

ACCESS ENGINEERING

AEL.N: LKR16.0

RECOMMENDATION : BUY
FAIR VALUE : LKR20.5

RESULTS RELEASED : 5/19/2023
REPORT PUBLISHED : 6/21/2023

COMPANY OVERVIEW

Access Engineering (AEL SL:LKR16.0) having significant exposure to a wide range of construction and engineering related operations, is engaged in developing heavy infrastructure construction projects, owns and operates a real estate property portfolio under Access Realities and is also engaged in selling and repairing heavy vehicles under its c.84% owned subsidiary, **Sathosa Motors (SMOT SL: LKR151.0)**.

VALUATIONS (4 Qtrly Trailing)

	Market	Sector	AEL SL
PER (x)	7.6x	7.1x	23.3x
PBV (x)	1.0x	0.6x	0.6x
DY (%)	3.4%	3.5%	3.1%

Prices as at : 6/20/2023

SHARE STATISTICS

Bloomberg Ticker	AEL SL
Reuters Ticker	AEL CM
Market Cap.	(LKR Bn) 16.0 (USD Mn) 52.3
N - Issued Shares (mn)	1,000.0
Free Float (%)	40.1
(LKR/USD = 305.8)	

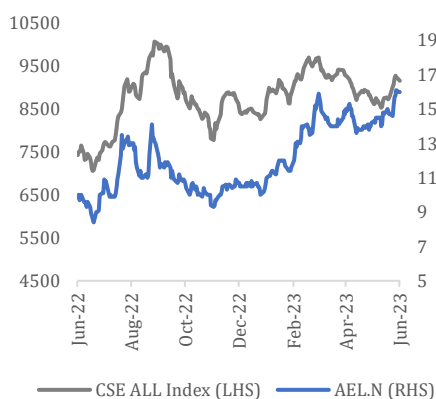
SHARE MOVEMENT	YTD	3M	12M
N - High/ Low (LKR)	16.1/10.0	16.1/13.6	16.5/8.3
AEL.N (%)	49.5	0.6	61.6
Avg. Daily T/O (LKR Mn)	11.6	12.2	8.9
ASPI (%)	7.9	(5.6)	23.4

Prices as at : 6/20/2023

MAIN SHAREHOLDERS 3/31/2023

Mr. Sumal J S Perera	25.00%
Mr. J C Joshua	10.10%
Mrs. R M N Joshua	7.00%
Mr. Shamal J S Perera	5.12%
Mrs. D R S Malalasekera	4.50%
Access International (Pvt) Limited	3.22%

ASPI vs PRICE CHART



ANALYST : Shadini Silva

Despite the near-term headwinds, AEL poised to witness a notable bounce back in the medium run amidst an anticipated revival in Construction sector...

Equity holders' profit of Access Engineering saw a QoQ turnaround and recorded a net profit of LKR135 mn in 4QFY23 (although down -92% YoY). However, on a YoY basis, the group observed comparatively lower revenue from its core Construction segments amidst stalled major road and flyover projects, whilst also saw an escalation in finance costs, +63% surge in OPEX and losses in its associate income during 4Q'23. Moreover, for FY23, AEL's earnings slipped by -87% YoY to LKR685.8 mn owing to lower profitability in Construction, Sale of Construction materials (amidst halted infrastructure projects and higher cost of materials), Automobiles (amidst import restrictions) and Property (YoY profits down in FY23 due to the income tax reversal recorded in comparative FY22).

Earnings from funding secured projects to cross-brace AEL's earnings over FY24/25E.

AEL's core Construction to bounce back amidst new project additions: Construction sector could see a gradual revival over the coming quarters as the stalled funding lines will be diverted back to thus far halted large ticket funding secured projects. Many positives has thus far come across for AEL where the group (i) received almost 100% of the dues owed by the Treasury, (ii) obtained ~LKR9 bn work at the west container terminal (WCT) along with further LKR7 bn worth income from material sales and Mechanical, Engineering & Plumbing work, (iii) recently commenced a Japanese funded building project closer to Ninewells Hospital which is around USD10 mn, (iv) renegotiated the project costs of Eliot place - GoSL servants apartment project, (v) commenced work of the Treasury funded Slave Island flyover and also (vi) initiated piling work of a new private building project (close to LKR300 mn).

Hence profits likely to almost double in FY24E and cross LKR2.8 bn in FY25E: We expect AEL's FY24E profits to hover around LKR1.2 bn (+82% YoY) and LKR2.8 bn in FY25E (up +124% YoY) – backed by sustained earnings momentum in Property segment (rental income from Access towers and warehouses), better earnings from buildings, flyover and port related projects, improved sales in Construction materials amidst some improvement in ISUZU marine sector, workshops and spare parts sales.

AEL to hold 15% stake in the proposed Logistics Hub at Port of Colombo. The proposed 8 storey logistics hub at Port of Colombo will be operated as a BOT agreement. AEL for its stake of 15%, will have to infuse ~USD12.6 mn and as per the management, they have already obtained a USD loan against its dollarized rental income generated via the newly built warehouse for Micheline (this will be operational by end Jun'23).

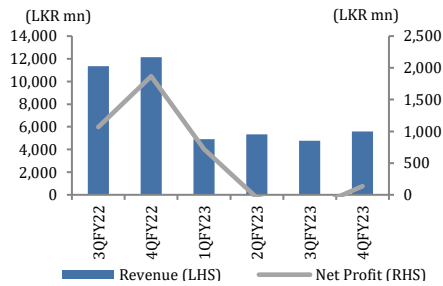
Higher probability of receiving additional sub-contracting work amidst the expected economic revival. Whilst being one of the highest accredited local contractors in the industry, we may see a steady resumption in thus far stalled foreign funded projects which in turn may drive AEL's order book north of LKR50 bn over FY24/25E. Thus, AEL's good rapport amongst foreign contractors like China Merchant and China Harbour who are heavily involved in SL's infrastructure development could get them incremental sub-contracting work in the medium term.

Property to add value in the long run: As of 4Q'23, Capital Heights is fully sold and all apartments are handed over. Further ~51% of units at Marina Square are also sold whilst the expected hand-over is by end 2025E which hence may boost segment's future value.

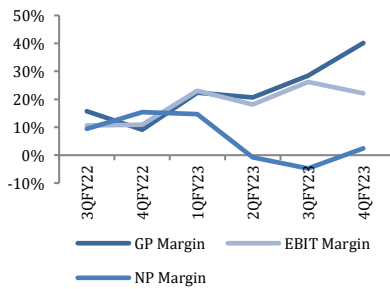
Maintain BUY with a TR of +34%: AEL derives a ~28% price upside to its DCF based 12-month target price of LKR20.5 (using a WACC of ~16%, Ke of 15.9%), along with a total return of ~34% (+6% Fwd dividend yield). The counter despite currently trading at a premium to the Capital goods sector, AEL is likely to observe a noteworthy comeback in terms of earnings and valuations over the forecast year which may drive its share price further up. Hence maintain **BUY**.

Key risks: (i) The LKR depreciation and volatile global raw material prices, (ii) prevailing import restrictions on motor vehicles and (iii) sluggish local economic sentiment slowing down construction projects remain as the key challenges in the local construction arena.

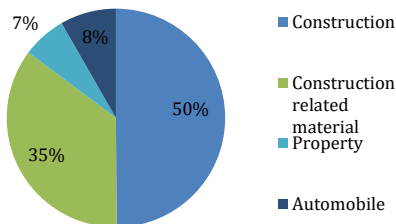
Net Profit rose +160% QoQ in 4Q'23



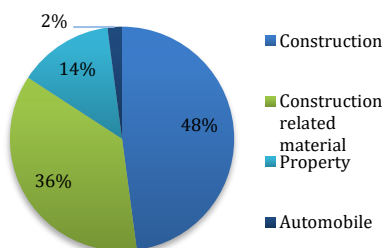
All profitability margins improved on a QoQ basis in 4Q'23



Construction contributed to ~50% of topline in FY23



Construction, Sale of Construction Material and Property compositely contributed to ~98% of the total EBIT in FY23



Sources: Quarterly reports, SSB Research

EARNINGS FORECAST

YE Mar / (LKR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	32,277	24,027	23,837	39,630	20,606	21,799	27,668
YoY Growth (%)	23.9%	-25.6%	-0.8%	66.3%	-48.0%	5.8%	26.9%
Recurrent Net Profit	1,750	979	2,173	5,110	686	1,247	2,794
YoY Growth (%)	47.9%	-44.1%	121.9%	135.1%	-86.6%	81.8%	124.1%
Net Profit	2,150	979	2,386	5,110	686	1,247	2,794
YoY Growth (%)	-14.2%	-54.5%	143.6%	114.2%	-86.6%	81.8%	124.1%
Recurrent EPS (LKR)	1.8	1.0	2.2	5.1	0.7	1.2	2.8
DPS (LKR)	0.8	0.5	0.5	0.5	0.5	0.8	1.0
BVPS (LKR)	21.2	21.8	23.6	27.6	27.6	30.6	33.4
Investor Ratios (%)							
Recurrent PE (x)	7.4	16.3	6.7	3.1	23.3	12.8	5.7
PBV (x)	0.8	0.7	0.7	0.6	0.6	0.5	0.5
Div yield (%)	4.7%	3.1%	3.1%	3.1%	3.1%	4.7%	6.3%
ROE (%)	8.3%	4.5%	9.2%	18.5%	2.5%	4.1%	8.4%
EBIT Margin	11.7%	9.7%	12.5%	10.6%	22.2%	12.2%	15.9%
NP Margin	6.7%	4.1%	10.0%	12.9%	3.3%	5.7%	10.1%
Debt to Equity %	41.2%	50.2%	39.4%	84.0%	64.9%	59.2%	55.4%
Dividend Payout	42.9%	51.1%	23.0%	9.8%	72.9%	60.2%	35.8%

SECTORAL ANALYSIS

FY23 - Growth YoY %	Revenue	EBIT	NP
Construction	-43%	61%	-57%
Construction related material	-53%	12%	-42%
Property	80%	-7%	-49%
Automobile	-40%	30%	1329%

SECTORAL MARGINS

Margins	EBIT			NP		
	FY23	FY22	% Y-o-Y	FY23	FY22	% Y-o-Y
Construction	27%	10%	17.6%	5%	6%	-1.4%
Construction related material	29%	12%	17.1%	11%	9%	2.1%
Property	60%	117%	-56.8%	65%	231%	-165.6%
Automobile	7%	3%	3.8%	-2%	0%	-1.8%

QUARTERLY FINANCIAL SUMMARY

(YE March 31st / LKR mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	% Y-o-Y	% Q-o-Q
Revenue	12,133	4,900	5,336	4,768	5,601	-53.8%	17.5%
Cost of Sales	(11,030)	(3,807)	(4,232)	(3,410)	(3,353)	-69.6%	-1.7%
Gross Profit	1,103	1,093	1,104	1,358	2,248	103.8%	65.5%
Other income	903	558	336	360	97	-89.3%	-73.2%
Administrative expenses	(663)	(518)	(428)	(460)	(442)	-33.4%	-4.0%
Other expenses	(15)	(6)	(48)	(9)	(663)	4220.6%	7249.6%
Operating Profit	1,328	1,128	964	1,249	1,240	-6.6%	-0.8%
Net finance income/(Cost)	(777)	(728)	(1,106)	(1,286)	(675)	-13.1%	-47.5%
Share of results of associates	1,474	339	45	61	(198)	-113.4%	-425.9%
Profit before tax	2,025	739	(96)	25	366	-81.9%	1387.6%
Income tax expenses	(118)	6	11	(256)	(225)	89.8%	-12.2%
Profit for the year	1,907	745	(85)	(232)	141	-92.6%	161.1%
Profit attributable to:							
Equity Holders of the Parent	1,867	722	(44)	(227)	135	-92.7%	159.8%
Minority Interest	40	22	(41)	(5)	6	-85.1%	222.6%
Recurrent Net Profit	1,867	722	(44)	(227)	135	-92.7%	159.8%
Total OPEX							
Total OPEX	(678)	(524)	(476)	(469)	(1,105)	62.9%	135.6%
Total Equity	27,589	27,561	27,611	27,385	27,559	-0.1%	0.6%
Total Debt	23,178	24,376	25,089	24,205	17,891	-22.8%	-26.1%
Total Cash	2,208	2,321	1,422	1,027	671	-69.6%	-34.6%
GP Margin							
GP Margin	9%	22%	21%	28%	40%	3105 bps	1166 bps
EBIT Margin							
EBIT Margin	11%	23%	18%	26%	22%	1119 bps	-407 bps
NP Margin							
NP Margin	15%	15%	-1%	-5%	2%	-1297 bps	717 bps
Debt to Equity							
Debt to Equity	84%	88%	91%	88%	65%	-1909 bps	-2347 bps
Tax Rate							
Tax Rate	6%	-1%	12%	1041%	61%	5554 bps	-97911 bps
Recurrent NP Margin							
Recurrent NP Margin	15%	15%	-1%	-5%	2%	-1297 bps	717 bps
COS/Revenue %							
COS/Revenue %	-91%	-78%	-79%	-72%	-60%	3105 bps	1166 bps
Admin Expenses/Revenue							
Admin Expenses/Revenue	-5%	-11%	-8%	-10%	-8%	-242 bps	176 bps

Changes in Top 20 Shareholders

Name of the Shareholder	No. of Shares as at 31.03.2023	# Shares Changed	%
Mr Sumal.J.S. Perera	250,000,000		25.00%
Mr J.C. Joshua	101,000,000		10.10%
Mrs R.M.N. Joshua	70,000,000		7.00%
Mr Shamal J.S. Perera	51,159,365		5.12%
Mrs D.R.S. Malalasekera	45,000,000		4.50%
Access International (Pvt) Limited	32,200,000		3.22%
Mr J.W. Nanayakkara & Mrs H.D. Nanayakkara	30,788,574		3.08%
Foresight Engineering (Pvt) Ltd	30,000,000		3.00%
Mr D.A.R. Fernando	24,300,000		2.43%
Mr S.H.S. Mendis	24,300,000		2.43%
Mr S.D. Munasinghe	24,300,000		2.43%
Confab Steel (Private) Limited	22,940,000	430,000	2.29%
Employee'S Provident Fund	20,478,289		2.05%
Mercantile Investments And Finance PLC	13,121,925		1.31%
Access Medical (Pvt) Ltd	13,000,000		1.30%
Mr M.J. Fernando	12,138,117		1.21%
MR R.P Weerasooriya	10,132,479	698,723	1.01%
Deutsche Bank Ag As Trustee To Capital Alliance Quantitative Equity Fund	7,125,871	New Entrant to Top 20	0.71%
MRS T T A De Silva Weerasooria	6,000,000	300,000	0.60%
Deutsche Bank Ag As Trustee For Jb Vantage Value Equity Fund	5,072,312		0.51%

Softlogic Research Guide to Investment Rating

BUY	:	Total return may exceed 15% over the next 12 months
Trading BUY	:	Total return may vary from 7.5% to 15% over the next 12 months
Neutral	:	Total return may fall within the range of +/- 7.5% over the next 12 months
Take Profit	:	Target price has been attained. Look to accumulate at lower levels
Sell	:	Total return may fall by more than 15% over the next 12 months

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