



ACCESS ENGINEERING PLC [AEL.N0000]

MAINTAIN BUY

“PAVING THE WAY FOR GROWTH”

Fair Value: FY22E - LKR 33.0 [+4%]

Total Return with DPS: FY22E - 7% [AER 27%]

FY23E - LKR 40.0 [+26%]

FY22E - 35% [AER 26%]

AEL's earnings surged by 21.7%YoY to LKR 643.6Mn during 2QFY22 supported by the major improvement in revenue by 41.6%YoY to LKR 9.1Bn with the resurgence in construction related activities which have been suppressed by the disruptions of Covid-19 pandemic. Upon the successful winning of the project to construct the East Container terminal of SLPA, AEL is expected to ramp up its profitability in FY23E and FY24E. Moreover, with the increase in road and buildings development activities, the demand for construction related material is expected to shoot up generating a sizable growth in the segmental profits. Considering the multiple positive avenues for AEL, we have increased our fair value target for FY22E and FY23E to LKR 33.0 (previous TP – LKR 32.0) and LKR 40.0, respectively. **MAINTAIN BUY**

	2QFY21	2QFY22	YoY	6MFY21	6MFY22	YoY
Earnings (LKR 'Mn)						
Revenue	6,420	9,090	+42%	10,065	16,150	+60%
Gross Profit	1,075	1,338	+25%	1,557	2,431	+56%
Operating Profit	757	918	+21%	984	1,687	+71%
PBT	611	754	+23%	605	1,368	+126%
Net Profit	529	644	+22%	605	1,172	+94%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	21,934	24,262	+11%	21,934	24,262	+11%
Borrowings	8,769	15,566	+78%	8,769	15,566	+78%
NAVPS	22	24	+11%	22	24	+11%

Earnings advanced by 21.7%YoY for the quarter

AEL earnings improved by 21.7%YoY to LKR 643.6Mn in 2QFY22 in contrast to LKR 528.9Mn recorded in the corresponding quarter of 2QFY21. The boost in profitability stemmed out of the surge in revenue by 41.6%YoY to LKR 9.1Bn driven by the progress across all revenue segments except for the Automobile segment which was inhibited by the prolonged import restrictions on vehicles. The Construction and Construction Related Material segments delivered impressive results for the quarter recording a growth of 8.4%YoY to LKR 349.6Mn and 35.1%YoY to LKR 285.6Mn, respectively, owing to the resurgence of construction related activities followed by large-scale infrastructure projects despite the quarantine curfew that prevailed for the most part of 2QFY22. However, GP margins displayed a dip of 202bps to 14.7% during 2QFY22 amidst the cost escalation for construction materials. AEL possesses a healthy order book of LKR 50.9Bn as of Jun 2021 and the latest addition with regard to the award of the East Container Terminal project is anticipated to provide an added booster for the profitability in the coming years. Therefore, considering the expected boom in the construction arena coupled with the hike in demand for construction related materials, we have restated our revenue targets for FY22E to LKR 31.3Bn (+12% from the previous target) and for FY23E to LKR 38.2Bn (+13% from the previous target). We have also restated our earnings targets for FY22E and FY23E to LKR 3.1Bn and LKR 4.4Bn, respectively.

ECT project to upscale the profits in FY23E and FY24E

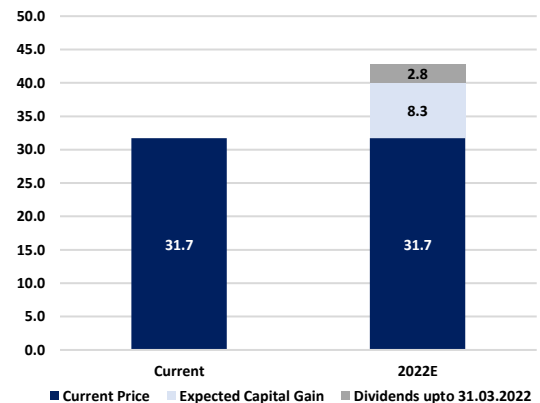
AEL has been awarded the project to construct the East Container Terminal (ECT) of the SLPA in joint partnership with AEL's technical partner, China Harbour Engineering, of which AEL holds 51.0% stake of the JV. This project carries a worth of LKR 43.0Bn and is expected to be completed within a time span of 36 months. The first phase of the project with 600m of berthing capacity is scheduled to be completed by 2023 and the balance 720m is to be completed by 2024. Therefore, we expect this project to generate high profit margins which are inherent to specialised marine projects and thereby improve the bottom-line in FY23E and FY24E.

Spotlight on the Construction Material segment

Construction Material segment contributed for 33.9% of the revenue while recording a growth of 106.5%YoY to LKR 1.6Bn during 2QFY22. The expansion in supply of asphalt concrete by AEL is expected to be further benefitted with the rapid unfold of road development projects undertaken by the Government such as 100,000km Alternative Road System, iRoad Project and etc.

FV is estimated at LKR 33.0 for FY22E and LKR 40.0 for FY23E - MAINTAIN BUY

With the anticipated positive future outlook of AEL inspired by the growth in the construction sector, we have increased AEL's fair value to LKR 33.0 for FY22E and LKR 40.0 for FY23E with a total return of 7% and 35%, respectively. However, the valuation for FY22E have been impacted by the payment of one-off super gain tax of 25% while no adjustment made in terms of the turnover tax of 2.5% (Social Security Levy), which can be passed on to the customers. **MAINTAIN BUY**



FIRST CAPITAL RESEARCH

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Price movement of AEL vs ASPI and past recommendations



Minimum Return for BUY:

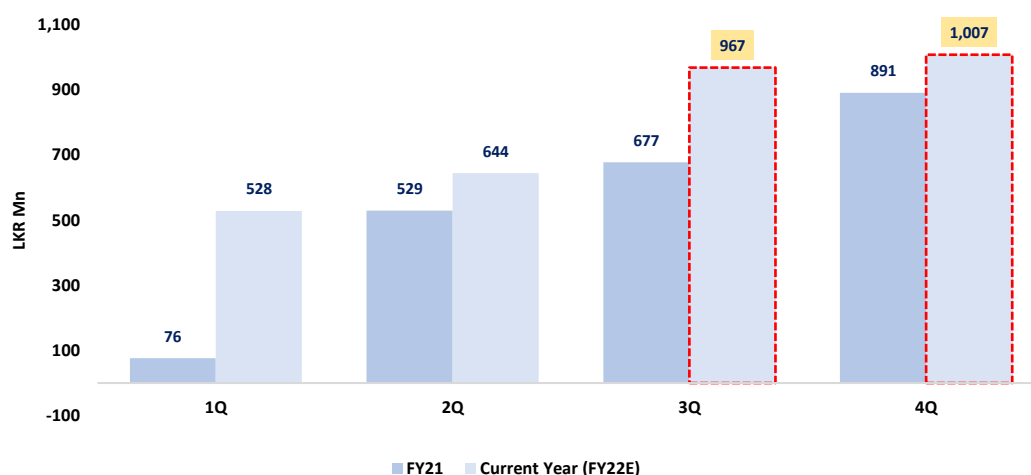
Buy Below FY22E - [AER of 17% with DPS]: LKR 32.5
AEL categorized as 'Grade B' counter

Disclosure on Shareholding:

First Capital Group or the covering analyst did not hold 1% or more of the total outstanding share capital of AEL during the five trading days prior to the issuance of this document.

Source: CSE

Quarterly Earnings



Estimate Revision

In LKR Mn	FY22E-O	FY22E-R	% Change	FY23E-O	FY23E-R	% Change
Earnings Estimate						
Revenue	28,013	31,345	+12%	33,866	38,192	+13%
Gross Profit	5,042	5,250	+4%	5,927	6,302	+6%
EBIT	3,683	3,891	+6%	4,431	4,517	+2%
Profit before Tax	3,065	3,772	+23%	3,764	5,315	+41%
Net Profit	2,610	3,146	+21%	3,205	4,434	+38%
Adjusted EPS	2.6	3.1		3.2	4.4	
Growth YoY	9%	32%		23%	41%	
Balance Sheet Estimate						
Shareholders' Equity	25,413	25,031	-2%	27,715	28,264	+2%
Borrowings	9,592	9,592	0%	9,736	9,736	0%
Adjusted NAVPS	25.4	25.0		27.7	28.3	
Ratio Estimate						
ROE (%)	10%	13%		12%	16%	
PER (x)	9.7	10.1		7.9	7.1	
PBV (x)	1.0	1.3		0.9	1.1	

Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Estimates (LKR 'Mn)							
Revenue	26,056	32,278	24,027	23,837	31,345	38,192	46,829
Gross profit	4,061	5,185	3,808	4,138	5,250	6,302	8,429
EBIT	4,623	3,780	2,333	2,979	3,891	4,517	6,586
Net Profit	2,507	2,150	979	2,386	3,146	4,434	6,889
Adjusted EPS (LKR)	2.5	2.2	1.0	2.4	3.1	4.4	6.9
YoY Growth (%)	-7%	-14%	-54%	144%	32%	41%	55%
Valuations							
PER (x)	12.6x	14.7x	32.4x	13.3x	10.1x	7.1x	4.6x
PBV (x)	1.6x	1.5x	1.5x	1.3x	1.3x	1.1x	1.0x
Dividend Yield (%)	3.8%	1.6%	1.6%	3.2%	4.0%	5.6%	8.7%
NAVPS	19.8	21.2	21.8	23.8	25.0	28.3	33.3
DPS (LKR)	1.2	0.5	0.5	1.0	1.3	1.8	2.8
Dividend Payout	48%	23%	51%	42%	40%	40%	40%



Valuation Summary

Expected AEL Price	FY22E	FY23E
PER Valuation based target price	31.5	44.3
DCF Valuation based target price	35.9	38.7
Average Target Price	33.7	41.5
Target Price after Rounding off	33.0	40.0

Return	FY22E	FY23E
Target Price	33.0	40.0
Current Price	31.7	31.7
Capital Gain (LKR)	1.3	8.3
Dividends upto 31 Mar (LKR)	1.0	2.8
Capital Gain %	4%	26%
Dividend Yield %	3%	9%
Total Return %	7%	35%
Annualized Return %	27%	26%

Discounted Cash flow Valuation

DCF based Valuation	FY22E	FY23E
Enterprise Value	40,322	42,346
Debt (-)	(9,592)	(9,736)
Cash (+)	5,217	6,113
Total Value of Equity	35,947	38,723
No. of Shares (Mn)	1,000	1,000
Target Price	35.9	38.7

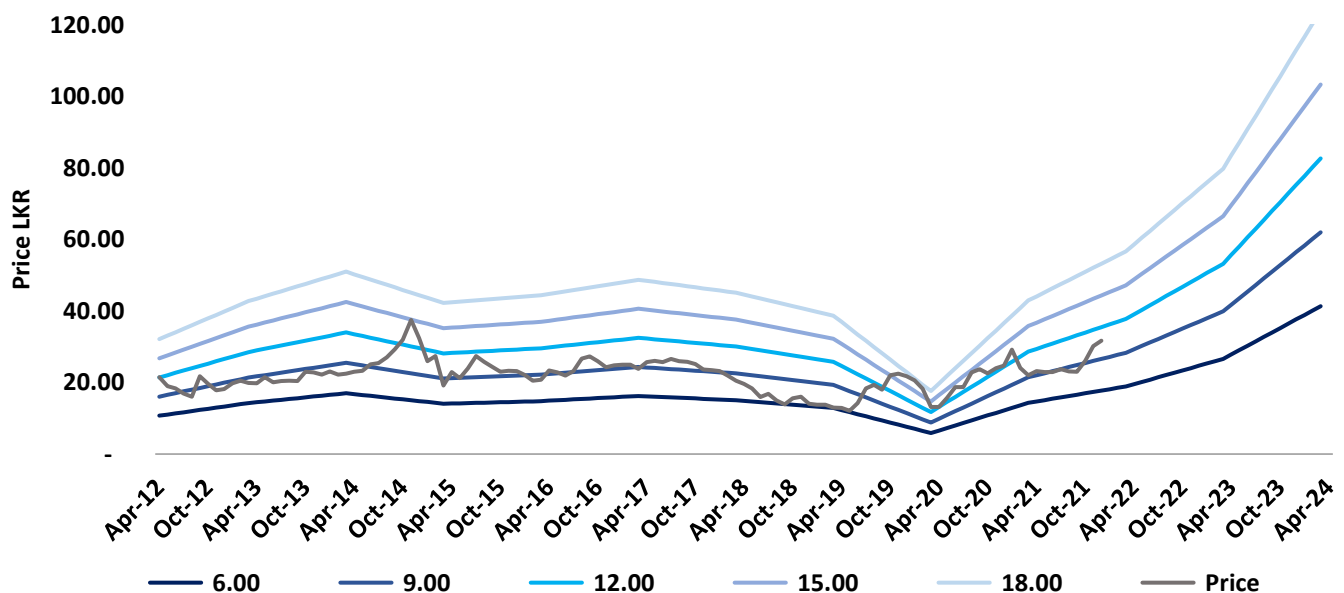
COE	FY22E	FY23E
Rf	9%	10%
Rm	17%	18%
Growth %	3%	3%
β	0.90	0.90
$Ke = Rf + \beta(Rm - Rf)$	16%	17%

WACC	FY22E	FY23E
Ke	16%	17%
Kd	8%	8%
D/E Assumption	40/60	40/60
Terminal Growth (%)	3%	3%
WACC	13%	14%

PER Valuation

PER based Valuation	FY22E	FY23E
Earnings (LKR 'Mn)	3,146	4,434
No. of Shares ('Mn)	1,000	1,000
EPS	3.1	4.4
Expected PER	10x	10x
Price at 10x Earnings	31.5	44.3

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR 'Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E 31 March							
Revenue	26,056	32,278	24,027	23,837	31,345	38,192	46,829
Cost of Sales	(21,994)	(27,093)	(20,219)	(19,699)	(26,094)	(31,890)	(38,400)
Gross Profit	4,061	5,185	3,808	4,138	5,250	6,302	8,429
Other Income	2,519	482	605	572	629	692	762
Total Income	6,580	5,666	4,412	4,711	5,880	6,994	9,191
Administrative Expenses	(1,893)	(1,852)	(2,038)	(1,679)	(1,931)	(2,413)	(2,534)
Other Expenses	(63)	(34)	(42)	(53)	(58)	(64)	(71)
Profit Before Finance Cost	4,623	3,780	2,333	2,979	3,891	4,517	6,586
Net Finance Income	(383)	(651)	(577)	(573)	(618)	(668)	(721)
	4,241	3,129	1,756	2,406	3,272	3,849	5,865
Profit from Jointly Controlled Operations	-	-	-	-	498	1,466	2,392
Share of Result of Associate, Net of Tax	(10)	(0)	(9)	1	1	1	1
Profit Before Tax	4,231	3,129	1,747	2,407	3,772	5,315	8,258
Income Tax Expense	(1,768)	(883)	(820)	(14)	(528)	(744)	(1,156)
Profit for the Year	2,463	2,150	979	2,386	3,146	4,434	6,889
Non-Controlling Interest	(45)	96	(52)	8	97	137	213
Profit Attributable to Equity Holders	2,507	2,150	979	2,386	3,146	4,434	6,889
EPS	2.5	2.2	1.0	2.4	3.1	4.4	6.9

Appendix II: Statement of Financial Position

Balance Sheet (LKR 'Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
P/E 31 March							
Assets							
Non-Current Assets							
Property, Plant and Equipment	5,980	5,198	4,937	5,708	5,042	4,342	3,608
Right-of-Use Assets			259	229	199	169	139
Investment Properties	10,714	10,729	10,331	10,573	10,573	10,573	10,573
Investment Properties WIP	403	493	1,897	6,605	6,605	6,605	6,605
Intangible Assets	1,400	1,405	1,248	1,235	1,223	1,211	1,205
Equity-Accounted Investees	1,192	898	889	1,290	1,290	1,290	1,290
Deferred Tax Assets	-	-	33.9	48.0	48	48	48
Non-Current Financial Assets	1,482	1,420	110	-	-	-	-
Total Non-Current Assets	21,171	20,144	19,705	25,688	24,980	24,238	23,468
Current Assets							
Inventories	6,086	6,579	8,297	8,714	9,133	9,567	9,600
Trade and Other Receivables	11,249	13,738	14,064	14,185	15,672	17,186	18,732
Amount Due from Related	200	127	239	19	19	19	19
Current Tax Asset	66	55	95	72	72	72	72
Other Current Financial Assets	2,195	2,698	4,173	3,120	3,134	3,819	4,683
Short Term Investments	36	26	71	258	258	258	258
Short Term Deposits	2,041	2,210	1,269	1,780	2,000	2,000	2,000
Cash and Cash Equivalents	1,394	2,486	2,164	2,223	3,217	4,113	7,615
Total Current Assets	23,268	27,918	30,373	30,372	33,505	37,033	42,978
Total Assets	44,438	48,061	50,078	56,059	58,485	61,272	66,446
Equity and Liabilities							
Equity							
Stated Capital	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Revaluation Reserve	405	259	469	580	580	580	580
Retained Earnings	10,388	11,936	12,365	14,245	15,451	18,683	23,751
Equity Attributable to Owners	19,793	21,195	21,834	23,825	25,031	28,264	33,331
Non-Controlling Interest	2,300	2,393	2,553	2,689	2,787	2,924	3,137
Total Equity	22,092	23,588	24,387	26,515	27,818	31,187	36,468
Non-Current Liabilities							
Government Grants	6	6	5	5	5	5	5
Lease Liabilities	-	-	137.4	115.7	118	115	114
Interest-Bearing Borrowings	5,138	5,098	56	6,167	6,167	6,167	6,167
Employee Benefits	239	263	360	426	426	426	426
Deferred Taxation	2,145	2,166	2,394	1,981	1,981	1,981	1,981
Total Non-Current Liabilities	7,528	7,533	2,953	8,695	8,697	8,694	8,693
Current Liabilities							
Trade and Other Payables	10,117	12,491	11,013	17,307	18,266	17,540	17,280
Amount Due to Related Parties	69	24	35	29	35	35	35
Lease Liabilities	-	-	10.5	28.2	21	20	20
Interest-Bearing Borrowings	3,948	3,637	10,911	2,796	2,936	3,083	3,237
Current Tax Liabilities	88	424	222	329	329	329	329
Dividend Payable	32	34	31	33	33	33	33
Bank Overdraft	565	330	516	327	350	350	350
Total Current Liabilities	14,818	16,941	22,738	20,850	21,970	21,390	21,284
Total Equity and Liabilities	44,438	48,061	50,078	56,059	58,485	61,272	66,446
NAVPS	19.8	21.2	21.8	23.8	25.0	28.3	33.3



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