

ACL CABLES PLC [ACL.N0000]

MAINTAIN BUY

BROAD VISION. CAREFUL THOUGHT. BUILD RIGHT.

Fair Value: FY19E - LKR 53.0 [+33%]

Total Return with DPS 39% [AER 56%]

ACL earnings attributable to equity holders improved by +106%QoQ to LKR 239Mn on the back of improved revenue by +62% primarily driven by topline growth. With earnings falling marginally below expectation amidst the slow progress in some of the key construction projects, we expect FY19E revenue growth to reach +12%YoY and earnings growth at +22%. First Capital Research downgrades ACL to a fair value of LKR 53.0 from LKR 60.0 but continue to maintain a BUY with continued healthy earnings growth rates. **Maintain BUY**

LKR (Mn)	4QFY17	4QFY18	YoY	FY17	FY18	YoY
Earnings (LKR 'Mn)						
Revenue	3,002	4,860	+62%	14,670	16,529	+13%
Gross Profit	583	767	+32%	3,243	2,679	-17%
EBIT	281	465	+66%	2,009	1,425	-29%
PBT	237	338	+43%	1,765	1,045	-41%
Net Profit : Equity holders	116	239	+106%	1,118	696	-38%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	9,331	10,534	+13%	9,331	10,534	+13%
Borrowings	208	350	+68%	208	350	+68%
NAVPS	77.9	87.9		77.9	87.9	

Global copper price hike adversely affect FY18 earnings

ACL recorded a net profit of LKR 239.4Mn for 4QFY18 with revenue up by 62%. Revenue for FY18 grew by 13%YoY, 4QFY18 derived 29% of the total revenue on the back of volume growth via institutional sales. With delays likely to result in key construction projects leading to slower revenue recognition, we revised our revenue target thereby downgrade earnings for FY19E to LKR 852.1Mn (previously LKR 1,301.2Mn) and FY20E at LKR 872.8Mn (previously LKR 1,498.3Mn). Strong revenue growth was partially off-set by the spike in copper prices by 27% for FY18 which dipped GP margin to 16% from 19%. We expect revenue and earnings target for FY19E at LKR 18.6Bn (+12%YoY) and LKR 852Mn (+22%YoY) respectively.

Revenue to grow at a CAGR of 12% between FY18-FY23E

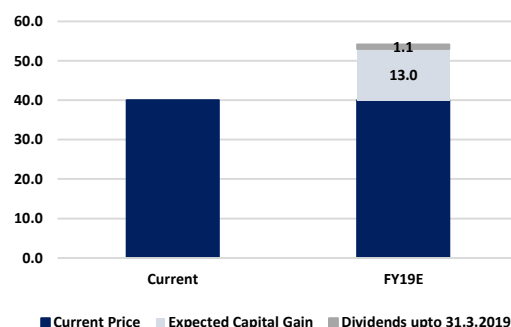
ACL revenue was up 62%YoY in 4QFY18, driven by double digit growth in overall volumes strongly linked to institutional sales which comprises 30%-40% of its revenue. ACL has a portfolio of projects such as Shangri-La phase 2, Grand Hyatt, Waterfront project & Altair where cable work is yet to be completed. The revenue from CEB which accounts for 25%-30% is estimated to grow due to the expected distribution line upgrade hence overall revenue is expected to grow at a CAGR of 12% for the period FY18-FY23E. We expect revenue target for FY19E at 18.6Bn (12%YoY) and FY20E at LKR 21.9Bn (18%YoY) attributing to delays in project completion. With the crash in global copper prices, price revisions will need to be done on the products while the general slowdown in the construction sector by 4.9% during the first 3 months of 2018 due to drought facing the investments will have an effect on ACL's future top line growth.

Favorable earnings due to short term copper price falls

Goldman Sachs forecasts copper price to hit USD 8,000/MT in 2018. The average copper price for period Apr 2017 – Mar 2018 were USD 6,400/MT which is -7% drop from our forecast of USD 6,900/MT for FY18. First Capital Research expects USD 7,176/MT for FY19E. ACL, the market leader in cables with its subsidiary KCAB holds 70% of market share hence they can pass on any increase in Copper price to the consumer primarily on the new contracts accepted. Currently copper prices have fallen to USD 6,282/MT from USD 7,332/MT recording a 14% drop for the last month.

We maintain BUY on ACL on the back of volume growth

Earnings attributable for equity holders for FY19E are expected at LKR 852Mn as we expect earnings growth at 22% for FY19E and thereby maintain TP at LKR 53.0. **MAINTAIN BUY**



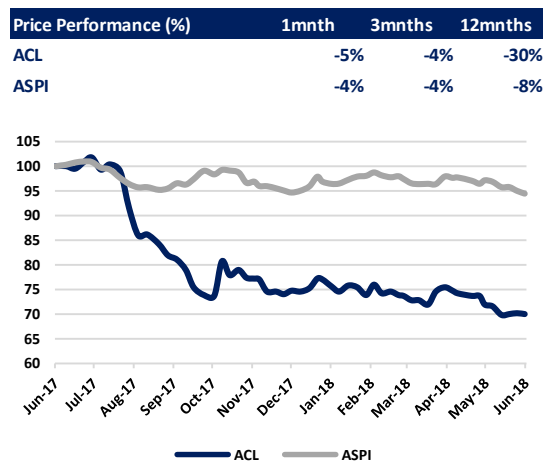
FIRST CAPITAL RESEARCH

Nisansala Kuruppumudali +94 11 263 9866
nisansalat@firstcapital.lk

KEY DATA

CSE Ticker	ACL.N0000
Bloomberg Ticker	ACL SL
Share Price (LKR)	40.0
52w High (LKR)	58.5
52w Low (LKR)	38.4
Avg. Daily Volume (Shares)	50,416
Avg. Daily Turnover (LKR)	2,317,610
Issued Share Capital (Shares 'Mn)	119.8
Market Cap (LKR 'Mn)	4,791
Market Cap (USD 'Mn)	30

*1 USD = LKR 159



Minimum Return for BUY:

Buy Below [AER of 17% with DPS]: LKR 48.0

ACL categorized as 'Grade B' counter (Refer page 09 for Recommendation criteria of Grade A, B & C Stocks)

Disclosure on Shareholding:

First Capital Group do not hold shares in ACL and will not trade in this share for three trading days following the issue of this document.

Estimate Revision

In LKR Mn	FY19E-O	FY19E-R	% Change	FY20E - O	FY20E - R	% Change
Earnings Estimate						
Revenue	26,472	18,572	-30%	30,051	21,889	-27%
Gross Profit	4,544	3,200	-30%	5,275	3,596	-32%
EBIT	2,572	1,755	-32%	3,056	1,895	-38%
Profit before Tax	2,055	1,242	-40%	2,366	1,272	-46%
Net Profit : Equity Holders	1,301	852	-35%	1,498	873	-42%
Adjusted EPS	10.9	7.1		12.5	7.3	
Growth YoY	71%	22%		15%	2%	
Balance Sheet Estimate						
Shareholders' Equity	11,083	11,258	+2%	12,356	12,000	-3%
Borrowings	408	350	-14%	1,208	550	-54%
Adjusted NAVPS	92.5	94.0		103.2	100.2	
ROE (%)	11.7%	7.6%		12.1%	7.3%	
PER (x)	3.8	5.6		3.3	5.5	
PBV (x)	0.4	0.4		0.4	0.4	

Valuation Table

P/E 31 March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Estimates (LKR 'Mn)							
Revenue	14,427	12,811	14,670	16,529	18,572	21,889	25,003
Gross Profit	2,550	3,057	3,243	2,679	3,200	3,596	4,498
Operating Profit	1,597	1,893	2,009	1,425	1,755	1,895	2,542
Net Profit : Equity Holders	860	1,094	1,118	696	852	873	1,216
Adjusted EPS (LKR)	7.2	9.1	9.3	5.8	7.1	7.3	10.2
YoY Growth (%)	95%	27%	2%	-38%	22%	2%	39%
Valuations							
PER (x)	5.6x	4.4x	4.3x	6.9x	5.6x	5.5x	3.9x
PBV (x)	0.6x	0.6x	0.5x	0.5x	0.4x	0.4x	0.4x
DY (%)	1.3%	2.5%	3.8%	3.8%	2.7%	2.7%	3.8%

Valuation Summary

Expected ACL price for FY19E	
PER Valuation based target price	49.8
DCF Valuation based target price	56.9
Average Target Price	53.3
Target Price after Rounding off	53.0

Return	
Target Price	53.0
Current Price	40.0
Capital Gain (LKR)	13.0
Dividends upto 31.03.2019 (LKR)	1.1
Capital Gain %	33%
Dividend Yield %	6%
Total Return %	39%
Annualized Return %	56%

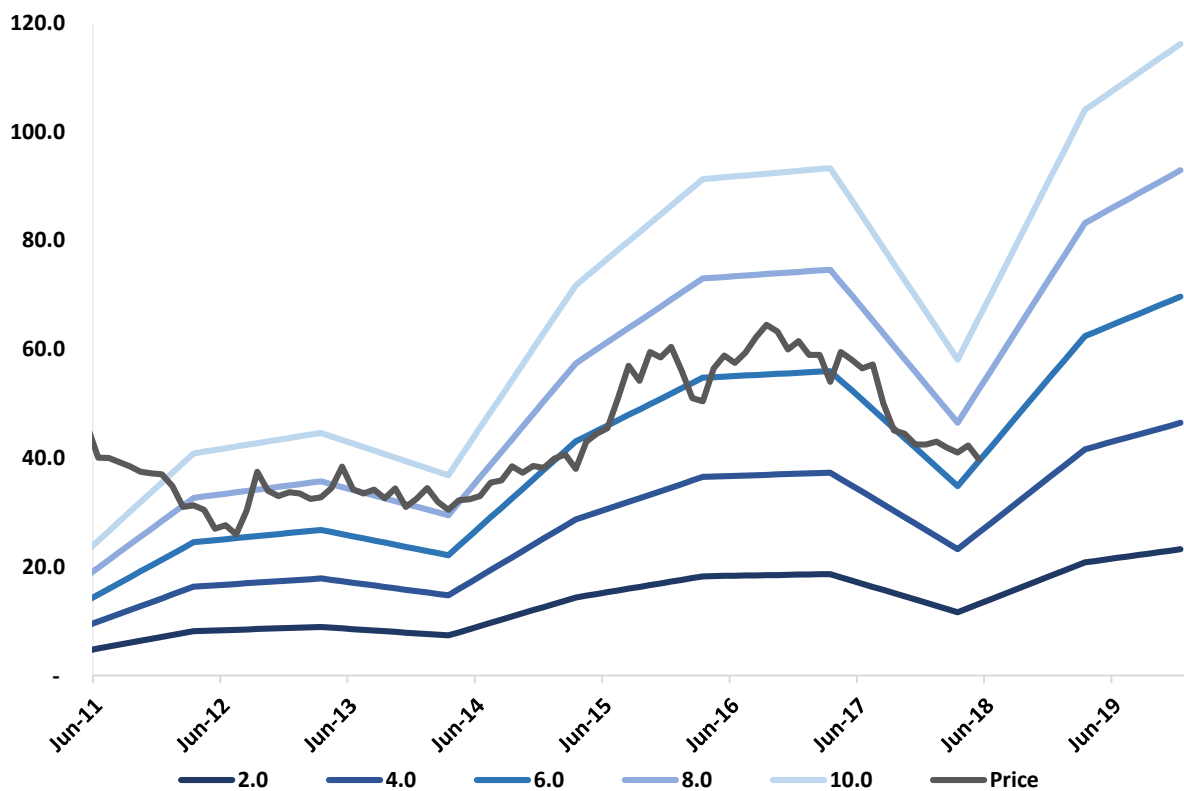
Discounted Cash flow Valuation

DCF PBV based Valuation	
Enterprise Value	8,145
Debt (-)	3,282
Cash (+)	1,952
Total Value of Equity	6,815
No. of Shares (Mn)	120
Target Price	56.9

WACC	
Ke	15.2%
Kd	8.5%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	12.5%

COE	
Rf	9.1%
Rm	18.1%
Growth %	3.0%
β	0.51
Adjusted β	0.67
$Ke=Rf+\beta(Rm-Rf)$	15.2%

PER Valuation



Source: First Capital Research Estimates

PER based Valuation	
FY19E Earnings (LKR 'Mn)	852
No. of Shares ('Mn)	120
FY19E EPS	7.1
Expected PER	7.0x
Price at 7.0x FY19E Earnings	49.8

Appendix I: Statement of Income and Expenses

<i>LKR (Mn)</i>	<i>FY15</i>	<i>FY16</i>	<i>FY17</i>	<i>FY18</i>	<i>FY19E</i>	<i>FY20E</i>	<i>FY21E</i>
Revenue	14,427	12,811	14,670	16,529	18,572	21,889	25,003
Cost of sales	(11,877)	(9,754)	(11,427)	(13,850)	(15,371)	(18,293)	(20,505)
Gross profit	2,550	3,057	3,243	2,679	3,200	3,596	4,498
Other income	193	45	52	112	45	46	47
SG&A	(1,146)	(1,210)	(1,286)	(1,366)	(1,491)	(1,747)	(2,004)
Operating profit	1,597	1,893	2,009	1,425	1,755	1,895	2,542
Net finance cost	(388)	(252)	(219)	(412)	(521)	(631)	(778)
Profit before tax	1,255	1,696	1,765	1,045	1,242	1,272	1,773
Tax	(301)	(426)	(509)	(292)	(347)	(355)	(495)
Net profit	954	1,269	1,255	754	896	917	1,278
Non controlling	95	176	138	58	43	45	62
Equity Holders	860	1,094	1,118	696	852	873	1,216
EPS (adjusted)	7.18	9.13	9.33	5.81	7.11	7.29	10.15
DPS (adjusted)	0.50	1.00	1.50	1.50	1.07	1.09	1.52

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Position

LKR (Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Assets							
Non current assets							
PPE	3,535	3,466	3,348	3,984	4,593	5,126	5,652
Other non current assets	1,426	895	893	1,035	1,200	1,333	1,368
	4,962	4,362	4,240	5,019	5,793	6,459	7,020
Current Assets							
Inventories	5,099	3,987	4,363	4,667	5,409	4,808	5,411
Trade and other receivables	4,968	4,251	5,334	6,700	7,256	8,552	9,768
Other current assets	0	1,067	403	467	567	667	767
Cash and cash equivalents	1,039	1,707	2,225	2,113	1,385	2,124	1,876
	11,106	11,012	12,325	13,947	14,616	16,151	17,822
Total assets	16,068	15,374	16,565	18,966	20,409	22,610	24,842
Equity and liabilities							
Capital and reserves							
Stated capital	299	299	299	299	299	299	299
Retained earnings	4,138	5,142	6,111	6,605	7,329	8,071	9,105
Other reserves	2,952	3,004	2,921	3,629	3,629	3,629	3,629
Total equity - Equity Holders	7,390	8,445	9,331	10,534	11,258	12,000	13,034
Non-controlling interest	870	1,026	1,135	1,193	1,236	1,281	1,343
	8,260	9,472	10,467	11,727	12,494	13,281	14,376
Non current Liabilities							
Borrowings	1,233	915	208	350	350	550	450
Other non current assets	553	463	510	566	566	566	566
	1,786	1,377	718	916	916	1,116	1,016
Current liabilities							
Trade and other payables	3,289	2,010	1,950	2,942	3,439	4,157	4,348
Other current liabilities	2,733	2,515	3,430	3,382	3,560	4,056	5,101
	6,022	4,525	5,381	6,323	6,998	8,213	9,449
Total equity and liabilities	16,068	15,374	16,565	18,966	20,409	22,610	24,842
NAVPS (adjusted)	61.69	70.50	77.90	87.94	93.98	100.18	108.81

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Cash flow

(LKR Mn)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E
Cash Flow from Operating activities							
Profit/Loss before tax	1,255	1,696	1,765	1,045	1,242	1,272	1,773
Adjustments for:							
Depreciation of PPE	192	230	225	182	239	276	308
Profit from equity investee	(46)	(55)	25	(32)	(8)	(9)	(9)
Amortisation of intangible assets	3	6	3	-	3	3	3
Dividend Income	(0)	(0)	(2)	(0)	(0)	(0)	(0)
Interest Expense	399	350	346	412	492	597	738
Interest Income	(12)	(98)	(127)	-	-	-	-
Profit on disposal of PPE	(2)	(5)	(7)	-	-	-	-
Profit on disposal of investment	-	(3)	-	-	-	-	-
Amortization of leasehold properties	0	0	0	0	-	-	-
Impairments	11	1	-	-	-	-	-
Loss/ (gain) on revaluation of PPE	(176)	(23)	(23)	(73)	(24)	(25)	(26)
Defined benefit obligations	43	42	43	43	-	-	-
Written off capital WIP	-	-	5	-	-	-	-
Changes in working capital							
(Increase)/ decrease in inventories	(1,159)	1,113	(377)	(303)	(742)	601	(603)
(Increase)/ decrease in Receivable	(985)	718	(1,083)	(1,366)	(556)	(1,296)	(1,217)
Increase/ (decrease) Trade and Other Payables	1,907	(1,279)	(60)	991	497	718	192
Dividend Payable	-	-	-	-	-	-	-
Defined benefit obligations	-	-	-	-	-	-	-
Cash generated from operations	1,430	2,692	713	927	1,143	2,136	1,157
Interest Received/ (Paid)	(399)	(350)	(346)	(412)	(492)	(597)	(738)
Defined benefit obligations paid	(15)	(23)	(23)	(7)	-	-	-
Payment in lieu of employee share issue scheme	-	-	-	-	-	-	-
Income Tax paid less refund received	(115)	(132)	(476)	(490)	(347)	(355)	(495)
WHT on dividend paid by subsidiary	(7)	(14)	-	(17)	-	-	-
Net Cash generated from operating activities	893	2,174	(132)	1	304	1,184	(76)
Cash Flow from Investing Activities							
Interest Received	12	98	127	-	-	-	-
Purchase and construction of PPE	(127)	(125)	(80)	(152)	(181)	(209)	(233)
Purchase of intangible assets	(3)	(0)	-	(4)	(2)	(2)	(2)
Investments in AFS	-	(9)	-	0	-	-	-
Cost incurred on Capital WIP	(72)	(11)	(36)	(727)	(800)	(700)	(600)
Dividend Received	0	0	2	0	0	0	0
Investments in Subsidiary Companies	(778)	-	-	(1)	-	-	-
Investments in other assets	-	(1,067)	685	666	(100)	(100)	(100)
Proceeds on disposal of PPE	2	6	14	-	-	-	-
Proceeds on disposal of Capital WIP	1	-	-	-	-	-	-
Proceeds on disposal of Investments	-	597	-	-	-	-	-
Net Cash Flow from Investing Activities	(965)	(511)	710	(218)	(1,083)	(1,010)	(935)
Cash Flow from Financing Activities							
Short term Borrowings Net of Payments	(698)	(1,054)	747	331	50	500	800
Long term Borrowings Net of Payments	1,155	(318)	(707)	142	-	200	(100)
Dividend paid by the Company	(60)	(120)	(180)	(180)	(128)	(131)	(182)
Dividend paid by Subsidiary to NCI	(10)	(19)	(29)	(24)	-	-	-
Net Cash Flow from Investing Activities	387	(1,511)	(169)	270	(78)	569	518
Increase/ decrease in cash and cash equivalents	315	152	410	53	(857)	743	(493)
Movement in Cash and Cash Equivalents							
At the beginning of the year	314	631	783	1,193	1,246	389	1,132
Increase/ decrease in cash and cash equivalents	317	152	410	53	(857)	743	(493)
Cash and cash equivalents at the end of the Year	631	783	1,193	1,246	389	1,132	639

Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	4QFY18	3QFY18	QoQ	4QFY17	YoY
Mr. U. G. Madanayake	38.2%	38.2%	-	38.2%	-
Mr. Suren Madanayake	22.2%	22.2%	-	22.2%	-
Employees Provident Fund	4.9%	4.9%	-	4.9%	-
Employees Trust Fund Board	3.7%	3.7%	-	3.7%	-
Deutsche Bank AG -National Equity Fund	1.9%	1.9%	-	1.9%	-
Mrs. N.C. Madanayake	1.7%	1.7%	-	1.7%	-
Bnymsv Re-Compass Asia Partners,L.P.	1.7%	1.7%	-	1.7%	-
FAB Foods (Private) Ltd	1.3%	1.3%	-	1.3%	-
Deutsche Bank AG AS Trustee for Namal Acuity	1.3%	1.3%	-	1.3%	-
Bank of Ceylon-No 2 A/C	1.1%	1.1%	-	1.1%	-
SEB AB-Tundra Frontier Opportunities Fund	1.0%	0.0%	1.0%	0.0%	1.0%
MAS Capital (Private) Limited	0.9%	0.9%	-	0.9%	-
Bank Of Ceylon No. 1 Account	0.8%	0.8%	-	0.8%	-
Perera R.D.M.	0.6%	0.6%	-	0.6%	-
Selliah A & Selliah S	0.6%	0.6%	-	0.6%	-
Sir Cyril De Zoysa Trust	0.6%	0.6%	-	0.6%	-
Sri Lanka Insurance Corporation LTD-Life Fund	0.6%	0.6%	-	0.6%	-
Arunodhaya (Private) Limited	0.4%	0.4%	-	0.4%	-
Arunodhaya Industries (Private) Limited	0.4%	0.4%	-	0.4%	-
Arunodhaya Investments (Private) Limited	0.4%	0.4%	-	0.4%	-

Appendix V: Recommendation criteria

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

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	14.11%	10.11%	10.11%
Grade B	Rest of the Companies	17.11%	12.11%	12.11%
Grade C	Companies less than LKR 1Bn Market Cap	20.11%	15.11%	15.11%

Weighted Average 1 year T-bill rate during Dec 2017: 9.11%

Research Disclosure

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First Capital

First Capital Holdings PLC

No.2, Deal Place,
Colombo 3

Tel: +94 11 2145 000

Fax: +94 11 2145 050

RESEARCH

Dimantha Mathew	+94 11 2639 853	Amanda Lokugamage	+94 11 2639 868
Atchuthan Srirangan	+94 11 2639 863	Nisansala Kuruppumudali	+94 11 2639 866

GOVERNMENT SECURITIES SALES

Anjelo Simmons	+94 77 3031 636	Neminda Jayawardena	+94 76 6644 080
Anushka Dissanayake	+94 77 2220 021	Arun Kandasamy	+94 75 4861 506
Anushi Ranawaka	+94 77 3876 819		

CORPORATE DEBT SALES

Sewwandi Kathriarachchi	+94 77 3461 734
Nethalie De Mel	+94 11 2639 854

EQUITY SALES

CEO	Jaliya Wijeratne	+94 70 2910 042	Negombo	
			Priyanka Anuruddha	+94 70 2910 035
Colombo			Priyantha Wijesiri	+94 70 2910 036
Damian Le Grand		+94 70 2910 032		
Nishantha Mudalige		+94 70 2910 041		
Isuru Jayawardana		+94 70 2910 034		
Ifadh Marikar		+94 77 9625 679		
Thushara Pathiraja		+94 70 2910 037		
Anushka Buddhika		+94 70 2910 030		
Gamini Hettiarachchi		+94 70 2910 039		

UNIT TRUST SALES

Imali Abeygunawardena	+94 77 1764 799
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BRANCHES

Kandy	Kurunegala	Matara	Negombo
2nd Floor, No.121 Kotugodella Veediya (E L Senanayake Veediya) Kandy 20000.	Ground Floor No. 42, Mihindu Mawatha, Kurunegala 60000.	2nd Floor, E.H. Cooray Building No: 24, 1/3, Anagarika Dharmapala Mawatha, Matara 81000.	1st Floor No: 163B, Colombo Road, Negombo 11500.
Manager: Salinda Samarakoon	Manager: Menaka Wavegedara	Manager: Rohana Jayakody	Manager: Buddhika Edirisinghe
Tel: +94 81 2236 010	Tel: +94 37 2222 930	Tel: +94 41 2222 988	Tel: +94 31 2233 299

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