LANKA IOC PLC | LIOC.N

ENERGY (GICS) | SRI LANKA | CSE

AMBEON SECURITIES

Report date: 22.03.2024

"Fuelling the Future"

Lanka IOC PLC (LIOC) is a leading fuel distributor operating in Sri Lanka, recognized for its extensive distribution network and commitment to delivering high-quality petroleum products to consumers nationwide. We initiate coverage at a time when the share is trading at an attractive discount to its fair value, providing an upside of 28.98%. **BUY**

Strategic expansion at Trinco oil tank farm: LIOC is expanding its operations at Trinco oil tank farm to boost storage capacity and streamline fuel distribution. LIOC plans to operate 14 tanks independently and jointly refurbish and manage 61 tanks with the Ceylon Petroleum Corporation (CPC) through Trinco Petroleum Terminal Limited (TPTL) under a 50-year lease. The move is expected to benefit LIOC's auto and bunker fuel segments as enhanced storage capacity enables bulk fuel purchases during times of lower prices, thereby reducing import costs. TPTL is currently awaiting approval from the Board of Investment (BOI) for further progress.

Finance cost to decline: LIOC maintained a positive financial outlook with steady net income during the 2022 economic crisis. Before COVID-19, the company had lower gearing levels, which spiked during the pandemic and crisis. As the economy recovers, LIOC's borrowing for opening LCs has decreased, returning gearing levels to pre-pandemic levels. LIOC saw its debt-to-equity ratio decline from 1.07x in FY22 to 0.07x in FY23 and is expected to sustain at that level of 0.06x. Finance costs are expected to decline by 58% in FY24F and a further 53% in FY25F.

Economic recovery to support volume growth: Fuel demand is expected to rise as economic activity revives, boosting LIOC's sales volumes. We estimate a volume growth between 6%-10% for LIOC over the next 2 years. Oil prices have decreased by 21% over the last 21 months while the recovery of consumer income would prompt increased consumer spending on fuel, further boosting sales. Despite declines in oil imports during the pandemic and the crisis, a recovery of ~112% in crude oil volumes in 2023 reflected increased consumption, aligning with the country's economic rebound. We expect a topline growth of 7.82% in FY25F and 11.41% in FY26F.

Competition to increase yet market share to sustain: Since the liberalization of the Sri Lankan fuel market, LIOC faced competition from new foreign players, potentially leading to more competitive pricing strategies. However, based on the distribution outlets, LIOC maintains a ~17%-18% market share before and after the liberalization, mitigating significant revenue impacts.

Valuation upside: The estimated weighted average fair value of LIOC.N stands at LKR 147.04. The valuation provides a potential upside of 28.98% based on the current market price signaling an attractive investment proposition for investors. The valuation strategy encompasses a blend of absolute and relative valuation methodologies to gauge the stock's intrinsic value considering both fundamental value and market sentiment.

Refer to page 18 for an important disclaimer.
Abbreviations are available on page 17.

BUY

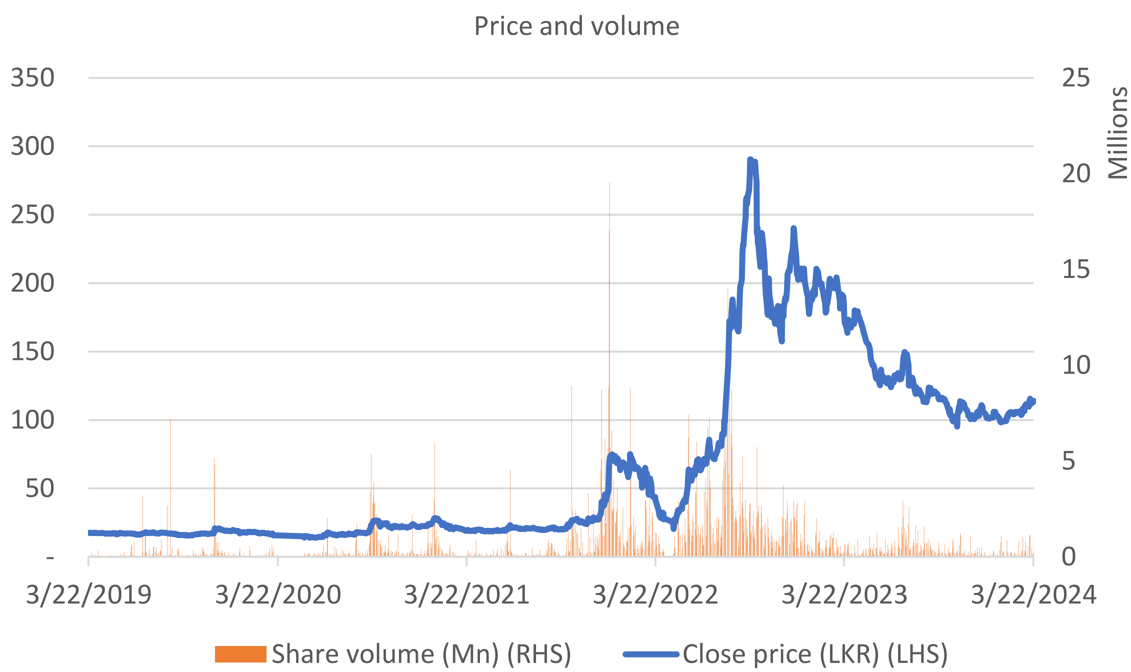
LIOC.N

Current price	LKR 114.00
Fair value	**LKR 147.04 (+28.98%)**

Key data	
Historical returns	
1-year capital gain	-35.14%
1-year dividend yield	3.51%
1-year total return	-31.63%
Beta	1.86
1-year high	180.00
1-year low	95.20
Valuation multiples	
PE ratio	3.43
PB ratio	0.87
Per share data	
EPS (TTM) (LKR)	33.24
NAVPS (Dec 23) (LKR)	130.76
DPS (2023)	4.00

Shareholding details (31st Dec 2023)	
Total no: of ordinary shares (Mn)	532
MCAP (LKR Mn)	60,701
% held by public	24.88%
Top 5 shareholders	
Indian Oil Corporation Limited, India	75.12%
Sri Lanka Insurance Corporation Ltd-Life Fund	1.50%
Bank of Ceylon A/c Ceybank Unit Trust	0.97%
J B Cocoshell (Pvt) Ltd	0.89%
Mr. K A S R Nissanka	0.84%

Key financials (LKR Mn)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Revenue	66,686	89,951	281,488	256,340	276,395	307,933
Gross profit	3,113	8,845	54,182	25,634	33,167	36,952
Operating profit	161	5,410	44,177	14,692	21,461	24,129
Profit for the year	883	4,818	37,696	13,261	16,450	18,562
Total assets	46,407	65,071	82,213	92,561	107,360	124,647
EPS (LKR)	1.66	9.05	70.79	24.90	30.89	34.86
NAVPS (LKR)	37.42	45.61	115.00	135.90	159.33	184.92
Revenue growth	-18.62%	34.89%	212.93%	-8.93%	7.82%	11.41%
Profit growth	109.27%	445.92%	682.32%	-64.82%	24.05%	12.84%
Net Margin	1.32%	5.36%	13.39%	5.17%	5.95%	6.03%
ROE	4.43%	19.84%	61.56%	18.33%	19.39%	18.85%
ROA	1.90%	7.40%	45.85%	14.33%	15.32%	14.89%

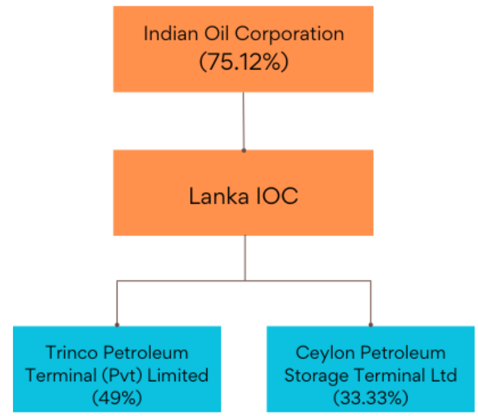


Sources: CSE

1. Company description

LIOC was incorporated in 2002 and quoted on CSE in 2004. The company is backed by its Indian parent company which holds ~75% of the shareholding. LIOC offers 05 different product ranges including automotive fuels, bunkering, lubricants, bitumen, and petrochemicals. Automotive fuel and bunkering segments are the top contributors to its revenue by 79% and 16% respectively while maintaining an average ~20% and ~33% market share. LIOC operates 249 automotive fuel retail outlets across the country and opened 36 new retail outlets in FY23 having commissioned 50 new outlets in FY24. The Company operates as a leading bunkering fuel supplier at ports including Colombo, Trincomalee, Galle and Hambantota. LIOC renewed its license for another 20 years, effective from January 2024.

The company currently employs 159 staff and has an LKR 82.21 Bn asset base including an investment of LKR 469Mn in Sri Lanka's 1st grease manufacturing plant with a 3,000 MT capacity which reportedly can serve the country's entire grease requirement. LIOC also has a lubricant oil blending plant with an annual capacity of 18,000 KL. Also, it has reported LKR 281.49 Bn revenue (+213% YoY) and LKR 37.70 Bn PAT (+682% YoY) in FY23. An expansion of bunkering and lubricant segments leads to a diversified sales mix for LIOC. Refer to Annex I for segmental information.



SWOT analysis

Strengths • Local manufacturing plant that reduces the import of grease • Strong brand recognition and extensive distribution network • Partnerships with prominent companies such as DIMO, DPMC, TVS Lanka, & Honda through Stafford Motor Company • Technological Advancements • Diversified product portfolio	**Opportunities** • Favorable export market conditions in neighbouring markets • Collaboration with local businesses
Weaknesses • The bitumen segment heavily depends on the local market. • Dependent on CPC for refined petroleum products • Depends on imported oil.	**Threats** • Economic downturn in Sri Lanka • Exposure to currency fluctuations • Competition from alternative fuels • International oil price fluctuations • Liberalizing the local automotive fuel segment and heightened competition • Disruption in global oil supply and geopolitical risks • Moving to renewable energies such as solar power, hydrogen

Source: Company reports, Press releases, Ambeon Estimates

2. Industry overview

Liberalization of the fuel market

In 2023, Sri Lanka opened the retail fuel market to more foreign companies to solve the nation's energy crisis after facing a foreign reserves crisis. The decision was intended to end the duopoly and create an oligopoly with new entrants into the fuel market.

The cabinet approval was granted on 27th March 2023, for 03 foreign companies: Chinese petroleum company SINOPEC, United Petroleum Australia, and US-based petroleum distribution corporation RM Park in collaboration with Shell Plc to enter the Sri Lankan retail fuel market. They will each be granted a 20-year license to operate 150 fuel stations currently operated by the CPC. Additionally, each will have the authority to invest in and operate 50 new fuel stations in the country.

In May 2023, SINOPEC signed a contract with the BOI and started its operation in Sri Lanka, in September 2023. RM Park signed a contract with the BOI in June 2023 and commenced their distribution of fuel on Friday (22) March 2024. United Petroleum Company also signed a relevant agreement with Sri Lanka's Ministry of Power and Energy in February 2024 and expects to start operation by mid-2024.

Additionally, 07 companies from Nigeria, China, Malaysia, Iran, and UAE have submitted Expressions of Interest (EOIs) for a new oil refinery in Hambantota where CPC is currently involved in the crude oil refining process. Only two bidders were shortlisted: Vitol, a Singaporean company and SINOPEC, a Chinese company. However, Vitol withdrew its bid. SL government has approved SINOPEC to establish a USD 4.5Bn new Petroleum Refinery in Hambantota. This refinery is expected to produce a minimum of 100,000 barrels per day, mainly for export. The proposed refinery is expected to enable the transformation of the Port of Hambantota as a marine bunker port, taking full advantage of its proximity to international maritime routes.

VAT increase and the impact on fuel prices

SL Government announced a VAT increase from 15% to 18% effective from 1st January 2024. It resulted in an increase in fuel price, which was previously exempt from VAT. Previously, the taxes imposed on a liter of fuel included the Port and Airport Development Levy, Customs duty, Excise duty and Social Security Tax. However, with the implementation of the 18% VAT, the Port and Airport Development Levy of 7.5% was removed from the taxes imposed on the fuel.

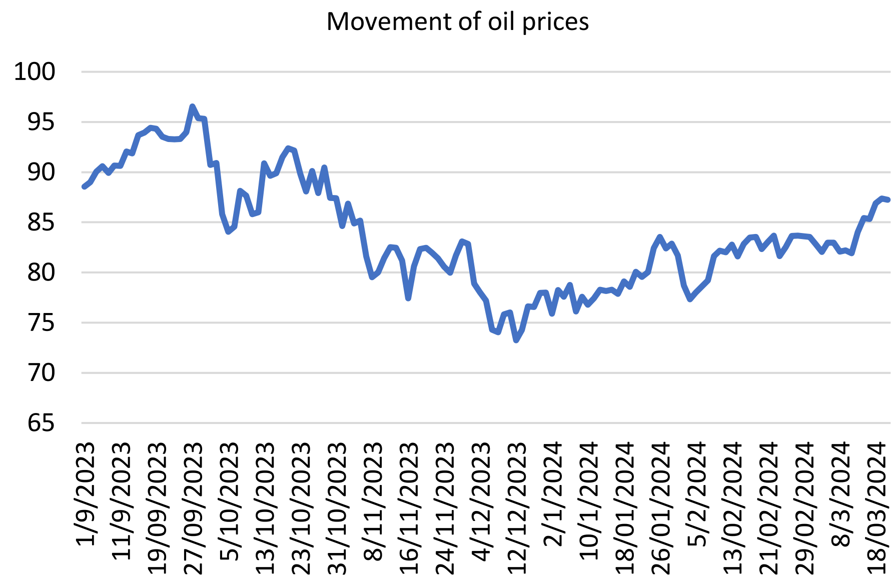
Fuel pricing formula

The Sri Lankan government introduced a fuel price formula with the expectation of establishing a more efficient fuel pricing system that benefits both consumers and industry players. There may be sudden fluctuations in fuel prices that may occur due to geopolitical tensions. As per the formula, the price of fuel is adjusted monthly, considering factors such as landing costs, processing costs, administrative expenses including LC opening charges, and taxation per liter when calculating the maximum retail price (MRP) of retail fuel.

Colombo port's strategic location

LIOC operates at Colombo port as a marine oil supplier. Colombo port is the busiest maritime hub which is in a strategic location in the Indian Ocean and thus lies in the routes connecting Europe, East and South Asia, the Persian Gulf, and East Africa. This strategic location gives LIOC a competitive advantage over the other ports in the region. Due to the Red Sea attack, in February the Colombo port saw its transshipment volume growth accelerate for the third consecutive month, with a 29.1% YoY increase (volume handled in February was 528,348 TEUs).

Global oil price outlook



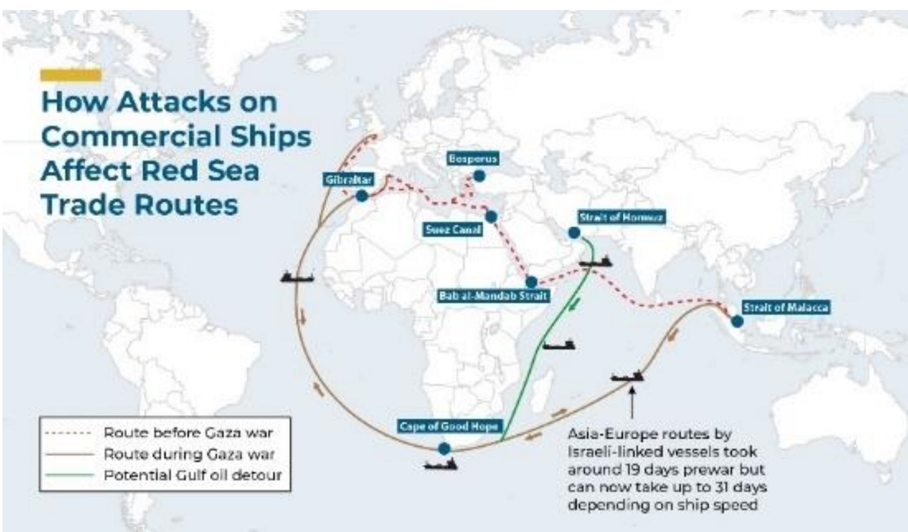
Source: Bloomberg

Global oil prices are influenced by a multitude of factors including global economic growth, the supply of oil, and geopolitical tensions. Specific events, such as attacks on Russian refineries by Ukraine, can damage oil processing facilities and limit fuel export prospects, potentially leading to an increase in oil prices. The Brent crude oil spot price averaged USD83 per barrel (b) in February. As per the EIA estimates during 2024, it will keep the above current levels, averaging USD88/b in 2Q24 due to the uncertainty around the Red Sea attack and OPEC+ production cuts will tighten global oil supplies. Additionally, Chinese imports rose by 5.1% in January and February 2024 compared to the same two months of last year. Oil prices rose in the first week of March due to an expected fed rate cut. A lower interest rate leads to more demand. U.S. stockpiles declined by 4.5 million barrels indicating that demand is picking up.

Impact of Middle East Crisis

The Middle East region is crucial for oil production and has the potential to disrupt oil supply and impact prices. Conflicts or other geopolitical events like the Israel-HAMAS war have significant potential to create significant volatility in global oil supply and prices. The Israel-HAMAS war launched a shock attack in October 2023, global oil prices were seen climbing for two consecutive weeks however it was reduced since the conflict was being continued.

The first Houthi attack targeting US and UK commercial ships was launched at the end of November 2023. Most of the shipping companies changed their route from the Suez Canal to around South Africa's Cape of Good Hope a much longer route. It created opportunities for all the major ports, Colombo, Hambantota and Galle in Sri Lanka. Colombo Port Sri Lanka is a strategic location, stopping at the port gives ships convenient access to the Middle East, South Asia and East Asia. As well ships come past South Africa, Colombo is the first hub they meet. This traffic is expected to Colombo port edge closer to double-digit growth in the first quarter. If this situation continues this may result in to increase in the the volumes of LIOC bunkering fuel segment and the fourth quarter results may increase.



Source: www.bnnbreaking.com

1. Investment highlights

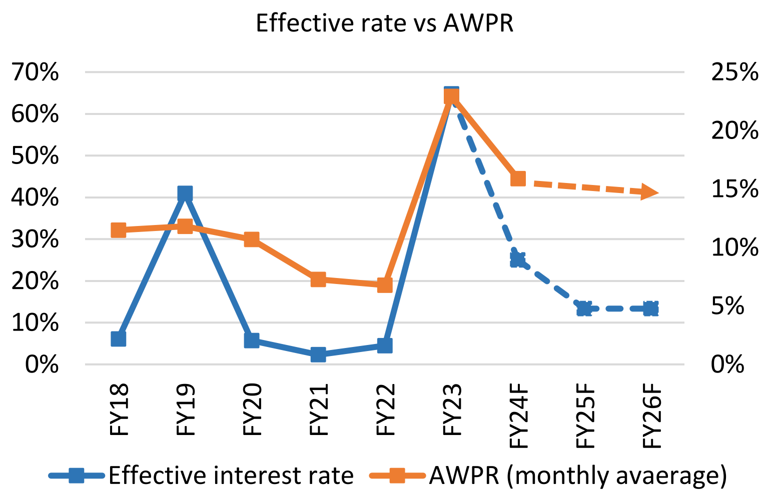
Strategic expansion at Trinco oil tank farm

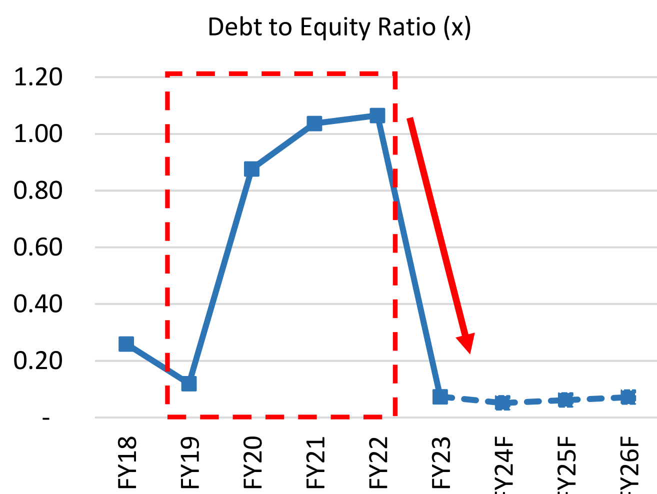
LIOC has announced its plans to capitalize on the strategic opportunities presented by the Trinco oil tank farm in Sri Lanka. The company will operate 14 tanks in the lower tank farm and jointly refurbish and manage 61 tanks with CPC through TPTL under a 50-year lease. The refurbished facility will have a storage capacity of 10,000 MT in each tank. In January 2022, LIOC paid LKR 49Mn to acquire a 49% stake in TPTL. This project, led by the Sri Lankan government's refurbishment plans, aims to enhance storage capacity and streamline fuel distribution processes. This will benefit both LIOC’s auto fuel and bunker fuel segments due to enhanced storage capacity. By leveraging bulk fuel purchases at lower prices and strengthening market positions, LIOC is expected to reduce import costs and increase revenue.

This strategic expansion underscores LIOC's commitment to infrastructure development and market growth, positioning the company for long-term sustainability and value creation in the energy sector. In February 2024, it was reported that the Ministry of Power and Energy would call for EOIs for the development of the 61 oil tanks of the Trincomalee oil tank farm held by TPTL. The TPTL will be the lead partner as it owns the oil tanks; however, since refurbishing 61 steel oil storage tanks is a large investment project, the investment required to develop the oil tank farm may come from a third-party strategic partner, depending on the modalities of the agreement. As of now, both parties have contributed to the initial investment, and no further investment has been made. TPTL is currently in the process of obtaining approval from the BOI.

Finance cost to decline

Between FY19-FY22, the gearing levels increased significantly due to increased working capital requirements. As the country's economy recovers, the company's borrowing to open LC has decreased, making gearing levels return to pre-pandemic gearing levels. The declining interest rate environment also is expected to ease the pressure on borrowing costs. The debt-to-equity levels are expected to stay between 0.05x-0.07x during FY24F-FY26F while finance costs are expected to decline by 58% in FY24F and a further 53% in FY25F.

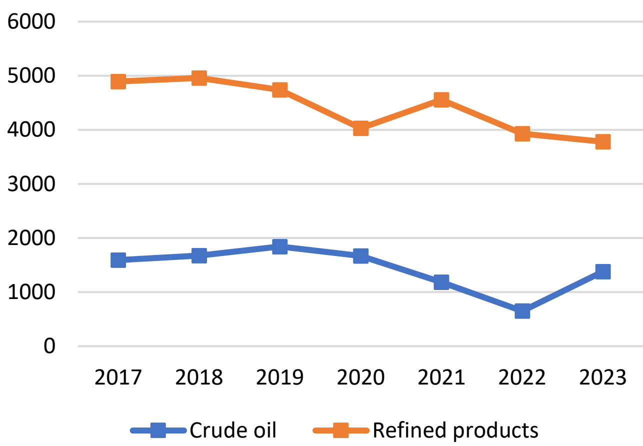




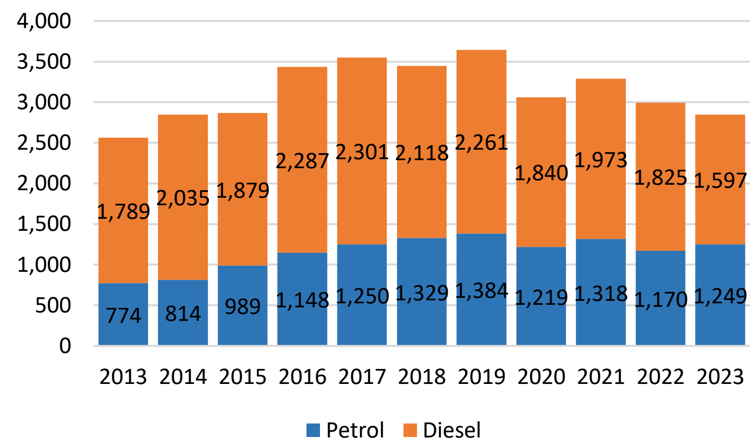
Source: Company reports, CBSL, Ambeon Estimates

Economic recovery to support volume growth

As economic activity picks up, there will likely be an increase in demand for fuel. Growing industrial activities, transportation, and businesses require more energy, which could positively affect LIOC's sales and revenue. We estimate a volume growth between 6%-10% for LIOC over the next 2 years. As expenses decline during recovery, consumers may spend more on fuel for vehicles and other energy needs. This could boost LIOC's sales. During the pandemic, oil imports witnessed a decline of ~36% during the period from 2019 to 2021. Similarly, in 2022, due to the crisis, there was a further drop in oil imports by ~45%. However, in 2023, with the country's recovery, oil imports surged again, marking an increase of ~112% from 649 MT'000 to 1377 MT'000.

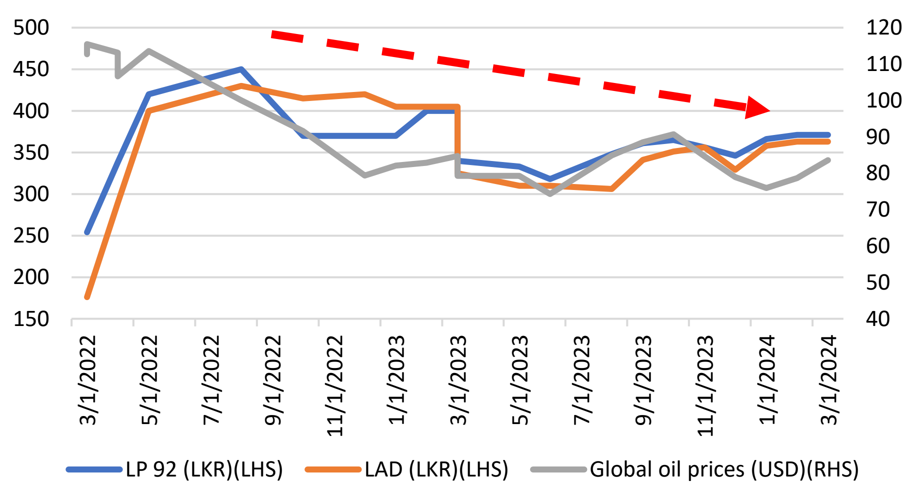


Source: CBSL reports



Source: CBSL reports

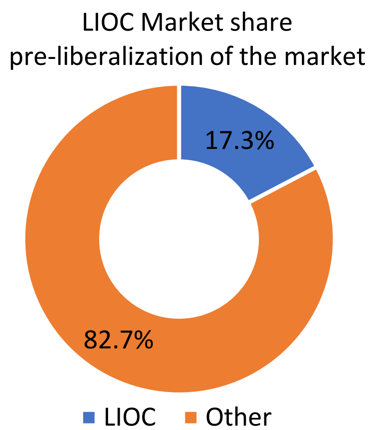
During the 2022 economic crisis, oil prices experienced a significant increase, with LP 92 rising by ~166% and LAD by ~280% (from March 2022 to June 2022, reaching a peak in June). However, as the economy has begun to recover, oil prices have subsequently decreased by ~21% for LP 92 and LAD over the past 21 months (from June 2022 to March 2024).

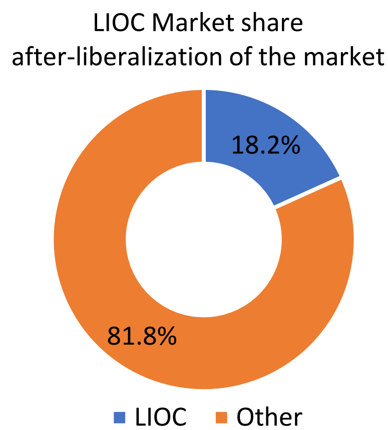


Source: Company website, Bloomberg

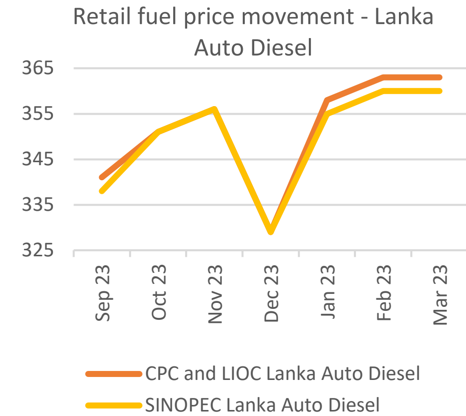
Competition to increase yet LIOC market share to sustain

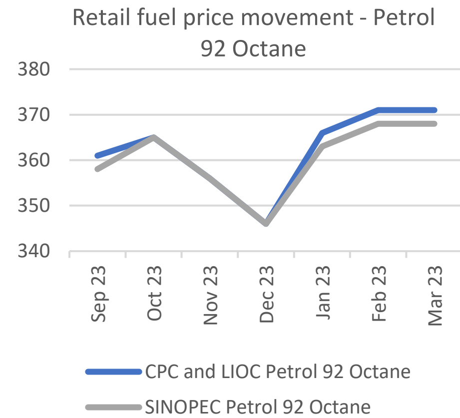
Since the fuel market was liberalized in Sri Lanka, LIOC has had to compete with new foreign players, which may lead to these competitors adopting more competitive pricing strategies. One such new player is SINOPEC, which began operations in Sri Lanka in September 2023. At the start, SINOPEC offered discounted prices, but for the remaining months, it followed revised prices similar to CPC and LIOC. Even with the VAT implication, SINOPEC continued to offer a competitive price, which was still lower than the prices offered by CPC and LIOC. However, the difference between SINOPEC's prices and LIOC's prices was not significant, being below 1%.





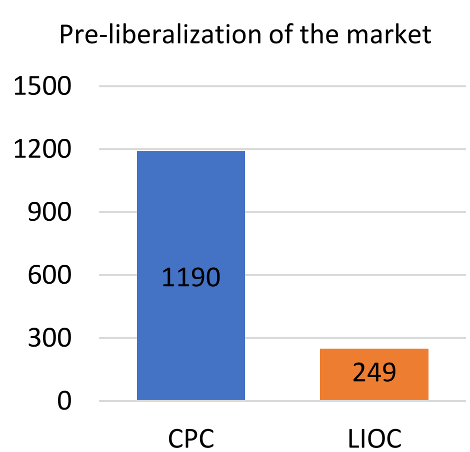
Additionally, the Sri Lankan fuel market opened to new foreign players, and LIOC was able to maintain an average market share (in terms of no. of retail outlets) of ~17%-18% before and after the new competitors entered the market. Also, LIOC could be the market leader among private companies, hence its revenues will not be significantly affected. LIOC already has market knowledge at the ground level which gives them a competitive advantage over new entrants. Additionally, LIOC can form partnerships with SINOPEC to leverage its expertise and distribution networks. LIOC already has partnered with SINOPEC to purchase bunker fuel.

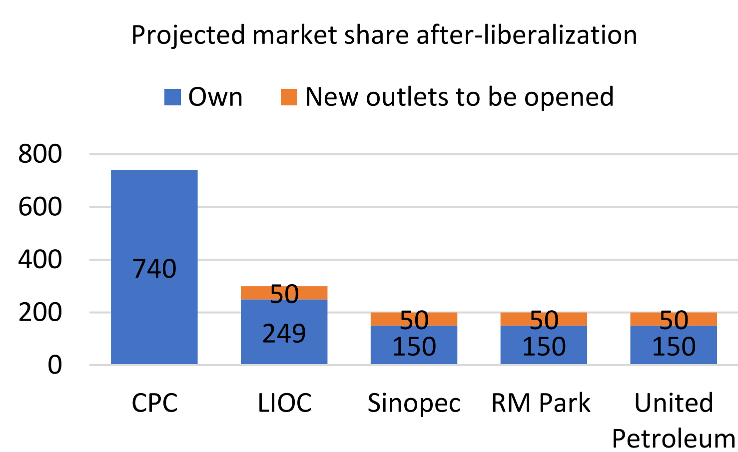




Retail fuel price	CPC and LIOC		SINOPEC	
	Petrol 92 Octane	Lanka Auto Diesel	Petrol 92 Octane	Lanka Auto Diesel
23-Sep	361	341	358	338
23-Oct	365	351	365	351
23-Nov	356	356	356	356
23-Dec	346	329	346	329
24-Jan	366	358	363	355
24-Feb	371	363	368	360
24-Mar	371	363	368	360

Number of retail outlets owned by each company





Source: Company reports, Company web sites, Press releases, Ambeon Estimates

2. Valuation Summary

We have estimated the weighted average fair value LIOC.N at LKR 147.04 LIOC.N providing an upside of 28.98% based on the current market price. With an estimated dividend yield of 6.55%, the returns on LIOC.N can go up to 35.53%.

Our valuation strategy encompasses a blend of absolute and relative valuation methodologies to gauge the stock's intrinsic value considering both fundamental value and market sentiment.

Weighted average intrinsic value per share	(LKR)
DCF value	130.67
Price Earnings (PE) based valuation	132.97
Price to Book Value (PBV) based valuation	156.91
EV/EBITDA	167.62
Weighted average intrinsic value per share	147.04

The fair value suggests a potential upside of 28.98% based on the current price of LKR 114.00. A dividend yield of 6.55% can be estimated.

Given below are key assumptions used for each of the valuation methods.

DCF valuation	(LKR Mn)
Enterprise Value (EV)	34,571
Less: debt	3,534
Add: cash and cash equivalent	38,538
Equity value	69,576
No of shares (in Mn)	532
FCF-based equity value per share (LKR)	130.67

Weighted Average Cost of Capital (WACC) calculation	
Cost of equity	
Risk-free rate	10.38%
Equity risk premium*	22.00%
Beta	1.86
Cost of equity	**51.30%**
Cost of debt	
AWPLR	11.35%
AWPLR+2%	13.35%
Effective tax rate	30.00%
After-tax cost of debt (Kd)	**9.35%**
WACC	
Debt %	4.83%
Equity %	95.17%
WACC	49.27%

*Equity risk premium obtained from NYU Stern / A. Damodaran https://pages.stern.nyu.edu/~adamodar/

Source: Company reports, CSE, CBSL, Ambeon Estimates

Given below are assumptions for the relative valuations.

PE-based valuation	
TTM EPS (LKR)	33.24
PE multiple used in the valuation	4.00
Value per share	132.97

It should be noted that the peer average PE ratio is 6.94.

PBV based valuation	
Net Assets Value Per Share (NAVPS) (Dec 23) (LKR)	130.76
PBV multiple used in the valuation	1.20
Value per share	156.91

It should be noted that the peer average PBV ratio is 3.26.

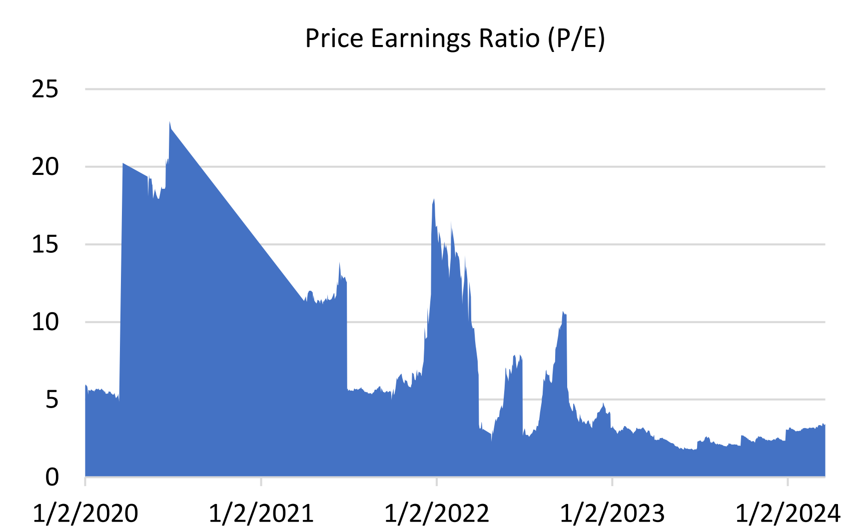
EV/EBITDA based valuation	(LKR Mn)
TTM EBITDA	18,083
EV/EBITDA multiple used in the valuation	3.00
Enterprise Value	54,249
Less: debt	(3,534)
Add: cash and cash equivalent	38,538
Equity value	89,254
No of shares (in Mn)	532
Value per share (LKR)	167.62

It should be noted that the peer average EV/EBITDA ratio is 5.56.

Given below are peer PE, PBV and EV/EBITDA ratios. These multiples have been used as guidance in the valuation process, excluding outliers.

Peer valuation multiples	PE	PBV	EV/EBITDA
LLUB	6.94	3.00	4.39
LGL	61.32	3.52	6.73
Peer average	6.94	3.26	5.56

Over the last 4 years, the stock has traded at an average PE multiple of 6.17. The current trailing PE of 3.43 reflects a significant discount from the historical average PE. The fair value of 147.04 implies a PE multiple of 4.42 given the current TTM EPS.



Source: Company reports, CSE, CBSL, Bloomberg, Ambeon Estimates

3. Investment risks

Political, regulatory and policy risk

LIOC operates in a macroeconomic and social environment that can be affected by political factors. As the petroleum industry is subject to heavy regulation, any changes in government policies, taxation, or environmental regulations can impact LIOC's operations and financial results. This means that adverse regulatory actions, such as increased taxation or import restrictions, could lead to higher operational costs and a shortage of inputs for the company.

General market risks

Sri Lanka recently faced one of the worst crises in its history. Any delays in the recovery process could impact the growth potential of LIOC. Additionally, the upcoming election may create tension in the macroeconomic and social environment in which the LIOC operates. The stock returns are also exposed to market risk where a general market downtrend could adversely affect the share price. A general loss of confidence in the market could lead to actual market prices significantly deviating from the fair values for prolonged periods.

Increased competition due to liberalization

Although LIOC maintains its market share post-liberalization, the ability of the competitors to expand their distribution and challenge the market share cannot be undermined. Further, LIOC retains around 33% of the market share from bunkering fuel in Sri Lanka although it does not have the capacity for a refinery facility in Sri Lanka. The competition in this segment also can increase as the Sri Lankan government has granted permission to SINOPEC to invest in a petroleum refinery in Hambantota.

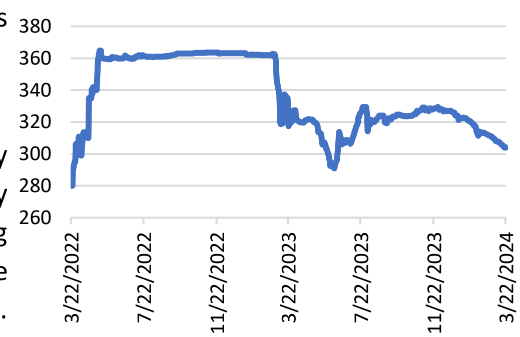
Fluctuation in Oil Prices

The price of crude oil can experience significant changes due to various factors, such as geopolitical tensions, supply-demand dynamics, and macroeconomic conditions. These fluctuations can have a direct impact on LIOC's financial performance and profitability. Over the past few months, global oil prices have fluctuated due to geopolitical tensions. The uncertainty surrounding the Red Sea attack and the Hamas-Israel war has caused periodic spikes in oil prices as markets react to evolving geopolitical dynamics.

Currency risk

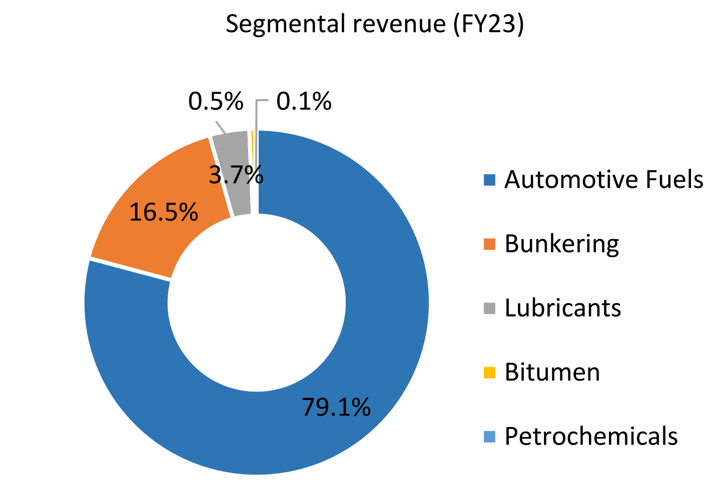
LIOC, being a company that imports refined oil, is affected by currency fluctuations. This can potentially lead to drastic price fluctuations that may affect customer demand and ultimately impact LIOC's profitability and pricing strategies. While the fuel pricing formula allows the price to be adjusted, the mismatch between import prices and distribution prices could erode margins.

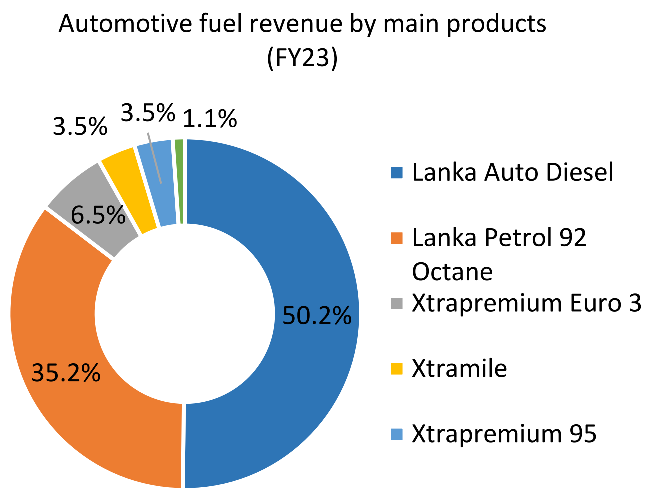
Exchange rate (LKR1 1 per USD)

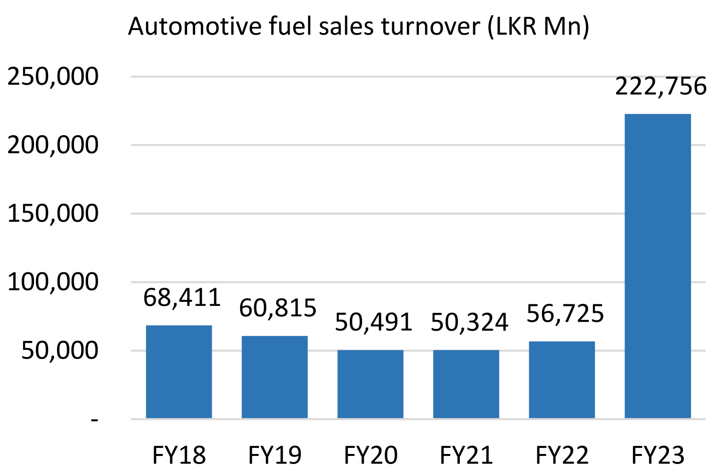


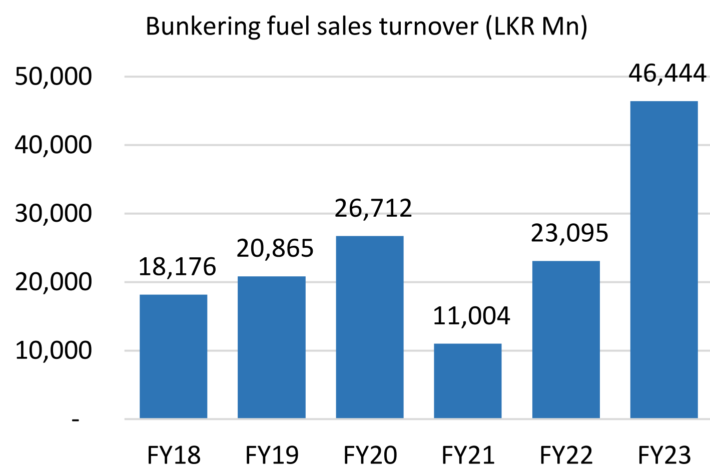
Source: CBSL

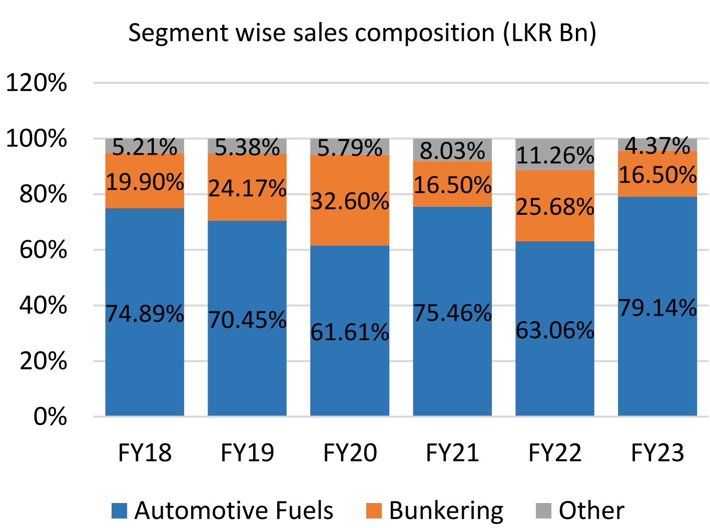
Annexure I: Segmental information

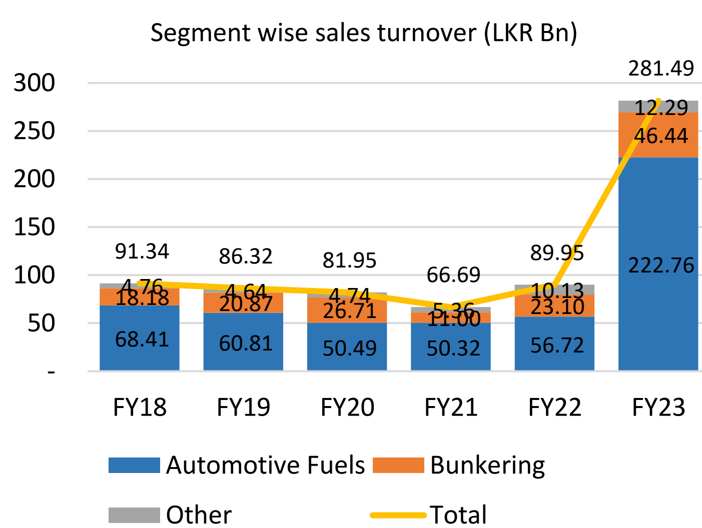












Source: Company reports

Annexure II: Financial statements

INCOME STATEMENT (LKR Mn)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Revenue from contracts with customers	66,686	89,951	281,488	256,340	276,395	307,933
Cost of sales	(63,573)	(81,107)	(227,306)	(230,706)	(243,228)	(270,981)
Gross profit	3,113	8,845	54,182	25,634	33,167	36,952
Other operating income	252	116	116	277	291	306
Administrative expenses	(1,401)	(1,639)	(3,314)	(3,529)	(3,705)	(3,891)
Selling and distribution expenses	(1,803)	(1,912)	(6,807)	(7,690)	(8,292)	(9,238)
Operating profit	161	5,410	44,177	14,692	21,461	24,129
Finance income	1,303	1,364	3,454	4,209	2,607	3,135
Finance cost	(476)	(1,162)	(2,929)	(1,220)	(568)	(747)
Net finance income/(cost)	826	202	525	2,989	2,039	2,388
Profit before tax	988	5,612	44,702	17,681	23,501	26,517
Income tax expense	(105)	(793)	(7,006)	(4,420)	(7,050)	(7,955)
Profit for the year	883	4,818	37,696	13,261	16,450	18,562
Earnings Per Share (LKR)	1.66	9.05	70.79	24.90	30.89	34.86

STATEMENT OF FINANCIAL POSITION (LKR Mn)	FY21	FY22	FY23	FY24F	FY25F	FY26F
Assets						
Property, Plant and Equipment	4,019	3,857	3,904	4,748	6,212	7,968
Financial assets at fair value through OCI	4,394	4,443	4,901	4,950	6,435	9,009
Intangible assets	674	674	674	674	674	674
Right-of-use assets	63	80	48	47	46	45
Financial assets at amortized cost	119	142	148	148	148	148
Bank deposits	10,222	1,462	-	-	-	-
Defined benefit plan asset (net)	-	-	-	16	16	16
Deferred Tax Asset (Net)	261	-	-	-	-	-
Inventories	9,625	27,257	38,027	32,868	36,651	40,833
Trade receivables/Trade & other receivables	2,585	3,965	4,515	11,237	12,116	13,498
Financial assets at amortized cost	1,707	667	806	846	888	933
Other current assets	79	108	2,154	2,261	2,375	2,493
Income tax receivables	18	-	-	-	-	-
Short term investments	12,041	19,892	21,046	26,074	31,350	36,772
Cash and bank balances	599	2,524	5,990	8,691	10,450	12,257
Total assets	46,407	65,071	82,213	92,561	107,360	124,647
Equity						
Stated capital	7,577	7,577	7,577	7,577	7,577	7,577
Other reserve	-	-	458	458	458	458
Retained earnings	12,347	16,709	53,198	64,329	76,801	90,428
Total equity	19,924	24,286	61,233	72,363	84,836	98,462
Liabilities						
Defined benefit obligation (net)	14	12	15	-	-	-
Lease liabilities	38	46	50	50	71	92
Deferred tax liability (net)	-	380	541	542	542	542
Trade and Other Payables	5,808	14,504	14,827	15,170	15,993	17,818
Lease liabilities	33	42	2	33	43	56
Interest bearing borrowings	20,590	25,778	4,468	3,618	5,090	6,892
Income tax payable	-	22	1,077	785	785	785
Total liabilities	26,483	40,785	20,980	20,198	22,525	26,184
Total equity and liabilities	46,407	65,071	82,213	92,561	107,360	124,647
Net Asset Value Per Share (LKR)	37.42	45.61	115.00	135.90	159.33	184.92

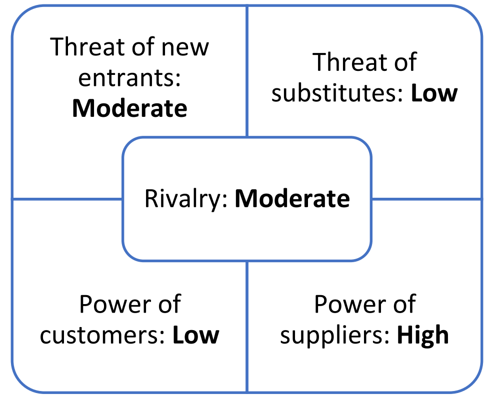
AMBEON SECURITIES

Annexure III: Key ratios

	FY21	FY22	FY23	FY24F	FY25F	FY26F
Profitability						
Gross profit margin %	4.67%	9.83%	19.25%	10.00%	12.00%	12.00%
EBIT margin %	0.24%	6.01%	15.69%	5.73%	7.76%	7.84%
Net profit margin %	1.32%	5.36%	13.39%	5.17%	5.95%	6.03%
Return on Assets (ROA) %	1.90%	7.40%	45.85%	14.33%	15.32%	14.89%
Return on Equity (ROE) %	4.43%	19.84%	61.56%	18.33%	19.39%	18.85%
Dividend payout	51.28%	24.86%	5.65%	30.00%	30.00%	30.00%
Dividend yield*	4.47%	7.31%	2.33%	6.55%	8.13%	9.17%
Activity ratios						
Inventory turnover ratio (times)	5.55x	4.40x	6.96x	6.51x	7.00x	6.99x
Receivables turnover ratio (times)	21.67x	27.46x	66.39x	32.55x	23.67x	24.04x
Payables turnover ratio (times)	19.96x	9.22x	18.05x	15.38x	15.61x	16.03x
Days of sales outstanding	16.84	13.29	5.50	11.21	15.42	15.18
Days of inventory on hand	65.80	82.99	52.42	56.08	52.16	52.18
Days of payables outstanding	18.29	39.58	20.22	23.73	23.38	22.77
Gearing ratios						
Debt to assets	0.45	0.40	0.05	0.04	0.05	0.06
Debt to equity ratio	1.04	1.07	0.07	0.05	0.06	0.07
Interest coverage ratio (Times)	0.34x	4.65x	15.08x	12.04x	37.77x	32.30x
Liquidity ratios						
Current ratio (Times)	1.01x	1.35x	3.56x	4.18x	4.28x	4.18x
Quick ratio (Times)	0.64x	0.67x	1.69x	4.18x	4.28x	4.18x
Cash ratio (Times)	0.02x	0.06x	0.29x	0.44x	0.48x	0.48x

**Expected dividend yield calculated based on current market price*

Annexure IV: Poter’s Five Forces Analysis



Industry rivalry – MODERATE

Each new entrant has an equal share of the market while CPC still retains a relatively large market share. However, LIOC has a high market share compared to new peers. Additionally, every player in the market follows similar marketing strategies and offers similar products.

Threat of new entrants – MODERATE

Since the startup capital requirement is relatively high, existing players have built a strong distribution network. The main barrier to entering the market is the need for a government license. The liberalization has resulted in new entrants into a relatively smaller market.

Power of suppliers – HIGH

Since the Sri Lankan fuel market is dependent on imports, countries such as the US, Saudi Arabia, and Russia, which are major oil producers, hold significant influence over the industry and global oil prices. Furthermore, since LIOC lacks refinery capacity, they depend on CPC.

Power of customers – LOW

Since fuel is an essential energy source, with limited alternatives for buyers, and no distinguishable differences among sellers, customer power is low. The demand is relatively inelastic.

Threat of substitute products – LOW

Alternative sources to oil include biofuels and other renewable sources such as solar and wind energy. However, in Sri Lanka, these sources are used rarely. Implementing them would require significant investments in R&D and production procedures, so the possibility for substitutes to dominate is very small.

Annexure V: Recommendation criteria

The recommendations are based on the stock returns compared against the 1-year Treasury bill rate as a benchmark.

BUY	Return of the stock > 1-year T bill rate plus 5%
HOLD	1-year T bill rate plus 5% > Return of the stock > 1-year T bill rate
SELL	Return of the stock < 1-year T bill rate

1-year T bill rate used for comparison = 10.38%

Source: Company reports, Press releases, Ambeon Estimates

Abbreviations

Bn	Billions
BOI	Board of Investment
CBSL	Central Bank of Sri Lanka
CPC	Ceylon Petroleum Corporation
CPSTL	Ceylon Petroleum Storage Terminals Limited
CSE	Colombo Stock Exchange
EIA	U.S. Energy Information Administration
EOI	Expressions of Interest
EPS	Earnings Per Share
FY	Financial Year
LAD	Lanka Auto Diesel
LC	Letter of Credits
LIOC	Lanka LIOC PLC
LKR	Sri Lankan Rupees
MCAP	Market Capitalization
Mn	Millions
MRP	Maximum Retail Price
NAVPS	Net Asset Value Per Share
PAT	Profit After Tax
PBV	Price to Book Value
PE	Price Earnings Ratio
ROA	Return on Assets
ROE	Return on Equity
TEU	Twenty-foot Equivalent Unit
TPTL	Trinco Petroleum Terminal Limited
TTM	Trailing Twelve Months
VAT	Value Added Tax
WACC	Weighted Average Cost of Capital
YoY	Year on Year

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