

9th October 2008

Lanka IOC

Upgrade to Equal Weight

Recommendation
Equal Weight
from Underweight

Ticker
LIOC

Share Price
Rs.22.50

ASPI*
2,011

MPI*
2,229

*CSE DATA
11.43am
9th October 2008

- We are upgrading LIOC to Equal Weight, given the sharp absolute fall in its share price, and the underperformance relative to the indexes seen since our Underweight recommendation at Rs26 on the 19th of September.
- An Equal Weight portfolio allocation is the one that we tend like for a stock such as LIOC whose price movements are very sensitive to factors which are very hard for us to make projections about.
- Given the degree of sensitivity to such factors and our inability to take a strong view as to what the gross profit margin would be in the future, at this point our view is that fund managers looking to avoid underperformance risk against their benchmark stock indices are best served increasing exposure to an equal weight allocation at a price of Rs22.50 and below.
- We downgraded to Underweight on reports of a “Special Tax” been imposed on the company, which increased the risk premium on the counter and thus justified selling out of the counter at Rs26 and above.
- While this risk remains, with the underperformance of the stock it has been priced in to a greater degree.
- The fall in the share price also is despite positive news flow from companies expansion into bunkering.
- The company has indicated that the July-Sept quarter results would be much worse than the previous quarter given that it purchased stocks at a very high price in July, much higher than the cost of it’s sale in the previous quarter or that of the oil market today, and such negative results could continued to put pressure on the share price.



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