



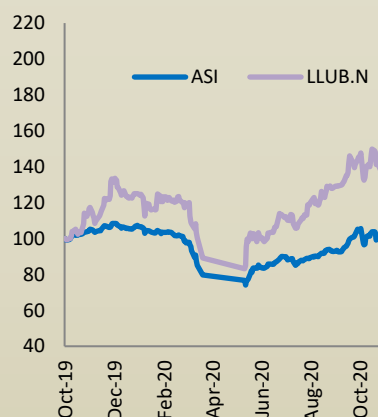
Member of the Colombo Stock Exchange

November 2020

Trading Snapshot

Sector	Materials
CSE Code	LLUB.N0000
Bloomberg Ticker	LLUB SL
Shares in Issue (Mn)	240
52W High (LKR)	74.00
52W Low (LKR)	73.50
Market Cap (LKR.Mn)	20,976
Market Cap (USD.Mn)	114
LKR:USD	183.73
Market Price (LKR)	87.40

Relative Stock Performance



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Chevron Lubricants Lanka PLC

Quarterly Earnings Update – 3Q FY2020

Market Price LKR 87.40 | Target Price LKR 97.34 | **Upside +10.74%**

Bottom Line surge on the back of effective cost reductions

LLUB's margins the main highlight on the back of effective cost reductions: Top line contracted 3.49% YoY to LKR 8.99m which can be attributed to the prevailing environment due to COVID. However, Gross margins rose by 2.4% to 39.5% on the back of a reduction in COGS. A similar theme follows with LLUB's bottom line increasing 4.94% YoY to LKR 1.74m (with net profit margins up 1.6% to 19.4%) due to marked reduction in administration expenses.

LLUB taking back lost market share: Company consolidated its dominant status as primary player in the market having picked up market share in the previous year. We expect LLUB to pick up on the market share they have lost in previous years with the government placing more focus on locally blended lubricant products.

Keen eye must be placed on US Election result: The upcoming election will have a significant bearing on LLUB going forward. In the event of a Biden Victory, base crude oil prices could see a further downturn as a key policy of Biden is to patch up the nuclear deal with Iran, which in turn frees up more OPEC member barrels from US sanctions – with that extra supply weighing on an already saturated market.

Foreign exchange and oil price impact: LLUB stands to gain from low oil prices which will reduce cost of production, this however we feel it will be somewhat offset due to a weaker Rupee.

Maintains high dividend yield: FY19 Dividend Yield 11.6%, Payout 89%.

Investor Guide

YE end 31st December	2017	2018	2019	2020F	2021F	2022F
Net Profit	2,565	1,992	2,099	2,322	2,516	2,773
+/- Growth	-26.3%	-22.4%	5.4%	10.6%	8.3%	10.2%
EPS (LKR)	10.69	8.30	8.75	9.68	10.48	1.55
PE (x)	11.1x	8.8x	8.6x	9.0x	8.3x	7.5x
NAV/ Share (LKR)	16.7	16.31	17.23	17.23	18.40	19.65
PBV (x)	7.13x	4.46x	4.35x	5.07x	4.75x	4.45x
Dividend per Share (LKR)	10.00	8.75	7.75	8.51	9.22	10.17
Dividend Yield (%)	8.4%	12.0%	10.3%	9.74%	10.55%	11.63%
Mrkt. Cap (LKRm)	28,560	17,472	17,976	18,144	18,144	18,144
Share Price (LKR)	119	72.8	74.9	**87.4	**87.4	**87.4

** Current market price. Source: LLUB Financials, SC Securities

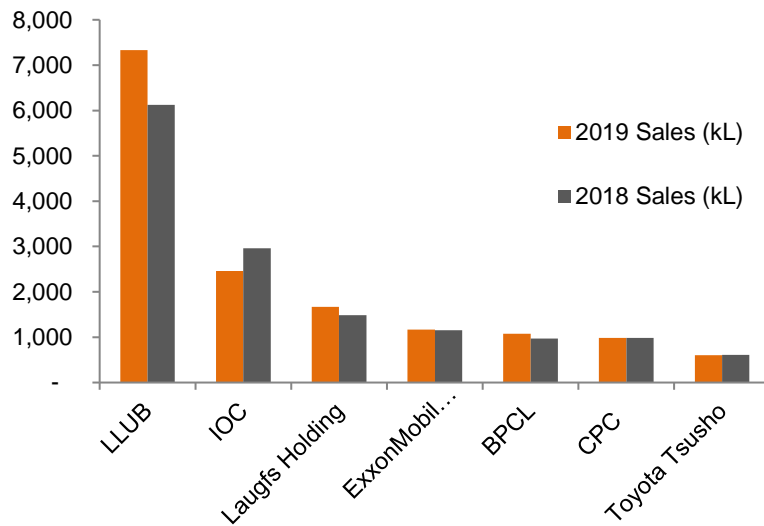
Operational Overview and Outlook

Revenue

Revenue over the period 2016 -2019 recorded a CAGR of -0.49% on the back of falling Local Sales during the period. The drop, however, was slightly offset by a rise in Export Sales. 2019 saw an uptick in sales driven by Export Sales rising by 19% YoY to LKR 1.2 billion and Local Sales rebounding by 8% YoY to LKR 10.5 billion.

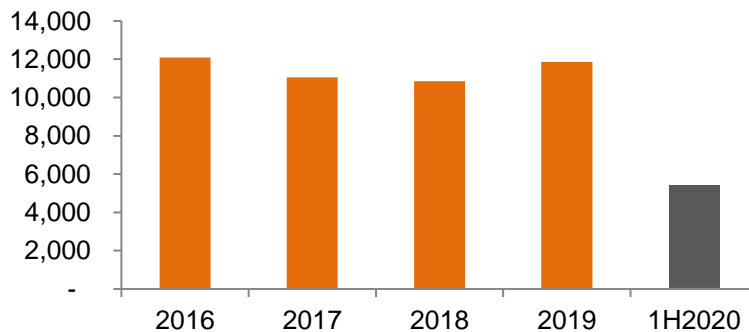
If we look at LLUB's overall performance against that of the industry, it was able to outperform all its competitors to remain the market leader in 2019.

Revenue performance vs. Peer



Source: Lubricant Market Report (PUCSL)

Revenue performance



Source: LLUB Financial Statements

For the six months ended June 2020, LLUB's top line experienced a 10.5% YoY decline whilst 2Q June 2020 revenue saw a 7.66% YoY fall and a 10.8% QoQ dip in revenue. Much of this can be attributed to the lower demand for refined oil products stemming from the impact of COVID 19 and the island-wide lockdown which lasted for around two months coupled with the fact that many people are working from home, both of which have reduced vehicle use all around.

We expect revenues to slowly increase towards the back end of the year with lockdowns easing and Consumer demand going up steadily coupled with stable revenues from the Power segment and an uptick in demand from the Construction segment.

Gross profit

Gross Profit decreased 4.48% YoY in 2Q2019 and 5.2% YoY for the period 1H2019 despite lower cost of goods sold (COGS).

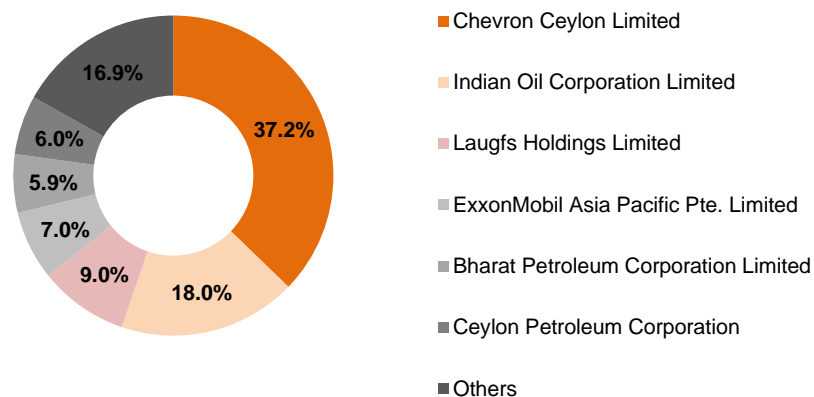
Operating Profit

Operating profits sank 4.84% YoY in 2Q2019 and 10.3% YoY for the period 1H2019 and by 19.3% QoQ on the back of the weak top line performance coupled with higher administrative costs.

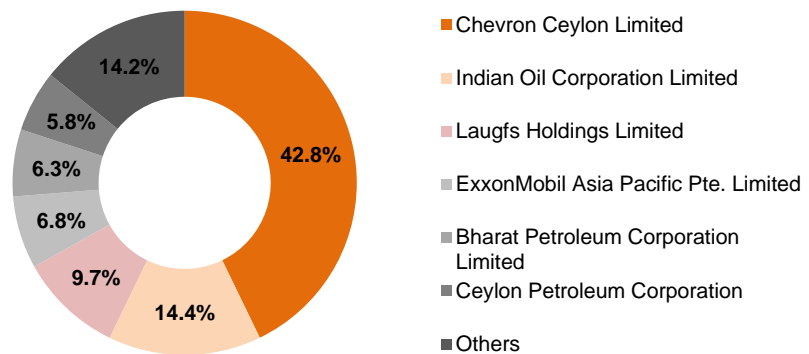
Market Share

The previous year saw amidst a shrinking lubricant marketplace, LLUB's market share rise by 5.6% to 42.8% with IOC and Laugfs coming in at second (14.4%) and third (9.7%) respectively.

Market Share – 2018



Source: Lubricant Market Report (PUCSL)



Source: Lubricant Market Report (PUCSL)

LLUB: Risk Management

Market share loss due to competition and CPC blending plant coming online

Despite a market share a gain in 2019, the recent years have shown that LLUB have lost their strong grip as it were. As recently as 2012, LLUB had 65% of the total market.

Even though no new licenses were given during 2019, the potential entrance of new foreign and local players will have a direct negative impact on LLUB's market share.

Another viewpoint is that LLUB's lease on Ceylon Petroleum Corporation's (CPC) blending plant has expired, with CPC having now begun the production of locally blended lubricant products at the facility with potential capacity generation 33 kilolitres per annum. If the product line in the future is taken up state run services such as CTB, we can expect LLUB's overall market share to decline further in the future.

Unlicensed operators

There are currently only 13 players in the market. However, there are a number of other sellers who do operate without obtaining a license. Despite this practice being quite commonplace, there still isn't a proper framework in place to regulate the marketplace.

Exchange rate risk and oil price volatility

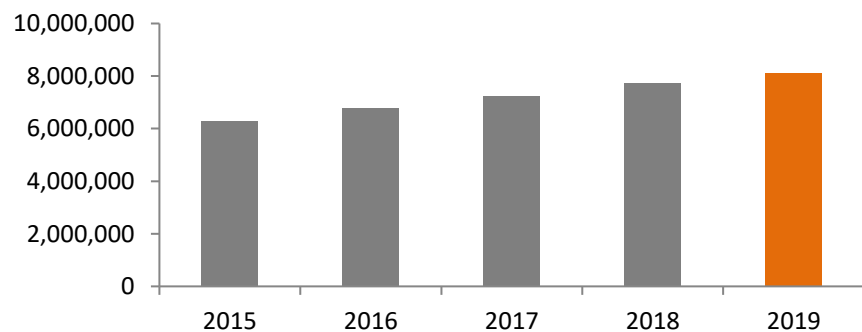
The prevalent low oil price climate, LLUB stands to gain on the back of lower COGS. Common practice dictates that companies must 'make hay whilst the sun shines'. However, a lower Sri Lankan rupee may offset any benefit(s) that may arise from low oil prices. Furthermore, most of the materials for production are

imported and any exchange rate movement will have a direct impact on the cost of production.

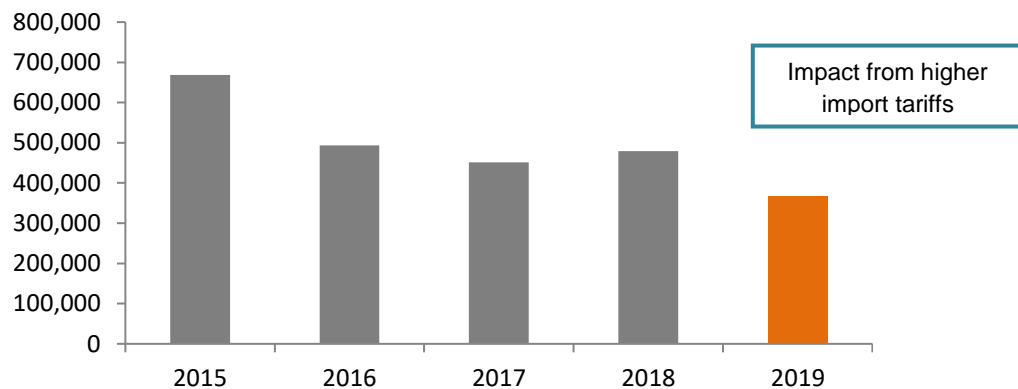
Industry outlook for remainder of 2020

2019 saw the overall lubricant market space witness a fall despite total vehicle population increasing by 4.8% YoY. This can be attributed to the number of new registrations declining 23.4% YoY on the back of higher levels of import tariffs being enforced coupled with a broader luxury tax on vehicle imports and curtailment on duty-free vehicle permits being issued.

Total Vehicle Population



New Vehicle Registrations



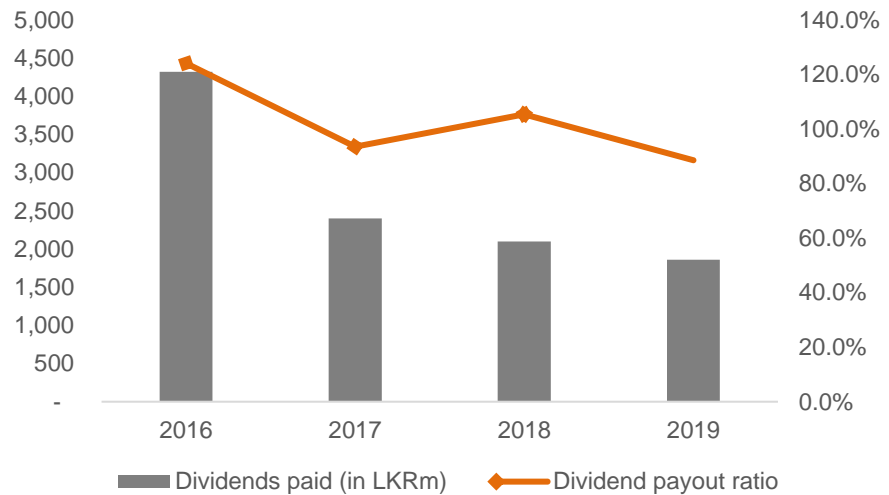
Source: Ministry of Transport

Lower disposable incomes and the freeze on vehicle imports by the government will have an adverse effect on the lubricants industry. However, we feel that this will start to ease up towards the back end of this year with normalcy resuming and less people working from home, consumer demand will see an uptick. This, coupled with demand remaining stable in the Power and a recovery of sorts from the Construction segment, will help drive growth for players within the lubricant space.

Dividends

Dividend payout remained high with a payout ratio of 89% and a dividend yield of 10.3% in 2019. Going forward, we expect LLUB to retain high levels of dividend payments as it has been a primary tool of theirs to attract and retain their foreign and local investors.

Dividends Paid | Dividend Payout



Source: LLUB Financial Statements

Valuation

Our valuation metric is based upon the Dividend Discount Model (DDM) due to LLUB's high dividend payout ratio. We expect this high dividend payment to continue as it is one of the reasons why investors find this stock so attractive and LLUB having a large foreign holding.

In our model we have assumed a long-term growth rate of 2% and we have calculated the cost of equity to be at 13.21% having considered Beta, market risk premium and risk-free rate as follows:

- Beta – 1.05 (based on ASPI and LLUB stock prices)
- Risk free rate – 7.44% (10-year Govt. bond rate)
- Market risk premium – 5.5%

Based on our forecasted figures, LLUB's stock value amounts to **LKR.97.34** with an upside potential of 10.70%. In addition dividend yield is forecasted at 9.74% making the total return to be high as 20.44%. Thus LLUB would be a strong buy in this current climate.

Summarized Financial Statements

Income Statement

Chevron Lubricants Lanka PLC	2016	2017	2018	2019	2020F	2021F	2022F	2023F
Sales	12,089	11,052	10,861	11,856	10,970	12,090	13,325	14,346
COGS	(6,418)	(6,312)	(6,769)	(7,421)	(6,582)	(7,375)	(8,128)	(8,751)
Gross Profit	5,671	4,741	4,092	4,435	4,388	4,715	5,197	5,595
OPEX	(1,155)	(1,335)	(1,348)	(1,517)	(1,257)	(1,324)	(1,460)	(1,572)
Op. Profit	4,515	3,406	2,743	2,917	2,495	2,846	3,403	3,664
Finance Income - net	187	90	17	26	94	104	114	123
PBT	4,703	3,496	2,760	2,943	3,225	3,494	3,850	4,145
Income Tax Exp.	(1,222)	(931)	(768)	(844)	(903)	(978)	(1,078)	(1,161)
Net Profit	3,480	2,565	1,992	2,099	2,322	2,516	2,772	2,985

Source: LLUB Financials, SC Securities Research

Quarter and Period review

In LKR 000's	Three Months Ended September			Nine Months Ended September		
	2020	2019	YoY	2020	2019	YoY
Revenue	3,605,093	3,300,809	9.22%	8,989,735	9,314,778	-3.49%
Cost of sales	(2,132,611)	(2,039,451)	4.57%	(5,438,327)	(5,860,460)	-7.20%
Gross profit	1,472,482	1,261,358	16.74%	3,551,408	3,454,318	2.81%
Distribution expenses	(183,091)	(201,495)	-9.13%	(563,817)	(588,433)	-4.18%
Administrative expenses	(201,435)	(185,512)	8.58%	(604,170)	(546,874)	10.48%
Other operating income	3,023	449	573.27%	3,722	1,231	202.36%
Operating profit	1,090,979	874,800	24.71%	2,387,143	2,320,242	2.88%
Finance Income	37,193	10,654	249.10%	76,903	44,693	72.07%
Finance Cost	(10,220)	(11,209)	-8.82%	(31,356)	(34,705)	-9.65%
Profit before tax	1,117,952	874,245	27.88%	2,432,690	2,330,230	4.40%
Income tax expense	(315,071)	(251,954)	25.05%	(685,597)	(665,375)	3.04%
Profit after tax	802,881	622,291	29.02%	1,747,093	1,664,855	4.94%

Source: LLUB Financials, SC Securities Research

Top 20 Shareholders – 30th September 2020

Name of shareholder	No. of shares	% holding
Local Institutional Investors		
Chevron Ceylon Limited	122,400,000	51.00
Renuka Holdings Limited	5,201,918	2.17
Cargo Boat Development Company Limited	3,400,000	1.42
Crescent Launderers & Dry Cleaners (Pvt) Ltd	2,000,000	0.83
Bank of Ceylon - No.2 A/C (BOC PTF)	1,688,823	0.70
Bank of Ceylon - No.1 A/C	1,079,440	0.45
Rubber Investment Trust Limited A/C No 1	828,746	0.35
Foreign Institutional Investors		
BNYM RE-BARCA GLOBAL MASTER FUND LP	19,802,707	8.25
SSBT-Change Global Frontier Markets, LP	4,768,777	1.99
Northern Trust Global Services London S/A Verdipapirfondet Odin Emerging Markets	3,444,194	1.44
8 BNYM SA/NV- FRONTAURA GLOBAL FRONTIER FUND LLC	2,756,627	1.15
BNYMSANV RE-NEON LIBERTY EMERGING MARKETS FUND,LP	2,709,102	1.13
BBH-PIONEER MULTI-ASSET INCOME FUND	2,117,467	0.88
SSBT- PARAMETRIC TAX- MANAGED EMERGING MARKETS FUND	1,084,580	0.45
Government Institutional Investors		
Sri Lanka Insurance Corporation LTD - LIFE FUND	3,400,000	1.42
Employees Provident Fund	1,015,916	0.42
Local High Net Worth Individuals		
Mrs. SelliahArunthathi	1,350,000	0.56
Mr.SomasiriAddaraPathiranage	1,100,000	0.46
Mrs.KailasapillaiAbiramipillai	900,000	0.38
Mr. Nihal Parakrama De Alwis Samaranayake	800,000	0.33
Total	181,848,297	75.77

Source: LLUB Financial Statements

Public Holding: 49%. The number of shareholders representing the public holding was 7,196.

None of the Directors hold shares in the company.

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Strong Buy: FV more than 20% above Current Trading Price
Buy: FV between 10% and 20% above Current Trading Price
Hold: FV between -10% and 10% around Current Trading Price
Sell: FV more than 10% below Current Trading Price



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