

Investment Analysis: CHEVRON LUBRICANTS LANKA PLC (LLUB.N)

1. Executive Summary

Chevron Lubricants Lanka PLC (LLUB.N) operates as a key player in the Sri Lankan lubricant market, engaged in the blending, import, export, and distribution of a diverse range of lubricants, greases, and specialty products. The company benefits from a long operating history, a strong portfolio of well-recognized brands, and the backing of its parent company, Chevron Corporation. While the Sri Lankan lubricant market presents a mature and slightly declining volume trend, LLUB.N holds a dominant market share and has demonstrated resilient profitability. However, concerns regarding the sustainability of its high dividend payout ratio warrant careful consideration. Based on the current analysis, which considers the company's market position, financial performance, growth opportunities, and inherent risks, a nuanced investment recommendation is warranted.

2. Company Overview

- Business Description:

Chevron Lubricants Lanka PLC, established in 1992, functions as a subsidiary of Chevron USA, a publicly listed entity.¹ The company's core business revolves around the blending, importing, exporting, and distribution of a comprehensive suite of lubricants, greases, and other specialty products within Sri Lanka.¹ This vertically integrated model encompasses the entire supply chain, from the initial blending and manufacturing stages to the final distribution and marketing of its offerings.² This allows for stringent quality control and efficient management of resources.

LLUB.N's operational scope extends across various sectors, catering to the distinct needs of industrial, commercial, and consumer applications.² This diversification is a key strength, providing a buffer against potential downturns in specific industries. The company's extensive product range includes a wide array of lubricants, coolants, and greases, marketed under the prominent brands of Chevron, Caltex, Delo, and Lanka.¹ These brands cover a spectrum of product types, from high-performance engine oils for passenger vehicles to specialized industrial lubricants.

Specifically, the company offers a broad selection of lubricants tailored for the automotive sector, including automatic and manual transmission oils, coolants designed for various engine types, general-purpose automotive gear oils, and scooter oils.³ For industrial clients, LLUB.N provides hydraulic fluids, turbine oils

crucial for power generation, compressor oils essential for various industrial processes, and metalworking fluids used in manufacturing.³ Furthermore, their commercial offerings include gear lubricants for heavy-duty applications, multifunctional tractor fluids vital for the agricultural sector, and powershift transmission fluids for specialized vehicles.³

Beyond its product offerings, Chevron Lubricants Lanka also provides a suite of value-added services aimed at enhancing customer satisfaction and building long-term relationships.³ These services include in-service oil monitoring, which helps customers optimize lubricant usage and equipment maintenance; drain interval optimization, aimed at reducing lubricant consumption and waste; vehicle clinics, offering expert advice and diagnostics; channel partner workshops, focused on training and support for distributors; systematic failure analysis, assisting in identifying and resolving equipment issues; seminars providing technical knowledge and best practices; plant and lab visits, offering transparency and building trust; remote thermometer and endoscope inspection, utilizing advanced diagnostic tools; lubrication surveys, helping customers identify the right lubricant solutions; and technical data on fuel and fuel analysis services.³ Additionally, the company conducts lube specialist courses to enhance the knowledge of its customers and partners, provides product bulletins and guides for informed decision-making, and offers portable test kits for on-site analysis.³ LLUB.N also extends its market reach beyond Sri Lanka's borders, exporting its products to Bangladesh and Maldives, demonstrating its regional competitiveness.²

- **Insight:** The comprehensive and diversified nature of Chevron Lubricants Lanka's business, spanning multiple sectors and including value-added services and export markets, provides a degree of resilience and stability in a potentially fluctuating market. The strong brand portfolio further underpins its market position.
- **Company History and Structure:**

Chevron Lubricants Lanka PLC boasts a history dating back to 1992, marking over three decades of operation within the Sri Lankan market.¹ The company was initially established through a strategic partnership between Chevron, a global energy leader, and Ceypetco, the state-owned oil company in Sri Lanka.² This early collaboration provided a significant advantage, leveraging Ceypetco's existing infrastructure and market presence. In 1996, LLUB.N transitioned into a public limited company and was subsequently listed on the Colombo Stock Exchange (CSE) under the ticker symbol LLUB.N0000.⁶ This listing provided access to crucial capital markets and enhanced the company's transparency and corporate governance. The majority ownership of Chevron Lubricants Lanka PLC

rests with Chevron Corporation, which holds a controlling stake of 51.00% through its subsidiary, Chevron Ceylon Limited.⁶ This strong backing from a multinational corporation provides LLUB.N with significant financial resources, access to cutting-edge technological advancements, and the benefits of Chevron's extensive global network and expertise.

- **Insight:** The company's long-standing presence in Sri Lanka, coupled with the robust support and controlling interest of a global energy major like Chevron, suggests a stable and well-established operational framework with access to international best practices and resources. The public listing further ensures regulatory oversight and investor confidence.
- **Brands:**

Chevron Lubricants Lanka PLC strategically markets its extensive product line under a diverse portfolio of well-recognized brands, including Chevron, Caltex, Delo, and Lanka.² This multi-brand strategy allows the company to effectively segment the market and cater to the varying preferences and price sensitivities of different customer groups. Among these brands, Caltex holds a particularly strong and trusted reputation within Sri Lanka, having been a long-established player in the market.² Key product lines include Havoline, renowned for its high-quality passenger vehicle engine oils, and Delo, a trusted name in diesel engine oils and industrial lubricants.² The company consistently emphasizes the superior quality and performance characteristics of its products, aligning with the globally recognized standards associated with the Chevron and Caltex brands.² This unwavering focus on quality fosters customer loyalty and allows the company to potentially command premium pricing in certain market segments.

 - **Insight:** The strength and diversity of LLUB.N's brand portfolio significantly enhance its market penetration and appeal across a wide range of customer segments. The established trust and recognition associated with brands like Caltex and Havoline provide a substantial competitive advantage, contributing to brand loyalty and potentially higher sales volumes.

3. Sri Lankan Lubricant Market Analysis

- **Market Size and Growth Trends:**

The Sri Lankan lubricant market, while vital to the nation's automotive and industrial sectors¹², is currently estimated to be in the range of 63 to 64 million liters in terms of volume for the years 2024 and 2025.¹³ Projections indicate a slight downward trend in market volume over the medium term. Specifically, market analysis by Mordor Intelligence forecasts a compound annual growth rate (CAGR) of -1.23% in market volume from 2025 to 2030, with volume expected to decrease from 63.52 million liters in 2025 to 59.71 million liters by 2030.¹³ This

suggests a market that is either mature or facing some contraction in overall consumption. The market experienced a significant downturn in 2022 and the first half of 2023, primarily due to the severe economic crisis in Sri Lanka, which led to factors such as fuel quota restrictions limiting vehicle usage and a slowdown in construction activities.¹⁴ Notably, the total market volume declined by a substantial 25.40% in the year 2022.¹⁶ However, recent reports indicate a gradual recovery in economic activity within Sri Lanka, coupled with the potential easing of existing vehicle import restrictions.¹⁵ These positive developments could lead to a rebound in domestic lubricant market volumes in the near future.

- **Insight:** The Sri Lankan lubricant market is characterized by a slight projected decline in volume over the coming years, following a significant contraction during the recent economic crisis. However, the potential for economic recovery and the easing of import restrictions present a positive outlook for a near-term rebound in demand.
- **Key Drivers and Challenges:**

Several factors are influencing the dynamics of the Sri Lankan lubricant market. On the demand side, the increasing number of vehicles on the road and the growing agricultural sector, with its reliance on heavy machinery, are significant drivers for lubricant consumption.¹² Government initiatives aimed at bolstering the agricultural sector are also expected to further stimulate the demand for lubricants used in agricultural equipment.¹³ Conversely, a reduction in activity within the mining and building sectors can negatively impact the overall demand for lubricants, particularly industrial grades.¹³ The prolonged imposition of vehicle import restrictions in Sri Lanka has significantly constrained the demand for lubricants, especially within the retail segment catering to personal vehicles.¹⁵ Easing these restrictions would likely act as a major catalyst for growth in the lubricant market. Furthermore, the market is facing increasing competitive pressures, as the number of licensed players operating in the Sri Lankan lubricant industry has nearly tripled over the past five years, growing from 13 to 35 as of 2023.¹⁵ This surge in competition intensifies the pressure on pricing strategies and the ability of companies to maintain their market share.
- **Insight:** The Sri Lankan lubricant market's performance is intricately linked to the overall health of the economy and the prevailing government policies. While sectors like agriculture offer growth potential, factors such as import restrictions and increasing competition present considerable challenges for market participants.
- **Competitive Landscape:**

Chevron Lubricants Lanka PLC stands as the dominant player in the Sri Lankan lubricant market, commanding a significant market share estimated to be

between 41% and 47%.²¹ This leadership position provides the company with a strong foundation and brand recognition. Key competitors in this landscape include Lanka IOC PLC, which holds a substantial market share of around 20%²¹, and ExxonMobil, operating through its local nominee McLaren's Lubricants Limited, with a smaller share in the range of 6% to 7%.²¹ Other notable players in the Sri Lankan lubricant market include Laugfs Lubricants Limited and the state-owned Ceylon Petroleum Corporation.²¹ The presence of these well-established entities signifies a competitive market environment. The regulatory landscape, overseen by the Public Utilities Commission of Sri Lanka (PUCSL), has authorized numerous other parties to engage in various aspects of the lubricant business, including importation, exportation, blending, production, and distribution.¹⁶ This regulatory framework contributes to a more fragmented and competitive market structure. Additionally, LLUB.N faces competition from prominent international lubricant brands such as Shell, Mobil, Castrol, BP, and Valvoline, which bring with them significant global resources and strong brand recognition.²⁵

- **Insight:** While Chevron Lubricants Lanka PLC enjoys a clear leadership position in the Sri Lankan lubricant market, it operates within a highly competitive environment characterized by the presence of both strong local and international players. Maintaining this market leadership will necessitate continuous strategic adaptation and proactive responses to the evolving competitive dynamics.

4. Financial Performance Analysis

- Revenue Trends and Growth:

In the fiscal year 2024, Chevron Lubricants Lanka PLC reported a slight decrease in its revenue, amounting to LKR 22.96 billion, which represents a 1.24% decline when compared to the LKR 23.25 billion recorded in 2023.¹⁹ This marginal decrease suggests a period of stabilization or a slight contraction in the company's top-line growth following a period of more robust performance. Notably, the company experienced a significant surge in revenue during 2022, achieving LKR 24.57 billion, which marked an impressive growth of 45.70% from the LKR 16.87 billion reported in 2021.⁶ This substantial increase likely reflects the easing of restrictions related to the COVID-19 pandemic and a subsequent rebound in market demand. Examining the quarterly revenue performance for 2024 reveals a mixed trend. The first quarter demonstrated a strong year-on-year increase, while the second quarter witnessed a marginal contraction, and the third quarter experienced a more pronounced decline.⁸ This variability in quarterly results underscores the sensitivity of the company's revenue to

short-term economic fluctuations and prevailing market conditions. Over a longer horizon, the company's revenue growth between 2016 and 2019 exhibited a slightly negative compound annual growth rate (CAGR) of -0.49%.²⁸ This suggests that the market during that period was relatively mature, with limited opportunities for significant organic revenue expansion.

- **Insight:** Chevron Lubricants Lanka's revenue performance is subject to fluctuations influenced by broader macroeconomic factors and the prevailing market demand. While the company demonstrated a strong recovery in revenue during 2022, recent periods indicate a more challenging environment for achieving substantial top-line growth.

- Profitability Analysis:

Despite the slight decrease in revenue reported for the fiscal year 2024, Chevron Lubricants Lanka PLC successfully achieved a 7% growth in its profit after tax, reaching LKR 3.855 billion, in contrast to the LKR 3.603 billion recorded in 2023.¹⁹ This indicates an improvement in the company's cost management strategies or an expansion of its profit margins. In 2022, the company maintained a strong level of profitability, with a net income of LKR 3.666 billion, although this represented a marginal decrease when compared to the LKR 3.926 billion reported in the preceding year.⁶ This suggests a consistent ability to generate profits despite some variations in revenue. The operating profit for the year 2022 was substantial, amounting to LKR 7.496 billion ⁶, highlighting the underlying profitability of the company's core business operations before accounting for financial costs and income taxes. An analysis of the gross profit margins in the second and third quarters of 2024 reveals an improvement, indicating effective management of the cost of goods sold.¹⁸ This could be attributed to favorable trends in raw material prices or strategic adjustments in the company's pricing policies. The net profit for the third quarter of 2024 witnessed a significant year-on-year increase of 14%, primarily driven by improvements in gross profit margins, stringent cost control measures, and an increase in net finance income.¹⁵ This robust quarterly performance suggests positive underlying trends in the company's profitability. However, the second quarter of 2024 experienced a slight dip in the company's earnings, indicating some degree of volatility in its quarterly financial performance.¹⁷

- **Insight:** Chevron Lubricants Lanka PLC has demonstrated a notable capacity to maintain and even enhance its profitability despite experiencing fluctuations in its revenue streams. This suggests that the company possesses efficient operational practices and effective strategies for managing its profit margins.

- Key Financial Ratios:

The Price-to-Earnings (P/E) ratio for Chevron Lubricants Lanka PLC stands at approximately 9.2 times, which is below the average P/E ratio for the broader Sri Lankan market (9.4 times).⁵ This could potentially indicate that the stock is undervalued relative to the market or may reflect investor expectations regarding the company's future growth prospects. The Return on Equity (ROE) for the company is exceptionally high, ranging from approximately 45% to 47%.³³ This robust ROE signifies the company's efficiency in utilizing shareholders' investments to generate profits. Furthermore, analysts forecast an even higher ROE of nearly 58% within the next three years³⁵, underscoring the company's strong profitability outlook. The dividend yield for LLUB.N is also very attractive, hovering around 10%.⁵ This high yield makes the stock particularly appealing to investors seeking a consistent stream of income. The company's Debt-to-Equity ratio is reported to be very low, with some sources indicating it is near 0%.⁵ This suggests a strong and conservative financial structure with minimal reliance on debt financing, which is generally viewed favorably by investors. Additionally, the Net Profit Margin for the company is in the range of 16% to 17%⁵, demonstrating a healthy level of profitability as a percentage of its revenue.

- **Insight:** Chevron Lubricants Lanka PLC exhibits strong financial health, characterized by high profitability, a conservative capital structure with minimal debt, and an attractive dividend yield. These key financial ratios suggest that the company is financially sound and potentially undervalued relative to the broader market.
- Balance Sheet Analysis:

Chevron Lubricants Lanka PLC has shown an increase in its total assets from LKR 11.945 billion in 2023 to LKR 12.664 billion in 2024.²⁹ This growth in the company's asset base indicates potential expansion or increased investment in its operations. Similarly, the company's total equity has also increased from LKR 8.332 billion in 2023 to LKR 8.573 billion in 2024.²⁹ This rise in equity reflects the accumulation of retained earnings and potentially other positive adjustments to the company's capital structure. The company's current ratio, which measures its ability to meet short-term obligations with its short-term assets, stands at a healthy 3.44.³⁴ Furthermore, its quick ratio, a more stringent measure of short-term liquidity that excludes inventory, is also at a comfortable level of 1.55.³⁴ These liquidity ratios indicate that Chevron Lubricants Lanka PLC is well-positioned to meet its immediate financial liabilities.

 - **Insight:** Chevron Lubricants Lanka PLC maintains a robust balance sheet, characterized by increasing total assets and equity, along with strong liquidity ratios. This healthy financial position provides the company with stability and the flexibility to pursue future growth opportunities.

- **Cash Flow Statement Review:**

In the fiscal year 2024, Chevron Lubricants Lanka PLC generated a substantial LKR 5.517 billion in cash from its operating activities.²⁹ This strong operating cash flow is a critical indicator of the company's ability to generate cash from its core business operations, which is essential for funding dividend payments, making capital expenditures, and meeting other financial obligations. The company also reported a healthy level of free cash flow in 2024, amounting to LKR 3.498 billion.³⁵ Free cash flow represents the cash that remains available to the company after accounting for capital expenditures, providing a clearer picture of the cash flow that can be used for discretionary purposes such as rewarding shareholders or pursuing strategic initiatives.

 - **Insight:** Chevron Lubricants Lanka PLC demonstrates strong cash generation capabilities from its core business operations, providing ample support for its dividend payments and overall financial flexibility. This robust cash flow position underscores the financial strength of the company.

5. Dividend Analysis

- **Dividend History and Yield:**

Chevron Lubricants Lanka PLC has established a track record as a high-dividend-yielding stock, having distributed an annual dividend of LKR 15.00 per share in 2024. This resulted in an attractive dividend yield ranging from approximately 9.98% to 10.14%⁵, making it a compelling option for investors prioritizing income generation. The company adheres to a semi-annual dividend payment schedule, distributing dividends to its shareholders twice a year.³⁶ Recent dividend payouts include a payment of LKR 8.000 per share with an ex-dividend date of March 7, 2025, as well as several payments made throughout 2024, which collectively amounted to LKR 15.00 per share.³⁶ Notably, the total dividend distributed in 2024 represents a significant increase compared to the LKR 6.00 per share paid out in 2023¹⁹, which is a positive signal for dividend-seeking investors. However, it is important to note that the dividend per share has exhibited some degree of volatility in the past, having decreased from LKR 13.00 in 2021 to LKR 7.00 in 2022.³⁰ This fluctuation suggests that the company's dividend payouts are not entirely stable and can be influenced by its overall financial performance and profitability.

 - **Insight:** Chevron Lubricants Lanka PLC offers a high dividend yield, which is appealing to income investors. However, the history of dividend payments indicates some variability, suggesting that future payouts may not be consistently growing and could be subject to the company's financial results.
- **Dividend Payout Ratio and Sustainability Assessment:**

In the fiscal year 2024, Chevron Lubricants Lanka PLC exhibited a very high dividend payout ratio, with approximately 93% to 95% of its earnings being distributed to shareholders as dividends.³⁶ This indicates that the company is allocating a substantial portion of its profits towards rewarding its investors. However, independent financial analysis conducted by Simply Wall St has raised concerns regarding the long-term sustainability of these high dividend payments, suggesting that they may not be adequately supported by the company's earnings or its free cash flows.⁵ This potential lack of sufficient coverage poses a critical risk for investors who rely on the consistent receipt of dividend income from the company. Further analysis reveals that the company's cash payout ratio was even higher, reaching 102.9%.³⁹ This implies that the total amount of dividends paid out by the company actually exceeded the free cash flow it generated during the period. This situation further underscores the potential unsustainability of the current dividend payout level. Despite these concerns, First Capital, in its financial forecasts, projects that Chevron Lubricants Lanka PLC will maintain a high dividend payout ratio of 95% for both the 2024 and 2025 fiscal years⁴⁰, indicating an expectation of continued high dividend distributions in the near term.

- **Insight:** The extremely high dividend payout ratio of Chevron Lubricants Lanka PLC, which surpasses both its earnings and free cash flow, raises significant concerns about the long-term sustainability of the current dividend level. Investors should exercise caution and be aware of the potential for future dividend reductions if the company's profitability or cash flow generation were to weaken.

6. Growth Opportunities and Future Outlook

- Domestic and Export Market Potential:
A significant growth opportunity for Chevron Lubricants Lanka PLC lies in the potential easing or complete lifting of existing vehicle import restrictions in Sri Lanka.¹⁵ Such a policy change would likely lead to a substantial increase in the demand for automotive lubricants, directly benefiting LLUB.N's retail segment and potentially boosting overall sales volumes. Furthermore, the anticipated recovery in the rubber industry, which is a significant consumer of industrial lubricants, also presents a favorable growth prospect for the company.¹⁵ The performance of the rubber industry is often closely linked to global economic conditions and international demand for rubber products. While the export markets in Bangladesh and Maldives experienced a period of subdued performance in 2024 due to prevailing political and economic uncertainties in those regions, they continue to represent important markets where LLUB.N has established strong

market positions.¹⁹ Future stabilization and economic growth within these neighboring countries could potentially lead to a significant increase in LLUB.N's export volumes and revenues. Notably, Chevron Lubricants Lanka PLC holds the distinction of being the largest exporter of lubricants from Sri Lanka and has achieved market leadership in both Maldives and Bangladesh.²² This established presence provides the company with a distinct competitive advantage in capitalizing on any future growth opportunities within these regional markets.

- **Insight:** The potential easing of import restrictions in Sri Lanka and the anticipated recovery in the rubber industry offer promising domestic growth avenues for Chevron Lubricants Lanka PLC. Additionally, the company's strong existing market positions in Bangladesh and Maldives provide a solid foundation for future expansion in the export sector, contingent upon the stabilization and growth of those economies.
- **New Initiatives and Strategies:**

Chevron Lubricants Lanka PLC is actively pursuing a strategy of digitalization across its various operational facets, encompassing both its manufacturing processes and commercial activities.¹¹ This digital transformation initiative aims to enhance the company's social media presence and improve its overall engagement with customers, ultimately fostering stronger customer relationships and brand loyalty. Furthermore, the company has recently implemented a state-of-the-art distributor management system and a sales force automation system.¹⁹ This technological upgrade is expected to significantly boost the productivity of its distribution network and provide real-time data and insights, enabling more informed and agile decision-making across the organization. LLUB.N also maintains a consistent and strong emphasis on operational excellence throughout its operations. This commitment is clearly demonstrated by its remarkable long-standing record of zero lost time due to work-related injuries.¹⁹ This unwavering focus on safety not only protects its workforce but also contributes to operational efficiency and can positively impact the company's bottom line by minimizing disruptions and potential costs associated with workplace accidents.

 - **Insight:** Chevron Lubricants Lanka PLC's proactive adoption of digitalization initiatives and its unwavering commitment to operational excellence position the company favorably to adapt to the evolving dynamics of the market. These strategic moves have the potential to enhance its overall competitiveness, improve efficiency, and strengthen its engagement with customers.
- **Analyst Forecasts for Revenue and Earnings:**

Financial analysts generally hold a positive outlook regarding the future financial

performance of Chevron Lubricants Lanka PLC, projecting an annual growth rate of approximately 8% for the company's earnings and over 10% for its revenue.⁵ These optimistic projections suggest a level of confidence in the company's ability to generate future growth. Further supporting this positive sentiment, analysts also anticipate an annual growth rate of 8.1% in the company's earnings per share (EPS).³⁵ Looking ahead, one-year price targets established by financial analysts for LLUB.N range from LKR 157.40 to LKR 164.40.³⁸ These price targets imply a potential upside in the stock's value from its current trading levels. However, it is worth noting that First Capital, in its analysis, has provided more conservative fair value estimates for the stock, in the range of LKR 140 to LKR 150.40. Additionally, technical analysis conducted by TradingView currently indicates a "Strong Buy" signal for the stock in the short term, suggesting positive momentum in its price.³⁸

- **Insight:** While the general sentiment among financial analysts regarding Chevron Lubricants Lanka PLC's future revenue and earnings growth appears to be positive, with price targets suggesting potential upside, there is some divergence in these targets. Investors should consider these varying perspectives and conduct their own thorough due diligence.

7. Risks and Challenges

- **Competitive Risks:**

The Sri Lankan lubricant market is facing increasing competition, primarily driven by a rise in the number of licensed operators within the industry.¹⁵ This intensification of competition poses a significant risk to Chevron Lubricants Lanka PLC's established market dominance and its ability to sustain its current levels of profitability. Both existing players and new entrants are actively vying for a larger share of the market, which could potentially lead to aggressive price competition and a subsequent erosion of profit margins, as highlighted in a research report by Bartleet Mallory Stockbrokers.²⁵ Furthermore, the recent entry of the Indian Oil Company into the Sri Lankan petroleum sector presents a considerable competitive threat to LLUB.N, given Indian Oil's extensive operational network and substantial financial resources.²⁵

- **Insight:** The escalating competitive pressures within the Sri Lankan lubricant market represent a significant risk to Chevron Lubricants Lanka PLC's leading market position and its capacity to maintain its existing profitability margins.

- **Economic and Political Risks in Sri Lanka and Export Markets:**

The global and local economic environments continue to be characterized by volatility, with the potential for economic slowdowns and geopolitical tensions that could negatively impact overall business operations and consumer demand

for lubricants.¹⁹ Moreover, the political and economic uncertainties prevailing in key export markets for LLUB.N, such as Bangladesh and Maldives, could adversely affect the company's export volumes and consequently its revenues.¹⁹ Changes in the Sri Lankan government's fiscal policies, including potential increases in corporate and personal income taxes ³⁰, could also have a negative impact on the company's profitability and overall consumer spending on lubricant products. Additionally, the looming threat of a recession in major Western economies could lead to a reduction in demand for exports from Asian countries, which could indirectly affect Chevron Lubricants Lanka PLC's business performance.³⁰

- **Insight:** The macroeconomic and political instability in Sri Lanka and its primary export markets pose considerable risks to Chevron Lubricants Lanka PLC's financial performance and its prospects for future growth.

- **Raw Material Price Volatility:**

The lubricant manufacturing industry is inherently sensitive to fluctuations in the prices of base oils, which are the primary raw materials used in lubricant production and are derived from crude oil. Global events, such as the ongoing conflict in Ukraine, can introduce significant volatility into these prices, directly impacting Chevron Lubricants Lanka PLC's cost of goods sold.²⁸ Unfavorable movements in the prices of these raw materials can put considerable pressure on the company's profit margins, particularly if it faces challenges in passing these increased costs on to its customers due to prevailing competitive pressures within the market.

- **Insight:** The volatility in global crude oil and base oil prices represents a significant potential risk to Chevron Lubricants Lanka PLC's profitability and its ability to effectively manage its production costs.

- **Dividend Sustainability Concerns:**

The consistently high dividend payout ratio of Chevron Lubricants Lanka PLC, which has been maintained above 90% of its earnings and has even exceeded its free cash flow in certain periods, raises serious concerns regarding the long-term sustainability of the current dividend level.⁵ If the company were to experience any future downturn in its earnings or cash flow generation, or if it determines the need to retain a larger portion of its earnings for reinvestment in the business or for debt repayment purposes, the possibility of a dividend reduction becomes a significant risk for investors. This potential risk has been specifically highlighted by independent financial analysis ⁵, suggesting that investors should exercise caution and avoid relying solely on the current high dividend yield as a guaranteed future income stream.

- **Insight:** The exceptionally high dividend payout ratio of Chevron Lubricants Lanka PLC, which is not adequately covered by its earnings and free cash

flow, presents a considerable risk to the sustainability of the current dividend policy and could potentially lead to future dividend cuts.

8. Stock Valuation and Analyst Recommendations

- **Current and Historical Stock Price Performance:**

As of mid-May 2025, the stock price of CHEVRON LUBRICANTS LANKA PLC (LLUB.N) is trading in the range of LKR 151 to LKR 154 on the Colombo Stock Exchange.³⁸ Over the past year, the stock has demonstrated a strong upward trend, reflecting a significant increase in its price.³⁸ However, the stock has also exhibited considerable price volatility, with its price fluctuating between a 52-week high of LKR 162.00 and a low of LKR 114.00.⁵ Despite the robust performance over the past year, the stock's year-to-date return is negative ³⁸, indicating a recent period of underperformance or a price correction. The stock's historical peak was significantly higher, reaching LKR 230.00 in January 2015 ³⁸, suggesting either substantial long-term growth potential or that current price levels might be approaching a resistance point.

 - **Insight:** The stock price of LLUB.N has shown strong gains over the past year but is also characterized by volatility and recent underperformance. Investors should carefully consider these price dynamics when making investment decisions.
- **Trading Volume and Liquidity:**

The recent trading volume in LLUB.N stock, around 67.63k shares ⁴⁴, suggests a moderate level of liquidity. Investors should be mindful of the potential impact of large buy or sell orders on the stock price. The beta value for the stock is reported as 0.66 by one source ³⁸, while another indicates N/A.⁴⁵ A beta of less than 1 generally suggests that the stock is less volatile than the overall market, which could be appealing to investors with a lower risk tolerance.

 - **Insight:** CHEVRON LUBRICANTS LANKA PLC appears to be a relatively less volatile stock compared to the broader market, with a moderate level of trading liquidity.
- **Review of Analyst Ratings and Price Targets:**

Analyst sentiment on CHEVRON LUBRICANTS LANKA PLC appears to be generally positive, with a consensus rating of "Strong Buy" based on the opinions of a limited number of analysts.³³ However, it is important to note that the analyst coverage for this stock is relatively low, which means these ratings might not fully represent the broader market sentiment. Price targets provided by these analysts for the next 12 months range from LKR 157.40 to LKR 164.40 ³⁸, suggesting a potential upside of approximately 2% to 8% from the current trading price. In contrast, First Capital, a local research firm, has issued a more cautious "Hold"

recommendation on the stock, with fair value estimates in the range of LKR 140.0 to LKR 150.0.⁴⁰ This suggests that, according to their valuation, the stock might be fairly valued or have limited upside at its current price. Technical analysis from TradingView indicates short-term bullish signals for the stock ³⁸, but investors should remember that technical analysis focuses on price trends and patterns and should be considered alongside fundamental analysis.

- **Insight:** While analyst ratings for CHEVRON LUBRICANTS LANKA PLC are generally positive, the limited coverage and the more conservative "Hold" recommendation from First Capital suggest that the stock's upside potential might be limited at its current valuation.
- Valuation Discussion:

The Price-to-Earnings (P/E) ratio of approximately 9.2x for CHEVRON LUBRICANTS LANKA PLC is below the average P/E ratio of the Sri Lankan market, which might initially suggest that the stock is relatively undervalued.⁵ However, other valuation perspectives present a more mixed picture. Morningstar indicates that LLUB.N is currently trading at a premium to its estimated fair value ³⁴, and Simply Wall St also suggests that the stock is overvalued based on their analysis.⁵ These conflicting valuation signals highlight the inherent challenges in definitively assessing the stock's current intrinsic value. The fair value estimates provided by First Capital, which fall below the higher end of the analyst price targets, further support a more conservative view on the stock's valuation.

 - **Insight:** The valuation of CHEVRON LUBRICANTS LANKA PLC appears to be complex, with different valuation metrics and analyst opinions offering conflicting signals. This suggests that investors should conduct their own thorough valuation analysis before making any investment decisions.

9. Corporate Governance and Management

- Board of Directors and Key Management Profiles:

Chevron Lubricants Lanka PLC is guided by a structured leadership team, with Danielle Lincoln serving as the Chairperson of the Board, a position she assumed in July 2024.³ The company's operations are led by Bertram Paul, who holds the position of Managing Director and Chief Executive Officer since November 2022.³ The Board of Directors comprises a blend of executive and non-executive members, including Dr. Harsha Cabral, Asite Talwatte, Haider Manasawala, and Erande De Silva (who also serves as the Executive Director and Company Secretary).⁴⁸ Prior to Danielle Lincoln's appointment, Muhammad Najam Shamsuddin served as the Chairman.⁴⁹ The Board is considered experienced, with an average tenure of 3.3 years among its members.⁴⁸

 - **Insight:** Chevron Lubricants Lanka PLC benefits from a well-defined and

experienced leadership structure, encompassing both the Board of Directors and key management personnel. This experienced leadership is crucial for providing effective governance and strategic direction to the company.

- **Corporate Governance Policies:**

Chevron Lubricants Lanka PLC has established a comprehensive set of corporate governance policies that are in alignment with the Listing Rules of the Colombo Stock Exchange.⁵³ These policies cover various aspects of governance, including the nomination and re-election of directors, as well as risk management and internal controls.⁵³ The company's Board of Directors consists of between five and seven members, with the Chairperson being appointed by the Board itself.⁵³ Directors do not have a fixed term of appointment.⁵³ The Board places a strong emphasis on maintaining consistent and open channels of communication with the company's shareholders.⁵³ Furthermore, the Board is committed to upholding the highest standards of responsibility, ethics, and integrity in all its operations and conducts regular evaluations of its own performance and effectiveness.⁵³ The company has also implemented a specific policy on Risk Management and Internal Controls, with the Audit Committee of the Board holding the primary responsibility for overseeing the company's risk management framework and activities.⁵⁴

- **Insight:** Chevron Lubricants Lanka PLC demonstrates a strong commitment to adhering to sound corporate governance practices through the implementation of well-defined policies and a structured approach to risk management. This commitment to good governance is a positive indicator for investors, as it enhances transparency, accountability, and ethical business conduct within the organization.

10. Investment Recommendation

Based on the comprehensive analysis of CHEVRON LUBRICANTS LANKA PLC (LLUB.N), the following investment recommendation is provided:

The company presents a compelling case for income-seeking investors due to its attractive dividend yield, which currently hovers around 10%. LLUB.N holds a dominant position within the Sri Lankan lubricant market, a mature market that shows signs of potential recovery following a recent economic downturn. The company's financial performance has been resilient, demonstrating profitability despite some fluctuations in revenue. Moreover, analysts generally hold a positive outlook on the company's future earnings and revenue growth. The company also benefits from experienced leadership and a commitment to sound corporate governance practices.

However, significant concerns remain regarding the sustainability of the company's high dividend payout ratio, which consistently exceeds both its earnings and free cash flow. This raises the risk of potential future dividend cuts, which could negatively impact investors relying on this income stream. Additionally, the stock's valuation appears mixed, with some indicators suggesting it might be overvalued at its current price. The Sri Lankan lubricant market also faces increasing competition and is subject to economic and political risks within the country and its key export markets.

Considering the high dividend yield and dominant market position alongside the significant concerns about dividend sustainability and mixed valuation, a **Hold** recommendation is appropriate for investors who prioritize dividend income but are fully aware of the inherent risks. Investors seeking primarily capital appreciation may find more compelling opportunities elsewhere, given the mature market dynamics and valuation uncertainties.

Potential Upside Scenarios:

- A significant easing of vehicle import restrictions in Sri Lanka leading to a substantial increase in sales volumes for automotive lubricants.
- Successful execution of the company's digitalization strategies resulting in improved operational efficiency, enhanced customer engagement, and stronger market penetration.
- A stronger than anticipated economic recovery in Sri Lanka and its key export markets, boosting overall demand for lubricants across various sectors.

Potential Downside Scenarios:

- Increased competition within the Sri Lankan lubricant market leading to erosion of market share and a decline in profit margins for LLUB.N.
- A further economic downturn in Sri Lanka or its primary export markets negatively impacting the demand for lubricants and potentially leading to operational challenges.
- A reduction or suspension of dividend payments by the company due to ongoing concerns about the sustainability of the current high payout ratio in relation to earnings and free cash flow.
- Unexpected increases in the cost of raw materials, such as base oils, putting pressure on the company's profit margins.

Key Factors to Monitor:

- The company's dividend payout ratio and its coverage by both earnings and free cash flow in future financial reports.

- Trends in the company's market share within the Sri Lankan lubricant industry and the strategies it employs to maintain its leading position amidst increasing competition.
- The overall economic growth and political stability within Sri Lanka and its key export markets, as these factors will directly influence the demand for lubricants.
- Any changes in government policies regarding vehicle imports and their potential impact on the automotive lubricant market.
- The activities and strategies of the company's major competitors within the Sri Lankan lubricant market.
- Global trends and fluctuations in the prices of key raw materials, particularly crude oil and base oils, and their effect on the company's cost of goods sold.

Table 1: Key Financial Highlights from Annual Report 2024

Financial Metric	2024 (LKR '000)	2023 (LKR '000)	% Change
Revenue	22,963,023	23,252,503	-1%
Profit Before Tax & OCI	5,531,823	5,144,503	8%
Profit After Tax	3,855,445	3,603,013	7%
Shareholders' Funds	8,573,616	8,332,330	3%
Gross Dividends	3,600,000	1,440,000	150%
Dividend per Share (LKR)	15.00	6.00	150%
Earnings per Share (LKR)	16.06	15.01	7%

Table 2: Market Share of Major Players in Sri Lankan Lubricant Industry

Company Name	Market Share (%)	Year/Quarter
Chevron Lubricants Lanka PLC	41.65	2021

Lanka IOC PLC	20.50	2021
McLarens Lubricants Limited	7.67	2021
Laugfs Lubricants Limited	7.68	2021
Ceylon Petroleum Corporation	5.57	2021
Chevron Lubricants Lanka PLC	46	Q1 2023
Lanka IOC PLC	20.76	Q1 2023
McLarens Lubricants Limited	7.31	Q1 2023
Laugfs Lubricants Limited	4.01	Q1 2023
Ceylon Petroleum Corporation	1.55	Q1 2023
Chevron Lubricants Lanka PLC	47.32	Q3 2021
Lanka IOC PLC	20.10	Q3 2021
McLarens Lubricants Limited	5.90	Q3 2021
Laugfs Lubricants Limited	5.65	Q3 2021
Ceylon Petroleum Corporation	4.73	Q3 2021

Table 3: Dividend History

Year	Dividend Per Share (LKR)	Dividend Yield (%)	Ex-Dividend Date(s)
2025	8.00	-	March 07, 2025
2024	15.00	9.38	March 07, 2024; June 11, 2024; August 08,

			2024
2023	6.00	6.64	August 10, 2023; November 03, 2023
2022	7.00	7.25	March 09, 2022; November 11, 2022
2021	13.00	11.50	March 09, 2021; May 24, 2021; August 13, 2021; November 09, 2021

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