

Fuel Margins Collapse; the Cash Pile Holds the Floor...

Lanka IOC PLC (LIOC.N0000)

Results Review – 2QFY27 (July–September 2026)

Company Summary

Lanka IOC PLC (LIOC) is a fuel marketing company whose earnings now rely heavily on treasury income from its large cash and investment position. In 2QFY27 (July–September 2026), revenue rose 38% YoY to LKR 97.3 Bn, but gross profit fell 57% to LKR 2,471 Mn as the gross margin collapsed to 2.5%. Net profit declined 67% YoY to LKR 963 Mn (EPS LKR 1.81 vs LKR 5.55), and six-month profit fell 53%. The fuel business itself made an operating loss of LKR 296 Mn; net finance income of LKR 1,675 Mn (finance income up 35% to LKR 1.76 Bn) kept the quarter in profit. Selling costs fell 15%, indicating that the issue is thin margins rather than overspending.

Valuation Outlook

We rate LIOC a HOLD with a 12-month fair value of LKR 131.00 (range LKR 107–151), an equal blend of P/E (LKR 121), P/BV (LKR 133) and sum-of-the-parts (LKR 138). This implies a 5% price upside plus a 4.0% dividend yield, for an expected return of about 9%, which is not enough for a BUY. Downside looks limited: net cash and investments are LKR 101 per share, the stock trades at 0.72x book (energy sector 0.96x) and only 1.4% above its 52-week low. However, at 13.4x 1H annualised earnings it is above the market's 11.4x. We would move to BUY if gross margins recover to LKR 5+ per LKR 100 of sales or payouts rise, and to SELL if margins stay near LKR 2.50 and receivables keep rising.

Financial Summary

Operations used LKR 5.4 Bn of cash in 1HFY27 (1HFY26: LKR 17.4 Bn inflow) as receivables rose LKR 8.0 Bn (+53% since March) and payables were paid down by LKR 4.8 Bn, partly offset by LKR 8.2 Bn released from inventory. LIOC drew LKR 7.3 Bn from treasury assets and borrowed LKR 4.4 Bn (debt now LKR 5.9 Bn) to fund this and its dividend. Net cash and investments still stand at LKR 53.8 Bn.

Business Risk

The main risk is that fuel margins stay thin. With the core fuel business now loss-making, profit relies on interest earned on its cash. That leaves earnings exposed to lower interest rates and to any further drawdown of reserves. Slower customer payments are a second risk, because they tie up more working capital and reduce the cash available for dividends. If margins do not recover and payment terms keep stretching, both earnings and dividends could come under pressure. The large net cash position limits the downside.

Energy : Sector
LKR 66.56 Bn : Market Cap
LKR 158.00 – LKR 123.25 : Highest and Lowest Price
18.3% : Free float
0.72x : P/BV
LKR 131.00 : 12 Month Target Price
5% : Total Price Upside
LKR 125.00 : Current Market Price
HOLD : Recommendation
19 October 2026 : Date

Source: CSE, Company Interim Financials, SenFin Research

Figure 01: Key Financial Highlights

(LKR Mn)	3QFY26	4QFY26	1QFY27	2QFY27
Revenue	71,617	76,141	92,107	97,312
Gross profit	3,882	7,654	3,790	2,471
GP Margin	5.4%	10.1%	4.1%	2.5%
Operating profit	1,445	2,758	1,094	(296)
Net finance income	1,263	1,500	975	1,675
Profit before tax	2,708	4,258	2,069	1,379

Source: Company Interim Financials (Jan–Mar 26 audited)

Valuation	LIOC	Valuation	LIOC
P/E (TTM)	8.6x	Dividend yield	4.0%
P/E (1H ann.)	13.4x	EV/core earnings	~3.6x
P/BV	0.72x	Sector P/E · P/BV	14.5x · 0.96x
NAV/share	LKR 172.53	Net cash/share	LKR 101

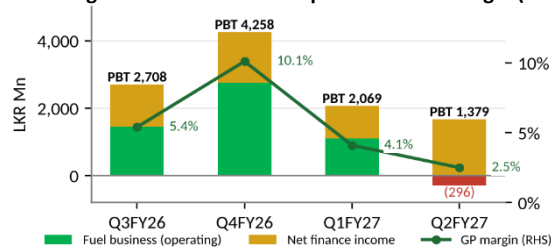
Source: CSE, SenFin Research; sector multiples: Sampath Securities, 4 Sep 2026

Figure 02: LIOC Share Price vs Book Value and Net Cash



Source: CSE price data to 19 October 2026

Figure 03: Pre-tax Profit Split and Gross Margin (Mn)



Source: Company Interim Financials