

Date: 2<sup>nd</sup> April 2009

## **Chevron Lubricants Lanka**

**Recommendation  
Buy**

**Ticker  
LLUB**

**Share Price\*  
Rs.106.75**

**Market Cap\*  
Rs.6,405,000,192**

**52 Week High\*  
Rs.118.00**

**ASPI\*  
1,636.33**

**MPI\*  
1,722.92**

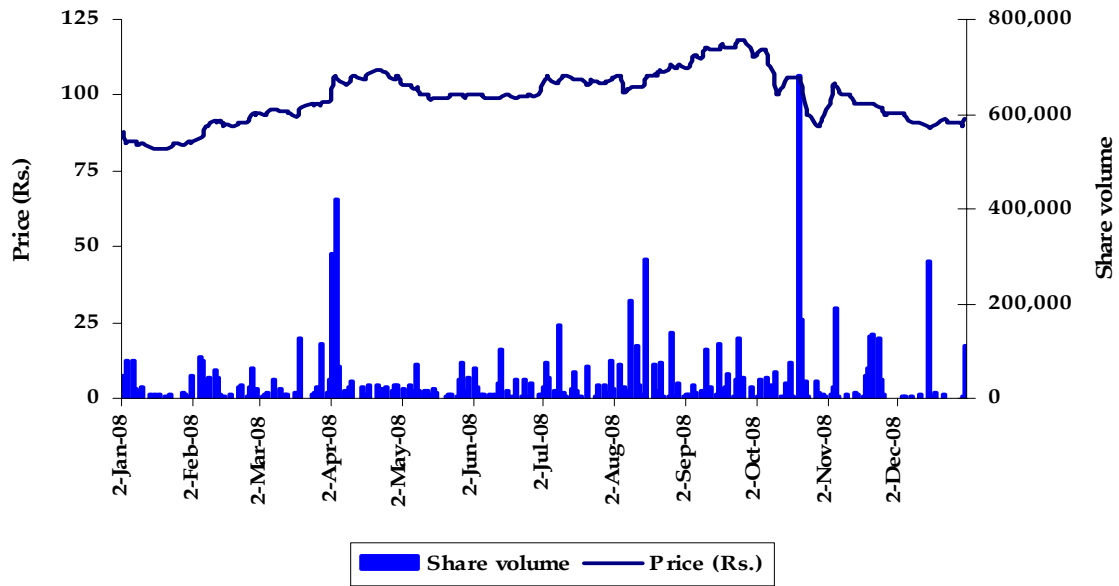
**Analyst  
Sinnapandiyan  
Sivakumaran**

**\*CSE DATA as at 2<sup>nd</sup>  
April 2009**

## **Rebound in Gross Margins Expected.**

- ◆ Since our last report in 12<sup>th</sup> October 2008, the share price has appreciated by 3.6% and if we consider the dividend income of Rs.3.5 during this period the total return from the counter during the period was 7%. During the same period, the ASPI fell by 17.5%.
- ◆ The gross profit for the period ended was Rs.2,094 million which is a drop of 8%YoY, while the Gross Margin also fell to 24% from last year's Gross Margin of 26%.
- ◆ In the final quarter the gross profit saw a 57%YoY drop, while the gross margin dropped significantly to 13% from last years gross margin of 29%.
- ◆ The main reason for the significant drop in the gross profit margin was the increase in the base oil prices in the 3Q& 4Q of 2008. However with the reduction in the base oil prices the company expects that the gross profit margins would return back to the previous level of 20%-25%.
- ◆ Our 12 month forward target price is Rs.109 and with a projected DPS of Rs.12.25 for FY 2009. These targets are based on conservative assumptions and as such we are maintaining our BUY recommendation on LLUB

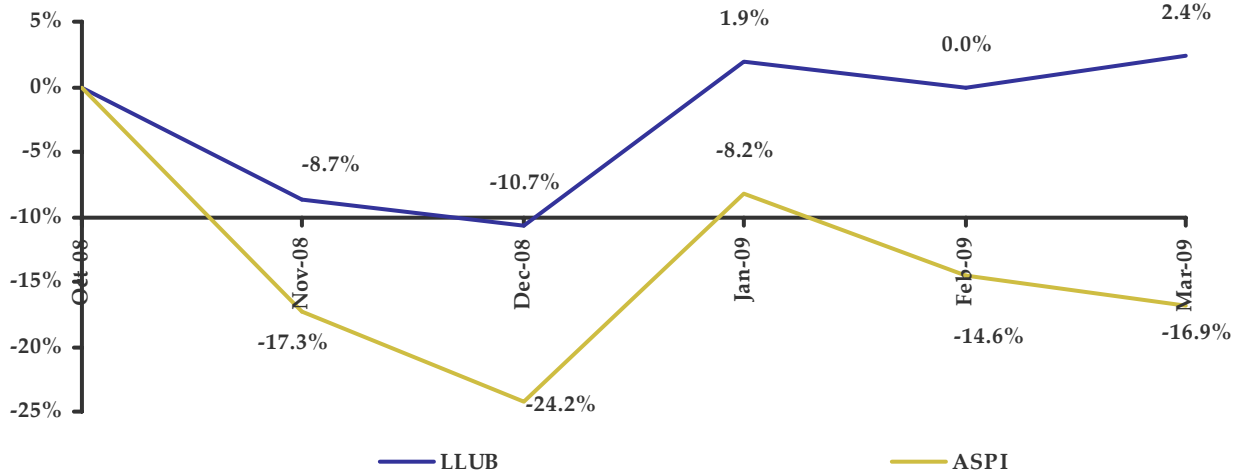
**LLUB Price/Volume Chart**



In our last report on LLUB released on 12<sup>th</sup> October 2008, we recommended a BUY on LLUB when the share was trading at Rs. 103 and ASPI was at 1983.58 points. Since then the LLUB share price has increased by 3.6% and the ASPI has decreased by 17.5%.

During this period LLUB paid their 3<sup>rd</sup> & 4<sup>th</sup> Interim dividends of Rs.2.00 per share and Rs.1.50 per share. Therefore during this period an investor would have received a total return of 7%.

**% Change in LLUB share price and ASPI since our last BUY recommendation on 12th October 2008**

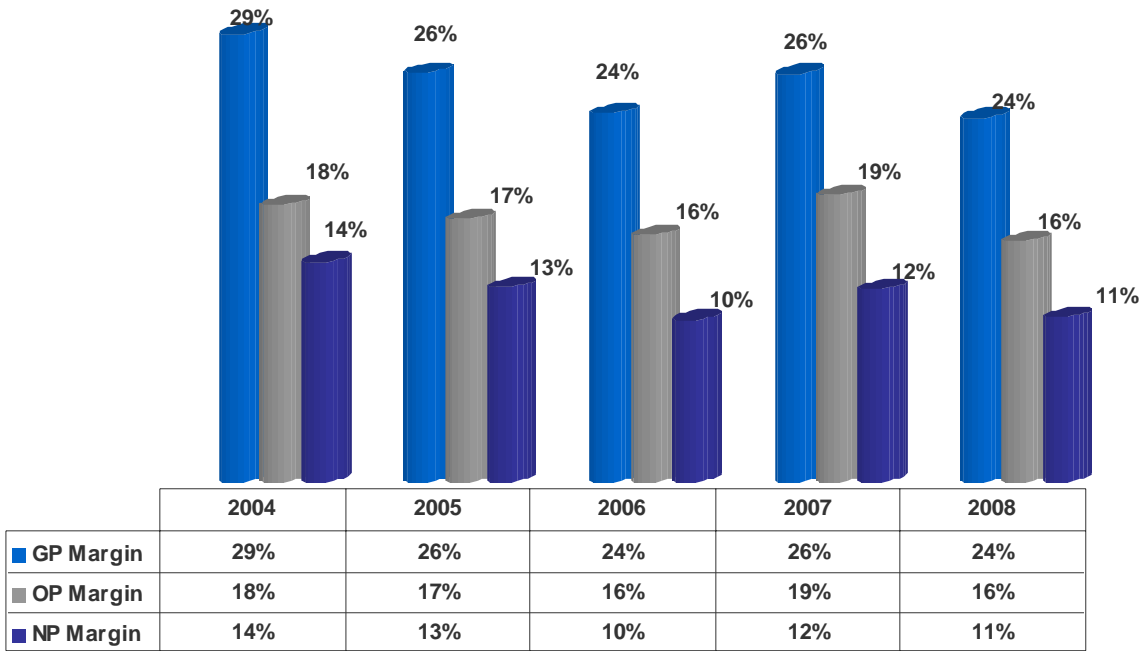


**2008 Results review**

For the year ended 31<sup>st</sup> December 2008 the company’s revenue rose by 3 % YoY to Rs.8, 900 million. The gross profit for the period ended was Rs.2, 094 million which is a drop of 8% YoY, while the Gross Margin also fell to 24% from last year’s Gross Margin of 26%.

The operating profit for the year ended decreased by 14% YoY to reach Rs.1, 385 million. The EBIT margin for the FY 2008 was 16%, whilst in 2007 the EBIT margin was 19%.

Overall the net profit recorded by the company for the year ended 31<sup>st</sup> December 2008 was Rs.948 million, which is a decline of 12% YoY. The net profit margin of the company also decreased to 11% from 12%.



## Recent Results

### Performance for the three months ended 31<sup>st</sup> December 2008

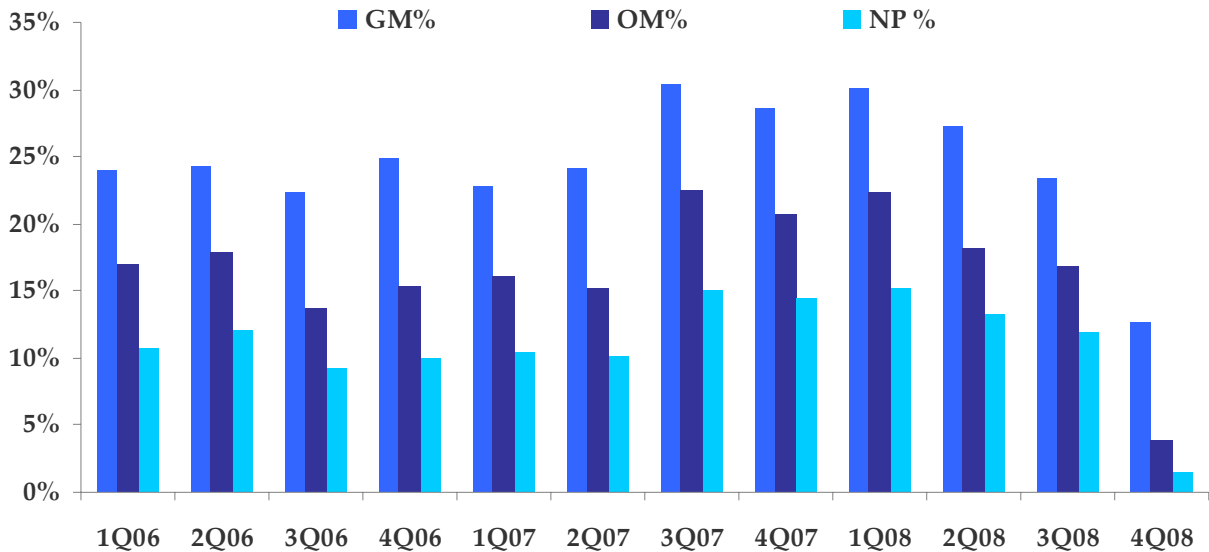
For the quarter ended 31<sup>st</sup> December 2008 the company's revenue fell by 2% YoY to reach Rs.2,049 million. The gross profit for the period, was Rs.259 million. The gross profit for the period exhibited a 57% YoY drop, while the gross margin dropped significantly to 13% from last years gross margin of 29%. The main reason for the significant drop in the gross profit margin was the increase in the base oil prices in the 3Q& 4Q of 2008. However with the reduction in the base oil prices the company expects that the gross profit margins would return back to the previous level of 20%-25%.

Ending months of speculation, the company was able to obtain the Cabinet approval to renew the land lease agreement for further five years for the land on which the blending plant is located and by signing a new lease agreement with the Ceylon Petroleum Storage Terminals Ltd (CPSTL) as the existing agreement will expire in July 2009.

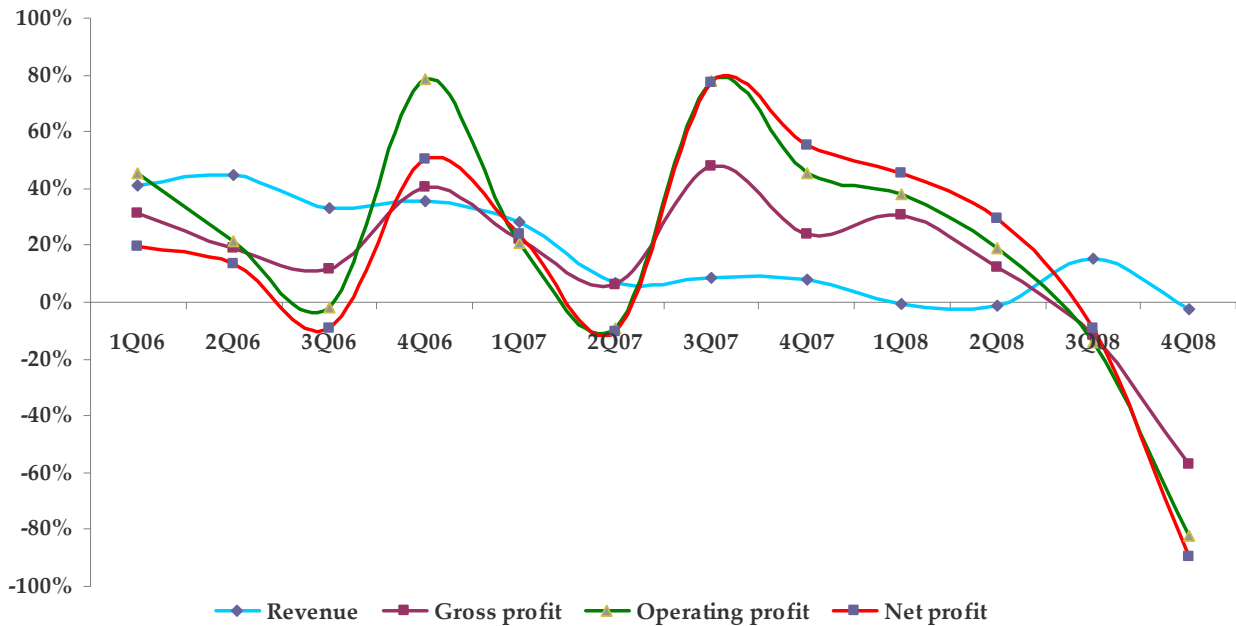
The operating profit for the three months ended 31<sup>st</sup> December, fell by 82%YoY to reach Rs.78 million. The operating profit margin for the period was 4%. The Administrative expenses witnessed a marginal drop from the previous year, and stood at Rs.80 million while Distribution expenses rose to Rs.101 million.

LLUB's net profit for the 4Q2008 ended fell by 90%YoY, to reach Rs.32 million. This represented a net profit margin of 1.5%, which is a drop from previous year's margin of 14%.

### Performance of margins



### Performance comparison of key indicators from the previous year



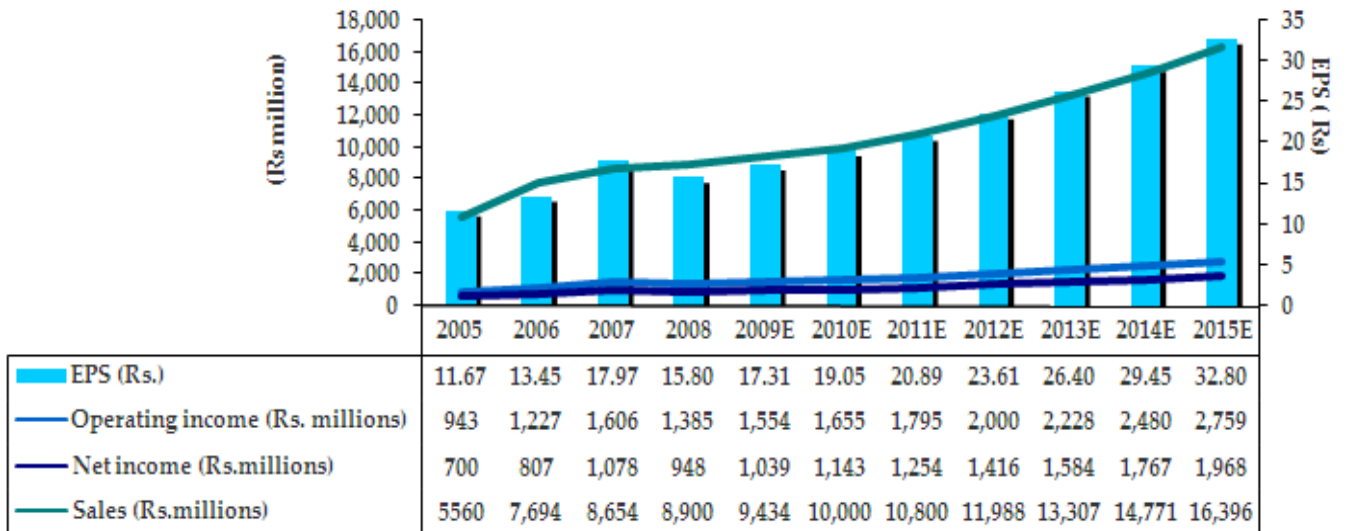
### Valuation

Our base case valuation for LLUB as in our last report is based on Discounted Cash Flow valuation. We have projected specific cash flows up to 2015 and taking a terminal growth rate of 11% from that point. Although the recent gross profit margins have dropped due to increased base oil prices, the company is expected to improve its gross profit margins with falling base oil prices and therefore the forecast gross profit margin is 25%. Therefore our new target price for LLUB is Rs 109.00. The forecast DPS is expected to be Rs.12.25.

New DCF Sensitivity table

Sensitivity of DCF valuation							
Terminal growth rate	WACC						
	21%	22%	23%	24%	25%	26%	
-1%	93	87	82	78	74	70	
5%	106	98	91	86	81	77	
8%	117	107	98	92	86	81	
11%	135	121	109	102	94	87	
13%	155	136	119	111	101	93	
15%	188	158	136	124	111	101	

Forecast



## Company Forecasts

Income Statement (Rs. millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009E	2010E	2011E
Revenue	3,514	3,932	4,214	4,546	5,560	7,694	8,654	8,900	9,434	10,000	10,800
YoY%	12%	12%	7%	8%	22%	38%	12%	3%	6%	6%	8%
COGS	2,231	2,403	2,745	3,228	4,088	5,858	6,369	6,806	7,076	7,500	8,100
Gross profit	1,282	1,529	1,469	1,317	1,472	1,836	2,286	2,094	2,359	2,500	2,700
GM%	36%	39%	35%	29%	26%	24%	26%	24%	25%	25%	25%
Total operating expenses	595	487	511	503	529	610	680	709	804	845	905
Operating profit	687	1,042	958	814	943	1,227	1,606	1,385	1,554	1,655	1,795
YoY%		52%	-8%	-15%	16%	30%	31%	-14%	12%	6%	8%
Pre-tax profit	796	1,218	1,186	892	994	1,246	1,658	1,483	1,598	1,759	1,929
Tax expense	315	406	352	245	294	439	580	535	559	616	675
Tax rate%	40%	33%	30%	27%	30%	35%	35%	36%	35%	35%	35%
Net profit	482	812	834	647	700	807	1,078	948	1,039	1,143	1,254
YoY%		68%	3%	-22%	8%	15%	34%	-12%	10%	10%	10%
Shares outstanding	30	30	60	60	60	60	60	60	60	60	60
Gross dividends	228	369	690	2,040	585	570	750	630	735	800	877
EPS (Basic unadjusted)	16.06	27.06	13.90	10.78	11.67	13.45	17.97	15.80	17.31	19.05	20.89
EPS (adjusted)	8.03	13.53	13.90	10.78	11.67	13.45	17.97	15.80	17.31	19.05	20.89
DPS (unadjusted)	7.60	12.30	11.50	34.00	9.75	9.50	12.50	10.50	12.25	13.34	14.62
DPS (adjusted)	3.80	6.15	11.50	34.00	9.75	9.50	12.50	10.50	12.25	13.34	14.62

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