

Event Update: Chevron Lubricants Lanka (LLUB – Rs.63.0)

Potential impact on margins following the recent attacks on Saudi Government's oil facilities : 16 September 2019

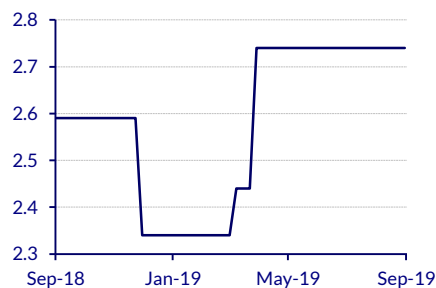
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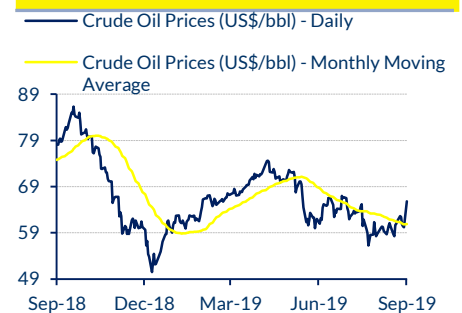
- ❑ On 14 September 2019, two oil plants in Saudi Arabia's oil industry were attacked by Yemen's Iran-aligned Houthi group. According to a statement released by Saudi Arabia's state-run oil company Saudi Aramco the attacks will temporarily cut the kingdom's output by 5.7mn barrels per day (bpd) (~5% of global oil supply)
- ❑ Subsequent to the attack Brent crude oil prices have risen sharply by +9% to US\$65.8 per barrel on 16 September 2019
 - Brent crude oil prices have risen +33% from Jan 2019 – April 2019 to US\$72.8 per barrel and have declined -17% from May 2019 – 13 Sep 2019 (prior to the attack) to US\$60.2 per barrel
- ❑ Meanwhile relatively more stable benchmark base oil (refined from crude oil) prices - key raw material of LLUB and contributes ~80% of LLUB's cost of sales and is imported – rose +17% Jan 2019 – April 2019 and thereafter remained unchanged at US\$2.74 per gallon

Base Oil - Motiva Gulf Coast Type II 110 viscosity (US\$/gal)



Source: Bloomberg. Note - Motiva Gulf Coast Type II prices are taken as a proxy for LLUB's base oil cost, with the broader trend being understood to be reflective of LLUB's actual base oil cost

Brent Crude Oil (US\$/bbl)



Source: Bloomberg

Potential Impact to LLUB:

- ❑ We maintain our net profit forecasts at Rs.1,996mn (broadly unchanged YoY) and Rs.2,160mn (+8% YoY) for 2019E and 2020E respectively – with the GP margin forecast maintained at 35.4% for 2019E and at 34.9% for 2020E
- ❑ We do not anticipate any margin erosion in 3Q2019E from the recent attacks on Saudi oil facilities and the subsequent increase in crude oil price, given that movements in crude oil are reflected in LLUB's cost of sales with a 6-7 month lag
- ❑ While there is a possibility of LLUB's GP margin being lower than our current 2020E forecast of 34.9%, we are maintaining our forecast due to uncertainty on both crude oil prices and competitor reactions vis-à-vis pricing and market share
- ❑ The LLUB share has underperformed the market declining -13% and rising +5% over the past 12 and 3 months respectively (vs. the ASI's decline of -4% and rise of +8% over the same period)
- ❑ LLUB trades at PER of 7.6X for 2019E and 7.0X for 2020E, whilst offering gross dividend yields of 12-13%

- ❑ A potential re-rating of the share will likely depend upon LLUB regaining a material portion of its market share especially in the more higher margin retail segment through promotions and demand pull measures
- ❑ For further details on LLUB's recent results and outlook, please refer to our LLUB 2Q2019 Results update report – 22 August 2019

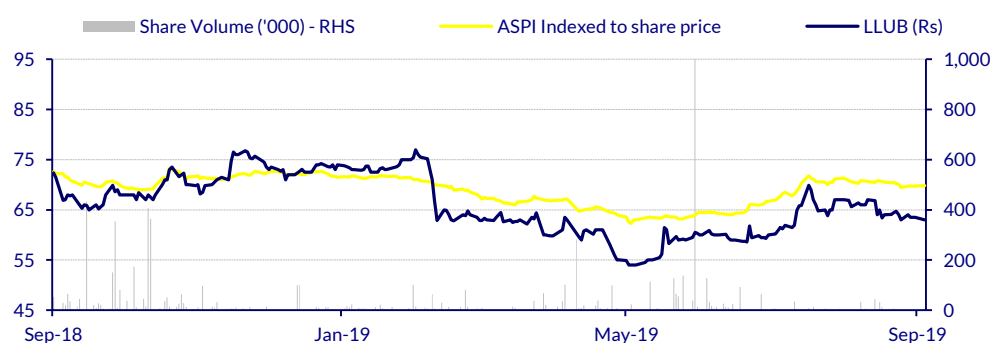
<http://www.ctclsa.lk/ctclsas/wp-content/uploads/2019/08/LLUB2Q19.pdf>

Financials

Year to 31 December	2016	2017	2018	2019E	2020E
Net Revenue (Rs mn)	12,089	11,052	10,861	11,816	12,810
Net Profit (Rs mn)	3,480	2,554	1,988	1,996	2,160
Earnings per Share (Rs)	14.5	10.6	8.3	8.3	9.0
Earnings per Share Growth (%)	12.7	-26.6	-22.2	0.4	8.2
Price / Earnings Ratio (X)	10.8	11.2	8.8	7.6	7.0
Price / Earnings Growth Ratio (X)	0.9	N/A	N/A	17.6	0.9
Gross Dividend per Share (Rs)	18.0	12.3	8.0	7.5	8.1
Gross Dividend Yield (%)	11.5	10.3	11.0	11.9	12.9
Net Book Value per Share (Rs)	16.1	16.7	16.3	17.0	18.0
Return on Equity (%)	81.5	64.9	50.2	49.7	52.5
Market Price per Share (Rs)	157.0	119.0	72.5	63.0	63.0

Note: Valuations and ratios on a recurring basis; Adjusted for capital issues (if any)

Absolute Share Price Movement and Volume ('000)



Source: CT CLSA

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