

EQUITY



# SECTOR UPDATE

FUNDAMENTAL OUTLOOK

## »» CONSTRUCTION

*PUTTING THE BRICKS BACK IN PLACE*  
*This document is for the*

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PUTTING THE BRICKS BACK IN PLACE

# COMPANY THESIS

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AEL SL EQUITY

**ACCESS ENGINEERING PLC**

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**VALUATION SUMMARY**

MARKET PRICE

LKR as of 25.03.2023

**22.00**

TARGET PRICE

LKR

**32.00**

UPSIDE

**+46%**

DPS FORECAST\*

LKR

**1.18**

DIV. YIELD

**+5%**

TOTAL RETURN

**+51%**[Back to TOC](#)

- AEL's current order book stands at over LKR 45bn, spanning 2-2.5 years. Noteworthy projects in this portfolio include the East Container Terminal (LKR 24bn), West Container Terminal (LKR 13bn), Central Expressway (LKR 3bn), and Nittambuwa Pasyala Road project (LKR 1.7bn).
- Additionally, the management noted that key projects, including the Kohuwela & Getambe Flyovers and the Orugodawatta Housing Project, are presently on hold.
- Notably, the commencement of the Elliot Place Housing Project is expected in the near future. Upon the resumption of these initiatives, the order book is anticipated to see further growth in FY2025.
- With the commencement of operations at AEL's Ekala warehouse, in partnership with leasing partners CAMSO/Michelin, the property segment is poised for steady growth throughout FY2025.
- Additionally, the property sector is set to showcase growth, with full occupancy rates expected to be ~95% in both Access I and II towers.
- The Marina Square development project, expected to finalize in FY2026E with 1,088 residential condominium units, will add significant strength to the property segment. Our estimates currently do not include this project, and upward revisions will follow upon its completion.
- The government's decision to resume road development projects acts as a key for the raw material sector (~30% of revenues), particularly benefiting its strong concrete and asphalt businesses.
- However, we expect the automobile segment to remain muted due to the ongoing ban on vehicle imports. Due to the extension of vehicle import bans until next year, AEL noted its focus will be on the spare parts segments in the near-term.
- Key upside catalysts- 1) conducive environment in the backdrop of lower interest rates and stability in the exchange rate, 2) release of foreign funds following the completion of the EDR, and 3) rapid resumption of halted projects. Key downside risks- 1) slower-than-expected resumption of projects, 2) sudden depreciation in LKR, and 3) sharp increase in electricity and diesel costs in 2H with an expected dry season.
- Our DCF-based valuation for AEL leads to a target price of LKR 32.00 per share, while we estimate a FY25E DPS of LKR 1.18/share (+45.5% upside; +50.8% TSR).

Income statement

In LKR mn	FY2021	FY2022	FY2023	FY2024E	FY2025E	FY2026E
<b>Revenue</b>	<b>23,837</b>	<b>39,630</b>	<b>20,565</b>	<b>21,968</b>	<b>25,892</b>	<b>30,732</b>
Operating expenses	(19,788)	(34,185)	(14,831)	(14,374)	(17,930)	(22,166)
<b>EBITDA</b>	<b>4,049</b>	<b>5,445</b>	<b>5,734</b>	<b>7,594</b>	<b>7,961</b>	<b>8,566</b>
Depreciation and amortization	(1,070)	(1,233)	(1,367)	(1,465)	(1,628)	(1,783)
<b>EBIT</b>	<b>2,979</b>	<b>4,212</b>	<b>4,367</b>	<b>6,129</b>	<b>6,333</b>	<b>6,783</b>
Interest income	557	504	894	181	609	1,020
Interest expense	(1,130)	(1,537)	(4,757)	(2,502)	(2,520)	(2,640)
Associate/JV income	1	1,435	407	-	-	-
<b>Profit before tax</b>	<b>2,407</b>	<b>4,613</b>	<b>910</b>	<b>3,807</b>	<b>4,422</b>	<b>5,163</b>
Income tax expenses	(14)	517	(1,941)	(1,142)	(1,326)	(1,549)
<b>Profit for the year</b>	<b>2,393</b>	<b>5,130</b>	<b>(1,031)</b>	<b>2,665</b>	<b>3,095</b>	<b>3,614</b>
Minority interest	(7)	(20)	46	(118)	(137)	(160)
<b>Recurring net profit</b>	<b>2,387</b>	<b>5,110</b>	<b>(985)</b>	<b>2,547</b>	<b>2,958</b>	<b>3,454</b>

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\*Net profits adjusted for one-off tax reversal of LKR 3.8bn recorded in September 2023.

**Balance Sheet**

In LKR mn	FY2021	FY2022	FY2023	FY2024E	FY2025E	FY2026E
<b>Assets</b>						
<b>Non-current assets</b>						
Property, plant and equipment	5,708	6,604	5,570	5,203	5,516	5,577
Intangible assets	1,235	1,258	578	578	578	578
Equity method investments	1,290	2,245	972	2,732	2,732	2,732
Other investments	17,178	19,600	33,029	36,332	36,332	36,332
Other non-current assets	277	3,859	4,264	4,690	4,455	4,233
<b>Total non-current assets</b>	<b>25,688</b>	<b>33,566</b>	<b>44,412</b>	<b>49,535</b>	<b>49,614</b>	<b>49,452</b>
<b>Current assets</b>						
Trade and other receivables	14,185	25,161	12,813	16,852	17,734	17,682
Inventories	8,714	14,620	15,945	17,722	17,194	18,219
Cash and cash equivalents	2,223	2,208	696	4,726	8,468	10,324
Short-term interest earning investments	1,780	2,136	2,569	2,569	2,569	2,569
Other short-term investments	3,379	4,094	3,371	3,371	3,371	3,371
Other current assets	90	62	135	135	135	135
<b>Total current assets</b>	<b>30,371</b>	<b>48,281</b>	<b>35,529</b>	<b>45,375</b>	<b>49,471</b>	<b>52,299</b>
<b>Total assets</b>	<b>56,059</b>	<b>81,847</b>	<b>79,941</b>	<b>94,910</b>	<b>99,085</b>	<b>101,751</b>

# AEL SL - FINANCIALS

## Balance Sheet

In LKR mn	FY2021	FY2022	FY2023	FY2024E	FY2025E	FY2026E
<b>Liabilities</b>						
<b>Non-current liabilities</b>						
Long term borrowings	6,167	18,847	12,787	17,787	18,287	18,787
Employee benefits	426	324	261	261	261	261
Other non-current liabilities	2,102	2,249	3,186	4,778	4,778	4,778
<b>Total non-current liabilities</b>	<b>8,695</b>	<b>21,419</b>	<b>16,233</b>	<b>22,826</b>	<b>23,326</b>	<b>23,826</b>
<b>Current liabilities</b>						
Trade and other payables	17,307	25,162	26,096	35,444	36,843	36,437
Short-term borrowings	3,124	4,331	5,213	2,713	3,213	3,713
Other current liabilities	419	288	427	427	427	427
<b>Total current liabilities</b>	<b>20,850</b>	<b>29,780</b>	<b>31,736</b>	<b>38,584</b>	<b>40,484</b>	<b>40,577</b>
<b>Total liabilities</b>	<b>29,545</b>	<b>51,200</b>	<b>47,969</b>	<b>61,410</b>	<b>63,810</b>	<b>64,403</b>
<b>Equity</b>						
Common equity	9,000	9,000	9,000	9,000	9,000	9,000
Retained earnings	14,245	18,610	19,741	21,269	23,044	25,117
Other reserves	580	577	816	816	816	816
Minority interest	2,639	2,461	2,415	2,415	2,415	2,415
<b>Total equity</b>	<b>26,515</b>	<b>30,647</b>	<b>31,972</b>	<b>33,500</b>	<b>35,275</b>	<b>37,348</b>
<b>Total equity and liabilities</b>	<b>56,060</b>	<b>81,847</b>	<b>79,941</b>	<b>94,910</b>	<b>99,085</b>	<b>101,751</b>

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Cash flow statement

In LKR mn	FY2021	FY2022	FY2023	FY2024E	FY2025E	FY2026E
<b>Cash flows from operating activities</b>						
<b>EBITDA</b>	<b>4,049</b>	<b>5,445</b>	<b>5,734</b>	<b>7,594</b>	<b>7,961</b>	<b>8,566</b>
Other non-cash items						
Change in working capital	5,735	(9,495)	11,882	3,532	1,046	(1,379)
Tax paid	(288)	(710)	(181)	(1,142)	(1,326)	(1,549)
Other	(4)	(234)	489	1,593	-	-
<b>Cash generated from operating activities</b>	<b>9,491</b>	<b>(4,994)</b>	<b>17,923</b>	<b>11,576</b>	<b>7,681</b>	<b>5,638</b>
<b>Cash flows from investing activities</b>						
Capex on PPE & intangibles	(1,531)	(3,051)	(1,288)	(1,098)	(1,942)	(1,844)
Net (acquisition)/disposal of subsidiaries	1,258	-	-	-	-	-
Dividends received	-	480	1,079	-	-	-
Interest received	279	129	539	181	609	1,020
Other - CFI	(5,814)	(2,035)	(9,503)	(3,729)	234	223
<b>Cash used in investing activities</b>	<b>(5,808)</b>	<b>(4,477)</b>	<b>(9,173)</b>	<b>(4,647)</b>	<b>(1,099)</b>	<b>(601)</b>
<b>Cash flows from financing activities</b>						
Drawdown/(repayment) of debt	(1,972)	(30,419)	(21,856)	2,500	1,000	1,000
Dividends paid to common shareholders	(500)	(750)	(750)	(1,019)	(1,183)	(1,382)
Interest paid	(962)	(1,001)	(4,278)	(2,502)	(2,520)	(2,640)
Other - CFF	-	41,822	14,992	-	-	-
Dividends paid to minority interest				(118)	(137)	(160)
<b>Cash from financing activities</b>	<b>(3,435)</b>	<b>9,652</b>	<b>(11,892)</b>	<b>(1,139)</b>	<b>(2,840)</b>	<b>(3,182)</b>
<b>Net increase/(decrease) in cash</b>	<b>248</b>	<b>181</b>	<b>(3,142)</b>	<b>5,790</b>	<b>3,742</b>	<b>1,856</b>
Cash and cash equivalent at BOP	1,648	1,896	2,078	(1,065)	4,726	8,468
<b>Cash and cash equivalent at EOP</b>	<b>1,896</b>	<b>2,078</b>	<b>(1,065)</b>	<b>4,726</b>	<b>8,468</b>	<b>10,324</b>



# AEL SL - VALUATION

Variable	Assumption	Justification
WACC	22.8%	
Risk Free Rate	12.0%	10-year average of 5-year Government Bond Yield
Equity Risk Premium	15.0%	Long-term equity risk premium for Sri Lanka
Beta (x)	1.20	Time-weighted based on Bloomberg averages
After Tax Cost of Debt	12.0%	Long-term borrowing rate for the company
Debt to Equity	40%	Long-term industry average
Terminal Growth Rate	2.5%	Slow growth with construction sector converging with long-term economic growth

DCF Equity Value Calculation	
DCF Firm Value (LKR mn)	40,623
Net Debt (LKR mn)	(16,015)
Minority Interest (LKR mn)	(2,402)
Employee Benefits (LKR mn)	(249)
Other Investments (LKR mn)	2,275
Other Assets (LKR mn)	6,791
DCF Equity Value (LKR mn)	31,024
Shares Outstanding (mn)	1,000
Value per share	LKR 32.00

# AEL SL - KEY RATIOS

	FY2021	FY2022	FY2023	FY2024E	FY2025E	FY2026E
Revenue growth (%)	(0.8)	66.3	(48.1)	6.8	17.9	18.7
EBITDA growth (%)	18.6	34.5	5.3	32.4	4.8	7.6
Recurring net profit growth (%)	143.7	114.1	(119.3)	358.6	16.1	16.8
Recurring diluted EPS growth (%)	143.7	114.1	(119.3)	358.6	16.1	16.8
EBITDA margin (%)	17.0	13.7	27.9	34.6	30.7	27.9
Net margin (%)	10.0	12.9	(4.8)	11.6	11.4	11.2
Recurring diluted EPS (LKR)	2.39	5.11	(0.99)	2.55	2.96	3.45
DPS (LKR)	1.00	1.00	1.00	1.02	1.18	1.38
Tan. BVPS (LKR)	23.83	28.19	29.56	31.09	32.86	34.93
OCF (LKR mn)	9,491	(4,994)	17,923	11,576	7,681	5,638
Unlevered FCF (LKR mn)	7,960	(8,044)	16,635	10,478	5,739	3,795
Levered FCF (LKR mn)	5,026	(39,465)	(9,499)	10,476	4,219	2,155
OCF/EBITDA (%)	234.4	(91.7)	312.6	152.4	96.5	65.8
Unlevered FCF/EBIT (%)	267.2	(191.0)	380.9	171.0	90.6	55.9
Levered FCF/Recurring net profit (%)	210.6	(772.2)	964.4	411.3	142.6	62.4
Net debt/equity (x)	0.2	0.6	0.5	0.4	0.3	0.3
Net debt/EBITDA (x)	1.4	3.5	2.9	2.0	1.5	1.3
EBITDA/interest (x)	4.2	5.4	1.3	3.0	3.2	3.2
ROA (%)	6.6	9.9	(7.9)	4.9	4.9	5.3
ROE (%)	10.5	19.7	(3.4)	8.4	9.3	10.2
P/E (x)	9.2	4.3	nm	8.6	7.4	6.4
EV/EBITDA (x)	1.8	2.9	0.2	4.2	4.0	3.7
P/B (x)	0.9	0.8	0.7	0.7	0.7	0.6
Dividend yield (%)	4.5	4.5	4.5	4.6	5.4	6.3
Dividend payout (%)	41.9	19.6	40.3	40.0	40.0	40.0



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