



ALUMEX PLC

CSE: ALUM.N0000

Bloomberg: ALUM SL

Upgrade to STRONG BUY

Apr 2018

Current Price – LKR 17.0

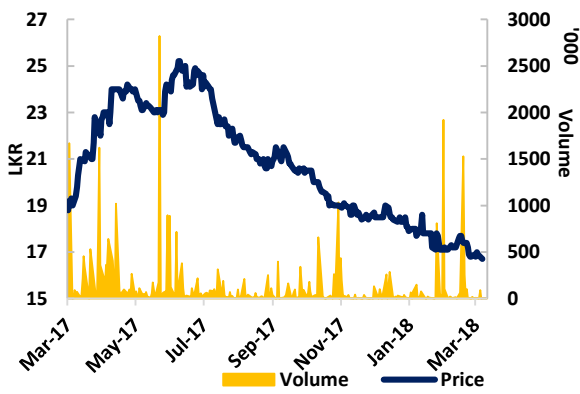
Fair value – LKR 20.0 (FY19E)

3QFY18 Earnings ↓ 46%YoY

KEY DATA

Share Price (LKR)	17.00		
52w High/Low (LKR)	25.20 / 16.70		
Average Daily Volume (Shares)	126,611		
Average Daily Turnover (LKR)	2,690,266		
Issued Share Capital (Shares mn)	299.3		
Market Capitalisation (LKR mn)	5,088		
Price Performance (%)	1 mth	3 mths	12mths
ALUM	-4%	-7%	-17%
ASPI	1%	3%	7%
Major Shareholders as at 31st Dec 2017			
Hayleys PLC	52.59%		
Akbar Brothers Pvt Ltd A/C No.1	13.50%		
Rosewood (Pvt) Ltd A/C No.1	9.80%		
Dean Foster (Pvt) Ltd A/C No.1	4.75%		
Mr. D.W.P.N.Dediwela	3.56%		
Estimated Free Float	15.67%		

Price – Volume Chart



Source: CSE

ANALYST CERTIFICATIONS AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

“Aluminium prices collapse, manufacturing sector gains”

P/E 31 March	FY16	FY17	FY18E	FY19E	FY20E
Revenue (LKR mn)	3,995	4,728	4,333	5,144	6,110
YoY % Growth	21%	18%	-8%	19%	19%
Net Profit (LKR mn)	589	753	355	456	656
EPS	2.0	2.5	1.2	1.5	2.2
YoY % Growth	24%	28%	-53%	29%	44%
Valuations					
PER (x)	8.5	6.6	14.1	11.0	7.6
PBV (x)	2.6	2.2	2.0	1.8	1.6
Div Yield (%)	6.0%	8.7%	3.5%	4.6%	6.6%
NAVPS	6.3	7.7	8.3	9.1	10.2
DPS (LKR)	1.00	1.45	0.6	0.8	1.1
Div Payout	51%	58%	50%	50%	50%

LKR (Mn)	3QFY18	3QFY17	YoY	9MFY18	9MFY17	YoY
Gross Revenue	1,124	1,286	↓ -13%	3,186	3,234	↓ -1%
Net Revenue	1,101	1,261	↓ -13%	3,123	3,170	↓ -1%
Gross Profit	282	380	↓ -26%	699	930	↓ -25%
Operating profit	159	261	↓ -39%	385	652	↓ -41%
Net Profit	102	191	↓ -46%	229	491	↓ -53%

LKR (Mn)	4QFY17	1QFY18	2QFY18	3QFY18	QoQ
Gross Revenue	1,494	891	1,172	1,124	↓ -4%
Net Revenue	1,465	873	1,149	1,101	↓ -4%
Gross Profit	488	189	228	282	↑ 24%
Gross Margin	33%	21%	19%	25%	
Operating profit	398	85	141	159	↑ 13%
OP Margin	27%	10%	12%	14%	
Net Profit	263	43	83	102	↑ 23%
NP Margin	18%	5%	7%	9%	

Disclosure on Shareholding:

First Capital Group and its affiliates hold 170,600 shares of ALUM and will not trade in this share for the three trading days following the issue of this document.

“Temporary dip in earnings due to machine breakdown”

First Capital Research upgrades ALUM to Strong Buy from Hold amidst collapse in Aluminium Prices: ALUM’s earnings for 3QFY18 deviated significantly from expectations illustrating decline of 46%YoY comparatively to 3QFY17. ALUM’s premium pricing in products, increased competition and considerable slowdown in construction due to natural disasters and machine breakdowns has prevented passing through the rise in costs to the end consumer. GP Margins have improved from 19% to 25% over the last 2 quarters. Aluminium world prices are currently on a downtrend and this is expected to further continue due to increased capacity utilization. First Capital Research has downgraded the profit forecast by 23% to LKR 355Mn for FY18E while FY19E earnings outlook has been lowered to LKR 456Mn. The company had gone through a machine breakdown and therefore could not meet their production volumes and therefore could not deliver their full potential in earnings for the last quarter. Considering the significant price decline following our downgrade to Hold, First Capital Research estimates its FY19E fair value to be LKR 20.0 providing a total return of 22.1%, including dividends, there by upgrading its Recommendation from Hold to **STRONG BUY**.

Earnings Performance

Earnings drop by 46%YoY: ALUM’s 3QFY18 earnings dropped by 46%YoY to LKR 102Mn against LKR 191Mn in 3QFY17. Our discussion with the company indicate that the 3QFY18 revenue drop was attributable to a machinery breakdown and therefore the company could not meet the supply resulting in delays in



orders and increased overhead costs. Earnings for 1Q-3QFY18 was recorded at LKR 229Mn, dipped by 53%YoY against LKR 300Mn. ALUM's revenue drop by 13%YoY in 3QFY18 was the biggest contributor towards the earnings drop. However, the situation was aggravated with a significant increase in Distribution cost by 39%YoY and 40%QoQ.

GP Margin recover back to healthy level at 25%: GP Margin for 3QFY18 saw a significant recovery to 25%, compared to 19% in 2QFY18 and 30% in 3QFY17 which is the previous year's comparative quarter. Strong cost control measures implemented led the margin recovery of ALUM while marginal price increase also supported the improvement. Gross Profit for the 3QFY18 was recorded at LKR 282Mn, down by 26%YoY, while a Gross Profit for the 9 months was LKR 699Mn down 25%.

Weakened Operating Profits: Results from operating activities for the quarter witnessed a decline of 39%YoY recording a profit of LKR 159Mn as opposed to LKR 261Mn in 3QFY17. The decrease in Operating profit was resulted by the increase in distribution expenses by 39%YoY along with drop in gross profits.

Increase in Net Finance Cost: Net finance cost for the period was recorded as LKR 29Mn, an increase by 126%YoY. With the company completing its expansion, the borrowings of ALUM grew by 200%YoY to LKR 3.6Bn from LKR 1.2Bn leading to the higher finance cost.

NP Margin at 9%: ALUM's NP Margin for the period was recorded at 9% from 15% recorded in 3QFY17. NP Margin has marginally improved when compared to the previous two quarters attributing to the drop in cost of sales compared to 2QFY18 and improved revenue performance compared to 1QFY17.

Investment Case

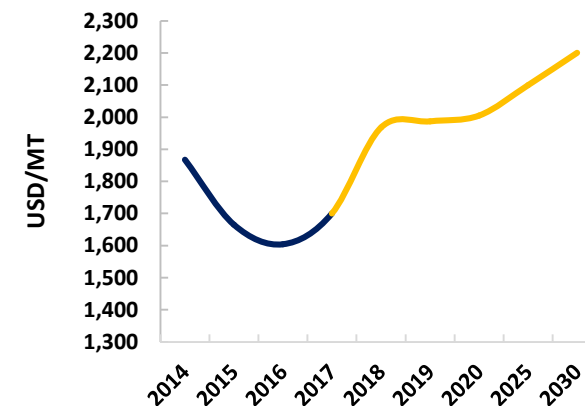
ALUM fair value to be at LKR 20.0: First Capital Research expect an ALUM's earnings to record at LKR c.355Mn for FY18E, and LKR c.456Mn for FY19E growing by 29%YoY. We expect a fair value of LKR 20.0 [LKR 21.0 DCF based and LKR 18.3 PER based] providing an annualized return of c.+22.9% for FY19E. (Total return of c.+22.1% includes a dividend yield of c.4%) at current market price of LKR 17.0.

Long Term Strategy focusing on capacity expansion: The capacity expansion taking place at Ekala, Ja-ela is LKR 651Mn investment to cater to the rapidly growing market demand in addition to bringing world class technology into the country. In 2016/17 the company disposed off its oldest extrusion machine and therefore annual capacity dropped by 15%. Alumex expects total extrusion capacity to come to 19,000MT per year which will be a 58% increase in capacity levels compared to previous levels before disposal of machine. We expect the capacity utilization to be fully functional by April 2018 and to be able to meet the projected demand for FY19.

New Products: ALUM's long term strategy includes new designs targeting the commercial sector, broadening the range of products, enhancing extrusion and powder coating capacity and developing the export market mainly focusing on the SAARC region at present.

Decrease in World Aluminum Prices to improve ALUM's earnings: World Aluminum Prices are potentially softening due to capacity expansion taking place in China, and improving LME stocks.

Global Aluminium prices



Investment risks

Volatility in Aluminum price: Upside risks to global aluminum price forecast include strong global demand and production shortages. Supply could be curtailed by slower ramp-up of new capacity, tighter environmental constraints, and policy action that limits output and exports, notably in China.

Competition in the industry: ALUM may face strong competition by other players in the industry since other firms in the industry as well has extended capacity to exploit the opportunities arising from the boom in the construction industry. Another factor to be taken into consideration is that there are shortages in supply of aluminum and due to these delays it can increase the cost of construction and as well rises opportunity for the competitor to eat into Alum's competitive market.



Valuation Summary

Expected ALUM price	FY19E
DCF Valuation based target price	21.0
PER based target price	18.3
Average Target Price	19.7
Target price (Rounded up)	20.0
Return	FY19E
Target Price	20.0
Current Price	17.0
Capital Gain (LKR)	3.0
Dividend (LKR) FY18E	0.6
Dividend (LKR) FY19E	0.8
Capital Gain %	18%
Dividend Yield %	4%
Total Return %	22.1%
Annualized Return %	22.9%

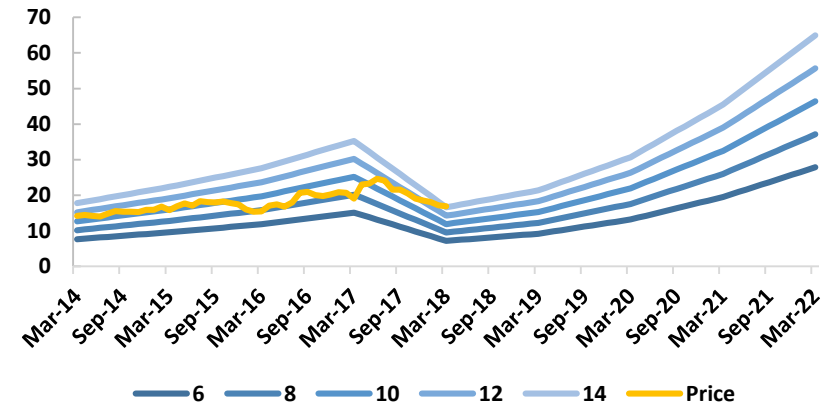
DCF Valuation

Valuations	FY19E
NPV	6,184
(+) Cash	574
(-) Debt	(459)
Total Value of Equity	6,298
No. of shares	299
Value of Equity per share	21.0
WACC	
K_e	18%
K_d	13%
D/E Assumption	40 / 60
Terminal Growth (%)	3%
WACC	15%
COE (K_e)	
R_f	9%
R_m	16%
β	1.2
$K_e = R_f + \beta (R_m - R_f)$	18%

Scenario Analysis

FY19E	Terminal Growth (%)	WACC				
		13%	14%	15%	16%	17%
1%		21.8	21.2	20.7	20.2	19.7
2%		21.9	21.4	20.9	20.4	19.9
3%		22.1	21.6	21.0	20.5	20.0
4%		22.3	21.7	21.2	20.7	20.2
5%		22.5	21.9	21.4	20.9	20.4

PER Valuation



Source: CSE and First Capital Research

PER based Valuation	FY19E
Earnings (LKR 'Mn)	456
No. of Shares ('Mn)	299
EPS	1.52
Expected Average PER	12.0x
Price at 12.0x Earnings	18.3

Recommendation Criteria

Categorization	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 31-12-2017 – 9.11%



Annex I – Income Statement

Income Statement (LKR mn) Y/E 31st March	FY16	FY17	FY18E	FY19E	FY20E
Revenue	3,995	4,728	4,333	5,144	6,110
Less - NBT	-80	-94	-87	-103	-122
Net Revenue	3,916	4,635	4,246	5,041	5,987
Cost of Sales	-2,739	-3,188	-3,258	-3,813	-4,445
Gross Profit	1,177	1,446	988	1,228	1,543
Other Income and Gains	13	26	26	26	26
Selling and Distribution Cost	-90	-105	-167	-103	-122
Administrative Expenses	-287	-317	-279	-472	-498
Operating Profit	813	1,050	567	679	948
Finance Cost	-35	-48	-115	-77	-76
Finance Income	23	14	14	14	14
Profit Before Tax	801	1,016	467	617	886
Income Tax Expenses	-212	-263	-112	-160	-230
Profit for the Year	589	753	355	456	656
EPS	2.0	2.5	1.2	1.5	2.2

Source: Company reports and First Capital Research

Annex II – Balance Sheet

Balance Sheet (LKR mn) As at 31st March	FY16	FY17	FY18E	FY19E	FY20E
Non-current Assets					
Property, Plant and Equipment	1,293	1,916	2,006	1,939	1,830
Intangible Assets	39	42	53	59	66
	1,333	1,958	2,059	1,997	1,896
Current Assets					
Inventories	862	1,149	1,733	1,286	1,588
Trade and Other Receivables	508	864	910	694	825
Advances and Prepayments	38	126	126	126	126
Other Current Financial assets	1	1	1	1	1
Cash and Cash Equivalents	138	165	-516	452	473
	1,547	2,306	2,254	2,560	3,013
Total Assets	2,880	4,264	4,313	4,557	4,909
Equity and Liabilities					
Stated Capital	284	284	284	284	284
Reserves	685	780	780	780	780
Retained Earnings	930	1,252	1,376	1,536	1,765
Total Equity	1,898	2,316	2,440	2,600	2,829
Non-Current Liabilities					
Interest Bearing Loans and Borrowings	0	512	512	412	311
Retirement Benefit Liability	80	91	91	91	91
Deferred Tax Liabilities	86	106	106	106	106
	165	709	709	609	509
Current Liabilities					
Trade and Other Payables	670	1,107	1,065	1,247	1,453
Interest Bearing Loans and Borrowings	3	48	48	48	48
Provisions	7	9	9	9	9
Income Tax Liabilities	136	75	41	44	60
	816	1,238	1,164	1,348	1,571
Total Equity and Liabilities	2,880	4,264	4,313	4,557	4,909
NAVPS	6.3	7.7	8.2	8.7	9.5

Source: Company reports and First Capital Research



Annex III – Statement of Cash flows

Cashflow Statement (LKR mn)	FY16	FY17	FY18E	FY19E	FY20E
Y/E 31st March					
Cash Flows from Operating Activities					
Profit Before Taxation	801	1,016	467	617	886
Adjustments for,					
Finance Cost	1	6	115	77	76
Finance Income	-10	-9	-14	-14	-14
Provision for Retirement Benefit Liability	9	12	0	0	0
(Profit) / Loss on Disposal of Property, Plant and Equipment	-5	2	0	0	0
Provision For Bad Debts	13	-8	0	0	0
Depreciation and Amortisation	107	110	95	279	308
Operating Profit Before Working Capital Changes	916	1,129	662	958	1,256
(Increase) / Decrease in Inventories	-105	-295	-584	447	-302
(Increase) / Decrease in Trade and Other Receivables	-179	-366	-46	215	-130
(Increase) / Decrease in Advances and Prepayments	-11	-88	0	0	0
Increase / (Decrease) in Trade and Other Payables	74	439	-41	182	206
Cash Generated from Operating Activities	696	818	-9	1,803	1,030
Finance Cost Paid	-1	-6	-115	-77	-76
Income Tax Paid	-198	-284	-146	-157	-214
Retirement Benefit Liability Paid	-2	-4	0	0	0
Net Cash From Operating Activities	494	524	-270	1,569	739
Cash Flows from Investing Activities					
Acquisition of Property, Plant and Equipment and intangible assets	-142	-644	-196	-217	-207
Proceeds from Sale of Property, Plant and Equipment	5	16	0	0	0
Finance Income Received	10	9	14	14	14
Net Cash Flows Used In Investing Activities	-127	-619	-181	-203	-192
Cash Flows from Financing Activities					
Repayment of Interest Bearing Loans and Borrowings	-14	-553	0	-100	-100
Proceeds from Interest Bearing Loans and Borrowings	0	1,093	0	0	0
Dividend Paid	-425	-434	-231	-297	-426
Net Cash Flows from / (Used in) Financing Activities	-440	106	-231	-397	-527
Net Increase in Cash and Cash Equivalents	-72	10	-681	968	20
Cash and Cash Equivalents at the Beginning of the Year	210	138	149	-533	435
Cash and Cash Equivalents at end of the Year	138	149	-533	435	456

Source: Company reports and First Capital Research

Annex IV – Key ratios

	Y/E 31st Mar	FY16	FY17E	FY18E	FY19E	FY20E
Growth	Revenue	21%	18%	-8%	19%	19%
	Cost of Sales	17%	16%	2%	17%	17%
	Gross Profit	31%	23%	-32%	24%	26%
	EBIT	33%	29%	-46%	20%	40%
	Net Profit	24%	28%	-53%	29%	44%
Margin	GP Margin	29%	31%	23%	24%	25%
	EBIT Margin	20%	22%	13%	13%	16%
	NP Margin	15%	16%	8%	9%	11%
Gearing	Debt/Equity	0%	24%	23%	18%	13%
	Debt/Debt+Equity	0%	19%	19%	15%	11%

Source: Company reports and First Capital Research



Research Disclosure

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