likely relaxation of import restrictions on vehicles despite seen significant drops in sales volume (down 41%YoY in 1H'23 vs 1H'22) due to economic hardships faced in general. We expect LLUB to post a bottom line of LKR 3.9Bn for FY23E, recording a 7%YoY increase on the back of normalizing macro pressures, and more stable LKR.**

- LLUB's market leadership to act as a catalyst :** We expect LLUB to maintain its market share in the range of 45% -50% during the forecast period despite short term headwinds faced due to pressure on volumes an intense competition thus resulting in sustainable earnings. (Lubricant market saw a notable decline of 41% YoY in 1H'23 in volumes, primarily owing to the wallet pressure faced by consumers). With economy gradually returning to normal, the demand for lubricants is expected pickup around the mid of 2024E in our view and continue to do so in 2025E. With a market share of more than roughly 45% in 2Q'23, LLUB is anticipated to hold its position as the industry leader and continue to do so in the forecasted time, thus acting as a catalyst.

- Earnings expected to grow by 7%YoY to LKR 3.9Bn by 2023E and jump by 13%YoY to LKR 4.4Bn by 2024E :** We expect in the absence of forex losses and lower input costs (as the LKR appreciated by c.10%YTD)LLUB's earnings to grow by 7%YoY to LKR 3.9Bn for FY2023E (LLUB faced mounting pressure on costs due to high inflation and significant depreciation of the LKR, thus facing margin pressure due to difficulty in passing on cost to customers).

- Revival in economic activities to help improve LLUB's bottom line:** While the ongoing economic crisis has affected the automotive oil and industrial oil segments, exposing numerous challenges for the lubricants industry, we believe improved mobility and economic activities to spur demand in lubricant market, especially the leader in Sri Lanka's lubricant market - LLUB. We expect revival in construction industry to give a further impetus to the industry oil segment, thus helping LLUB further. We expect pick up in economic activities and easing of wallet pressures to trickle back to lubricant industry with volumes increasing and likely to touch pre pandemic levels by end 2024E.

- LLUB has always been a hefty dividend payer:** LLUB has historically maintained a payout of c.90% (pre-pandemic period), however, in our view we still believe LLUB will maintain a payout of >60% (so far maintain a payout 50% for 9M'23) and touch back to pre pandemic levels by 2025E.

- The eventual lifting of the ban on vehicle imports to stimulate expansion:** We also believe that gradual resumption of vehicle imports by mid 2024E, to boost the volumes and aid recovery of the lubricant market, further helping LLUB's bottom line.

- We estimate LLUB's profits for 2023E to recover to LKR 3.9Bn helped mainly by easing of consumer wallet pressure, revival of economic activities, stronger LKR and LLUB's market leadership with the help of volume recovery both in automotive and industrial oil. Based on DCF method, we estimate the counter to trade at LKR 125.00, an upside of 38% compared to the current market price of LKR 90.40. Thus, we maintain our recommendation **BUY**.

**Key Statistics**

Bloomberg Ticker	LLUB SL Equity
Market Cap (LKR Bn)	21.7
Market Cap (USD Mn)	65.4
Issued Quantity (Mn)	240
52 Week High/Low	80.00/107.75
YTD High/Low	80.00/107.75
Financial Year Ended	31st December
Market PE (x)	11.3
Market PBV (x)	0.95
LLUB PE (x)	6.5
LLUB PBV (x)	2.5

**Price Performance**



**Main Shareholders as at 30.09.2023**

Chevron Ceylon Limited	51.00%
BNYM RE-BARCA GLOBAL MASTER FUND I	5.39%
Renuka Hotels PLC	2.17%
SSBT-Change Global Frontier Markets, LP	2.05%
Cargo Boat Development Company Limited	1.42%

**LLUB has always been a hefty divided payer**

