LANKA IOC PLC

Fueled up for the future

BUY

Bloomberg ticker – LIOC.SL

GICS Industry Group - Energy
Price (LKR) – 84.9
Target Price (LKR) – 129.5
Total Return (%) – 64%

Share Data

Market Cap (USD mn)	123.9
Market Cap (LKR bn)	45.2
12M H/L (LKR)	85.6/19.8
Free Float (%)	24.9%

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TANK IS FULL FOR THE EXTRA MILE...

IT IS FULL TANK: Enhanced profitability margins in Auto fuel, dollarized income from bunkering and direct supplies to corporates along with cost optimization & competitive pricing to boost LIOC earnings

AUTO FUEL

The cost advantage received from the fuel pricing formula and direct sales to industries deriving USD income to drive earnings for the segment

BUNKERING

The improved USD income generation via higher volumes and direct sales to local corporates to further elevate led by the weakening LKR cf. USD

LUBRICANTS

The competitive pricing mechanism amidst being a local blender with the highest capacity utilization levels could sustain growth over the forecast years

MEDIUM TERM GROWTH

The lucrative earnings generation via operating the Trinco Oil tank farm, commencement of the Grease plant and growth in Bitumen & Petrochemicals to drive medium term growth

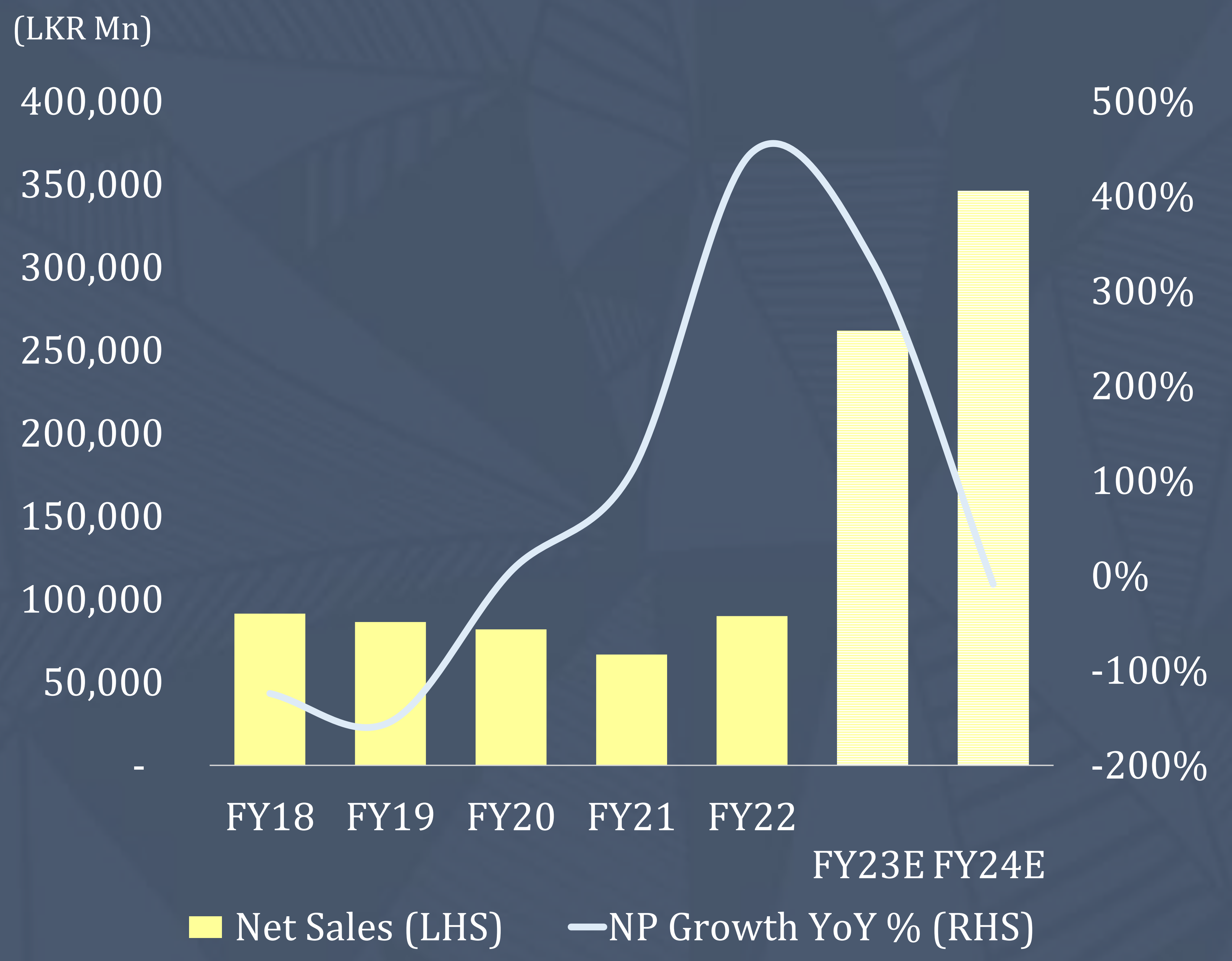
RECOMMEND BUY: Whilst currently being the sole fuel supplier to SL in the absence of its competitor CPC, the robust growth potential in LIOC's Auto fuel which now derives higher per liter profits and the improved Bunkering earnings amidst weakening LKR cf. USD, to trigger a price upside of +57% based on its DCF based TP and an upside of +53% on its average fair value of LKR129.5 . We thus recommend a BUY on LIOC (FY23E: EPS LKR39.0, PER 2.2x).

LIOC to mark history in FY23E with phenomenal 1H and full year earnings…

FY23E PROFITS COULD BE OVER ~LKR20 Bn: The almost nonexistent fuel supply of CPC to result greater profitability for LIOC in 1HFY23E

LIOC earnings for FY23E poised to grow +330% YoY to LKR20.7 bn amidst surging demand for Auto fuel given the stalled supply of GoSL owned Ceylon Petroleum Corporation (CPC) and incremental Bunkering earnings fueled by the weakening LKR cf. USD

YE 31 Mar/(LKR mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Profit (LKR mn)	**(744)**	**403**	**422**	**882**	**4,818**	**20,742**	**18,861**
YoY growth (%)	*-124.3%*	*154.2%*	*4.5%*	*109.1%*	*446.3%*	*330.5%*	*-9.1%*
EPS (LKR)	(1.4)	0.8	0.8	1.7	9.0	39.0	35.4
DPS (LKR)	0.7	0.8	0.8	0.8	1.8	10.0	12.0
BVPS (LKR)	36	36	37	37	46	75	98
Ratios (%)							
GP Margin	2%	5%	5%	5%	10%	13%	10%
EBIT Margin	-2%	1%	1%	0%	6%	9%	6%
NP Margin	-1%	0%	1%	1%	5%	8%	5%
Debt to Equity	26%	12%	87%	103%	106%	81%	77%
Dividend payout	47%	99%	95%	45%	19%	26%	34%
ROE (%)	-4%	2%	2%	4%	20%	52%	36%
PE (x)	(60.7)	112.1	107.2	51.3	9.4	2.2	2.4
PBV (x)	2.3	2.3	2.3	2.3	1.9	1.1	0.9
Div Yield (%)	1%	1%	1%	1%	2%	12%	14%



Given that fuel prices follow a declining trend in the global arena amidst recessionary fears whilst expecting no major unprecedented events to take place during the forecast period, LIOC could surpass a phenomenal profitability milestone in FY23E

Source: Company data, SSB Research

Softlogic Stockbrokers

The Fuel Pricing Formula

The fuel pricing formula to be of greater advantage for LIOC

UNMATCHED PROFITABILITY: All main segments in the Pricing Formula derive added profits per liter for LIOC over CPC

Profit per liter calculation at average PLATTs prices for July'22 (profit per liter appears to be high as PLATTs price has come down significantly, however actual cost of inventory might be higher than the stated figures)

LIOC	Petrol 92	Petrol 95	Auto Diesel	Super Diesel
Cost of Bbl/USD	**148.2**	**154.9**	**150.2**	**155.7**
Losses due to evaporation of products 0.3% per barrel in USD	0.5	0.5	0.5	0.5
landed Costs/Liter (LKR)	**341.4**	**356.8**	**346.2**	**358.8**
Taxation	**57.6**	**79.8**	**32.0**	**54.9**
Processing cost/ Liter (LKR)	**20.2**	**23.4**	**17.6**	**19.5**
Jetty and pipeline charges (Local port charges)	0.4	0.7	0.4	0.8
Throughput charges	3.0	3.0	2.6	2.6
Transport cost	0.7	0.7	0.7	0.7
Evaporation loss given to dealers	2.3	2.7	-	-
Dealer margin	13.9	16.3	13.9	15.4
Other operational and admin costs per Liter (LKR)	**3.1**	**2.6**	**2.8**	**3.5**
LC opening charges	0.2	0.2	0.2	0.2
Bill acceptance charges	0.1	0.1	0.1	0.1
Suppliers Interest	-	-	-	-
Finance Costs	2.5	2.0	2.2	2.9
Fire , Insurance and inspection	0.1	0.1	0.1	0.1
Administrative & other costs	0.3	0.3	0.3	0.3
Exchange variation	-	-	-	-
Total costs without dealers Margin (LKR/Liter)	**406.2**	**443.5**	**384.7**	**421.4**
Profit Margin per Liter (LKR)	76%	66%	79%	70%
Contribution to price stabilization fund per Litre (LKR)				
Maximum Retail Price per Litre (LKR)	***422.4***	***462.5***	***398.6***	***436.8***
Retail Price per Litre (LKR)-17th Jul'22	450.0	540.0	440.0	510.0
Profit/Loss per Liter (LKR)	**27.6**	**77.5**	**41.4**	**73.2**
NP Markup	**6%**	**14%**	**9%**	**14%**
Dealer margin	3.4%	3.4%	3.0%	3.0%

Landed Cost: *much lower for LIOC driven by the lower global Petrol and Diesel prices.*

Taxation: *the curtailed cost per Bbl. derives a lower PAL for LIOC*

Processing Costs: *Much lower Transportation costs gives an added cost advantage*

Operational & Admin Costs: *Given the lesser finance costs/Liter and controlled Admin costs makes it very minimal compared to CPC's costs*

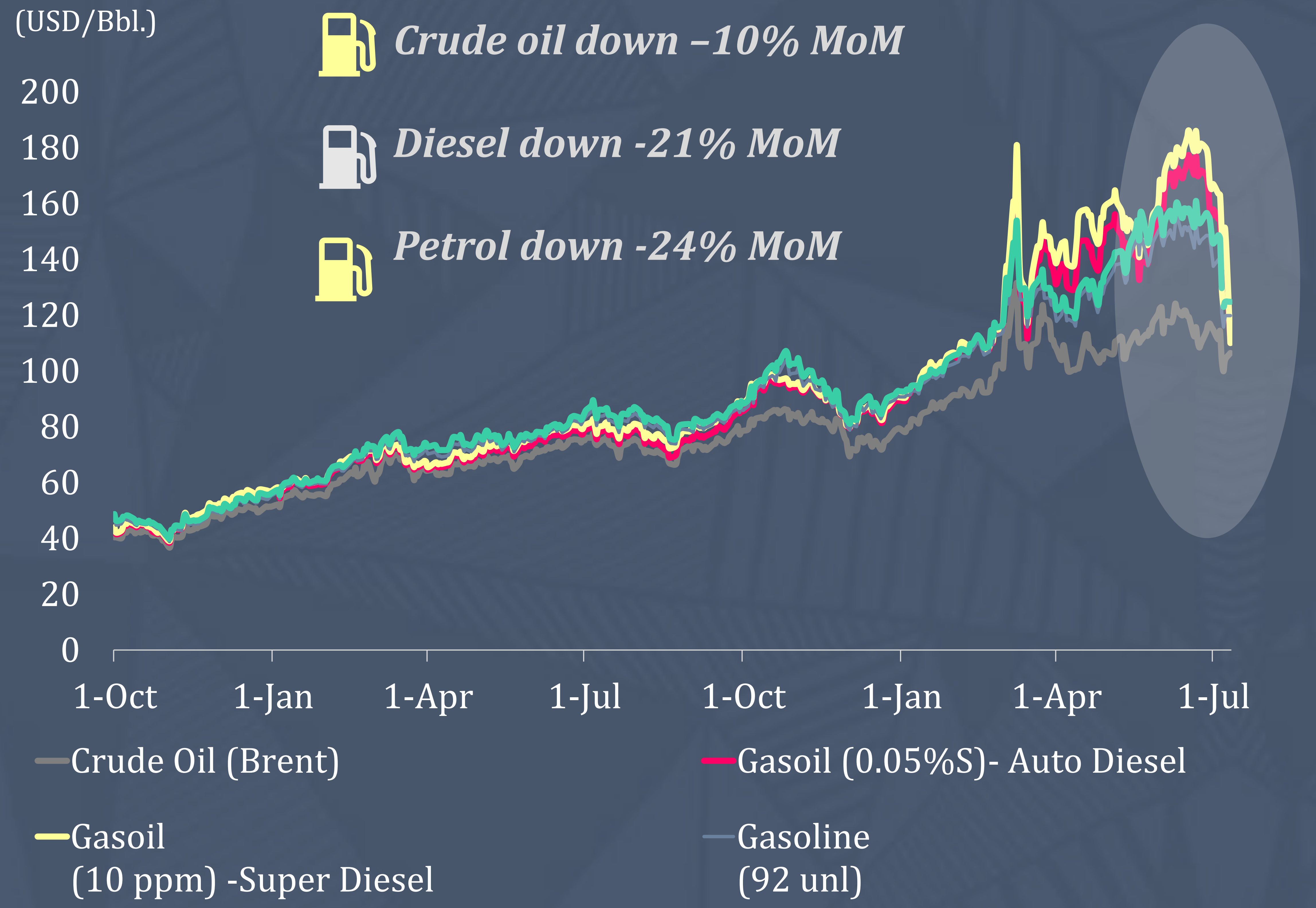
LC Opening Cost: *Cost of opening a LC is significantly high for CPC compared to LIOC given CPC's tarnished credibility*

**** Note that above profit per liter is calculated based on the average 30 day prices between 17th Jun- 17th Jul whilst adding an estimated premium, taking the USD exchange rate of LKR365 and is just an indicator which may significantly vary upon global price fluctuations***

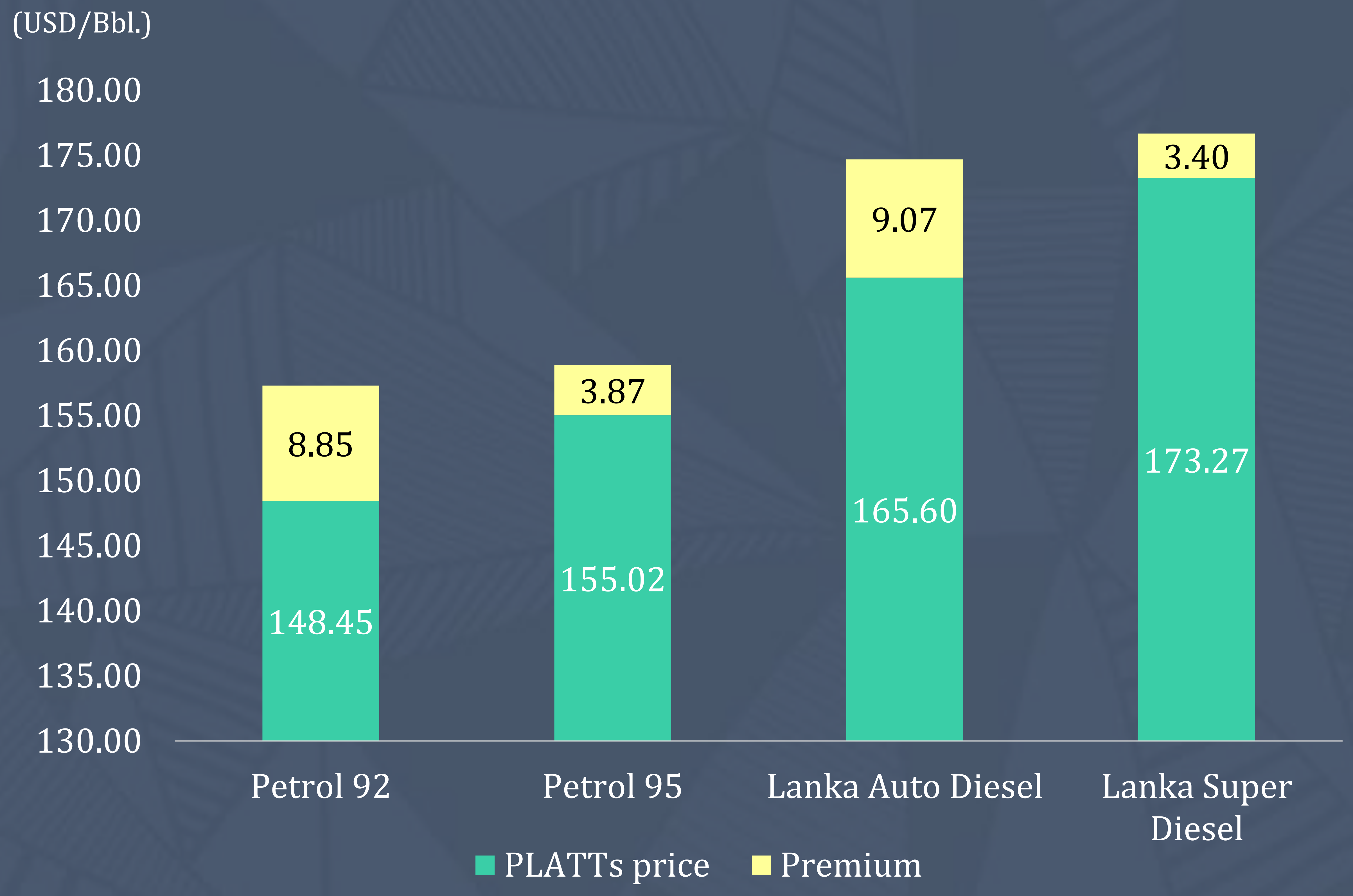
Source: CBSL, Ministry of Power & Energy, Company data, SSB Research

REDUCED LANADED COSTS: LIOCs ability to purchase fuel at lower global prices as opposed to CPC buying at spot prices with a higher premium may provide a margin advantage for LIOC

Fuel prices have dipped MoM in double digits in Jul'22 which would directly benefit LIOC to lock inventory at a lower cost for future use



… However, CPC is likely to pay a much higher premium than LIOC on top of the PLATTs price at spot purchases given its difficulties in sourcing forex



Given LIOC's ability to purchase Petrol and Diesel at lower global prices as opposed to CPC's strategy of going ahead with spot purchases at higher rates to give greater benefits for LIOC to curtail its Landed Costs per Liter

Source: Industry Sources, CBSL, Ministry of Power & Energy, SSB Research

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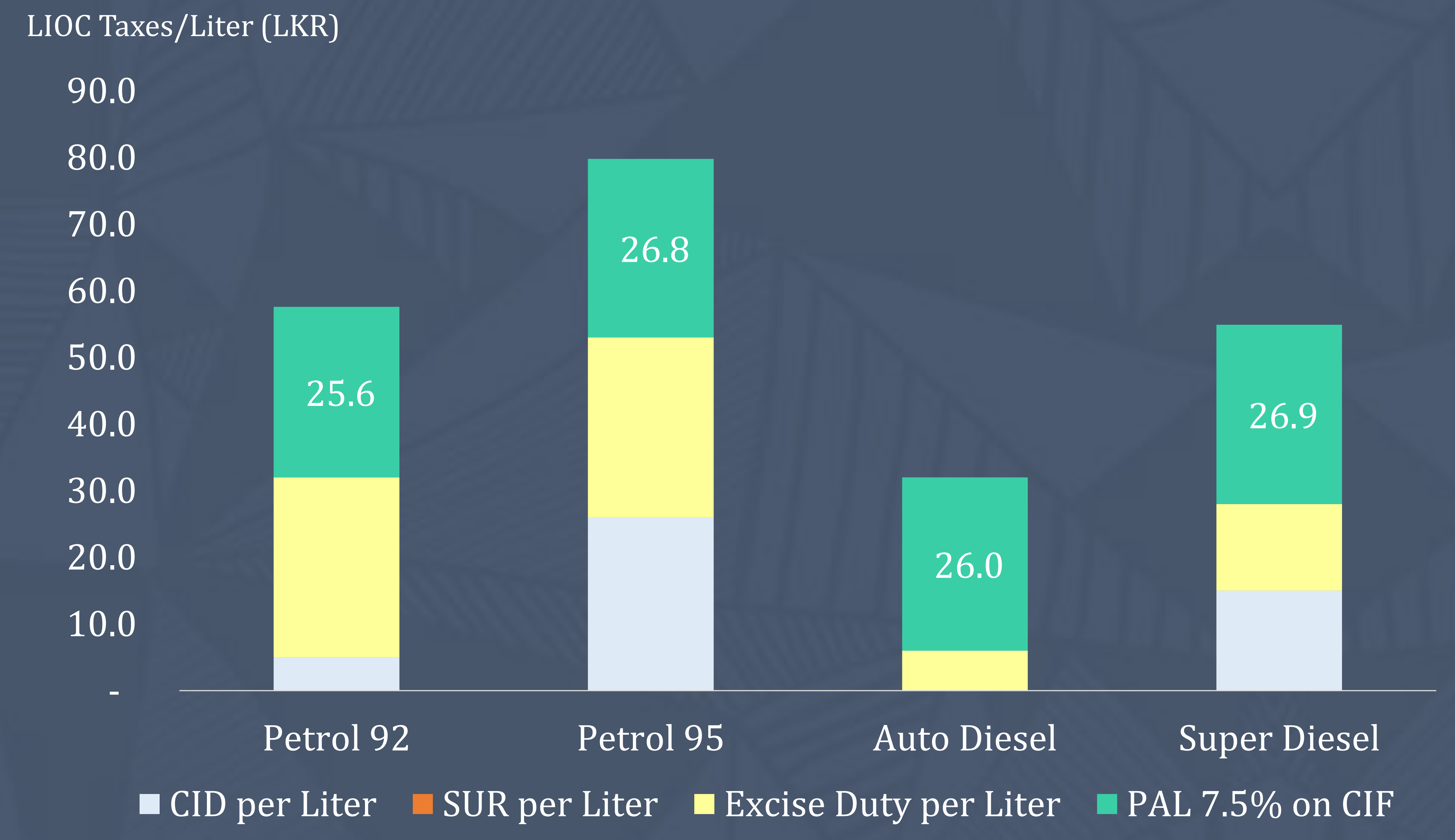
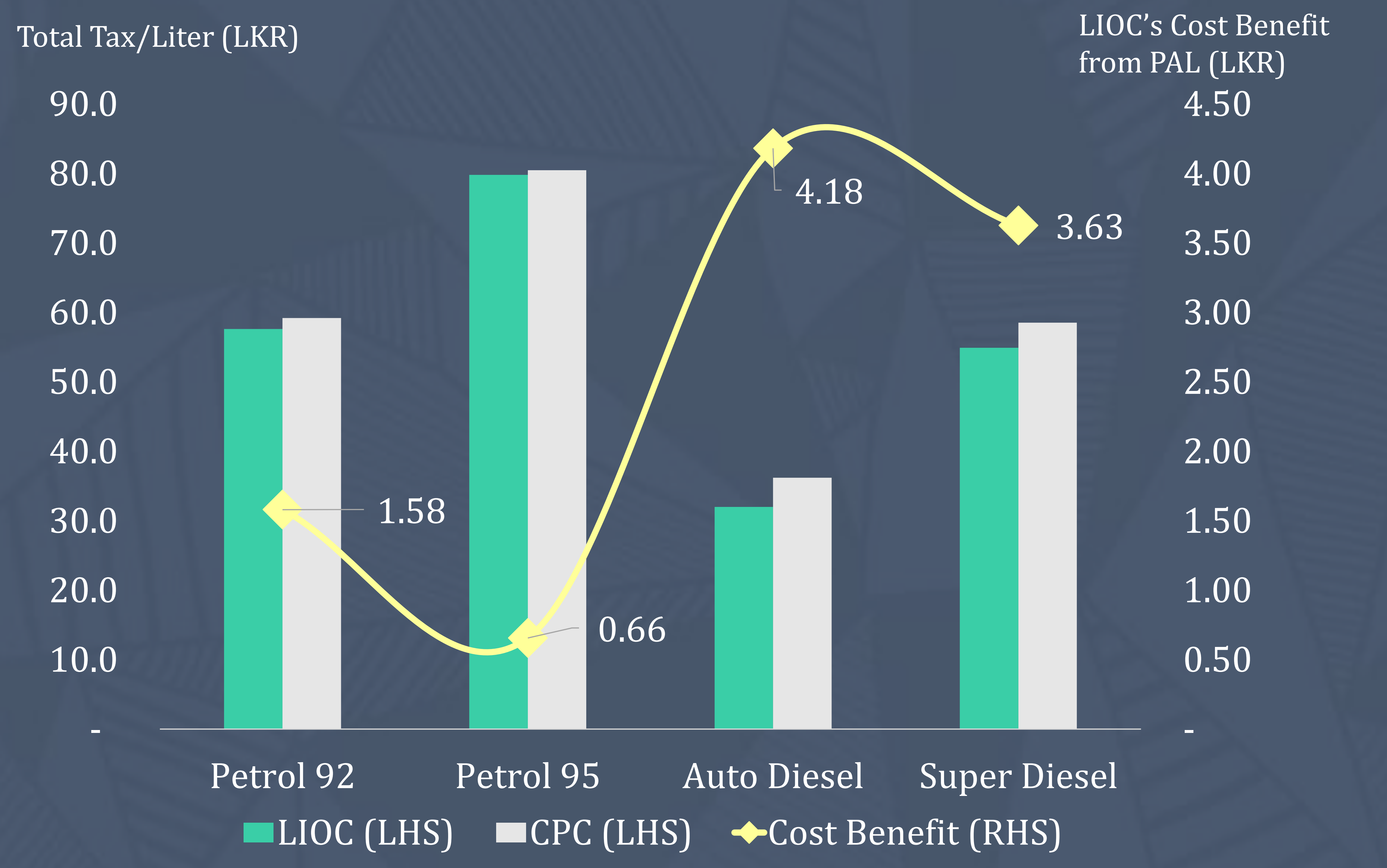
A Lower PAL: The reduced CIF values to derive a lower PAL thus reducing LIOC's total taxation for all categories

95 Petrol takes up the highest taxes of LIOC's 4 main Auto fuel segments



The lower CIF value thus derives a comparatively lower PAL for LIOC and hence all total taxes remain lower than CPC's taxes

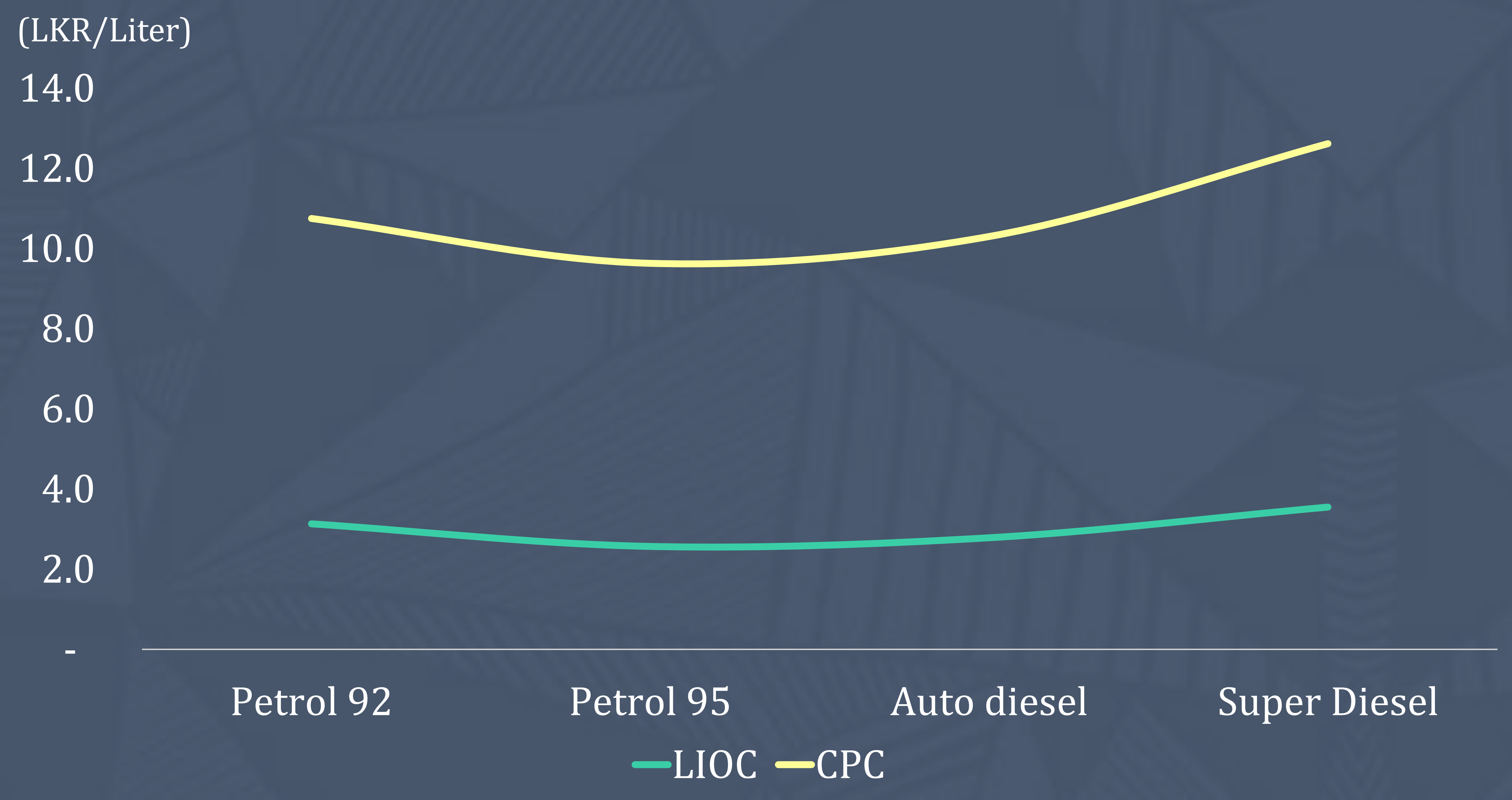


Despite having similar CID and Excise duties for all categories as CPC, LIOC derives a tax saving from reduced PAL (which is 7.5% of CIF value) amidst having the capability to procure fuel at a lower global price than CPC

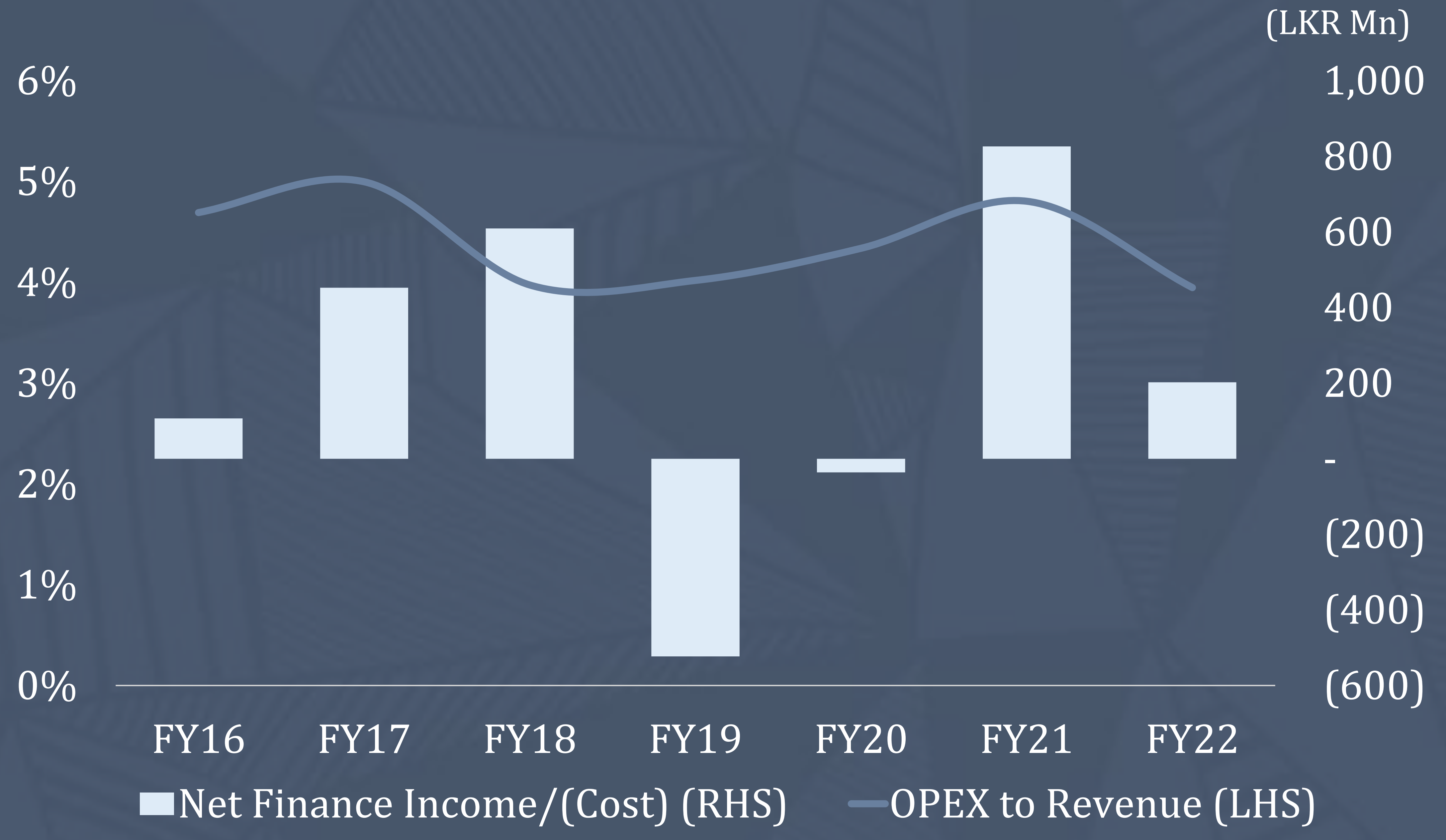
Source: Ministry of Power & Energy, Company data, SSB Research

Lower Per Liter Admin Costs: Lower finance and admin costs give further cushioning for LIOC to reduce the total cost per liter

LIOC's Per Liter Other operational and Admin costs for each category on average is at least -70% lower than CPC's costs



LIOC had been maintaining a stringent control over its OPEX amidst a net finance income in most of the past years



- Compared to CPC's exorbitant borrowings, LIOC only has ~LKR25.8 bn of short-term debt which had been borrowed for inventory building and various other investments. Thus, per liter finance cost incurred by LIOC is notably lower cf. CPC.

- Additionally, given LIOC's lower worker base of around ~159 direct employees and lower distribution and other operational costs owing to strict cost optimization measures practiced (including roof top solar initiatives at many sheds), the total OPEX per liter is also much lower than CPC.

Source: Ministry of Power & Energy, Company data, SSB Research

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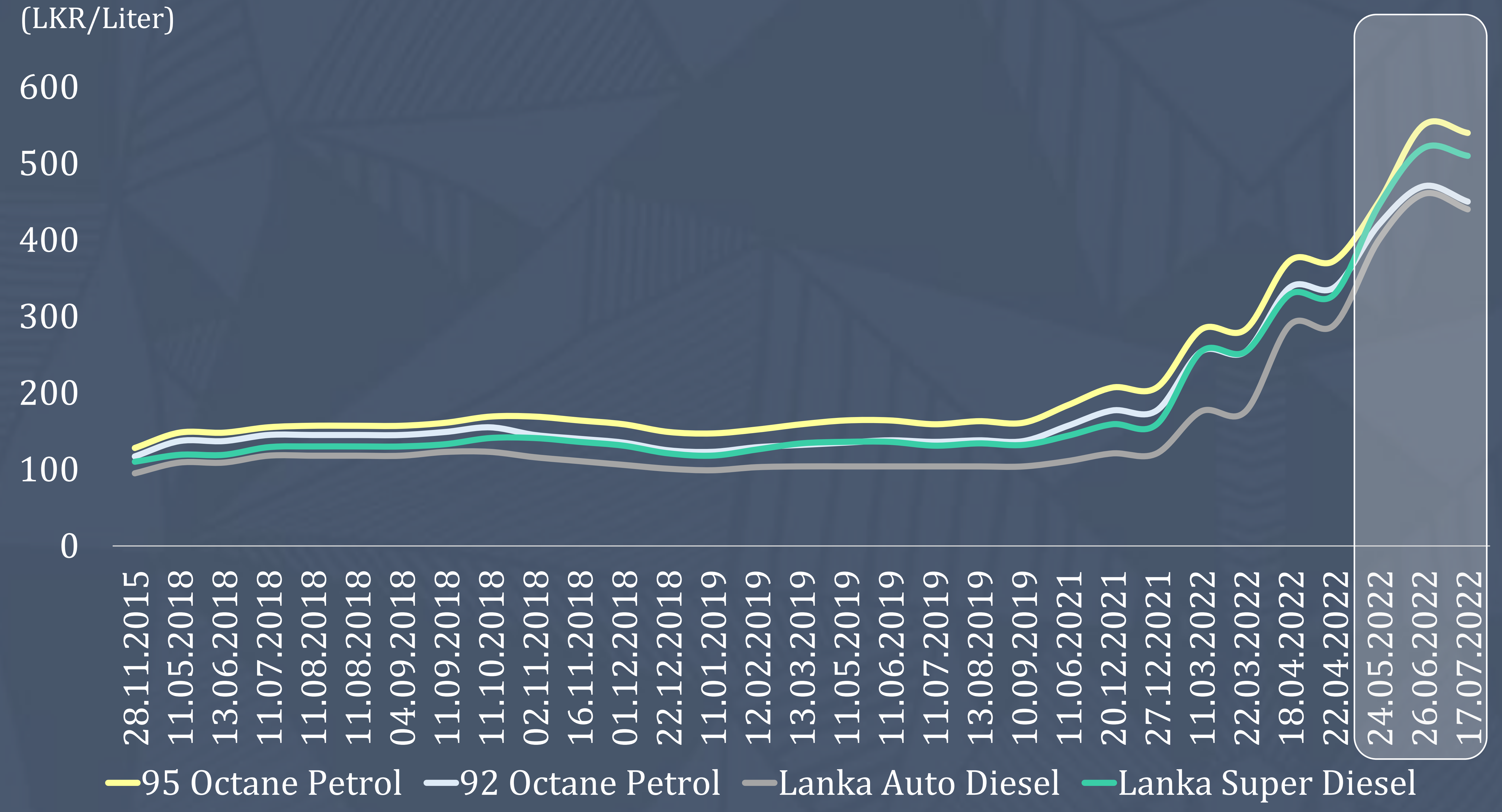
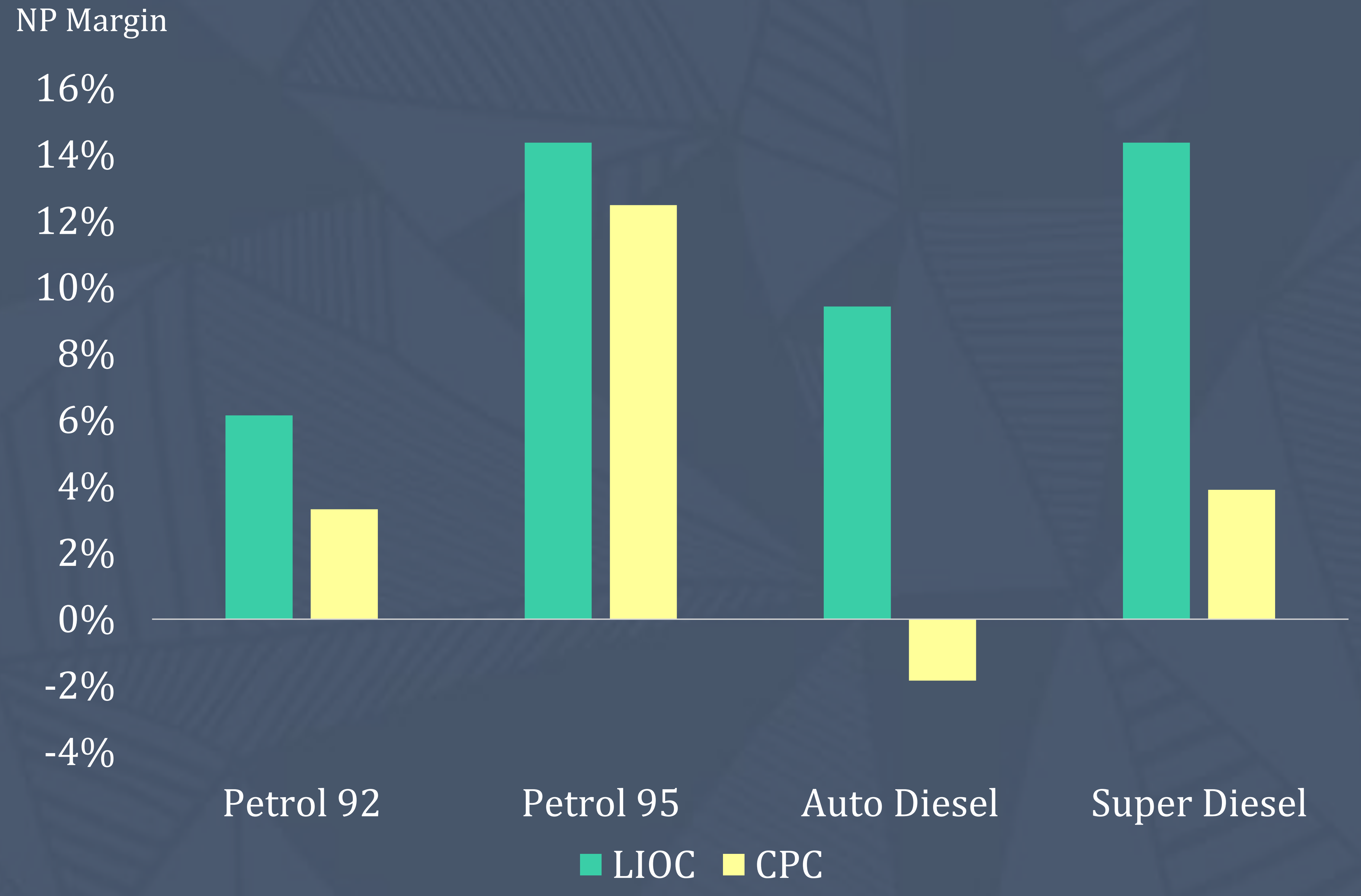
THUS, ELEVATED MARGINS: Lower costs compared to CPC while enjoying similar retail prices as CPC to strengthen LIOC's Auto fuel margins (ei: higher the CPC cost, better the margin for LIOC as Retail prices are likely set to cover some CPC costs)

Based on the present fuel pricing formula, Auto Fuel prices were revised 3 times thus far



....Thus, LIOC's NP Margins on all main categories remain much higher vs. CPC given its lower cost structure

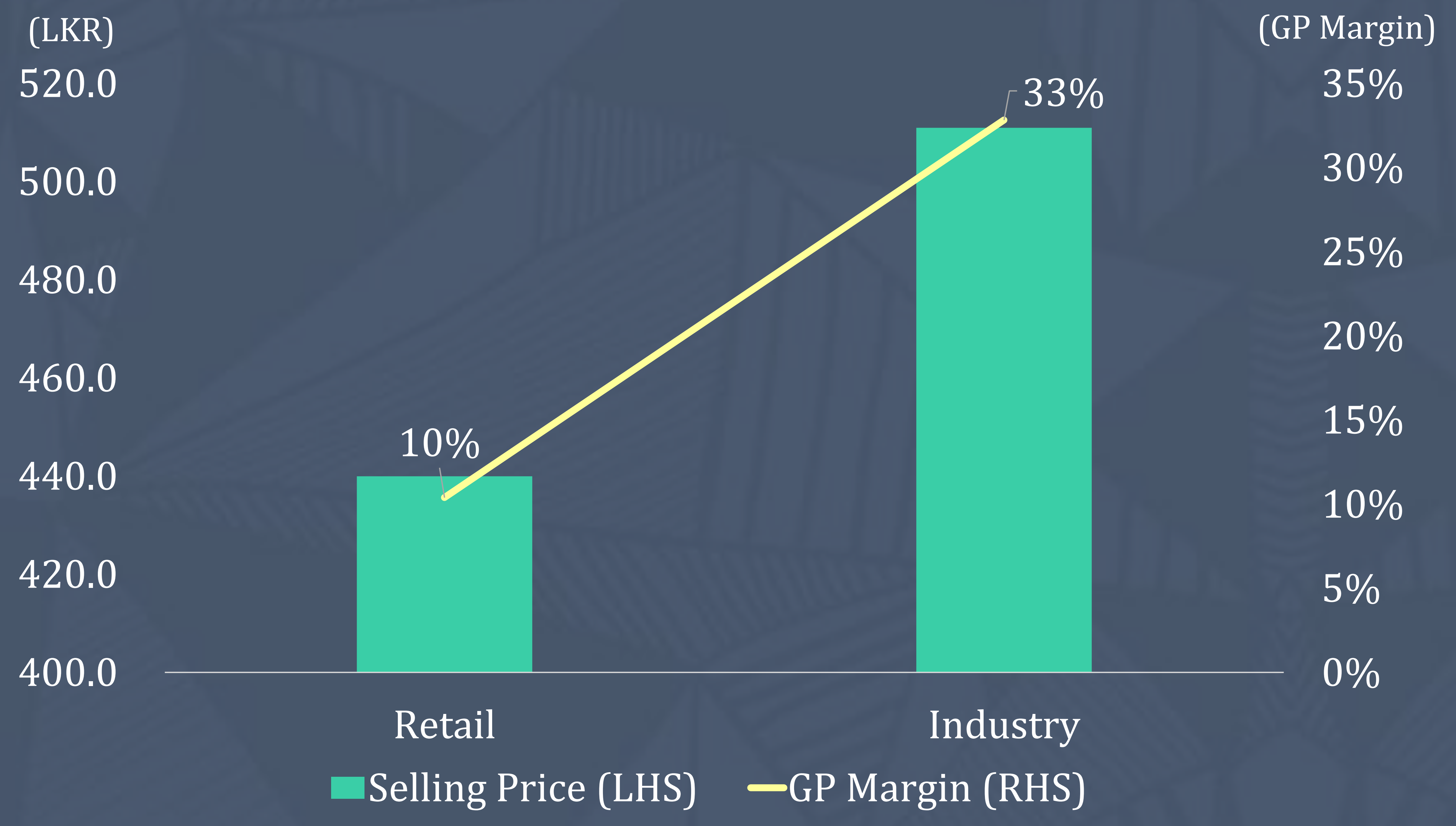


In order to maintain a transparent pricing mechanism, the ministry of Power & Energy would initiate fuel price revisions twice a month (on the night of the 1st and 15th of every month) whilst the ability to procure fuel based on forward contracts at competitive pricing than CPC gives LIOC the upper hand to sustain its positive NP margins on the Auto fuel segment

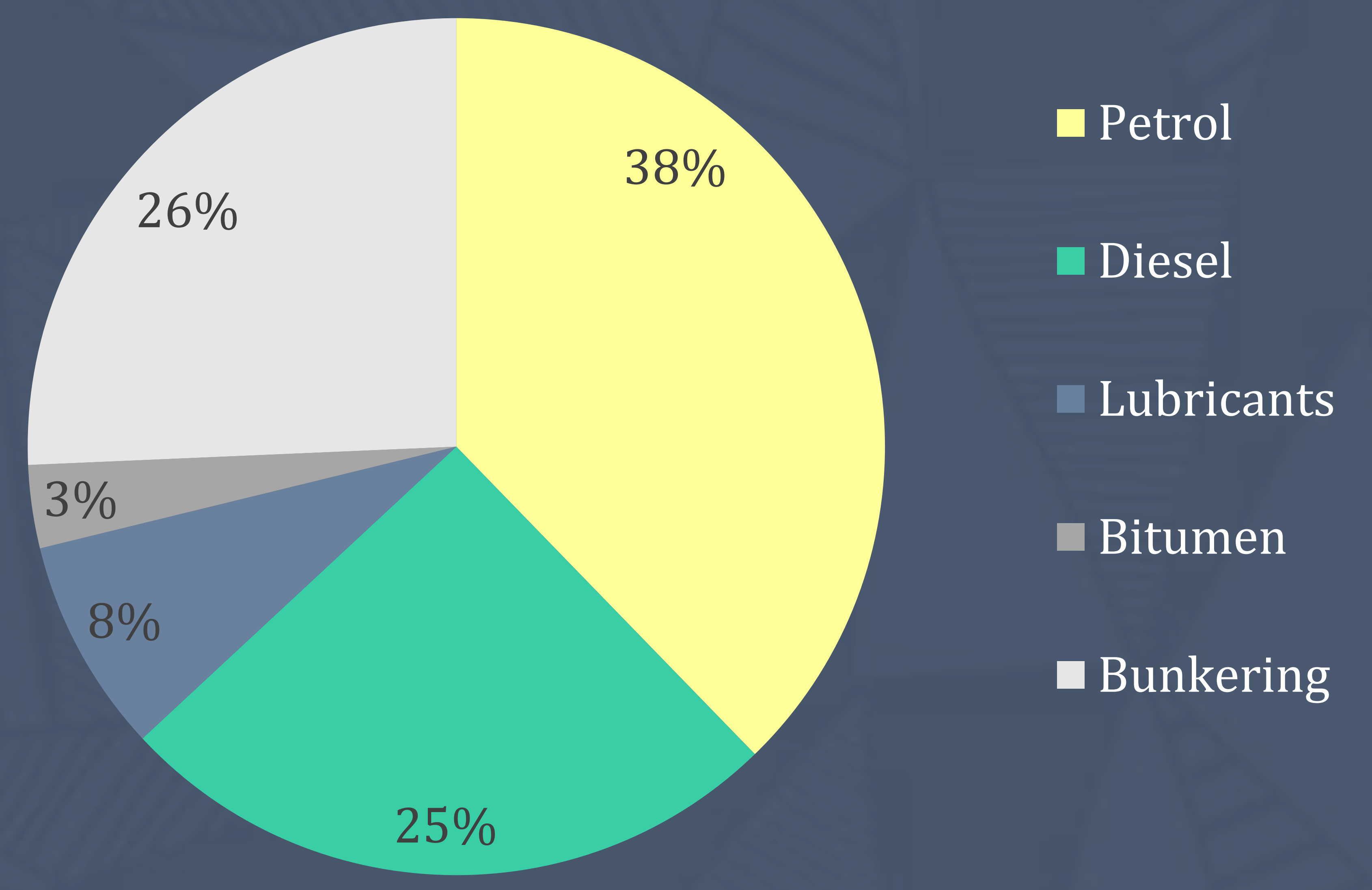
Source: Ministry of Power & Energy, CPC, Company data, SSB Research

USD INCOME FROM DIESEL TO INDUSTRIES: Industry sales accounting for 30% of total Diesel sales could continue to derive enhanced margins amidst Dollarized income over the coming quarters

Elevated USD quoted selling prices of Auto Diesel to various industries to generate ~33% of GP margins vs. ~10% Retail margins



Diesel accounted for ~25% of LIOC's topline in FY22

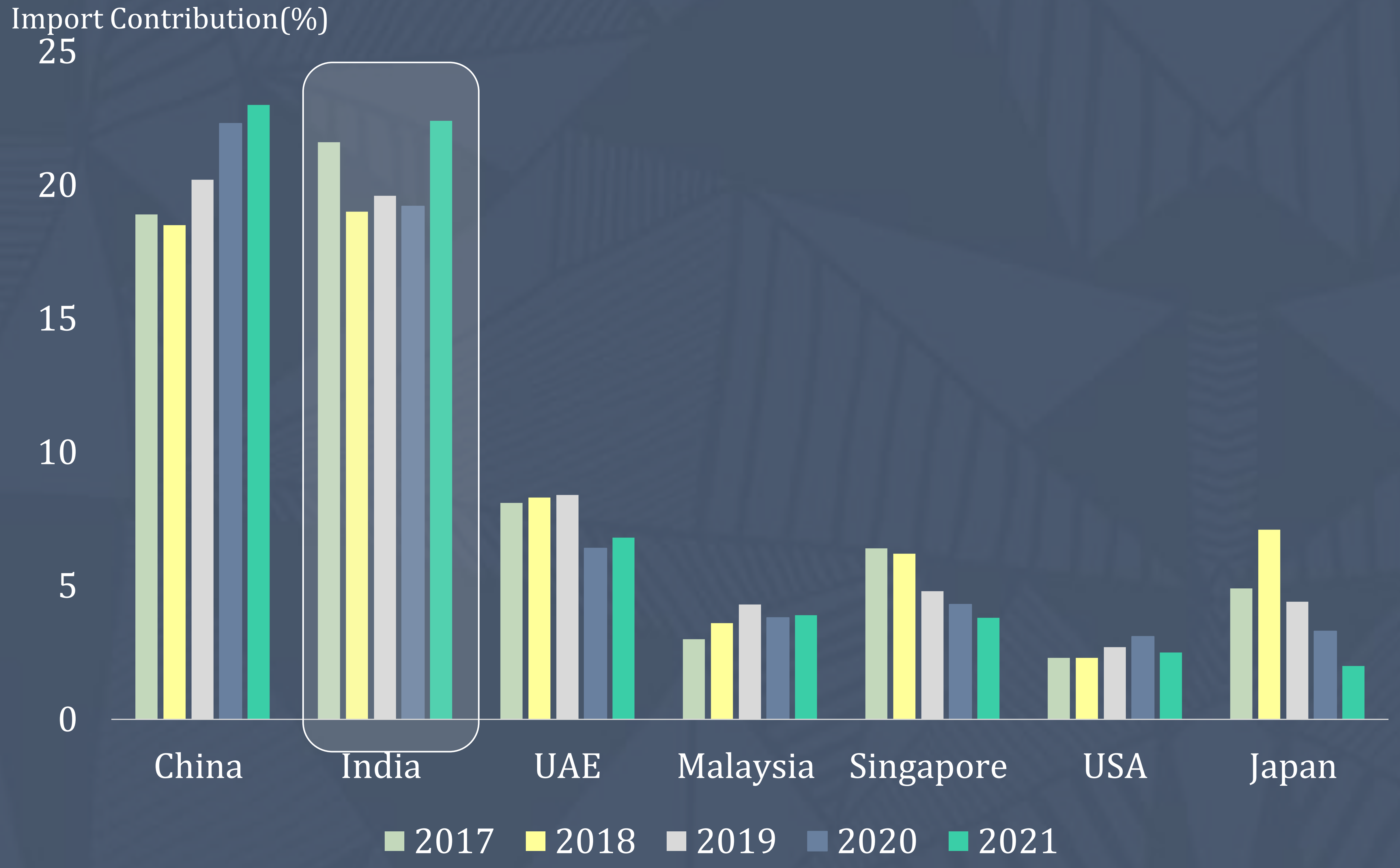


Auto Diesel which is sold at ~USD1.4/Liter to industries capable of paying in USD such as bigger players in Apparel, plantations, export companies, etc. currently accounts for ~30% of LIOC's Diesel sales which hence gives the company higher margins and much needed USD to weather the current forex crisis in Sri Lanka

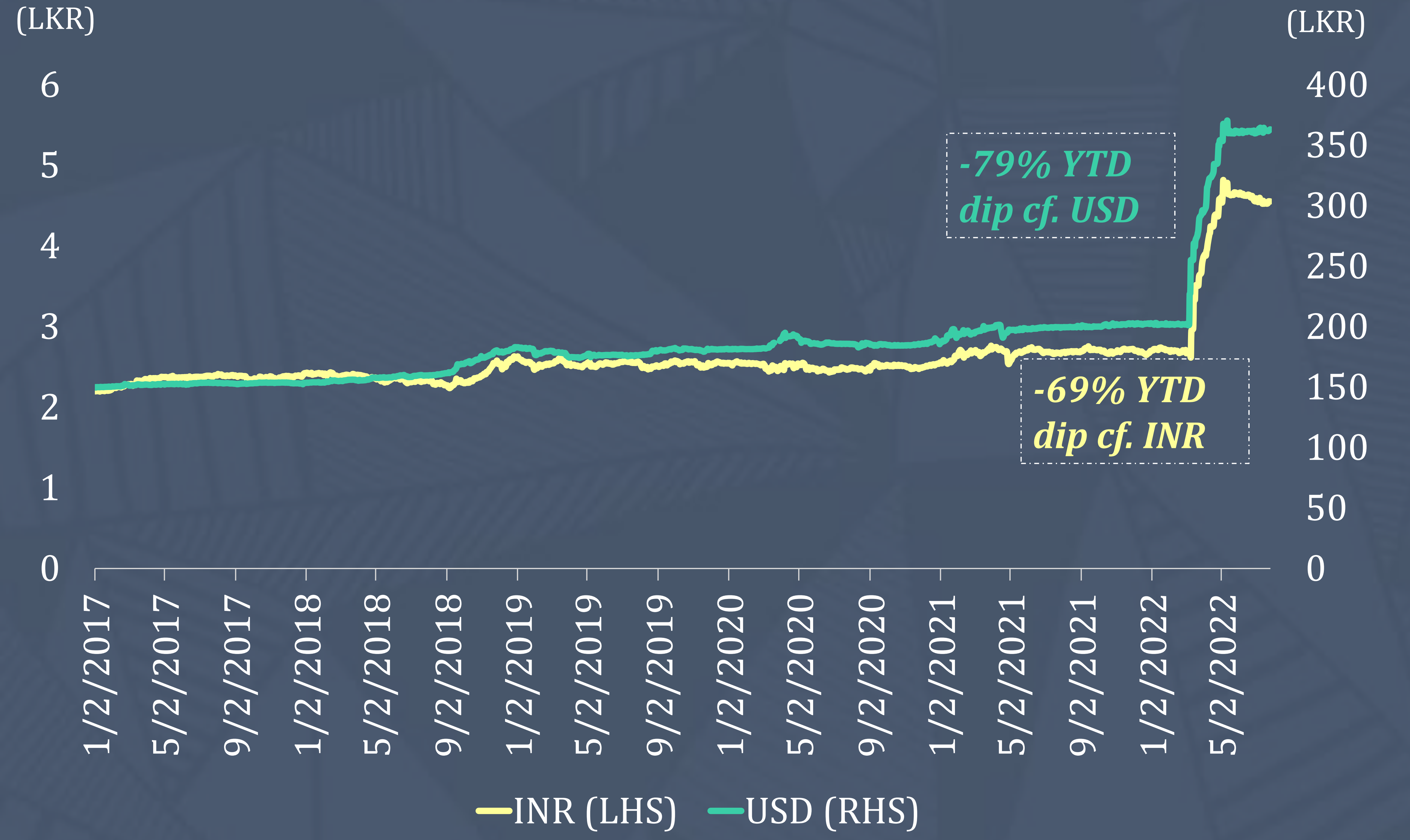
Source: Industry source, Company data, SSB Research

Greater Potential to Deal in INR: Invoicing, payment, and settlement of exports & imports to Sri Lanka in Indian Rupees for selected goods on the cards, which may turnaround the dynamics for LIOC

Imports from India accounts for ~22% of SL's total imports whilst India remains as the 2nd largest origin of imports for SL



As LKR has a lesser YTD depreciation against INR than USD, finding avenues to settle payments in INR would give LIOC a greater potential to further improve its business reducing the forex risk



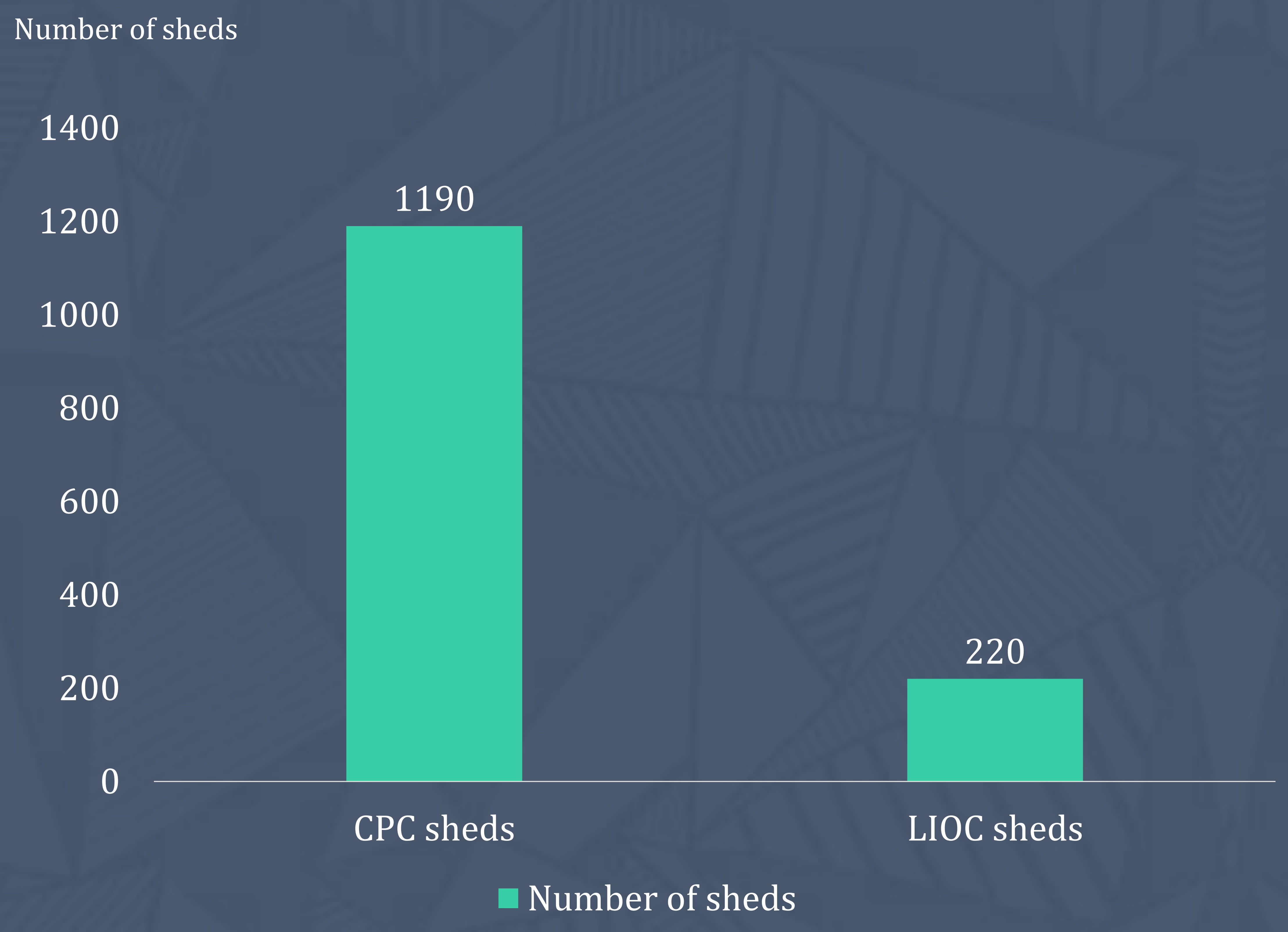
If the plans get implemented and payments in INR are allowed for fuel imports as well, this could certainly benefit LIOC to mitigate the hassle on opening LCs amidst the forex shortages and further lower costs on opening LCs

Source: CBSL, Bloomberg, Company data, SSB Research

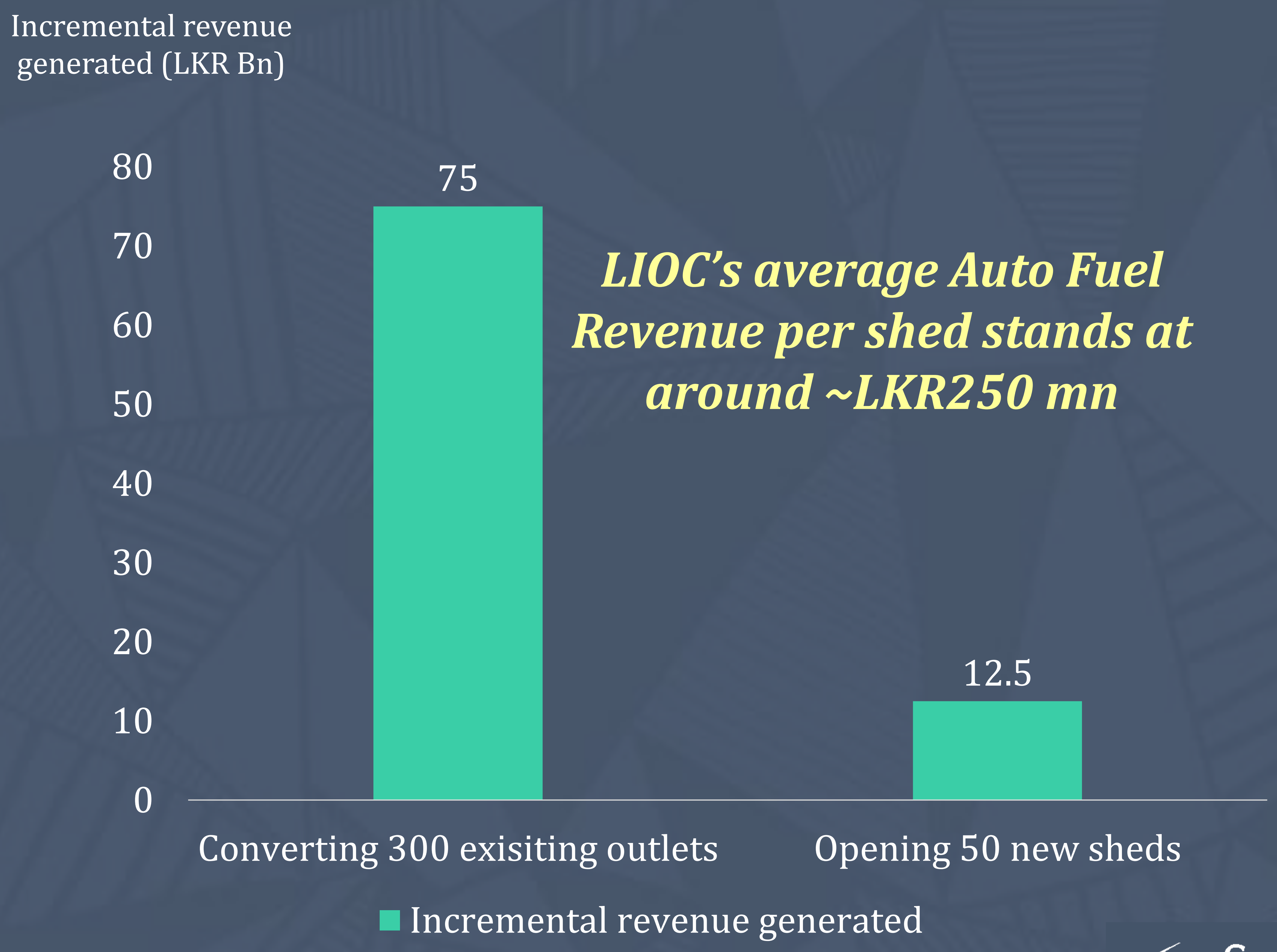
Probable conversion of CPC sheds to LIOC on the cards; Additional 50 new sheds to be opened over the next 2 years

The Revenue Booster: A probable conversion of CPC sheds to LIOC may take place if approved; Additional 50 new sheds likely to boost Auto Fuel revenue and enhance LIOC's market share north of ~12% over the forecast years

Conversion of sheds or opening of new shed will only incur minor CAPEX investments given the franchise business model



Significant earnings potential in converting or adding new sheds which may drive up market share



Source: Industry sources, Company data, SSB Research

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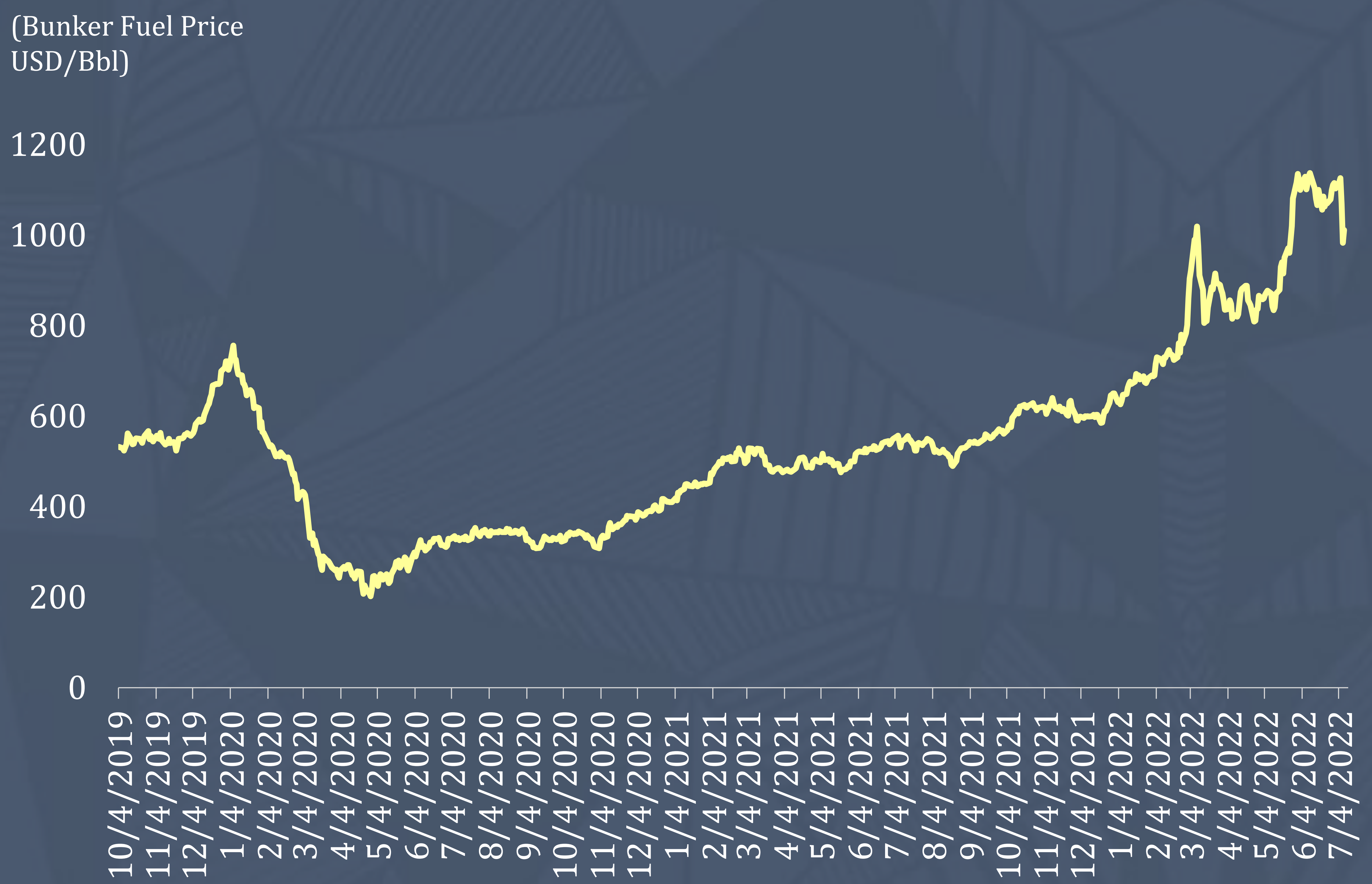
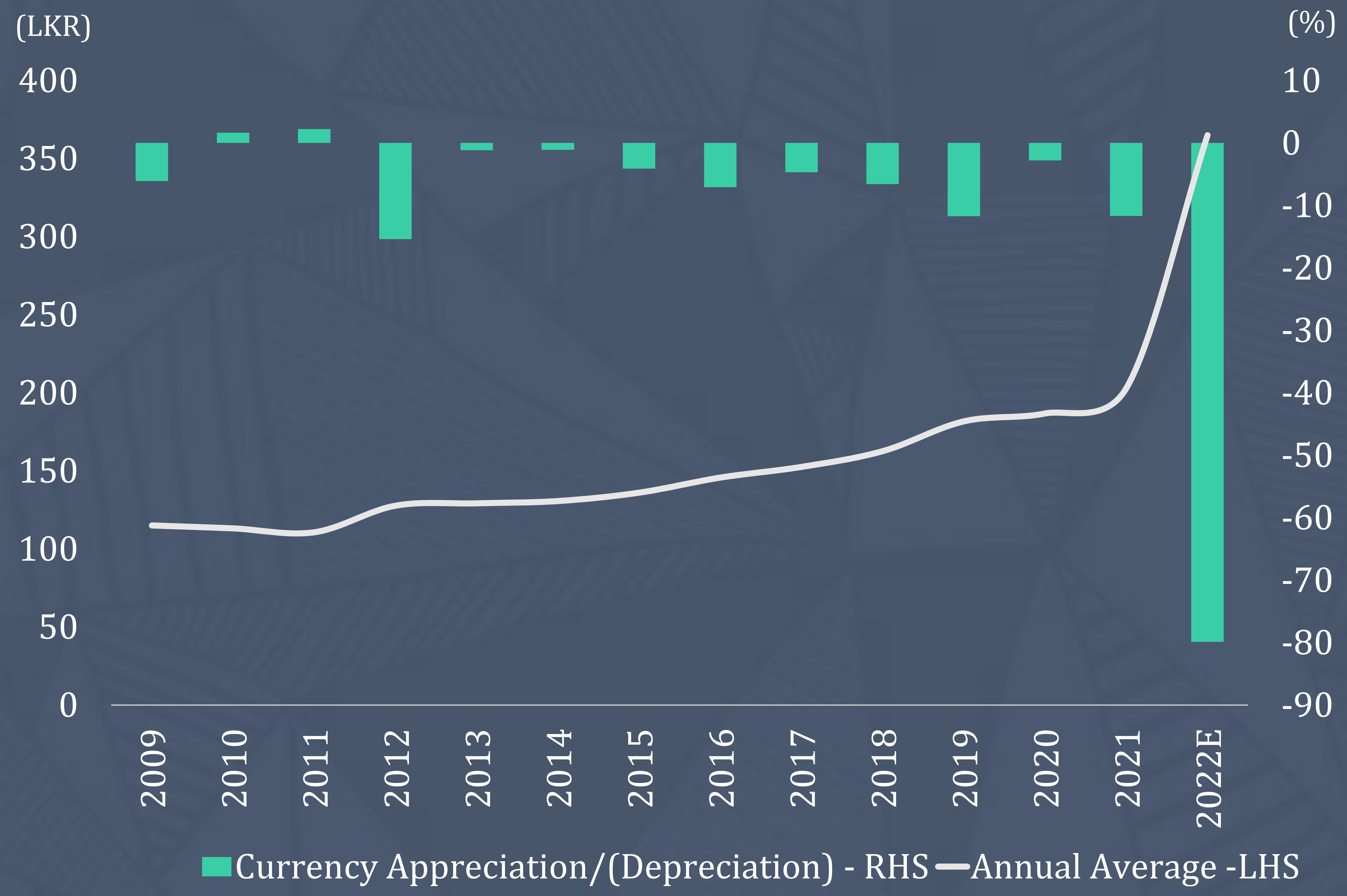
Dollarized earnings from Bunkering to bode well for LIOC amidst the LKR dip…

COMBINED EFFECT: Elevated Global Bunker Fuel prices amidst the steep LKR dip to aid LIOC sustain its Bunkering earnings in the coming quarters

Global Bunker fuel prices have gone up +90% YoY as of Jul'22



...Whilst the LKR has dipped ~79% cf. USD YTD in 2022

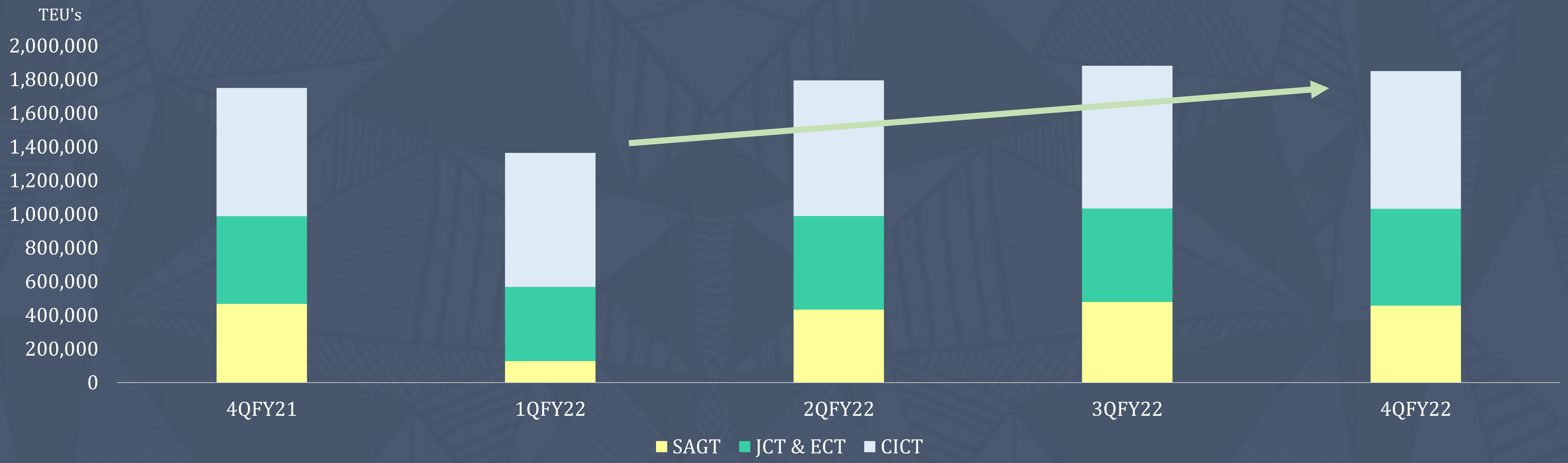


Thus, the combined effect of higher global prices and currency depreciation likely to boost Bunkering revenue whilst also maintaining higher margins for LIOC in the coming quarters

Source: CBSL, Bloomberg, SSB Research

VOLUMES FOCUSED: Increased activity levels at port of Colombo & Trincomalee, potential at the port of Hambantota and the addition of ECT and WCT to cater the upbeat in future Bunkering earnings

Demand for bunker fuel is considerably on the rise amidst higher activity levels at Port of Colombo.



- SL bunker prices are much competitive compared to India whilst India's summer monsoon, which usually starts in June and ends in September, will likely impede its bunkering operations somewhat and give better demand for SL markets.

Furthermore, in the medium term, Sri Lanka's bunker market is likely to be on the full throttle given encouraging potential at Port of Hambantota amidst addition of East and West container terminals

Source: CBSL, Company data, SSB Research

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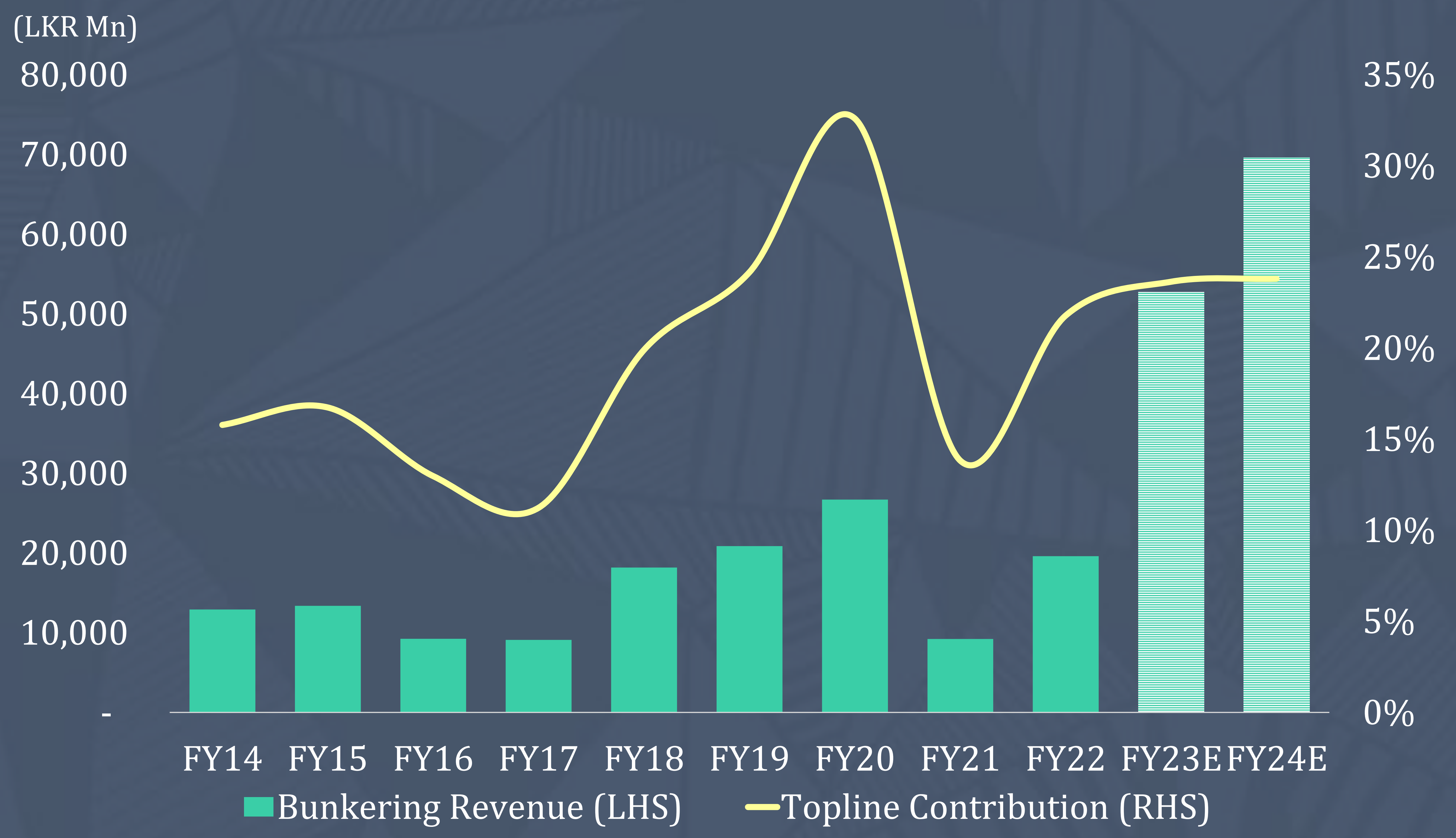
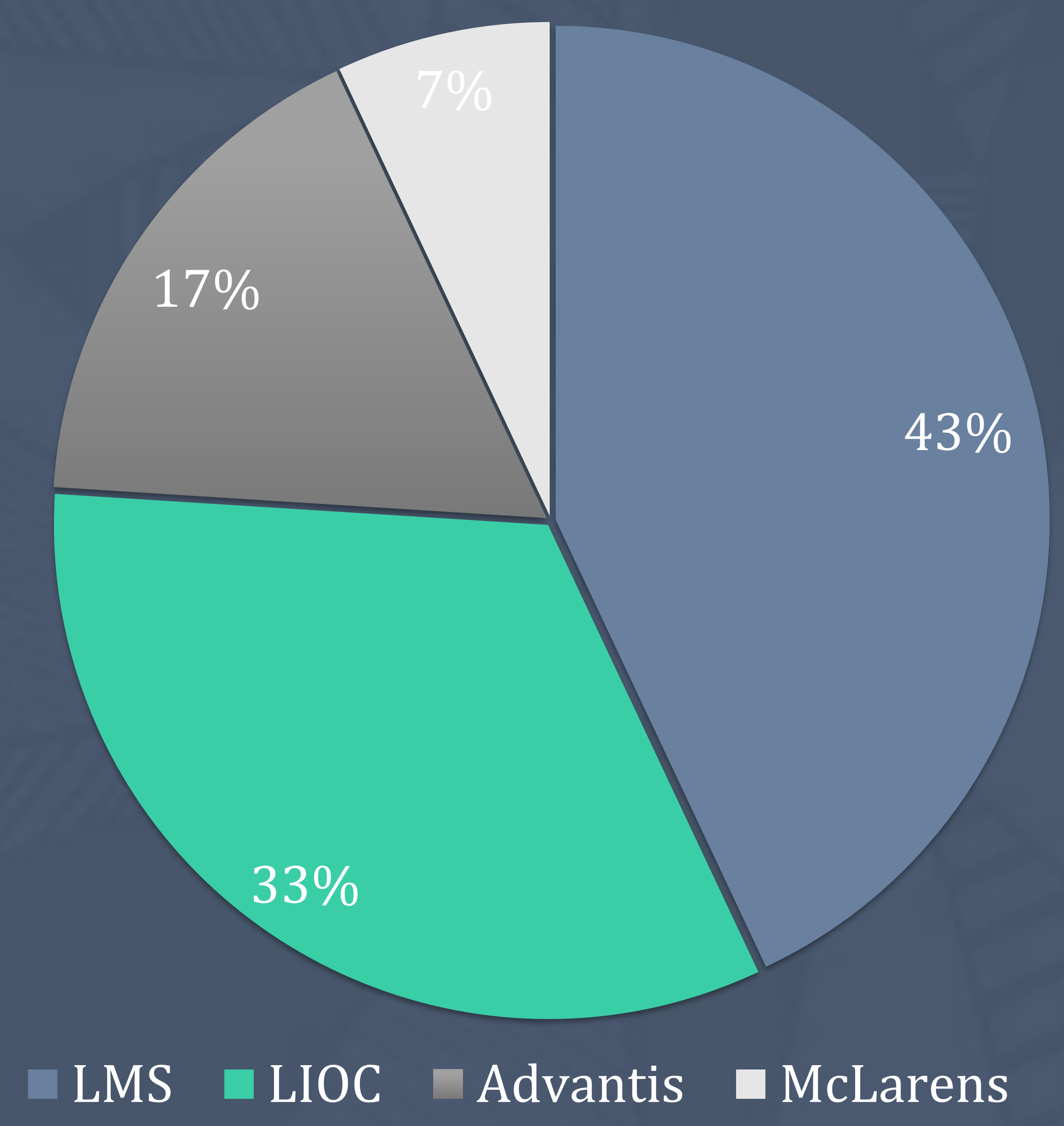
MORE USD INCOME: Second leading player in Bunkering operations has already been given approval to sell VLSFO and MGO to local customers in dollar terms (this is in addition to supplying ordinary Diesel)

LIOC's Bunkering revenue remains as the second largest topline contributor and is likely to witness a further jump amidst additional USD revenue when supplied to local industries



LIOC held ~33% Bunkering market share as of end FY22

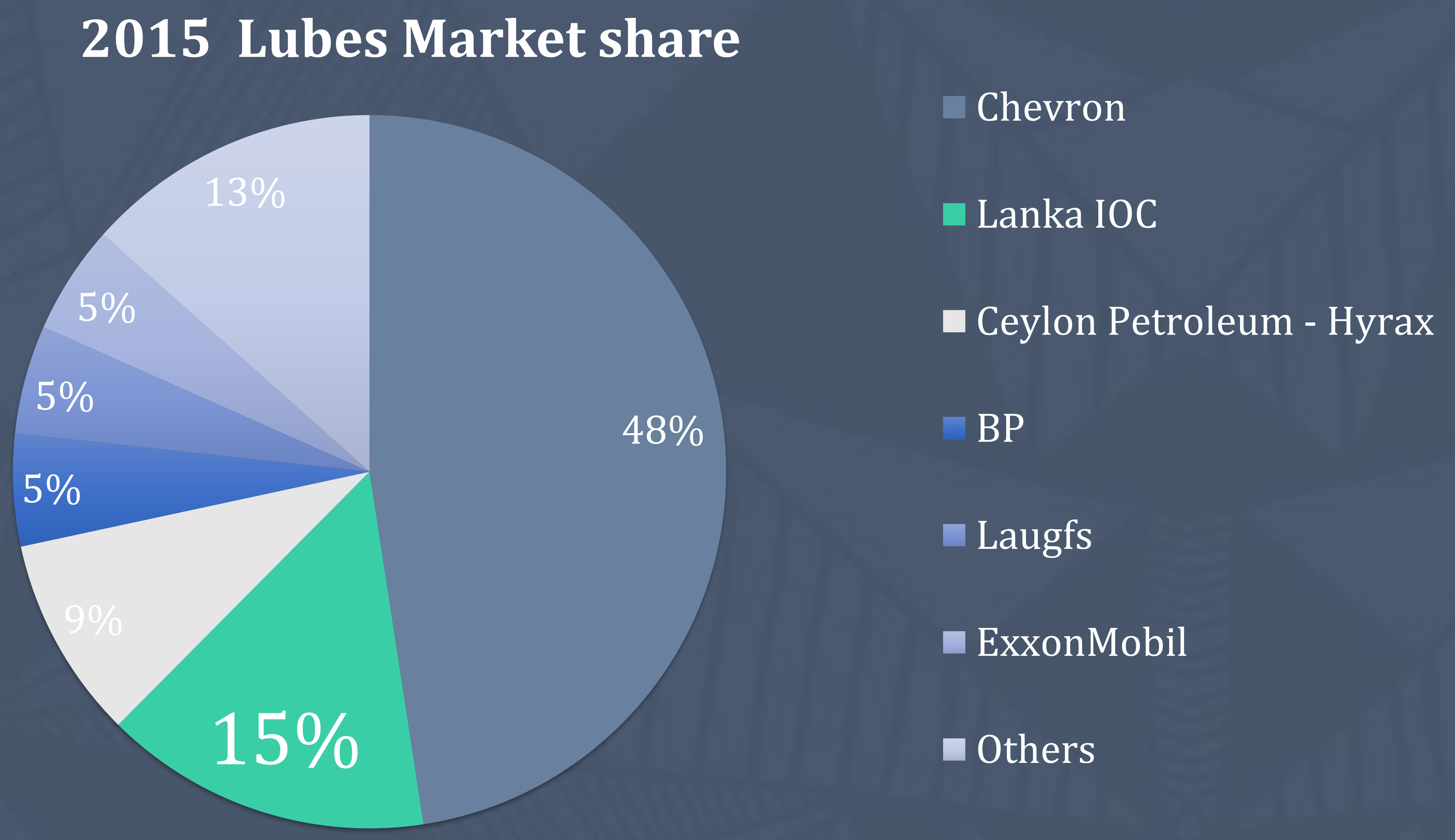


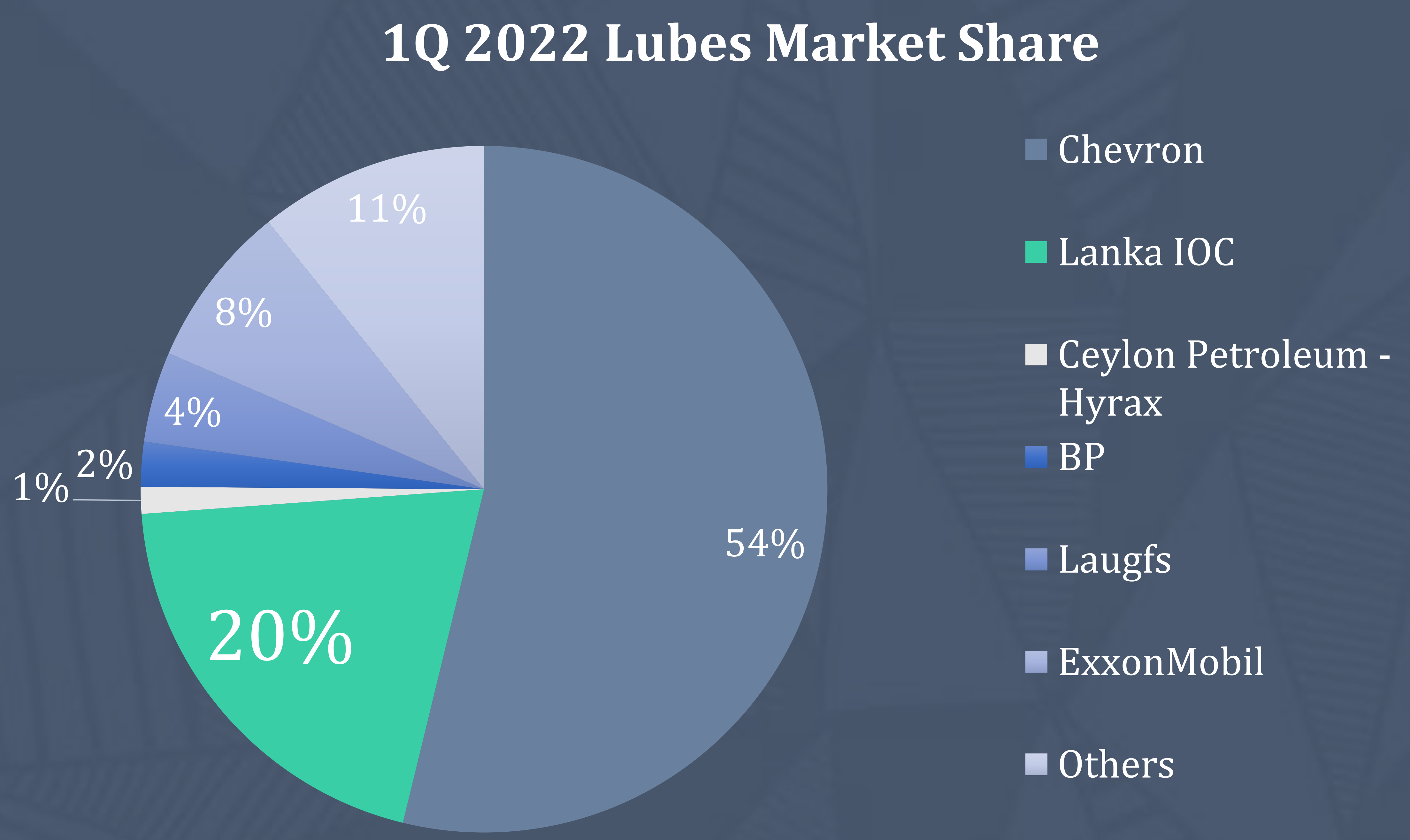
On top of the USD income generated by selling bunker fuel to the shipping fleet, LIOC is currently engaged in selling VLSFO and MGO to the local industries to generate additional USD income amidst robust margins

Source: Industry Sources, Company data, SSB Research

Its all about competitive pricing for LIOC's SERVO Lubricants…

CAPTURING MARKET SHARE: LIOC's competitive pricing mechanism and introduction of novel products have enhanced market position while driving lubricant volumes





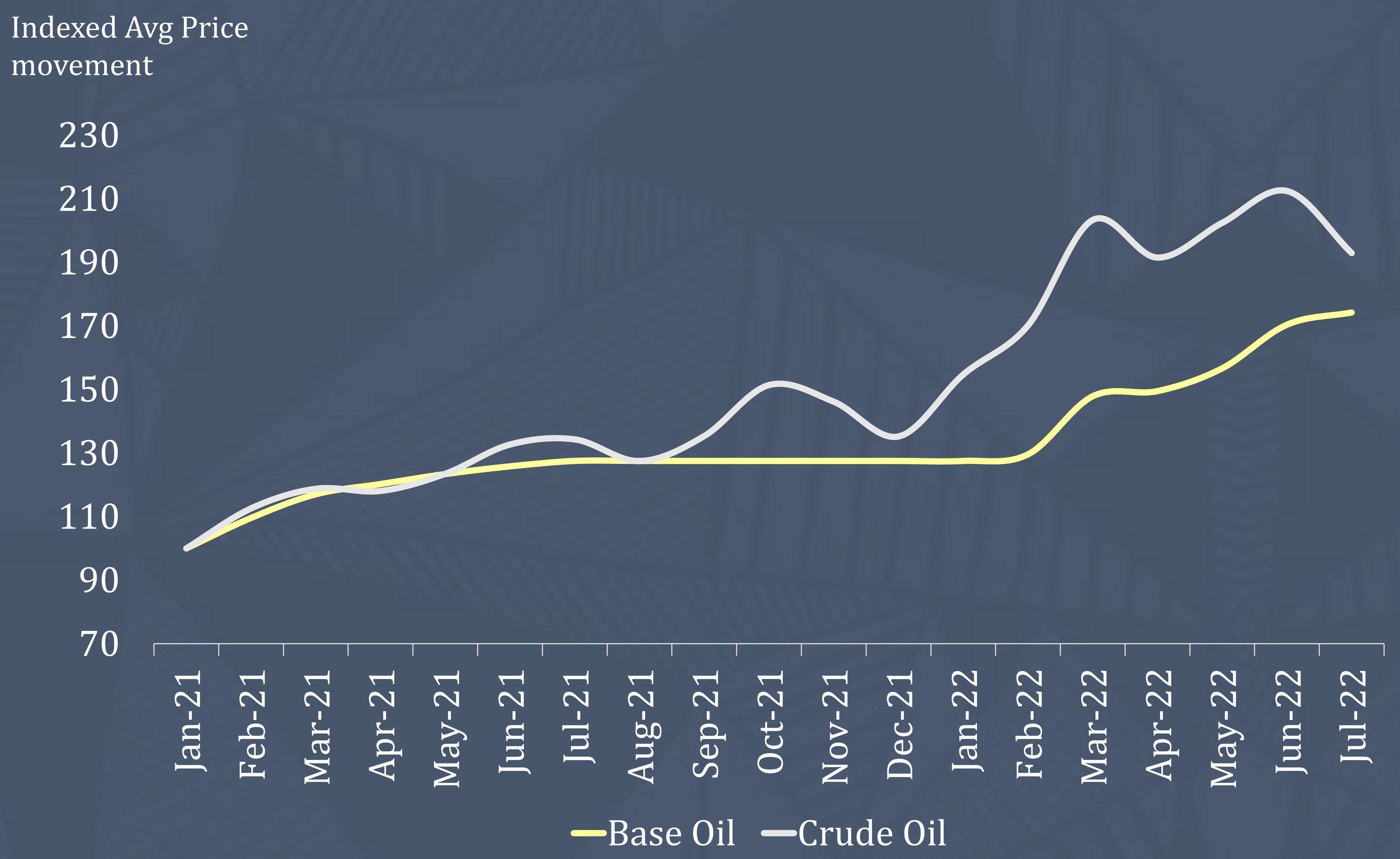
LIOC's market share improved ~5% over 2015-1Q 2022

Agreements with selected leading Automobile companies such as TATA, Mahindra, directly supplying base oil to hyrax and introduction of many new products such as Wet Brake Oil SERVO MTRAC 30 in 2021 would aid maintaining SERVO volumes in the coming quarters despite a momentary slowdown owing to the present import ban on motor vehicles

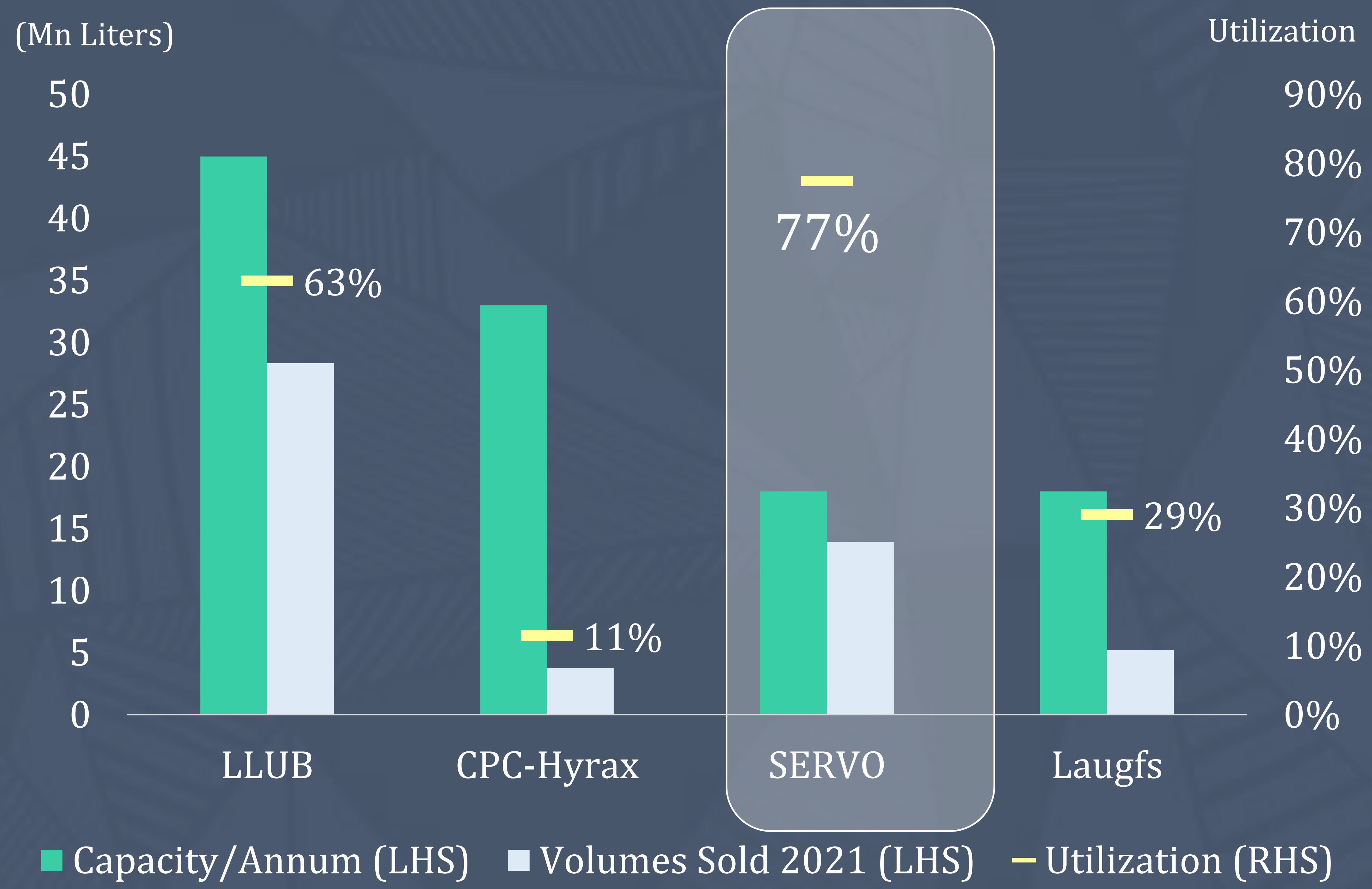
Source: PUCSL, Company data, SSB Research

ADVANTAGE OF BLENDING: Being a local blender, cost savings assured for SERVO, despite the higher global base oil prices

Global Base Oil prices have surged over 36% YTD which makes importation of finished lubricants much expensive for direct importers



Amongst the four local blenders, LIOC's SERVO had the highest capacity utilization level in 2021 ensuring notable cost savings



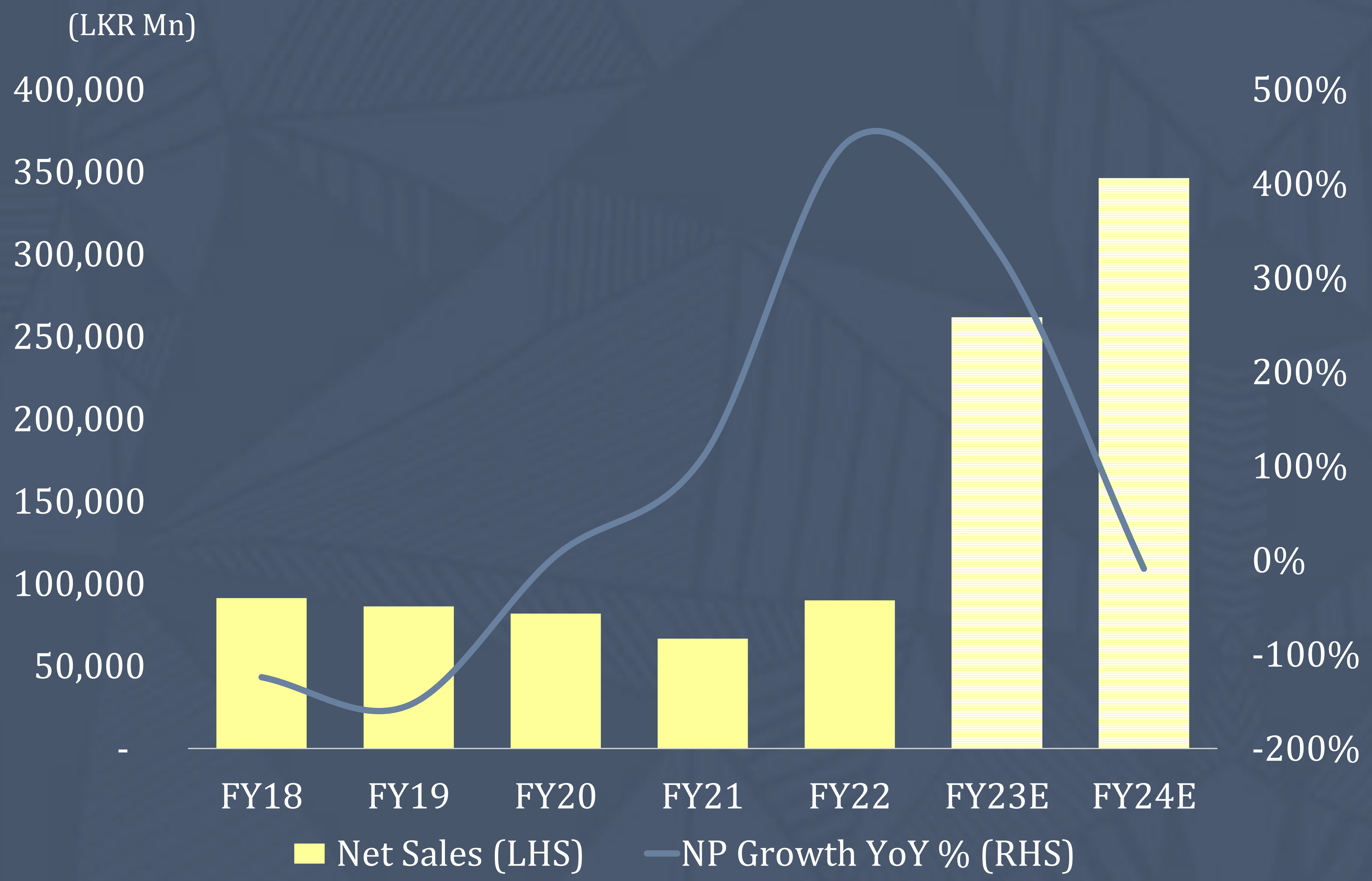
Whilst having a blending capacity of ~18 mn L/Annum, SERVO lubricants have been able to get a maximum price advantage amongst the other three local blenders deriving the highest capacity utilization whilst also remains in a better footing when compared to other lube importers who are majorly impacted by higher global prices and LKR depreciation

Source: PUCSL, Bloomberg, Company data, SSB Research

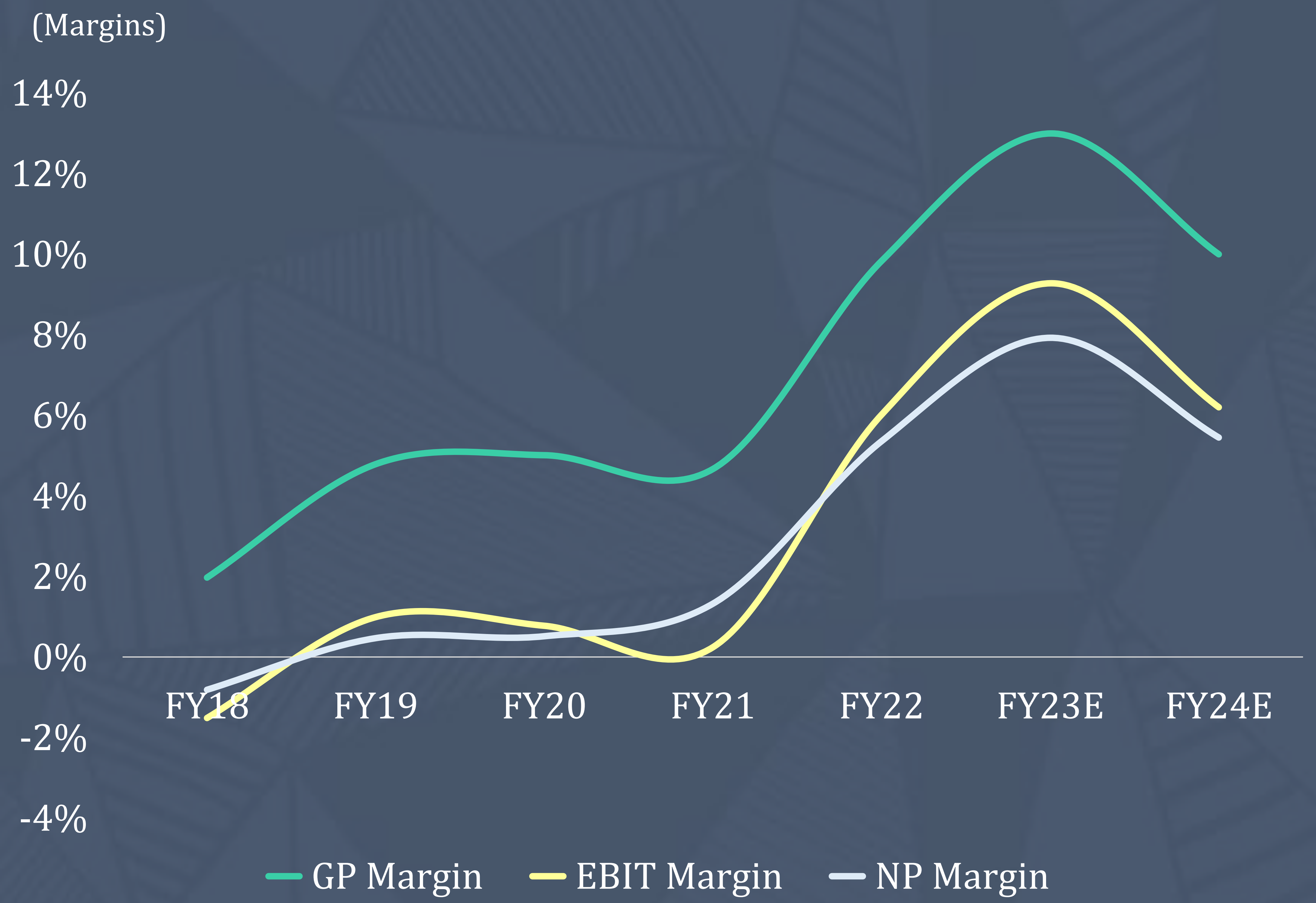

Stretched margins and healthy interest cover likely to sustain in the forecast period…

All Profitability margins to expand in FY23E and likely to settle towards FY24E and beyond whilst strong revenue generation avenues to bolster

LIOC's potential to drive revenue from all key segments including new segments such as Petrochemicals to boost revenue at a CAGR of +95% over FY22-24E



LIOC's GP margins likely to hover around ~13% levels whilst NP margins to be around 8% levels in FY23E

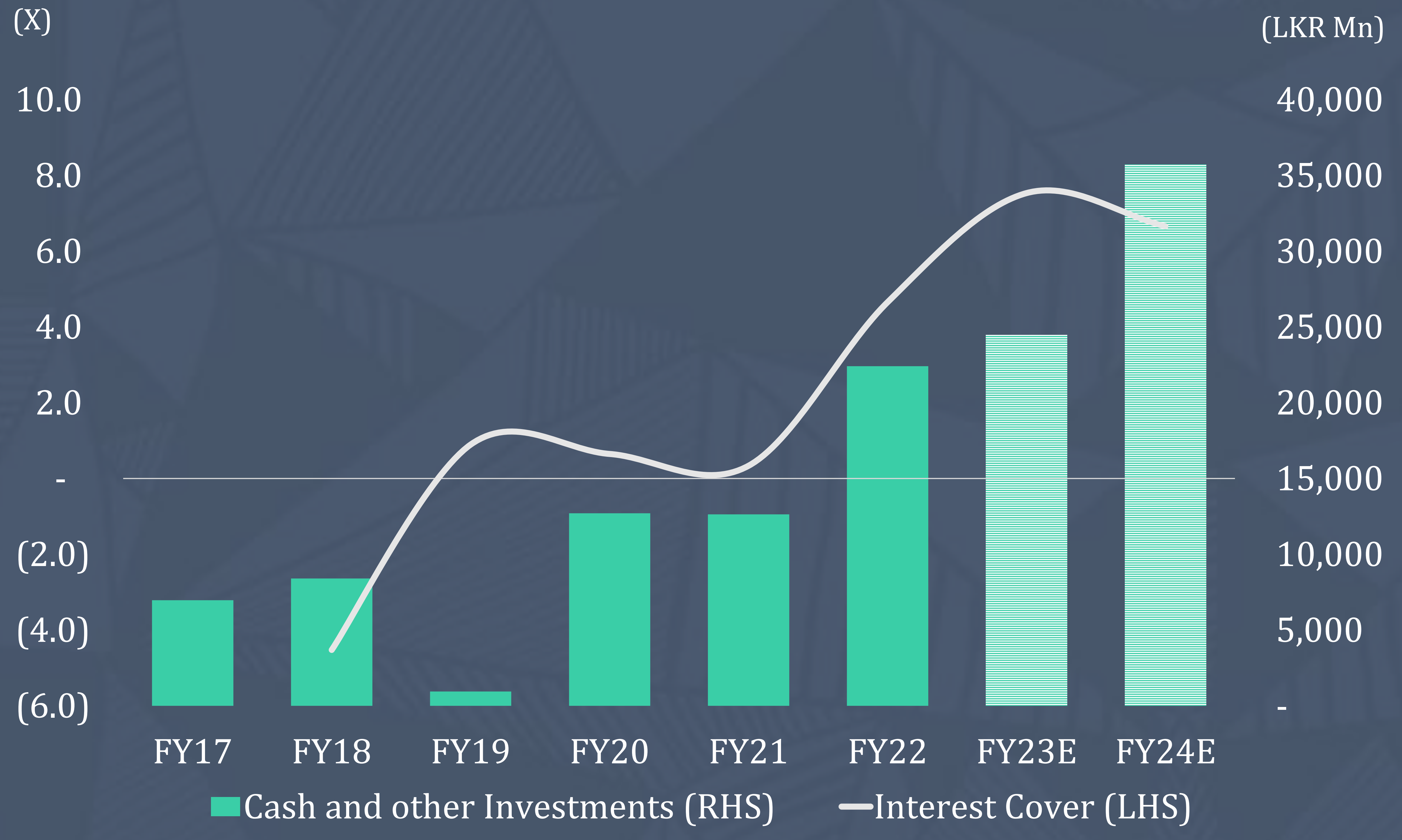


LIOC's stable revenue generation avenues along with improved cost optimization strategies practiced likely to make a major enhancement in all its profitability margins in FY23E when compared to its historical margin movements

Source: Company data, SSB Research

Healthy growth in Finance income amidst a noteworthy investment portfolio and low gearing supports expansions

Strong Interest cover ratio amidst a growing cash and other investments portfolio to aid growth in profitability



Gearing at manageable levels leaving room for future investments in Trincomalee Oil tanks

- The strengthening finance income amidst the rising interest rates remains an encouraging factor which is likely to grow at a CAGR of ~70% over FY22-24E amidst the strong investment portfolio of LIOC.

- Furthermore, the gearing levels expected to gradually ease off over the forecast period to ~44% levels in FY24E vs. 51% levels in FY22 giving further room for future investments to increase efficiency.

Source: Company data, SSB Research

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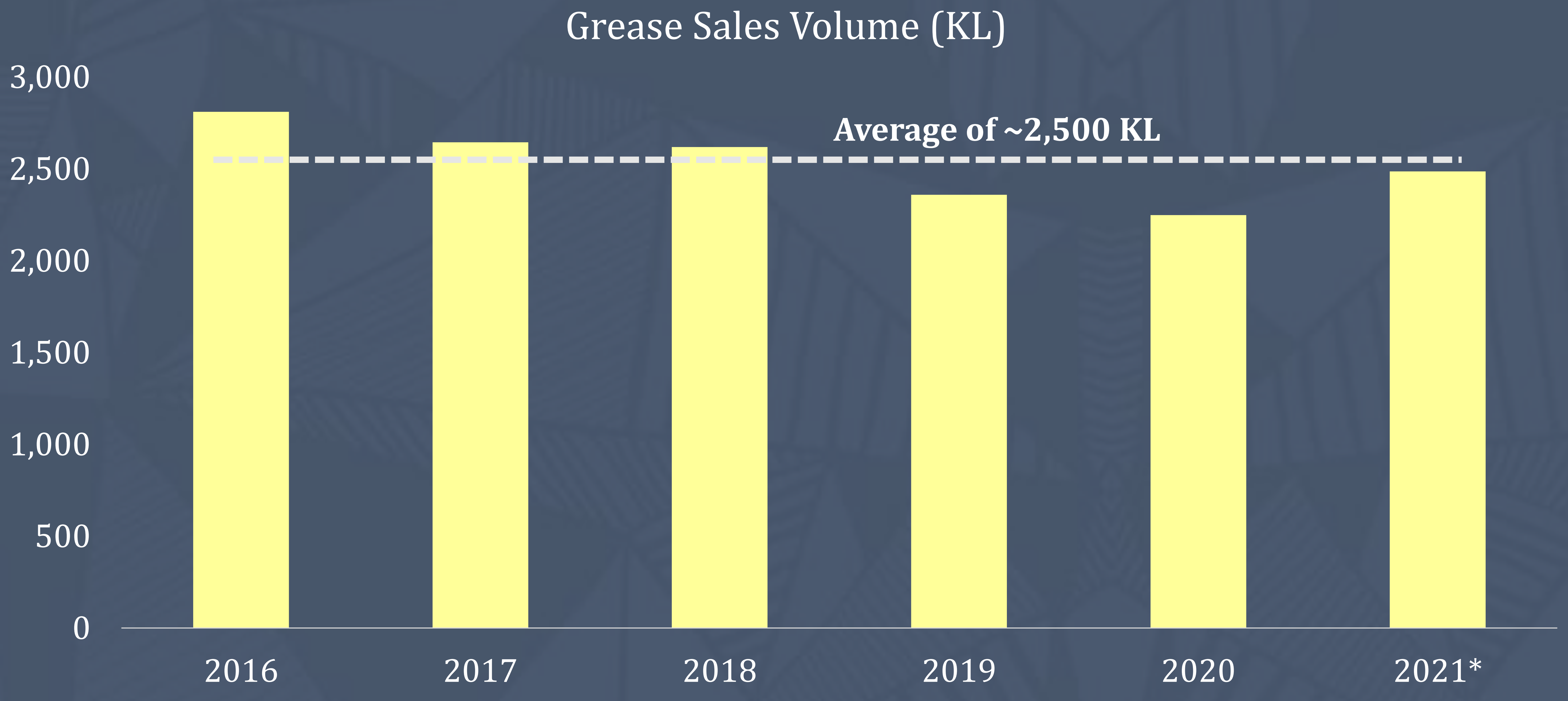
To be the pioneer in large ticket local Grease manufacturing whilst conserving forex…

TO BE THE PIONEER: LIOC to be the first large scale local grease manufacturer and likely to get further concessions given its ability to save forex for the country and employment creation

Sri Lanka on an annual basis imports ~2,500 KL of grease which could be easily substituted via the local grease manufacturing facility amidst the acute forex shortage faced by the country



****Note: 2021 Total Grease sales is an annualized figure based on the reported 9 months of sales for the year***

…. Thus the new facility is almost sufficient to fulfill SL's Automotive Grease demand

- *Production Capacity: ~3,000MT/Annum*
- *CAPEX so far incurred for the Grease plant: ~LKR500 mn*
- *Facility expected to commission over the coming months*
- *Saving on import expenditure on grease for SL*
- *Thriving demand for exports*
- *Building up tie ups with local motor companies to boost demand*

In line with the GoSL's import substitution policies, the grease plant in Trincomalee would be a strategic investment for LIOC and will derive demand, whilst being the only grease manufacturer amidst the present import constraints

Source: PUCSL, Company data, SSB Research

Promising medium term growth potential to make LIOC stronger than ever…

MASSIVE INCOME FROM TERMINAL OPERATIONS ON THE CARDS: Trinco oil tank farm to commission with the renovation of 10 tanks in phase 1

- The lower oil tank farm of 14 units was given to LIOC in 2004 on a 20-year lease whilst it was recently extended for a further 50 years.
- Additionally, to manage 61 of the 99 remaining tanks in the upper tank farm, Trinco Petroleum Terminals Ltd, a joint venture was set up early this year where CPC holds a 51% controlling stake in the company, while LIOC owns 49%.
- The venture is currently in the early stages whilst once all investments are done and operations commence, LIOC is likely to get a noteworthy sum by managing the storage terminal operations in the medium term.
- Given the proximity to the Trico harbor, the storage terminal is likely to see immense potential from global oil traders and would be a stable income generating hub.

Currently 10 tanks are being developed as the initial stage where tenders are being called to finalize a company for clearing the forest area of the upper tank farm

Source: Company data, SSB Research

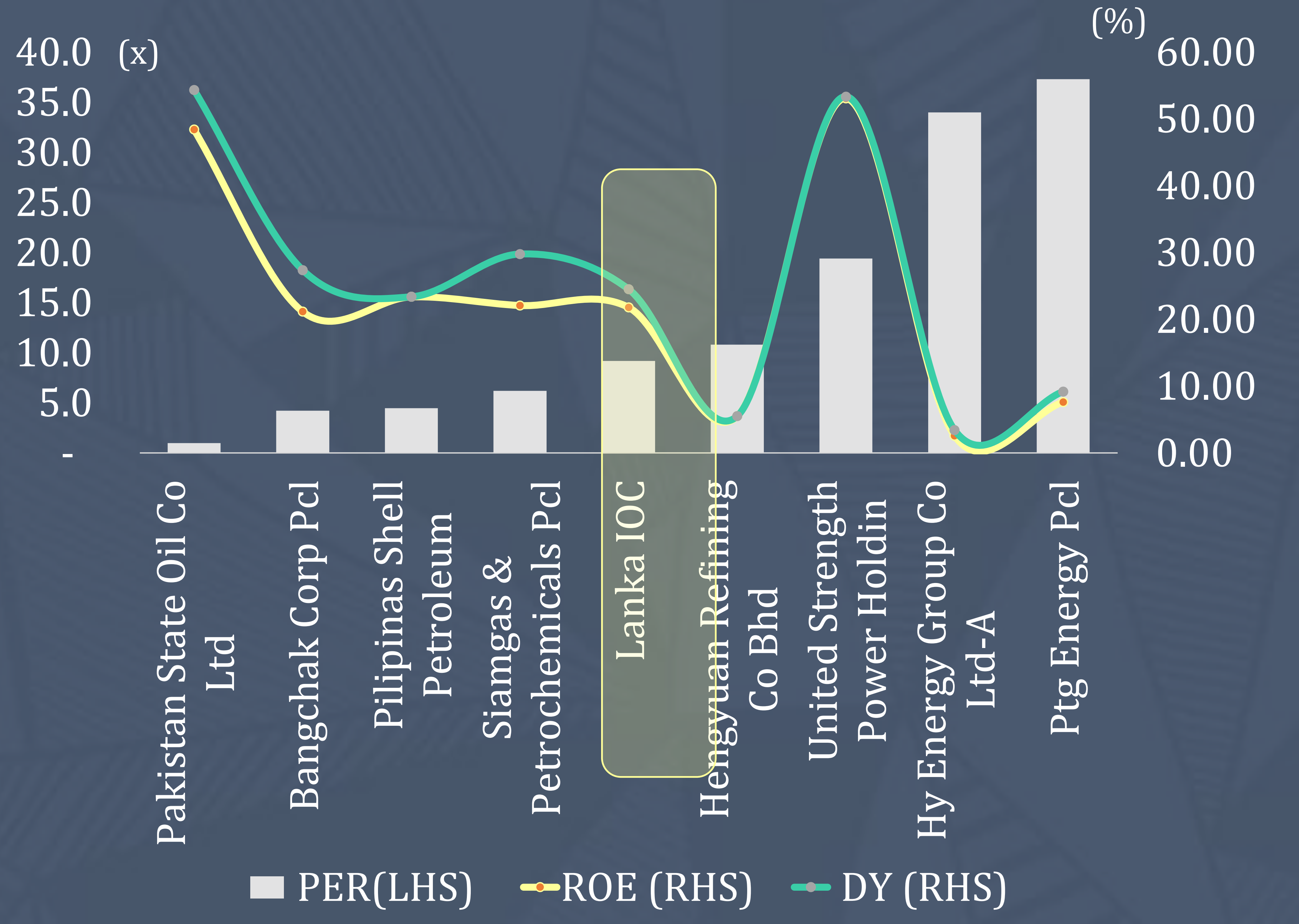
Valuation

LIOC’s valuation suggests an upside of +53% with a TP of LKR 129.5/share; + A forward dividend yield of ~12%

AHEAD OF PEERS: Whilst trading at ~78% discount to its regional peers, LIOC derives a 280bps superior ROE compared to the regional peer average

LIOC showcases great potential against its regional peers whilst trading at attractive valuations on a TTM basis

Name	Country	PER(X)	PBV(X)	DY (%)	ROE (%)
Pakistan State Oil Co Ltd	Pakistan	1.0	0.4	5.9	48.40
Bangchak Corp Pcl	Thailand	4.2	0.8	6.2	21.16
Pilipinas Shell Petroleum	Philippines	4.5	1.0	-	23.37
Siamgas & Petrochemicals Pcl	Thailand	6.2	1.2	7.7	22.08
Lanka IOC	Sri Lanka	9.2	1.8	2.7	21.80
Hengyuan Refining Co Bhd	Malaysia	10.8	0.6	-	5.51
United Strength Power Holdin	China	19.4	8.3	0.3	53.09
Hy Energy Group Co Ltd-A	China	34.0	0.9	0.9	2.57
Ptg Energy Pcl	Thailand	37.3	2.9	1.6	7.63
Shenzhen Guangju Energy Co-A	China	74.3	1.7	7.7	2.26
Sinopec Shandong Taishan-A	China	258.5	2.7	-	1.05
Average		**41.8**	**2.0**	**3.0**	**19.0**

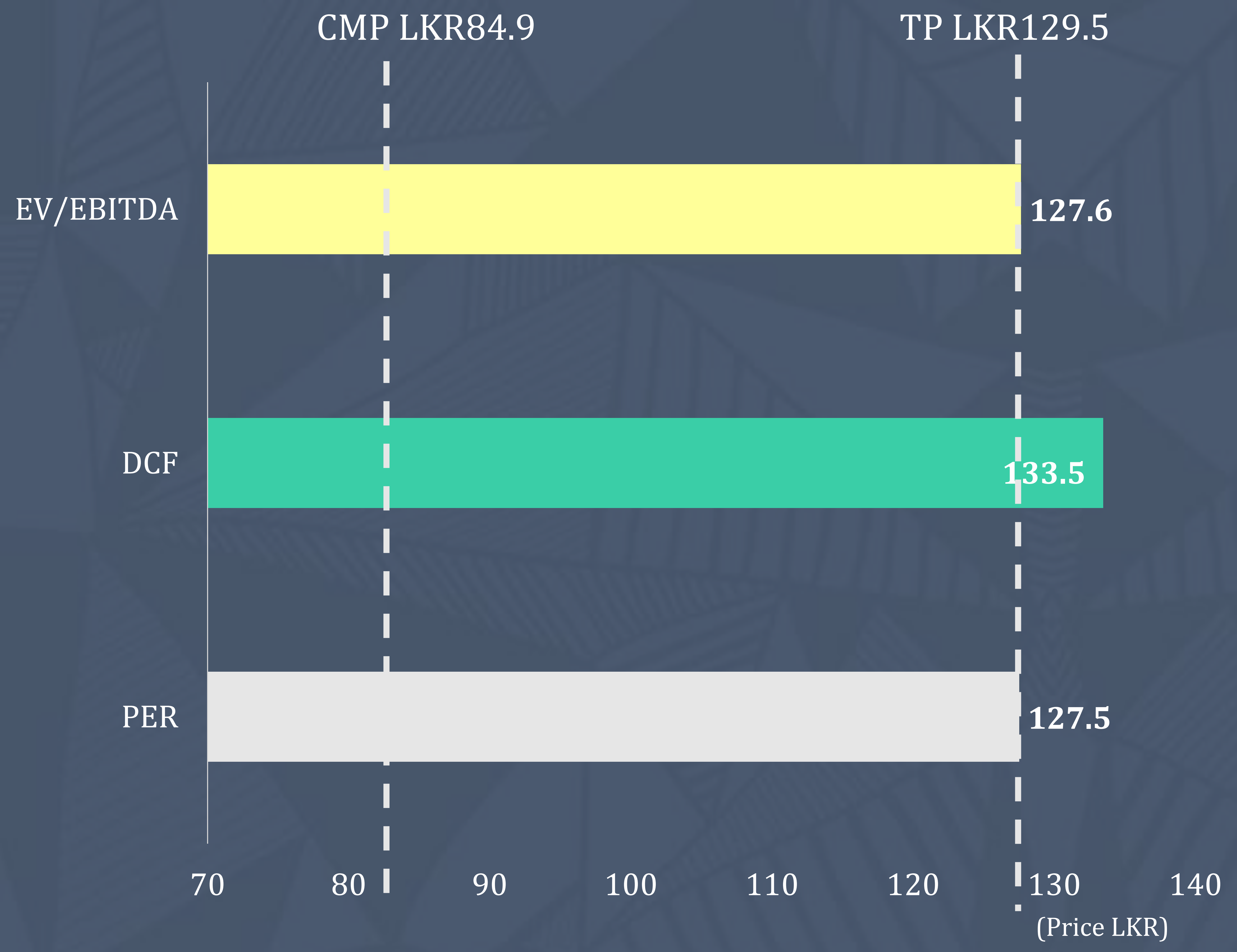


Given LIOC's strong earnings potential, the stock on a TTM basis derives a steep discount of ~78% against the regional average PER of 41.8x whilst expected to generate a forward dividend yield of +10% and a forward ROE of ~52% in FY23E

Source: Bloomberg, Company data, SSB Research

TARGET PRICE OF LKR129.5: LIOC's valuation suggests an upside of +57% based on DCF and an upside of +53% on its average fair value

The different valuation techniques suggest that LIOC is capable of reaching greater heights



- The Implied PE based TP is derived applying a ~25% discount to the CSE market PER of 4.9x whilst TP based on EV/EBITDA is used taking an average multiple of 10x.

WACC	19.9%
Ke	25.7%
Kd	20.0%
D/(D+E)	51%
Terminal Growth	2.5%
Average TP (LKR)	**129.5**
Price Upside	53%
Dividend Yield for FY23E	12%
Total Return	64%

Source: Company data, SSB Research

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The Annexures

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Summary Financial Statements

YE Mar/LKR mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	91,343	86,322	81,947	66,685	89,951	261,733	346,172
Cost of Sales	(89,543)	(82,189)	(77,841)	(63,573)	(81,107)	(227,708)	(311,555)
Gross profit	**1,800**	**4,133**	**4,106**	**3,112**	**8,845**	**34,025**	**34,617**
OPEX	(3,630)	(3,469)	(3,555)	(3,204)	(3,551)	(10,265)	(13,847)
Operating profit	**(1,385)**	**854**	**635**	**161**	**5,410**	**24,284**	**21,463**
Profit before tax	**(776)**	**331**	**599**	**987**	**5,612**	**24,403**	**22,189**
Tax	32	73	(177)	(105)	(793)	(3,660)	(3,328)
Profit for the year	**(744)**	**403**	**422**	**882**	**4,818**	**20,742**	**18,861**

Statement of Financial Position

YE Mar/LKR mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
ASSETS							
Non-Current Assets	9,445	9,694	9,611	19,753	10,658	14,696	19,046
Current Assets	23,514	18,551	30,149	26,654	54,413	76,346	99,380
Total Assets	**32,959**	**28,245**	**39,760**	**46,407**	**65,071**	**91,042**	**118,426**
EQUITY AND LIABILITIES							
Capital and Reserves	19,369	19,427	19,446	19,924	24,286	39,704	52,175
Non-Current Liabilities	20	7	74	52	438	400	366
Current Liabilities	13,570	8,811	20,239	26,431	40,347	50,938	65,886
Total Liabilities	**13,590**	**8,817**	**20,314**	**26,483**	**40,785**	**51,338**	**66,251**
Total Equity and Liabilities	**32,959**	**28,245**	**39,760**	**46,407**	**65,071**	**91,042**	**118,426**

Source: Company data, SSB Research

Ratio Analysis

YE Mar/LKR mn	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
GP Margin	2%	5%	5%	5%	10%	13%	10%
EBIT Margin	-2%	1%	1%	0%	6%	9%	6%
NP Margin	-1%	0%	1%	1%	5%	8%	5%
Revenue Growth YoY %	13%	-5%	-5%	-19%	35%	191%	32%
EBIT Growth YoY %	-144%	-162%	-26%	-75%	3264%	349%	-12%
NP Growth YoY %	-124%	-154%	5%	109%	446%	330%	-9%
OPEX to revenue	4%	4%	4%	5%	4%	4%	4%
Net Finance cost	609	(523)	(36)	826	202	119	727
Inventory turnover days	41	62	62	55	123	30	45
Debtor days	18	14	16	14	16	45	25
Creditor days	35	29	15	33	65	30	30
WC cycle (days)	25	47	63	36	73	45	40
Debt/Equity	26%	12%	87%	103%	106%	81%	77%
Debt/Total funds	21%	11%	47%	51%	51%	45%	44%
Interest cover (x)	(4.5)	0.9	0.6	0.3	4.7	7.5	6.7
Current ratio	1.7	2.1	1.5	1.0	1.3	1.5	1.5
Quick ratio	1.0	0.5	0.8	0.6	0.7	1.1	0.9
Revenue per share (LKR)	172	162	154	125	169	492	650
ROAA	-3%	1%	1%	2%	9%	27%	18%
ROCE	-6%	4%	2%	0%	12%	40%	26%

Source: Company data, SSB Research

Glossary of Terms

CIF	Cost, Insurance and Freight
SUR	Surcharge Tax
PAL	Port and Airport Development Levy
PLATTs	Platts is a provider of energy and metals information and a source of benchmark price assessments in the physical energy markets
VLSFO	Very Low Sulfur Fuel Oil
MGO	Marine Gas Oil
WCT	West Container Terminal
ECT	East Container Terminal
JCT	Jaya Container Terminal
CPC	Ceylon Petroleum Corporation
INR	Indian Rupee
EV	Enterprise Value
TP	Target Price
TR	Total Return
SAGT	South Asia Gateway Terminal
JCT	Jaya Container Terminal
DCF	Discounted Cash Flow
Ke	Cost of Equity
Kd	Cost of Debt

KEY RISKS

i. Volatile global auto fuel prices– the seasonality and the demand fluctuations impact the pricing of petrol and Diesel which would trigger down to LIOC's margins as it takes close to ~70% of cost of sales.

ii. Forex shortage in the country– The acute shortage in USD remains a risk for the business whilst the USD generation via sales to industries and via Bunkering acts as a cushion for LIOC.

iii. Currency Depreciation - The unprecedented dip in LKR cf. USD could further weigh on LIOC's profitability margins intensifying cost of sales and the finance costs.

iv. Threat from new entrants – Given the only competitor CPC currently being in a stalled state and GoSL calling Expression of interest to private sector players to operate in the Auto fuel segment could further suppress LIOC margins and market share if a new player enters.

v. Default risks – Given the crisis hit country's condition, payment defaults by the distributors and customers could narrow down the profitability and remain as a noteworthy risk.

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