



ACL CABLES PLC [ACL.N0000]

MAINTAIN BUY

PACESETTER IN CABLES

Fair Value: FY20E - LKR 42.0 [+11%]

Total Return with DPS 11% [AER 18%]

ACL's earnings attributable to equity holders increased by 9%YoY to record LKR 92.0Mn on the back of strong top line growth. EBIT growth of 88% was partly off-set by the higher finance cost arising out of converting USD denominated payables into short term borrowings due to the heavy depreciation witnessed in currency during 4Q2018. Revenue and earnings remained broadly in line with expectations, therefore, we maintain our revenue and profit targets for FY20E at LKR 21.1Bn (+14%YoY) and LKR 765.0Mn (+11%YoY) respectively. We upgrade our target price to LKR 42.0 from previous LKR 37.0 due to the upward re-rating of market multiples and lower risk-free rate. We expect a total return of 11% with an annualized return of 18%. **MAINTAIN BUY**

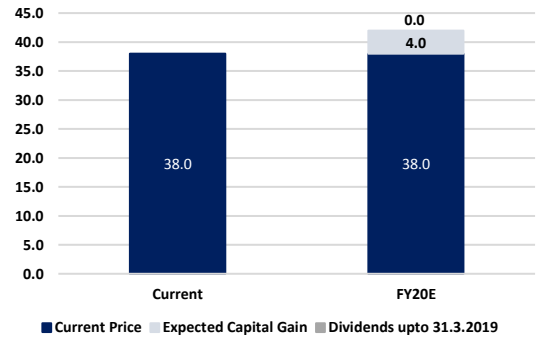
LKR (Mn)	1QFY19	1QFY20	YoY	FY18	FY19	YoY
Earnings (LKR 'Mn)						
Revenue	3,533	4,754	+35%	16,252	18,553	+14%
Gross Profit	501	721	+44%	2,631	2,815	+7%
EBIT	194	365	+88%	1,402	1,476	+5%
PBT	126	176	+39%	1,057	966	-9%
Net Profit : Equity holders	85	92	+9%	697	689	-1%
Balance Sheet (LKR 'Mn)						
Shareholder's Equity	10,415	10,631	+2%	10,329	10,837	+5%
Borrowings	333	352	+6%	350	270	-23%
NAVPS	87.0	88.8		86.2	90.5	

Revenue CAGR of 11% for the period FY19-FY22E

ACL top line grew by 35%YoY during 1QFY20, mainly stemming from Ceylon Electricity Board (CEB) projects, significantly contributing to their growth in revenue. Meanwhile, 10% of total revenue for 1QFY20 constitutes export revenue, the growth in industrial export market is supported by the restoring of EU GSP+ facility. ACL has taken an initiative to restructure their distribution channel. A fleet of distribution vehicle network was introduced in order to capture the retail market, which has led to an increased penetration in ACL's dealer network and increased productivity in the segment of local retail business. However, in the retail market, we continue to witness an industry contraction and is yet to see a significant pickup in sales. The revenue from existing portfolio, primarily led by CEB's ongoing line upgrade and its high-rise projects, is expected to generate a revenue CAGR of 11% for the period FY19-FY22E. We maintain our target revenue growth of +14%YoY for FY20E on the back of streamlined income generated from standing portfolio.

Copper stock bought at higher prices offset by strong top line growth

Cost of sales for 1QFY20 records LKR 4.0Bn (+33%YoY) compared to the preceding comparative quarter. The rise in cost of sales was expected due to the spike in copper prices which was experienced during Feb-Apr 2019. The purchasing cycle of ACL has a 3-4 months lagging effect, thus, the rise in the commodity price during Feb-Apr was mirrored in the cost of sales, however, GP margin showed a marginal improvement YoY to record 15% from previous comparative quarter records 14%, supported by strong top line growth. Since Apr 2019, a heavy plunge in copper prices is expected to reflect in ACL earnings from 2QFY20E onwards. We expect GP margin for 2Q & 3QFY20E to record 16% and 17% respectively, and for the year to average out to 16%. EBIT margin has improved to 8% from 5% in 1QFY19 though marginally declined from



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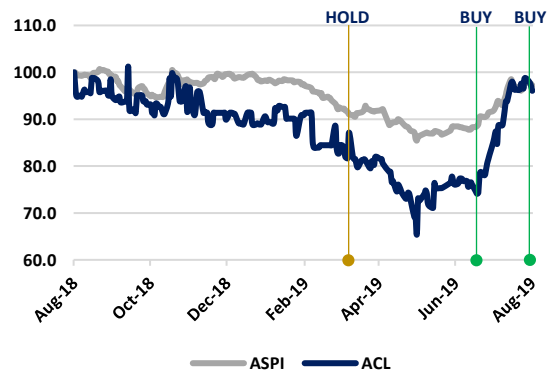
KEY DATA

CSE Ticker	ACL.N0000
Bloomberg Ticker	ACL SL
Share Price (LKR)	38.0
52w High (LKR)	41.0
52w Low (LKR)	26.5
Avg. Daily Volume (Shares)	23,150
Avg. Daily Turnover (LKR)	830,036
Issued Share Capital (Shares 'Mn)	119.8
Market Cap (LKR 'Mn)	4,552
Market Cap (USD 'Mn)	26

*1 USD = LKR 178

Price Performance (%)	1mth	3mths	12mths
ACL	13%	47%	-4%
ASPI	6%	14%	-3%

Price movement of ACL vs ASPI and past recommendations



Minimum Return for BUY:

Buy Below [AER of 16.83% with DPS]: LKR 38.2
 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.

10% in 4QFY19. Thereby, we maintain our projected GP margin and EBIT margin to record at 16% and 8% respectively.

Finance cost on an upsurge

The finance cost for 2QFY20 has risen by 99%YoY to record LKR 175.4Mn. The increase is due to the conversion of dollar denominated payables into short term borrowings. During 4Q2018 a sharp depreciation in the rupee was witnessed, thereby, ACL had converted their dollar denominated payables into short term borrowings in order to offset making payments at a higher rate, in variably, this has led to the increase in finance cost. ACL has already taken initiative in transferring the short-term borrowings into USD denominated payables as the rupee is broadly steady at present market conditions.

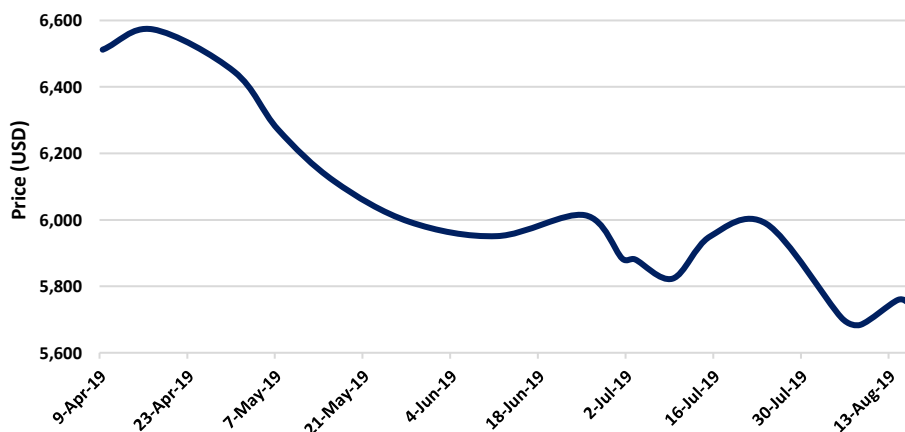
Global copper price expectation vs current situation

With the global copper supply market tightening Goldman Sachs believes that copper prices may hit USD 7,000/mt for 2019 once the need arises for net importers to replenish their stocks, while at present, global demand has moderated. Since our last update in Jul 2019, global copper prices have crashed a further 3% to record USD 5,684/mt. Considering the peak in copper prices in April to record USD 6,573, copper prices have crashed by 14% during the period April-Aug 2019. ACL being the front-runner in the cable market holding 72% of the market, the crash in copper prices is likely to directly benefit the bottom line of FY20E due to the correlation in earnings for the fluctuations in global copper prices.

TP upgraded to LKR 42.0 – Maintain Buy

First Capital Research targets a TP of LKR 42.0 with a total return of 11%. Earnings attributable for equity holders for FY20E is expected at LKR 765Mn. **MAINTAIN BUY**

Table 1: Global copper prices for the last 4 months



Source: www.investing.com

Estimate Revision

In LKR Mn	FY20E-O	FY20E-R	% Change	FY21E - O	FY21E - R	% Change
Earnings Estimate						
Revenue	21,088	21,088	0%	23,448	23,448	0%
Gross Profit	3,265	3,265	0%	3,774	3,774	0%
EBIT	1,635	1,635	0%	1,918	1,918	0%
Profit before Tax	1,028	1,028	0%	1,229	1,229	0%
Net Profit : Equity Holders	765	765	0%	914	914	0%
Adjusted EPS	6.4	6.4		7.6	7.6	
Growth YoY	11%	11%		20%	20%	
Balance Sheet Estimate						
Shareholders' Equity	11,422	11,422	0%	12,199	12,199	0%
Borrowings	470	470	0%	370	370	0%
Adjusted NAVPS	95.3	95.3		101.8	101.8	
ROE (%)	6.7%	6.7%		7.5%	7.5%	
PER (x)	5.0	6.0		4.2	5.0	
PBV (x)	0.3	0.4		0.3	0.4	

Valuation Table

P/E 31 March	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Estimates (LKR 'Mn)							
Revenue	12,811	14,670	16,252	18,553	21,088	23,448	25,389
Gross Profit	3,057	3,243	2,631	2,815	3,265	3,774	4,135
Operating Profit	1,893	2,009	1,402	1,476	1,635	1,918	2,052
Net Profit : Equity Holders	1,094	1,118	697	689	765	914	977
Adjusted EPS (LKR)	9.1	9.3	5.8	5.8	6.4	7.6	8.2
YoY Growth (%)	27%	2%	-38%	-1%	11%	20%	7%
Valuations							
PER (x)	4.3x	4.2x	6.7x	6.8x	6.1x	5.1x	4.8x
PBV (x)	0.6x	0.5x	0.5x	0.4x	0.4x	0.4x	0.4x
DY (%)	2.6%	3.9%	3.9%	3.9%	3.9%	2.9%	3.1%

Valuation Summary

Expected ACL price for FY20E	
PER Valuation based target price	44.7
DCF Valuation based target price	40.2
Average Target Price	42.5
Target Price after Rounding off	42.0

Return	
Target Price	42.0
Current Price	38.0
Capital Gain (LKR)	4.0
Dividends upto 31.03.2020 (LKR)	0.0
Capital Gain %	11%
Dividend Yield %	0%
Total Return %	11%
Annualized Return %	18%

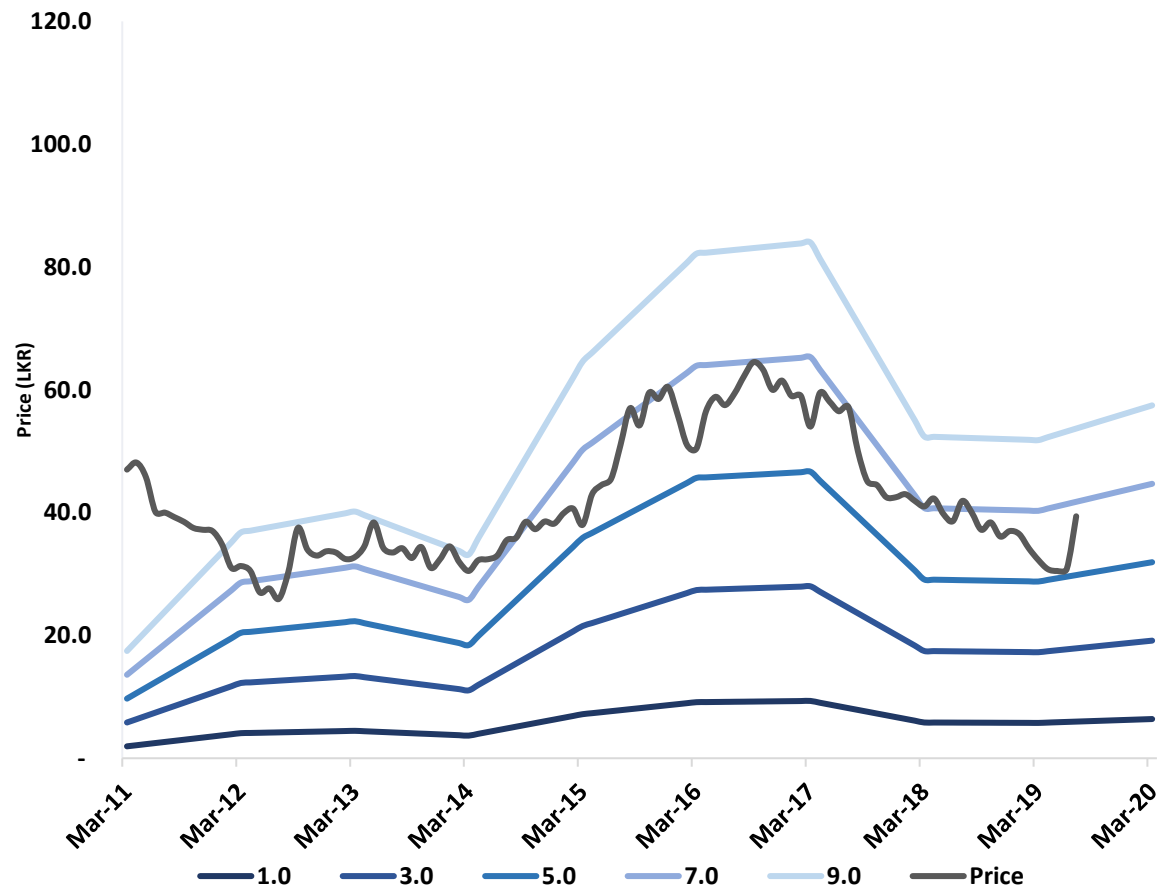
Discounted Cash flow Valuation

DCF based Valuation	
Enterprise Value	6,640
Debt (-)	6,875
Cash (+)	5,051
Total Value of Equity	4,817
No. of Shares (Mn)	120
Target Price	40.2

WACC	
Ke	13.8%
Kd	8.5%
D/E Assumption	40/60
Terminal Growth (%)	3.0%
WACC	11.7%

COE	
Rf	8.8%
Rm	17.8%
Growth %	3.0%
β	0.55
$Ke=Rf+\beta(Rm-Rf)$	13.8%

PER Valuation



Source: CSE, Company Annual Reports and First Capital Research Estimates

PER based Valuation	
FY20E Earnings (LKR 'Mn)	765
No. of Shares ('Mn)	120
FY20E EPS	6.4
Expected PER	7.0x
Price at 7.0x FY20E Earnings	44.7

Appendix I: Statement of Income and Expenses

Income Statement (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Y/E 31st March							
Revenue	12,811	14,670	16,252	18,553	21,088	23,448	25,389
Cost of sales	(9,754)	(11,427)	(13,621)	(15,738)	(17,822)	(19,674)	(21,254)
Gross profit	3,057	3,243	2,631	2,815	3,265	3,774	4,135
Other income	45	52	116	66	31	31	31
SG&A	(1,210)	(1,286)	(1,344)	(1,405)	(1,661)	(1,887)	(2,114)
Operating profit	1,893	2,009	1,402	1,476	1,635	1,918	2,052
Net finance cost	(252)	(219)	(382)	(565)	(657)	(749)	(811)
Profit before tax	1,696	1,765	1,057	966	1,028	1,229	1,313
Tax	(426)	(509)	(295)	(207)	(220)	(263)	(281)
Net profit	1,269	1,255	763	759	808	966	1,032
Non controlling	176	138	65	70	44	52	56
Equity Holders	1,094	1,118	697	689	765	914	977
EPS (adjusted)	9.13	9.33	5.82	5.76	6.38	7.63	8.15
DPS (adjusted)	1.00	1.50	1.50	1.50	1.50	1.14	1.22

Source : Company Annual Reports and First Capital Research Estimates

Appendix II: Statement of Financial Position

Balance Sheet LKR (Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
As at 31st March							
Assets							
Non current assets							
PPE	3,466	3,348	4,151	4,527	5,462	6,468	7,548
Other non current assets	895	893	1,300	1,325	1,493	1,571	1,562
	4,362	4,240	5,452	5,852	6,956	8,039	9,109
Current Assets							
Inventories	3,987	4,363	4,764	5,348	4,598	5,096	5,520
Trade and other receivables	4,251	5,334	6,350	6,674	8,311	9,241	8,426
Other current assets	1,067	403	467	0	100	200	300
Cash and cash equivalents	1,707	2,225	2,113	3,014	4,952	4,098	5,210
	11,012	12,325	13,694	15,036	17,961	18,635	19,457
Total assets	15,374	16,565	19,146	20,888	24,916	26,674	28,566
Equity and liabilities							
Capital and reserves							
Stated capital	299	299	299	299	299	299	299
Retained earnings	5,142	6,111	6,620	7,131	7,716	8,493	9,323
Other reserves	3,004	2,921	3,410	3,406	3,406	3,406	3,406
Total equity - Equity Holders	8,445	9,331	10,329	10,837	11,422	12,199	13,029
Non-controlling interest	1,026	1,135	1,245	1,289	1,333	1,385	1,441
	9,472	10,467	11,574	12,126	12,755	13,584	14,470
Non current Liabilities							
Borrowings	915	208	350	270	470	370	270
Other non current assets	463	510	876	909	909	909	909
	1,377	718	1,226	1,179	1,379	1,279	1,179
Current liabilities							
Trade and other payables	2,010	1,950	2,806	754	3,774	3,791	4,197
Current income tax liability	782	843	809	604	604	604	604
Borrowings	808	1,555	1,864	5,072	5,572	6,372	7,072
Bank Overdraft	925	1,032	868	1,153	833	1,045	1,045
	4,525	5,381	6,347	7,583	10,783	11,812	12,917
Total equity and liabilities	15,374	16,565	19,146	20,888	24,916	26,674	28,566
NAVPS (adjusted)	70.50	77.90	86.22	90.47	95.35	101.84	108.77

Source : Company Annual Reports and First Capital Research Estimates

Appendix III: Statement of Cash flow

Cashflow Statement (LKR Mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	FY22E
Y/E 31st March							
Cash Flow from Operating activities							
Profit/Loss before tax	1,696	1,765	1,057	966	1,028	1,229	1,313
Adjustments for:							
Depreciation of PPE	230	225	222	236	258	311	368
Profit from equity investee	(55)	25	(37)	(54)	(51)	(61)	(72)
Amortisation of intangible assets	6	3	2	0	0	0	0
Dividend Income	(0)	(2)	(2)	(0)	(0)	(0)	(0)
Interest Expense	350	346	448	565	653	740	797
Interest Income	(98)	(127)	(66)	0	(1)	(1)	(1)
Profit on disposal of PPE	(5)	(7)	0	0	0	0	0
Profit on disposal of investment	(3)	0	0	0	0	0	0
Amortization of leasehold properties	0	0	0	0	0	0	0
Impairments	1	0	0	0	0	0	0
Loss/ (gain) on revaluation of PPE	(23)	(23)	(99)	(15)	(15)	(16)	(16)
Defined benefit obligations	42	43	50	48	0	0	0
Written off capital WIP	0	5	0	0	0	0	0
Changes in working capital							
(Increase)/ decrease in inventories	1,113	(377)	(400)	(585)	750	(497)	(424)
(Increase)/ decrease in Receivable	718	(1,083)	(1,016)	(323)	(1,637)	(930)	815
Increase/ (decrease) Trade and Other Payables	(1,279)	(60)	856	(2,052)	3,019	17	406
Dividend Payable	0	0	0	0	0	0	0
Defined benefit obligations	0	0	0	0	0	0	0
Cash generated from operations	2,692	713	1,048	(1,132)	4,004	792	3,185
Interest Received/ (Paid)	(350)	(346)	(448)	(565)	(653)	(740)	(797)
Defined benefit obligations paid	(23)	(23)	(14)	(14)	0	0	0
Payment in lieu of employee share issue scheme	0	0	0	0	0	0	0
Income Tax paid less refund received	(132)	(476)	(350)	(410)	(220)	(263)	(281)
WHT on dividend paid by subsidiary	(14)	0	-	(10)	0	0	0
Net Cash generated from operating activities	2,174	(132)	236	(2,132)	3,131	(211)	2,107
Cash Flow from Investing Activities							
Interest Received	98	127	66	0	1	1	1
Purchase and construction of PPE	(125)	(80)	(109)	(544)	(594)	(716)	(848)
Purchase of intangible assets	(0)	0	(1)	0	(2)	(2)	(2)
Investments in AFS	(9)	0	(239)	(99)	0	0	0
Cost incurred on Capital WIP	(11)	(36)	(82)	0	(700)	(600)	(500)
Dividend Received	0	2	2	0	0	0	0
Investments in Subsidiary Companies	0	0	0	0	0	0	0
Investments in other assets	(1,067)	685	(54)	467	(100)	(100)	(100)
Proceeds on disposal of PPE	6	14	0	0	0	0	0
Proceeds on disposal of Capital WIP	0	0	0	0	0	0	0
Proceeds on disposal of Investments	597	0	0	0	0	0	0
Net Cash Flow from Investing Activities	(511)	710	(430)	(176)	(1,394)	(1,417)	(1,449)
Cash Flow from Financing Activities							
Short term Borrowings Net of Payments	(1,054)	747	309	3,208	500	800	700
Long term Borrowings Net of Payments	(318)	(707)	142	(80)	200	(100)	(100)
Dividend paid by the Company	(120)	(180)	(180)	(180)	(180)	(137)	(147)
Dividend paid by Subsidiary to NCI	(19)	(29)	(24)	(25)	0	0	0
Net Cash Flow from Investing Activities	(1,511)	(169)	247	2,923	520	563	453
Increase/ decrease in cash and cash equivalents	152	410	53	616	2,257	(1,065)	1,112
Movement in Cash and Cash Equivalents							
At the beginning of the year	631	783	1,193	1,246	1,861	4,118	3,053
Increase/ decrease in cash and cash equivalents	152	410	53	615	2,257	(1,065)	1,112
Cash and cash equivalents at the end of the Year	783	1,193	1,246	1,861	4,118	3,053	4,165

Source : Company Annual Reports and First Capital Research Estimates

Appendix IV: Top 20 Shareholders

Top 20 shareholders - (% held)	1QFY20	4QFY19	QoQ	1QFY19	YoY
Mr. U. G. Madanayake	38.2%	38.2%	-	38.2%	-
Mr. Suren Madanayake	22.2%	22.2%	-	22.2%	-
SEB AB-Tundra Frontier Opportunities Fund	5.1%	5.1%	-	5.1%	-
Employees Provident Fund	4.9%	4.9%	-	4.9%	-
Employees Trust Fund Board	3.7%	3.7%	-	3.7%	-
Mrs. N.C. Madanayake	1.7%	1.7%	-	1.7%	-
Bnmysanv Re-Compass Asia Partners,L.P.	1.7%	1.7%	-	1.7%	-
FAB Foods (Private) Ltd	1.3%	1.3%	-	1.3%	-
Bank of Ceylon-No 2 A/C	1.1%	1.1%	-	1.1%	-
Bank Of Ceylon No. 1 Account	0.8%	0.8%	-	0.8%	-
Amaliya Private Limited	0.8%	0.9%	-0.2%	0.0%	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%	-
Andysel Private Limited	0.3%	0.3%	-	0.3%	-
Kailasapillai A	0.3%	0.3%	-	0.3%	-

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%

Weighted Average 1-year T-bill rate during Jun 2019: 8.83%

Categorization	Company Category	Buy	Hold	Sell
Grade A	S&P SL20 Companies	13.83%	9.83%	9.83%
Grade B	Rest of the Companies	16.83%	11.83%	11.83%
Grade C	Companies less than LKR 1Bn Market Cap	19.83%	14.83%	14.83%



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BRANCHES

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