



ACCESS ENGINEERING PLC (AEL.N0000)

BUY

Aug 2016

Current Price - LKR 24.5

Fair Value – LKR 27.5

1QFY17 Net Profit↓ 13%YoY

KEY DATA			
Share Price (LKR)	24.5		
52w High/Low (LKR)	27.5/18.80		
Average Daily Volume (Shares)	539,909		
Average Daily Turnover (LKR)	12,449,024		
Issued Share Capital (Shares mn)	1,000.0		
Market Capitalisation (LKR mn)	23,800		
Price Performance (%)	1 mth	3 mths	12mths
AEL	9.0%	5.2%	-11.3%
ASPI	2.8%	-1.8%	-12.3%
Major Shareholders as at 31st March 2016			
Mr. S J S Perera	25.00%		
Mr. R J S Gomez	12.00%		
Mr. J C Joshua	10.00%		
Mrs. R M N Joshua	7.00%		
Mr. S J S Perera	4.92%		
Estimated Free Float	37.92%		

P/E 31 March	2015	2016	2017E	2018E	2019E
Revenue (LKR mn)	16,514	17,625	19,230	21,100	23,167
Net Profit (LKR mn)	2,346	2,465	2,692	3,138	3,636
YoY % Growth	-17%	5%	9%	17%	16%
EPS (LKR)	2.3	2.5	2.7	3.1	3.6
YoY % Growth	-17%	5%	9%	17%	16%
Valuations					
PER (x)	10.1	9.6	8.8	7.5	6.5
PBV (x)	1.5	1.4	1.2	1.1	1.0
Div Yield (%)	4%	4%	4.6%	5.3%	6.2%
NAVPS	16.3	17.5	19.1	21.1	23.4
DPS (LKR)	1.00	1.00	1.1	1.3	1.5
Div Payout	43%	41%	40%	40%	40%

LKR (Mn)	1QFY17	1QFY16	YoY	4QFY16	QoQ
Revenue	4,649	4,207	10% ↑	4,561	2% ↑
Gross Profit	1,106	934	18% ↑	956	16% ↑
EBIT	760	735	3% ↑	786	-3% ↓
Net Profit	524	600	-13% ↓	642	-18% ↓

	2QFY16	3QFY16	4QFY16	1QFY17
Revenue	4,650	4,239	4,561	4,649
Gross Profit	1,047	1,030	956	1,106
EBIT	829	668	786	760
Net Profit	684	545	642	524

Disclosure on Shareholding:

First Capital Equities (Pvt) Ltd and any of its affiliates do not hold shares in AEL and will not trade in this share for the three trading days following the issue of this document.

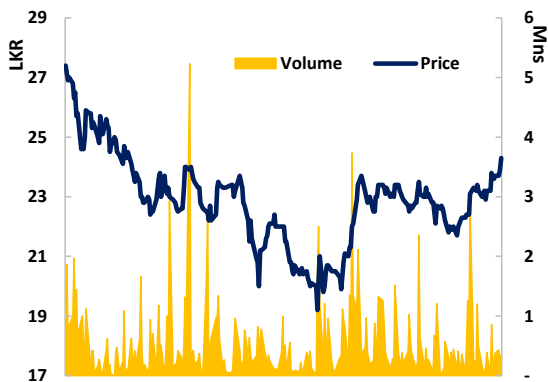
AEL recorded earning dip 13%YoY: AEL 1QFY17 bottom-line recorded at 524.4Mn with a decline of 13%YoY mainly due to increased Income Tax and Administrative Expenses. Income tax increased 135%YoY to LKR 228.9Mn with effective tax rate at 30% which also included a one off deferred tax liability LKR 100Mn in 1QFY17 although the sector witnessed upward revision in income tax rates to 17.5% from 12% previously. Construction segment contributed nearly 66% to the aggregate net profit, while production of construction material contributed 13% along with Sathosa Motors and Access Realties contributing 8% each to the bottom-line.

Group Revenue expanded by 11%YoY in 1QFY17 to LKR 4.6Bn: This healthy growth was generated mainly through construction material increase of 109.5%YoY to reach LKR 416.7Mn from LKR 198.6Mn. Sathosa Motors expanded revenue by 54.6%YoY to LKR 1.2Bn from LKR 776.3Mn, due to increased sales of commercial vehicles and Access Projects increased revenue by 19% to LKR 719.3Mn from LKR 605.2Mn. However, construction revenue, the company's main segment slumped by 13%YoY to LKR 2.26Bn from LKR2.6Bn.

GP margin widening: Gross profit rose by 18%YoY to reach LKR 1.1Bn on the back of GP margin widening to 23.8% in 1QFY17 from 22.2% in 1QFY16 and 21.0% in 4QFY16. However 1QFY17 cost of sales escalated to LKR3.5Bn, up by 8%YoY.

PBT increased by 3%YoY to LKR760.1Mn in 1QFY17: AEL group operating expense increased by 21%YoY to LKR359.5Mn in 1QFY17 mainly due to high administrative expenses witnessed in SMOT and recorded a net finance cost of LKR11.5Mn during the quarter. Moreover its debt to equity ratio is reported at 35% for the quarter under review primarily led by increased long term and short term interest bearing

Price-Volume Chart



Source: CSE



borrowings due to the debenture issued in Nov 2015.

Future Outlook

Rehabilitation & Improvements in road network: In coordination with state initiatives to rehabilitate the current road network as well as to develop new roads, expansion in the local infrastructure is anticipated. AEL may have a competitive advantage through its leadership position in the local construction industry. AEL would be benefited from recommencement of mega-mixed infrastructure development projects such as Southern Expressway Extension, 3 Fly over projects along with some yet to commence projects such as the Central Express way, BIA terminal expansion and new regional water projects in Northern and Northern Central Provinces.

AEL's expansion strategy: AEL increased its exposure in real estate through Access Realities constructing Access Tower II, 190,000 sq.ft 29 floors commercial complex adjoining Access Tower I and is expected to be commissioned in April 2017. Access Tower II estimated investment of USD 25Mn and 12 years tax exemption. Furthermore AEL invested in 50% of the ordinary shares of Blue Star Construction for an investment of LKR 800Mn in May 2016 for the purpose of building condominium project in a 1 acre land plot situated in Rajagiriya. This investment is funded through cash and once completed, it would help additional income to strengthen AEL's bottom-line.

Maintaining earning forecast: Back of newly added construction projects coupled with the expected improved contribution from Access Realities, Access Projects and Production of construction material segment, we maintain our earnings forecast.

AEL to provide a return of 18% in FY17E: FC Research expect a fair value of LKR 27.3 [LKR 27.6 DCF based and LKR 26.9 PER based] providing a total return of **+18%** (capital gain of +14%, dividend yield of 4%) at current market price. **BUY**

FY18E return: For FY18E we expect a fair value of LKR 31.0 providing a total return of +39% over a period of 18 months at the current market price.

Valuation

Expected AEL Average Target Price	FY17E	FY18E
DCF Valuation based target price	27.6	31.2
PER based target price	27.3	31.8
Average Target Price	27.5	31.5

Return	FY17E	FY18E
Target Price	27.5	31.0
Current Price	24.0	24.0
Capital Gain (LKR)	3.5	7.0
Dividend (LKR)	1.1	2.3
Capital Gain %	14%	29%
Dividend Yield %	4%	10%
Total Return %	19%	39%

Discounted Cash flow based Valuation

COE (K_e)	
R_f	11%
R_m	18%
β	1.54
$K_e = R_f + \beta (R_m - R_f)$	21%

WACC	
K_e	21%
K_d	11%
D/E	40/60
Terminal Growth (%)	3%
WACC	17%

Valuations	FY17E	FY18E
NPV	26,258	28,105
Debt (-)	6,258	6,258
Cash (+)	7,628	9,398
Total Value of Equity	27,627	31,245
No. of Shares	1,000	1,000
Value of Equity per Share	27.6	31.2



Value of Equity per Share – FY17E

		WACC				
		15%	16%	17%	18%	19%
Terminal Growth (%)	1%	28.0	26.4	24.9	23.7	22.5
	2%	29.7	27.8	26.2	24.8	23.5
	3%	31.7	29.5	27.6	26.0	24.6
	4%	34.0	31.5	29.3	27.4	25.8
	5%	36.8	33.8	31.2	29.1	27.2

Value of Equity per Share – FY18E

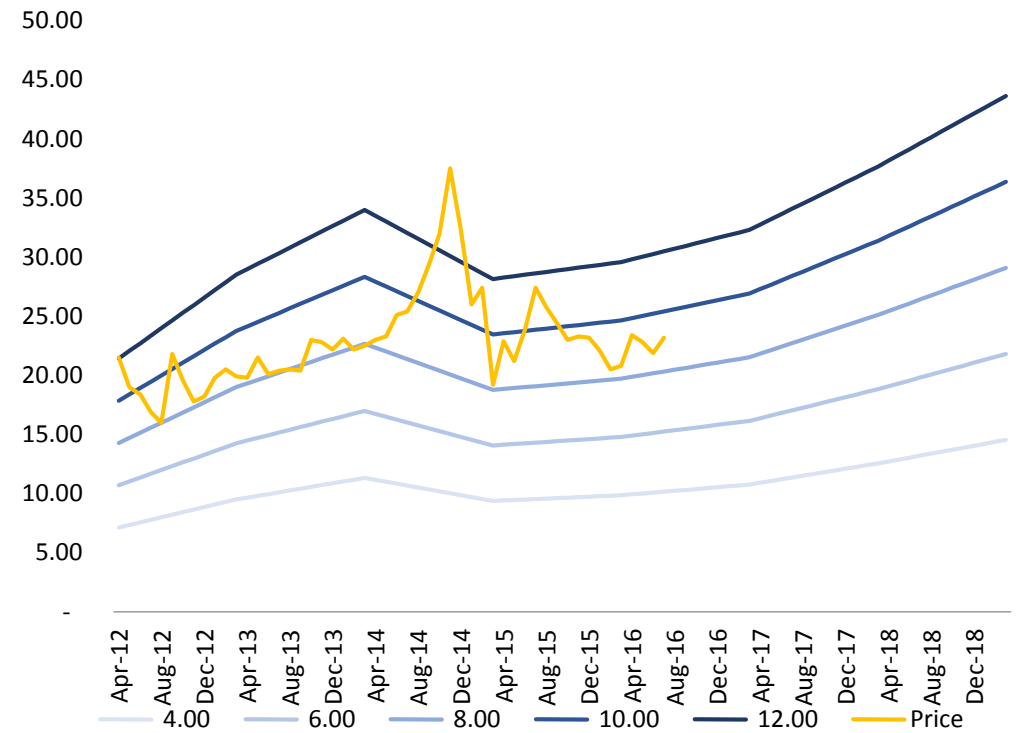
		WACC				
		15%	16%	17%	18%	19%
Terminal Growth (%)	1%	31.2	29.6	28.1	26.8	25.6
	2%	33.2	31.2	29.6	28.1	26.8
	3%	35.4	33.2	31.2	29.6	28.1
	4%	38.1	35.4	33.2	31.2	29.6
	5%	41.3	38.1	35.4	33.2	31.2

Recommendation Criteria

Categorisation	Company Category	Strong Buy	Buy	Hold	Sell
Grade A	S&P SL20 Companies	T.Bill + 10% & Above	T.Bill + 5% & Above	T.Bill + 1% & Above	Below T.Bill + 1%
Grade B	Rest of the Companies	T.Bill + 13% & Above	T.Bill + 8% & Above	T.Bill + 3% & Above	Below T.Bill + 3%
Grade C	Companies less than LKR 1Bn Market Cap	T.Bill + 16% & Above	T.Bill + 11% & Above	T.Bill + 6% & Above	Below T.Bill + 6%

*1 Year T Bill rate as of 10-08-2016 - 10.72%

PE Band Graph



PER based Valuation	FY17E	FY18E
Earnings (LKR 'Mn)	2,692	3,138
No. of Shares ('Mn)	1,000	1,000
EPS (LKR)	2.69	3.14
Expected PER	10x	10x
Price at 10.0x Earnings	27.3	31.8



Income Statement

Income Statement (LKR 'Mn)					
P/E 31 March	FY15	FY16	FY17E	FY18E	FY19E
Revenue	16,514	17,625	19,230	21,100	23,167
Cost of Sales	(12,699)	(13,648)	(14,807)	(16,247)	(17,839)
Gross Profit	3,815	3,977	4,423	4,853	5,328
Other Income	189	262	278	294	312
Total Income	4,005	4,239	4,701	5,147	5,641
Administrative Expenses	(1,252)	(1,294)	(1,294)	(1,294)	(1,294)
Other Expenses	(111)	(57)	(62)	(69)	(75)
Profit Before Finance Cost	2,642	2,888	3,344	3,785	4,271
Net Finance Income	110	96	20	136	273
	2,752	2,984	3,364	3,921	4,544
Profit Before Tax	2,762.6	2,995.4	3,364.0	3,920.7	4,543.8
Income Tax Expense	(338.8)	(444.5)	(588.7)	(686.1)	(795.2)
Profit for the Year	2,423.8	2,550.9	2,775.3	3,234.5	3,748.7
EPS	2.3	2.5	2.7	3.1	3.6

Source: Company Annual Reports and FC Research Estimates

Balance Sheet

Balance Sheet (LKR 'Mn)					
P/E 31 March	FY15	FY16	FY17E	FY18E	FY19E
Assets					
Non-Current Assets					
Property, Plant and Equipment	4,221.5	4,790.9	4,969.8	5,172.0	5,400.4
Investment Properties	3,012.4	3,328.9	3,328.9	3,328.9	3,328.9
Investment Properties WIP	472.2	1,191.7	2,191.7	2,191.7	2,191.7
Intangible Assets	1,292.3	1,354.2	1,338.7	1,322.1	1,305.5
Investment in Associate	72.5	83.6	83.6	83.6	83.6
Other Non-Current Financial Assets	84.1	1,358.8	1,358.8	1,358.8	1,358.8
Total Non-Current Assets	9,155.1	12,357.1	13,520.6	13,706.2	13,918.0
Current Assets					
Inventories	2,184.0	2,376.1	2,517.3	2,761.9	3,032.6
Trade and Other Receivables	6,522.3	6,576.0	6,730.6	6,962.9	7,181.8
Other Current Financial Assets	1,275.4	1,671.3	1,730.7	1,899.0	2,085.0
Short Term Deposits	1,047.9	6,792.2	6,792.2	6,792.2	6,792.2
Cash and Cash Equivalents	1,918.5	503.8	835.3	2,605.8	4,701.3
Total Current Assets	13,172.7	17,985.7	18,672.5	21,088.1	23,859.2
Total Assets	22,327.8	30,342.9	32,193.1	34,794.3	37,777.2
Equity and Liabilities					
Equity					
Stated Capital	9,000.0	9,000.0	9,000.0	9,000.0	9,000.0
Revaluation Reserve	100.9	100.9	100.9	100.9	100.9
Retained Earnings	7,168.6	8,361.6	10,013.6	11,985.2	14,266.6
Equity Attributable to Owners	16,269.5	17,462.5	19,114.4	21,086.0	23,367.5
Non-Controlling Interest	425.0	532.2	615.4	712.5	824.9
Total Equity	16,694.5	17,994.7	19,729.9	21,798.5	24,192.4
Non-Current Liabilities					
Interest-Bearing Borrowings	97.9	5,193.3	5,193.3	5,193.3	5,193.3
Employee Benefits	159.3	168.7	168.7	168.7	168.7
Deferred Taxation	250.7	234.9	234.9	234.9	234.9
Total Non-Current Liabilities	514.4	5,603.3	5,603.3	5,603.3	5,603.3
Current Liabilities					
Trade and Other Payables	4,430.3	5,367.8	5,478.7	6,011.3	6,600.3
Interest-Bearing Borrowings	251.7	652.5	652.5	652.5	652.5
Current Tax Liabilities	98.3	249.0	249.0	249.0	249.0
Bank Overdraft	276.3	412.6	412.6	412.6	412.6
Total Current Liabilities	5,118.9	6,744.9	6,855.9	7,388.4	7,977.4
Total Equity and Liabilities	22,327.8	30,342.9	32,189.0	34,790.2	37,773.1
NAVPS	16.3	17.5	19.1	21.1	23.4

Source: Company Annual Reports and FC Research Estimates

