



First Capital

EQUITY | SRI LANKA | CAPITAL GOODS

EARNINGS UPDATE | 03 JUNE 2022

ACCESS ENGINEERING PLC [AEL.N0000]

MAINTAIN BUY

“SHINING STAR ON A CLOUDY NIGHT”

Fair Value: FY23E - LKR 21.0 [+79%]

Total Return with DPS: FY23E - 87% [AER 110%]

FY24E - LKR 23.0 [+97%]

FY24E - 115% [AER 51%]

AEL net earnings surged by 76.6%YoY to LKR 1,947.2Mn in 4QFY22, which was predominantly driven by the increased profit contribution from JV, with recognition of sales from near completed Capital Heights residential project. Given the negative operating climate in the country, amidst the suspension of govt. backed construction projects (LKR 40.0Bn of projects) and rising raw material prices, we expect a contraction of profits for FY23 and FY24. However, with 60% of the order book intact, together with uninterrupted funding for necessities like water projects (AEL margins between 25.0-30.0%), profit realization from sale of remaining 24 units at Capital Heights and recommencement of donor funded projects, we expect AEL to have a faster recovery compared to its peers. Meanwhile, due to the significant rise in risk free rate (from 12.0% to 15.0%), increased gearing (debt to equity stood at 85.9% in FY22 cf. 39.6% in FY21) and negative operating climate, we have lowered our fair value target for FY23E and FY24E to LKR 21.0 (previous TP – LKR 40.0) and LKR 23.0, respectively. **MAINTAIN BUY**

LKR (Mn)	4QFY21	4QFY22	YoY	FY21	FY22	YoY
Earnings (LKR 'Mn)						
Revenue	7,674	12,133	+58%	23,837	39,621	+66%
Gross Profit	1,342	1,103	-18%	4,138	5,323	+29%
Operating Profit	1,152	1,408	+22%	2,979	4,297	+44%
PBT	1,017	2,105	+107%	2,407	4,702	+95%
Net Profit	1,103	1,947	+77%	2,386	4,206	+76%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	23,825	27,276	+14%	23,825	27,276	+14%
Borrowings	9,434	23,430	+148%	9,434	23,430	+148%
NAVPS	24	27	+14%	24	27	+14%

Earnings advanced by 76.6%YoY for the quarter

AEL's net income improved by 76.6%YoY to LKR 1,947.2Mn during 4QFY22. The growth in profitability during the period was largely attributable to the increased profit contribution from JV, which reported a profit of LKR 1,474.2Mn cf. LKR 3.8Mn in 4QFY21. Blue Star Realities, JV with an ownership of 60%, reported a profit of LKR 1,450.2Mn cf. a loss of LKR 7.9Mn in 4QFY21 with the recognition of sales from 220 units from a total of 424 units as of 31st March 2022. On segmental performance, construction segment (contributed 50.6% to group turnover) profitability was down 92.9%YoY to LKR 79.2Mn as ballooning net finance cost (LKR 588.9Mn cf. LKR 0.4Mn in 4QFY21) took a toll on the bottom-line. Meanwhile, Construction related material segment reported a profit of LKR 506.5Mn cf. a loss of LKR 18.2Mn as a result of improved revenue (+98.1%YoY) and EBIT margin (13.9% cf. 6.2% in 4QFY21). Further, Property segment also recorded a strong performance for the quarter, up by 64.2%YoY to LKR 515.6Mn. The growth in the property segment was largely owing to the upward revision of rental fees and marginal improvement in occupancies at Access Towers I & II.

AEL partly affected by the suspension of construction activities

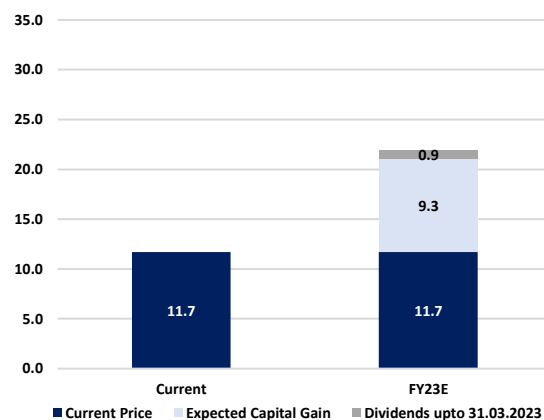
With the prevailing uncertainty in the country against the backdrop of escalating inflation, majority of the construction activity in the country is either halted or running at minimum capacity. As of 4QFY22, AEL had an order book of +LKR 100.0Bn which comprised of LKR 15.0Bn worth of donor funded projects. As per the management, AEL is also undergoing a tough period during challenging times and LKR 40.0Bn worth of projects have been temporarily suspended. However, despite the halt of government funded road development projects, government have indicated that they will continue to invest in water projects in order to increase access to piped water which is currently hovering around c.36.0%. Further, as per our conversation with the management, AEL enjoys margins as high as 25.0%-30.0% in water and wastewater management projects. Hence, we expect AEL to bounce back faster compared to its peers despite the prevailing situation surrounding the industry.

Earnings revised down

Given the prevailing operating environment in the country coupled with rising prices of construction related material, we expect a performance to slowdown during the 1H FY23. Further, the suspension of new construction projects and with no new projects awarded as of 4QFY22, is also expected to contribute towards the dip in earnings. However, 1. Recommencement of donor funded projects, 2. Improved contribution from JV (having already incurred and finished 90.0% construction whilst recognition of remaining apartment sales units) 3. Assumption that AEL will be awarded the majority of piped water projects, are expected to partially offset the impact on revenue. Hence, we revised down our earnings forecast by 30.2% to LKR 3.7Bn for FY23 and 43.9% to LKR 4.1Bn.

FV is estimated at LKR 21.0 for FY23E and LKR 23.0 for FY24E - MAINTAIN BUY

Despite the negative near term outlook for the sector as well as AEL, together with drastic pull back on CSE (down 34.0% YTD) as well as the AEL share (down 63.1% YTD) and increase in risk free rate to 15% from 12%, we have decreased AEL's fair value to LKR 21.0 for FY23E and LKR 23.0 for FY24E with a total return of 66.0% and 90.0%, respectively. **MAINTAIN BUY**



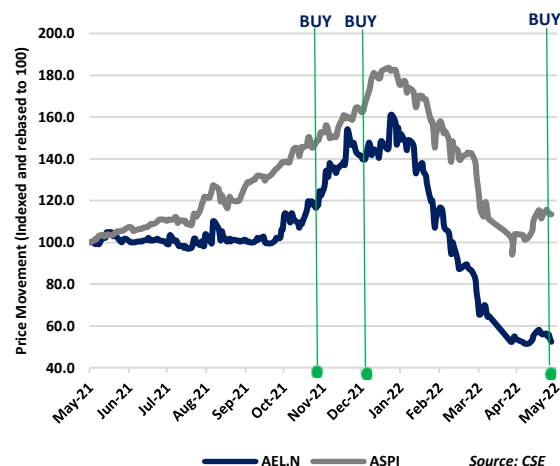
FIRST CAPITAL RESEARCH

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Price movement of AEL vs ASPI (Indexed and rebased to 100)



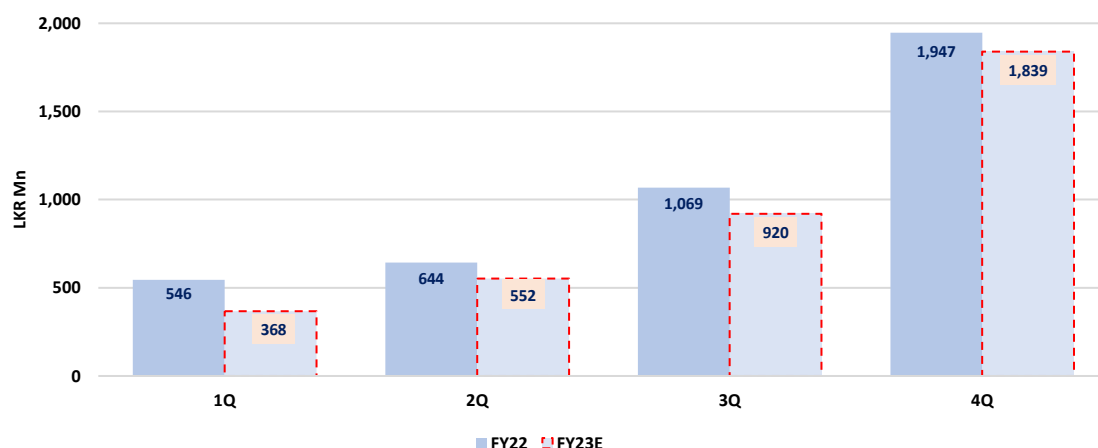
Minimum Return for BUY:

Buy Below FY23E - [AER of 23% with DPS]: LKR 18.5
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.

Quarterly Earnings



Estimate Revision

In LKR Mn	FY23E-O	FY23E-R	% Change	FY24E-O	FY24E-R	% Change
Earnings Estimate						
Revenue	49,994	37,978	-24%	60,650	38,884	-36%
Gross Profit	7,499	5,811	-23%	9,097	6,027	-34%
EBIT	5,158	4,807	-7%	6,653	5,068	-24%
Profit before Tax	6,316	4,410	-30%	8,713	4,888	-44%
Net Profit	5,268	3,679	-30%	7,268	4,078	-44%
Adjusted EPS	5.3	3.7		7.3	4.1	
Growth YoY	50%	-13%		38%	11%	
Balance Sheet Estimate						
Shareholders' Equity	29,094	29,647	+2%	27,715	32,883	+19%
Borrowings	9,736	21,407	+120%	9,736	56,895	+484%
Adjusted NAVPS	29.1	29.6		27.7	32.9	
Ratio Estimate						
ROE (%)	18%	12%		26%	12%	
PER (x)	4.2	3.2		7.9	2.9	
PBV (x)	0.8	0.4		0.9	0.4	

Valuation Table

P/E 31 March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Estimates (LKR 'Mn)								
Revenue	26,056	32,278	24,027	23,837	39,621	37,978	38,884	41,013
Gross profit	4,061	5,185	3,808	4,138	5,323	5,811	6,027	6,767
EBIT	4,623	3,780	2,333	2,979	4,297	4,807	5,068	5,800
Net Profit	2,507	2,150	979	2,386	4,206	3,679	4,078	4,907
Adjusted EPS (LKR)	2.5	2.2	1.0	2.4	4.2	3.7	4.1	4.9
YoY Growth (%)	-7%	-14%	-54%	144%	76%	-13%	11%	20%
Valuations								
PER (x)	4.7x	5.4x	11.9x	4.9x	2.8x	3.2x	2.9x	2.4x
PBV (x)	0.6x	0.6x	0.5x	0.5x	0.4x	0.4x	0.4x	0.3x
Dividend Yield (%)	10.3%	4.3%	4.3%	8.5%	8.5%	7.9%	10.5%	16.8%
NAVPS	19.8	21.2	21.8	23.8	27.3	29.6	32.9	36.5
DPS (LKR)	1.2	0.5	0.5	1.0	1.0	0.9	1.2	2.0
Dividend Payout	48%	23%	51%	42%	24%	25%	30%	40%

Valuation Summary

Expected AEL Price	FY23E	FY24E
PER Valuation based target price	22.1	24.5
DCF Valuation based target price	20.8	22.7
Average Target Price	21.4	23.6
Target Price after Rounding off	21.0	23.0

Return	FY23E	FY24E
Target Price	21.0	23.0
Current Price	11.7	11.7
Capital Gain (LKR)	9.3	11.3
Dividends upto 31 Mar (LKR)	0.9	2.1
Capital Gain %	79%	97%
Dividend Yield %	8%	18%
Total Return %	87%	115%
Annualized Return %	110%	51%

Discounted Cash flow Valuation

DCF based Valuation	FY23E	FY24E
Enterprise Value	34,109	34,543
Debt (-)	(20,407)	(18,190)
Cash (+)	7,065	6,394
Total Value of Equity	20,766	22,747
No. of Shares (Mn)	1,000	1,000
Target Price	20.8	22.7

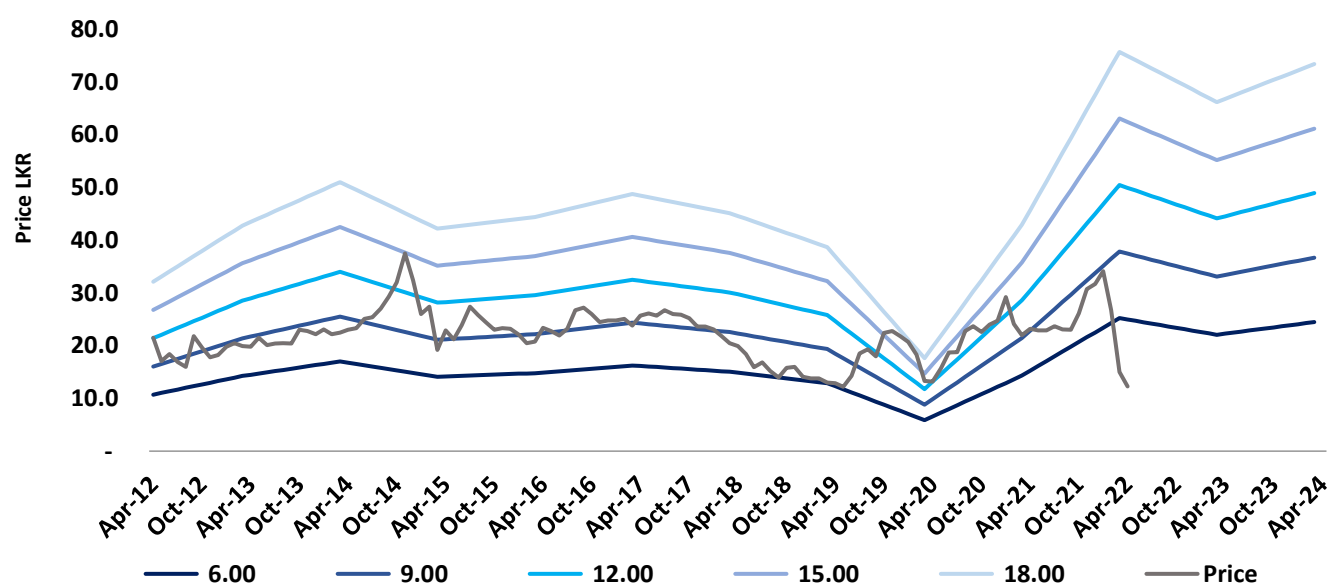
COE	FY23E	FY24E
Rf	15%	15%
Rm	23%	23%
Growth %	3%	3%
β	0.80	0.80
$Ke = Rf + \beta(Rm - Rf)$	21%	21%

PER Valuation

PER based Valuation	FY23E	FY24E
Earnings (LKR 'Mn)	3,679	4,078
No. of Shares ('Mn)	1,000	1,000
EPS	3.7	4.1
Expected PER	6x	6x
Price at 6x Earnings	22.1	24.5

WACC	FY23E	FY24E
Ke	21%	21%
Kd	17%	16%
D/E Assumption	45/55	45/55
Terminal Growth (%)	3%	3%
WACC	20%	19%

PER Chart



Appendix I: Statement of Income and Expenses

Income Statement (LKR 'Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
P/E 31 March								
Revenue	26,056	32,278	24,027	23,837	39,621	37,978	38,884	41,013
Cost of Sales	(21,994)	(27,093)	(20,219)	(19,699)	(34,298)	(32,167)	(32,857)	(34,246)
Gross Profit	4,061	5,185	3,808	4,138	5,323	5,811	6,027	6,767
Other Income	2,519	482	605	572	1,111	944	1,038	1,142
Total Income	6,580	5,666	4,412	4,711	6,433	6,755	7,065	7,909
Administrative Expenses	(1,893)	(1,852)	(2,038)	(1,679)	(2,092)	(1,899)	(1,944)	(2,051)
Other Expenses	(63)	(34)	(42)	(53)	(44)	(49)	(54)	(59)
Profit Before Finance Cost	4,623	3,780	2,333	2,979	4,297	4,807	5,068	5,800
Net Finance Income	(383)	(651)	(577)	(573)	(1,033)	(1,548)	(1,387)	(1,186)
	4,241	3,129	1,756	2,406	3,264	3,259	3,680	4,614
Profit from Jointly Controlled Operations	-	-	-	-	-	-	-	-
Share of Result of Associate, Net of Tax	(10)	(0)	(9)	1	1,438	1,150	1,208	1,268
Profit Before Tax	4,231	3,129	1,747	2,407	4,702	4,410	4,888	5,882
Income Tax Expense	(1,768)	(883)	(820)	(14)	(452)	(617)	(684)	(824)
Profit for the Year	2,463	2,150	979	2,386	4,206	3,679	4,078	4,907
Non-Controlling Interest	(45)	96	(52)	8	45	114	126	152
Profit Attributable to Equity Holders	2,507	2,150	979	2,386	4,206	3,679	4,078	4,907
EPS	2.5	2.2	1.0	2.4	4.2	3.7	4.1	4.9

Appendix II: Statement of Financial Position

Balance Sheet (LKR 'Mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
P/E 31 March								
Assets								
Non-Current Assets								
Property, Plant and Equipment	5,980	5,198	4,937	5,708	7,480	7,280	7,066	6,837
Right-of-Use Assets			259	229	2,714	2,630	2,546	2,461
Investment Properties	10,714	10,729	10,331	10,573	11,109	11,109	11,109	11,109
Investment Properties WIP	403	493	1,897	6,605	7,621	7,621	7,621	7,621
Intangible Assets	1,400	1,405	1,248	1,235	1,258	1,246	1,240	1,234
Equity-Accounted Investees	1,192	898	889	1,290	2,248	2,248	2,248	2,248
Deferred Tax Assets	-	-	33.9	48.0	38.7	39	39	39
Non-Current Financial Assets	1,482	1,420	110	-	-	-	-	-
Total Non-Current Assets	21,171	20,144	19,705	25,688	32,470	32,173	31,869	31,549
Current Assets								
Inventories	6,086	6,579	8,297	8,714	14,624	12,224	11,500	9,589
Trade and Other Receivables	11,249	13,738	14,064	14,185	27,427	20,888	23,330	20,507
Amount Due from Related	200	127	239	19	45	45	45	45
Current Tax Asset	66	55	95	72	54	54	54	54
Other Current Financial Assets	2,195	2,698	4,173	3,120	3,612	3,038	3,888	4,101
Short Term Investments	36	26	71	258	537	537	537	537
Short Term Deposits	2,041	2,210	1,269	1,780	2,136	2,136	2,136	2,136
Cash and Cash Equivalents	1,394	2,486	2,164	2,223	2,210	4,929	4,258	13,060
Total Current Assets	23,268	27,918	30,373	30,372	50,645	43,850	45,748	50,029
Total Assets	44,438	48,061	50,078	56,059	83,115	76,023	77,617	81,578
Equity and Liabilities								
Equity								
Stated Capital	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Revaluation Reserve	405	259	469	580	578	578	578	578
Retained Earnings	10,388	11,936	12,365	14,245	17,698	20,069	23,305	26,925
Equity Attributable to Owners	19,793	21,195	21,834	23,825	27,276	29,647	32,883	36,502
Non-Controlling Interest	2,300	2,393	2,553	2,689	2,486	2,600	2,726	2,878
Total Equity	22,092	23,588	24,387	26,515	29,762	32,247	35,609	39,380
Non-Current Liabilities								
Government Grants	6	6	5	5	5	5	5	5
Lease Liabilities	-	-	137.4	115.7	194.9	194	179	168
Interest-Bearing Borrowings	5,138	5,098	56	6,167	18,806	16,806	14,806	14,306
Employee Benefits	239	263	360	426	337	337	337	337
Deferred Taxation	2,145	2,166	2,394	1,981	1,917	1,917	1,917	1,917
Total Non-Current Liabilities	7,528	7,533	2,953	8,695	21,260	19,258	17,244	16,733
Current Liabilities								
Trade and Other Payables	10,117	12,491	11,013	17,307	27,462	20,909	21,357	22,260
Amount Due to Related Parties	69	24	35	29	24	24	24	24
Lease Liabilities	-	-	10.5	28.2	55.3	34	32	30
Interest-Bearing Borrowings	3,948	3,637	10,911	2,796	4,241	3,241	3,041	2,841
Current Tax Liabilities	88	424	222	329	142	142	142	142
Dividend Payable	32	34	31	33	36	36	36	36
Bank Overdraft	565	330	516	327	132	132	132	132
Total Current Liabilities	14,818	16,941	22,738	20,850	32,093	24,518	24,764	25,465
Total Equity and Liabilities	44,438	48,061	50,078	56,059	83,115	76,023	77,617	81,578
NAVPS	19.8	21.2	21.8	23.8	27.3	29.6	32.9	36.5



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