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Access Engineering awarded a bid to develop logistics facility

We revise our target price to LKR 40/share

On the 19th of January 2022, Access Logistics Park Ekala (Pvt) Ltd; a unit of the Access Engineering Group; was awarded the bid to develop a logistics and business park mixed development project in Ja Ela from the Urban Development Authority.

This project was awarded as the existing LKR 5bn CAMSO facility under construction will not be utilized by Michelin as per the original agreement. The existing construction of the CAMSO facility will be completed as planned, and will be rented to a new tenant as per management indication. The rental income for this facility may be slightly lower than the previously estimated c.700mn LKR per annum which was on track to be realized by FY23E.

CAL's view:

Access Engineering PLC was awarded the contract after a competitive bidding process and evaluation of technical and financial capability which involved c.3-4 other bidders. The facility spans 600,000 sqft and this project was awarded on a Built Operate Transfer (BOT) basis.

Impact on Access Engineering PLC:

1. As per management guidance the construction of the logistics facility has commenced and the contract value is LKR 9bn (LKR 8bn in construction costs and LKR 1bn land value).
2. The awarding of this project will take the AEL orderbook from c.LKR 52bn presently (Excluding the ECT project) to c.LKR 60bn.
3. The construction of this facility will take c.18 months, and will result in AEL receiving a rental income of LKR 1.5bn per annum starting FY24E as per CAL estimates. The rental period is 10 years, with the option of further extending for an additional 5 years. The construction will be carried out by Access Engineering PLC.

Target price revision

1. With the addition of the new project (which was not factored in to the previous valuation), **we revise our target price from LKR 32.5/share (November 2021) to LKR 40/share.**
2. We expect the FY24E bottom line to expand c.44% YoY to LKR 5.6bn with the addition of the rental income Vs our previous estimate of LKR 4.4bn (+14% YoY)
3. This may give a **total return of 15.2%** (11.5% share upside, 3.7% dividend yield).

Appendix:

1. Updated financials

Acces Engineering PLC Year end March (LKR Mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	24,027	23,752	31,257	35,263	39,294
<i>YoY Change (%)</i>	<i>-25.6%</i>	<i>-1.1%</i>	<i>31.6%</i>	<i>46.8%</i>	<i>11.4%</i>
Operating profit	2,327	2,975	3,907	4,710	6,893
<i>YoY Change (%)</i>	<i>-38.4%</i>	<i>-21.3%</i>	<i>31.3%</i>	<i>20.5%</i>	<i>46.4%</i>
Profit for the period	928	2,180	3,236	3,925	5,639
<i>YoY Change (%)</i>	<i>-58.7%</i>	<i>-2.9%</i>	<i>66.8%</i>	<i>18.9%</i>	<i>43.7%</i>
EPS (LKR)	0.98	2.17	3.20	3.89	5.58
PER on current share price (x)	35.23x	15.87x	10.77x	8.88x	6.18x

2. Project pipeline

Sector	Amount (LKR Mn)
Roads, Bridges & Flyovers	12,500
Water	500
Building & Piling	29,000
Construction Material	18,000
Total	60,000

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Contacts

Udeeshan Jonas

Chief Strategist

Tel: +94 11 231 7786

E-mail: udeeshanj@cal.lk

Trisha Peries

Head of Research

Tel: +94 11 231 7786

E-mail: trishap@cal.lk

Ishara Nilam

E-mail: isharan@cal.lk

Pravir Goonewardene

E-mail: pravirg@cal.lk

Nilakshi De Mel

E-mail: nilakshim@cal.lk

Natalie Kulasekera

E-mail: nataliek@cal.lk

For general queries please email teamresearch@cal.lk or contact us on +94 11 2317777

Address: Level 5 "Millennium House", No. 46/58 Nawam Mawatha, Colombo 02, Sri Lanka