



ACL CABLES PLC [ACL.N0000]

TRADING BUY

Company Profile

ACL is a specialized manufacturer and supplier of an extensive range of cables, producing over 250 cables across 20 categories. It further caters to electric needs in the form of electrical switches, sockets, breakers, ceiling fans and accessories. ACL is a key player in the field of construction and manufacturing of building material while CEB is the company's single largest customer. ACL along with its subsidiary KCAB dominates local cable industry with a market share of 70%, allowing ACL to act as a price maker. The company also caters to the global market where export segment contributed 19.2% to overall revenue.

Earnings Update

ACL displayed robust improvement in earnings for 1QFY23, recording LKR 2,821.7Mn compared to LKR 323.3Mn during the same quarter last year (+772.9%YoY). This was majorly driven by the growth in revenue by 43.4%YoY to LKR 9.7Bn as a result of upward price revisions in ACL products resisting any negative impact on margins as a strategic response to the Sri Lankan economic crisis. Meanwhile, cost of sales remained broadly unchanged resulting in a massive leap in the GP margin by 2,453bps to 40.9% (cf. 16.3% in 1QFY22). With the broadening global market of ACL, export revenue contribution to the overall revenue increased to 26.5% in 1QFY23 (cf. 22.3% in 1QFY22).

Future Outlook

ACL margins have been on a continuous uptrend surging to c.41% from c.16% a year ago (1QFY21) amidst the ability to raise prices with the global trend of rising commodity prices. However, ACL maintains a large stock of metal (copper & aluminium) bought at significantly lower prices while the inventory is sufficient to cater for a further 3-4 months. The stronger margins may temporarily offset the negative impact of higher taxes applicable from Oct-22 onwards. In addition, ACL hopes to concentrate on high margin products while the company is positive on being safe from margin hits, as it already has inventory required for 3-4 months periods, helping ACL to mitigate pressures of importing raw materials. We believe that margins are likely to gradually normalize towards FY24E with possible price reductions in ACL products to maintain at MRP with declining global commodity prices which will also partly offset impacts to the margin. Moreover, ACL expects to resume the contracts with CEB while the new CEB tariff structure is an added benefit to improve liquidity and make payments to supplier of services such as ACL. Much-talked renewable energy sector expansions too plays an important role in the future growth prospect of ACL as it is the most sought after brand for cable requirements in solar power plants owing to the quality standards that has been met by ACL.

Export segment currently accounts to nearly 15%-20% of the total revenue of ACL. However, the company intends to expand its global footprint and has so far performed well in the overseas market as a reliable and quality cable provider despite slightly high pricing. ACL serves to customers across Australia, New Zealand, East Africa, Maldives, Bangladesh, Sweden and the UK. In terms of expansions, ACL acquired the machinery of Kamal Cables last year and the improved capacities are expected to reflect in this financial year while the group's consolidated capacity is ready to cater to both local market as well as export side in the short term. With regards to overseas expansions, ACL has begun setting up operations in India with potential customers already on the card.

Valuations

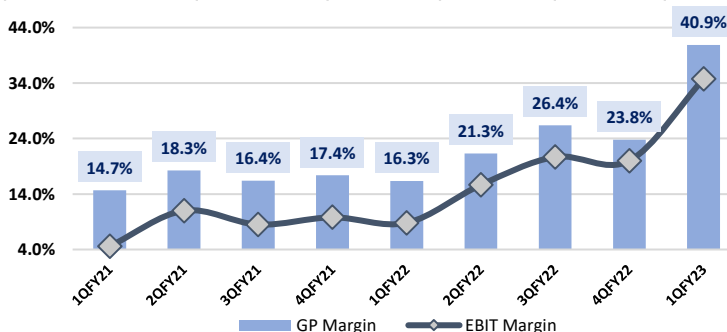
With ACL's ability to maintain high GP margins over the next few quarters, concentration of high margins products and growth in exports, ACL provides a positive outlook and currently trading at a TTM PER of 4.0x and a PBV of 1.6x. ACL dividend payout ratio reduced significantly amidst the delay in CEB payments. We expect the CEB payments to improve, allowing a stronger dividend payout capability for ACL. ACL dividend yield stands at 1% which is expected to improve amidst a 30%-40% payout during FY23E & FY24E. **TRADING BUY**

P/E 31 March	FY18	FY19	FY20	FY21	FY22
LKR 'Mn					
Revenue	16,252	18,183	18,682	22,619	35,329
Gross profit	2,631	2,765	3,323	3,840	7,932
EBIT	1,402	1,394	1,801	2,312	5,846
Net Profit	697	560	891	1,551	4,305
Basic EPS (LKR)	2.9	2.3	3.7	6.5	18.0
YoY Growth (%)	-38%	-20%	59%	74%	178%
Valuations					
PER (x)	40.0	49.9	31.3	18.0	6.5
PBV (x)	1.35	1.3	1.2	2.1	1.6
Dividend Yield (%)	1%	1%	1%	1%	1%
NAVPS	86.2	88.0	93.8	55.7	72.7
DPS (LKR)	1.50	1.50	1.50	0.75	1.00
Dividend Payout	52%	64%	40%	12%	6%

LKR (Mn)	1QFY23	1QFY22	YoY	FY22	FY21	YoY
Revenue	9,654	6,730	+43%	35,329	22,619	+56%
Gross profit	3,945	1,099	+259%	7,932	3,840	+107%
EBIT	3,356	592	+466%	5,846	2,312	+153%
PBT	3,970	482	+724%	6,237	1,942	+221%
Net Profit	2,822	323	+773%	4,305	1,551	+178%

Quarterly	Sep-21	Dec-21	Mar-22	Jun-22	QoQ
Earnings (LKR 'Mn)					
Revenue	9,097	9,371	11,073	9,654	-13%
Gross profit	1,941	2,475	2,632	3,945	+50%
EBIT	1,424	1,938	2,215	3,356	+51%
Net Profit	831	1,317	1,969	2,822	+43%

GP margin and EBIT margin of ACL for 1QFY21-1QFY23



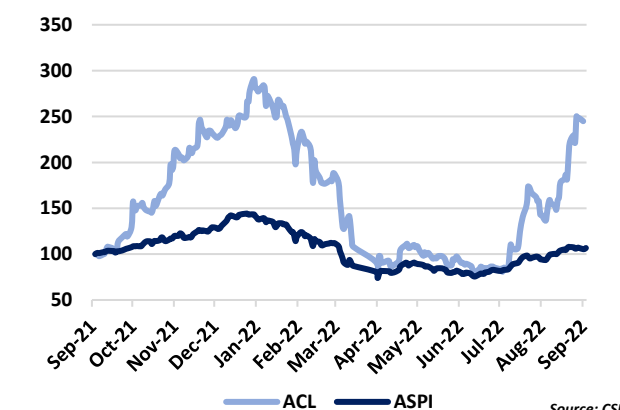
KEY DATA

CSE Ticker	ACL.N0000
Bloomberg Ticker	ACL SL
Share Price (LKR)	116.5
52w High (LKR)	128.0
52w Low (LKR)	33.0
Issued Share Capital (Shares 'Mn)	240
Market Cap (LKR 'Mn)	27,910
Market Cap (USD 'Mn)	78

*1 USD = LKR 360

Price Performance	1 mth	3 mth	12 mth
ACL	94%	195%	165%
ASPI	14%	35%	7%

Price Movement of ACL vs ASPI (Indexed and rebased to 100)



Top 5 Shareholders (30th June 2022)

Mr. U. G. Madanayake	38.15%
Mr. Suren Madanayake	22.21%
Employees Provident Fund	4.93%
Sri Lanka Insurance Corporation LTD-Life Fund	1.99%
Mrs. N.C. Madanayake	1.72%



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