



# ACCESS ENGINEERING PLC (AEL: LKR 24.40)

Recommendation: Buy

Target Price : 34.50

Sector: Capital Goods

## Key Statistics

Market Cap (LKR Bn)	24.40
Market Cap (USD Mn)	81.33
Issued Quantity (Mn)	1,000
Current Trading Range	24.70-23.60
52 week High/Low	25.90/17.50
YTD High/Low	25.90/18.60

## Valuation

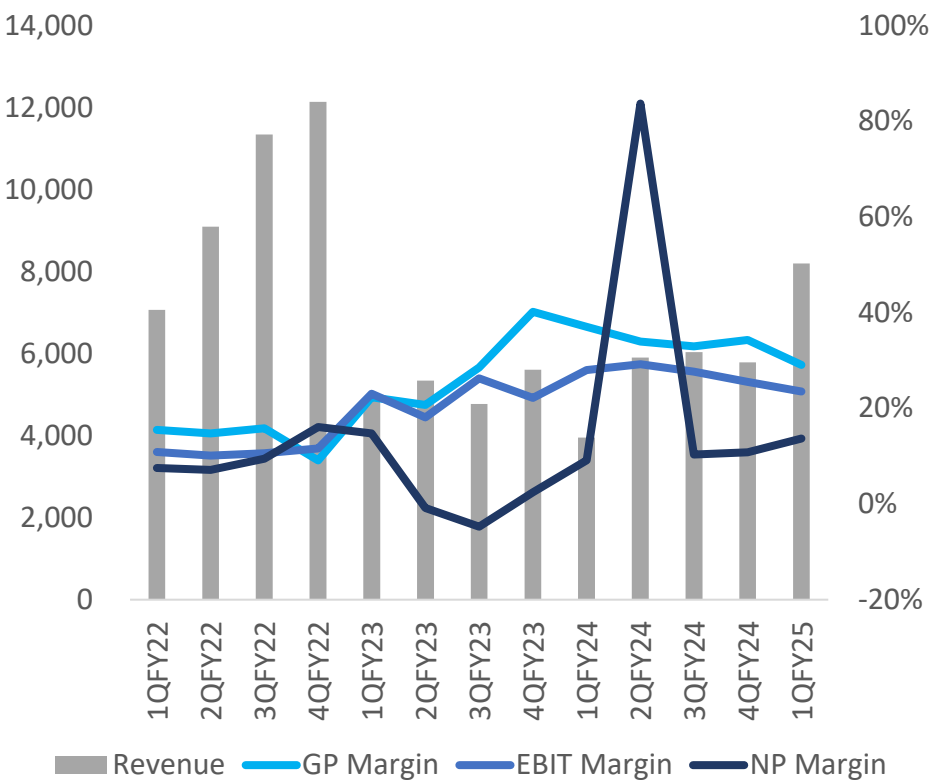
Market PE (x)	8.31
Market PBV (x)	0.98
AEL PE (x)	3.3
AEL PBV (x)	0.7
Bloomberg Ticker	AEL SL
GICS Industry Group	Capital Goods

Prices as at 24.10.2024

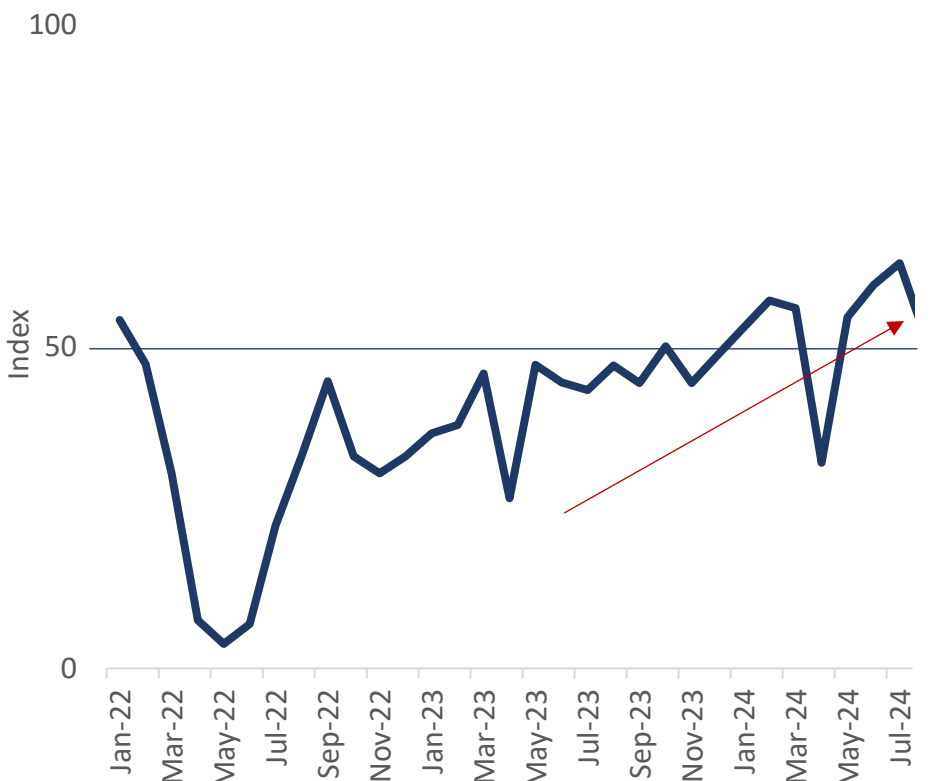
## Main Shareholders as at 30.06.2024

Mr. S J S Perera	25.00%
Mr. J C Joshua	10.20%
Mrs. R M N Joshua	7.00%
Mr. S J S Perera	5.12%
Mrs. D R S Malalasekera	4.50%

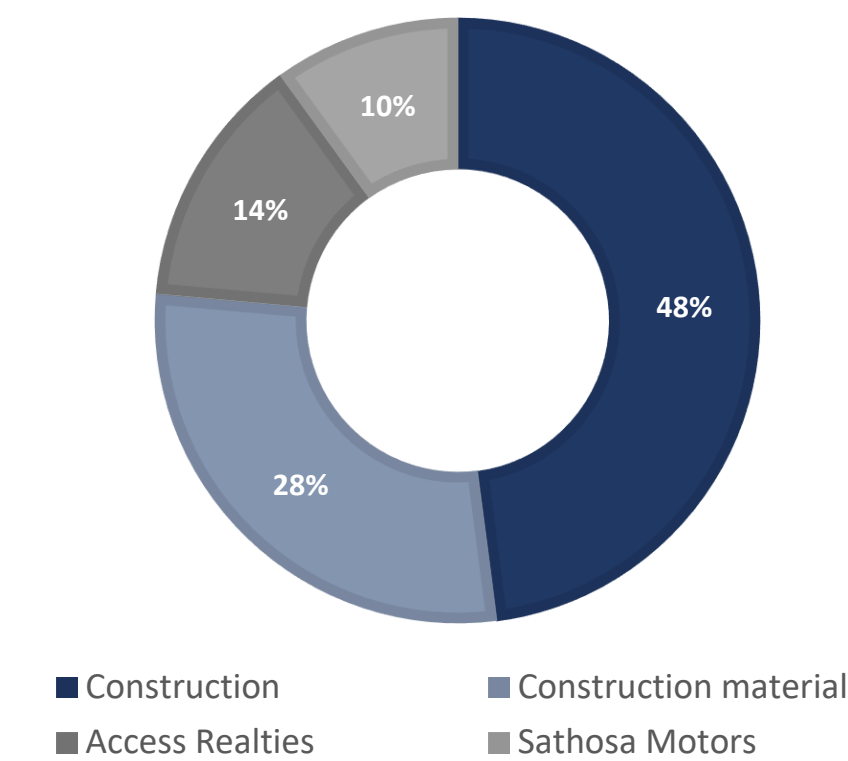
## AEL's revenue and profit margins are on an upward swing



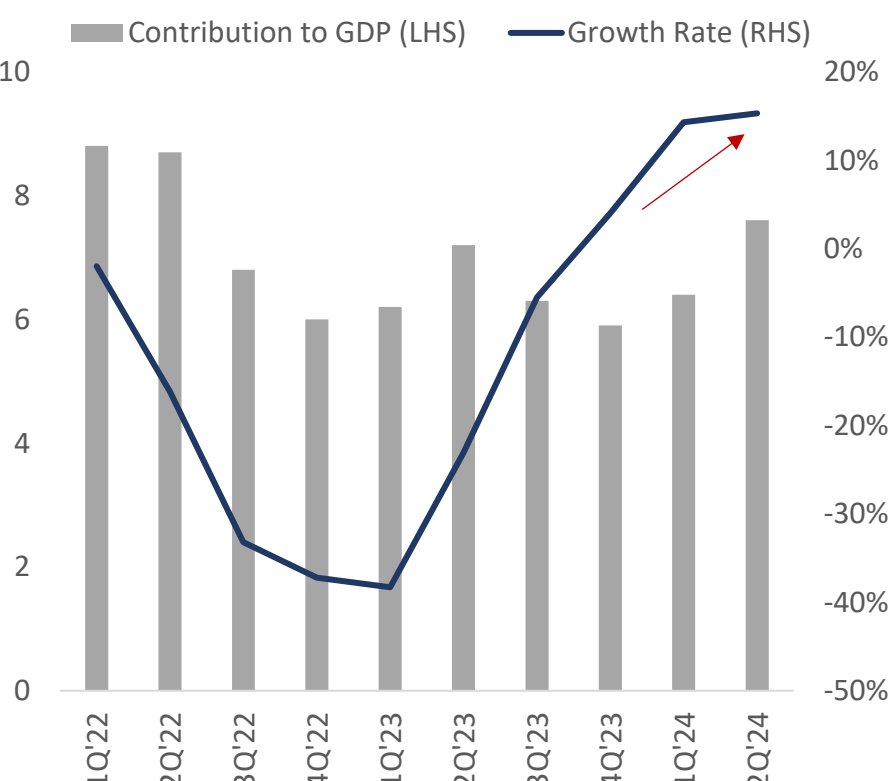
## PMI for construction sector continue to grow, signaling expansion in sector activity levels



## Revenue Composition of AEL



## Contribution from construction sector to GDP is picking up



- Access Engineering PLC-** One of the leading construction firms in Sri Lanka is mainly engaged in the construction of highways, buildings, drainage, bridges (contributes to 48% of group's topline), and sale of construction-related material (contributes to 28% of group's topline). Through AEL's fully owned subsidiary - Access Realities (Pvt) Limited, the group is also involved in leasing out office space in Access Tower I & II, whereas under the automobile sector AEL owns 84.4% stake in Sathosa Motors which is the authorized distributor of Isuzu, Jaguar, and Land Rover in Sri Lanka.
- AEL's solid financial performance to enhance value of equity holders:** AEL recorded an impressive performance in 1Q'25 by soaring earnings by more than 3 times to LKR 1.1Bn fueled by a 107% YoY increase in group topline to LKR 8.2Bn which was achieved across its all four segments. It was largely driven by the surge in the topline of construction and property segments by 133% YoY to LKR 1.95Bn and 130% YoY to LKR 381Mn respectively. Meanwhile, construction related material and automobile sector also grew by 63% YoY and 92% YoY respectively. Additionally, the group's net finance cost fell by 31% YoY to LKR 457Mn as interest rates gradually reduced, further contributing to AEL's quarterly profits. Meanwhile, the debt-to-equity ratio remains constant at 54% in 1Q'25 compared to the corresponding quarter last year. While the interest coverage ratio soared to 4.41 times in 1Q'25 from 1.68 times in 1Q'24 which highlights AEL's capability to comfortably meet its financial obligations and supporting its long-term sustainability. Further, AEL's share of results of equity accounted investees soared by >100% YoY to LKR 59Mn, largely attributable to their strategic association with ZPMC Lanka, which engaged in container handling equipment maintenance.
- The optimistic outlook for the construction sector underscores AEL's growth potential:** Sri Lanka's economy is experiencing a 'Goldilocks moment', with growth accelerating by 4.7% in 2Q'24 while inflation remaining subdued and the external sector show signs of strengthening. The construction sector which contributed for 7.6% of economy recorded a solid expansion by growing 15.5% in 2Q'24. Meanwhile, Purchasing Managers' Index for Construction remains well above its 50 threshold, reflecting robust performance and favorable outlook for future developments. In the meantime, we expect, AEL to achieve a 54% YoY revenue growth in FY25E, driven by the strong order book exceeding LKR 48.3Bn over the next 2.5 years, primarily supported by major projects in pipeline, including the ADB-funded I-Roads Project, Section 3 of the Central Expressway, the Elliot Place Housing Project, the Gatambe Flyover, and the Nittambuwa-Pasyala Road Project. A significant portion of this growth is attributed to the Port & Marine sector, with AEL awarded key contracts for the West Container Terminal project funded by the Adani group, which will be Sri Lanka's largest and deepest terminal. As of FY24, 34% of Package 1 (Backup Yard and Utilities) and 19% of Package 2 (Buildings) have been completed, contributing to an order book of LKR 31.9Bn in the port & marine segment over the next 2.5 years. Further, construction of port city certainly will benefit the industry, providing more opportunities for local contractors including AEL.

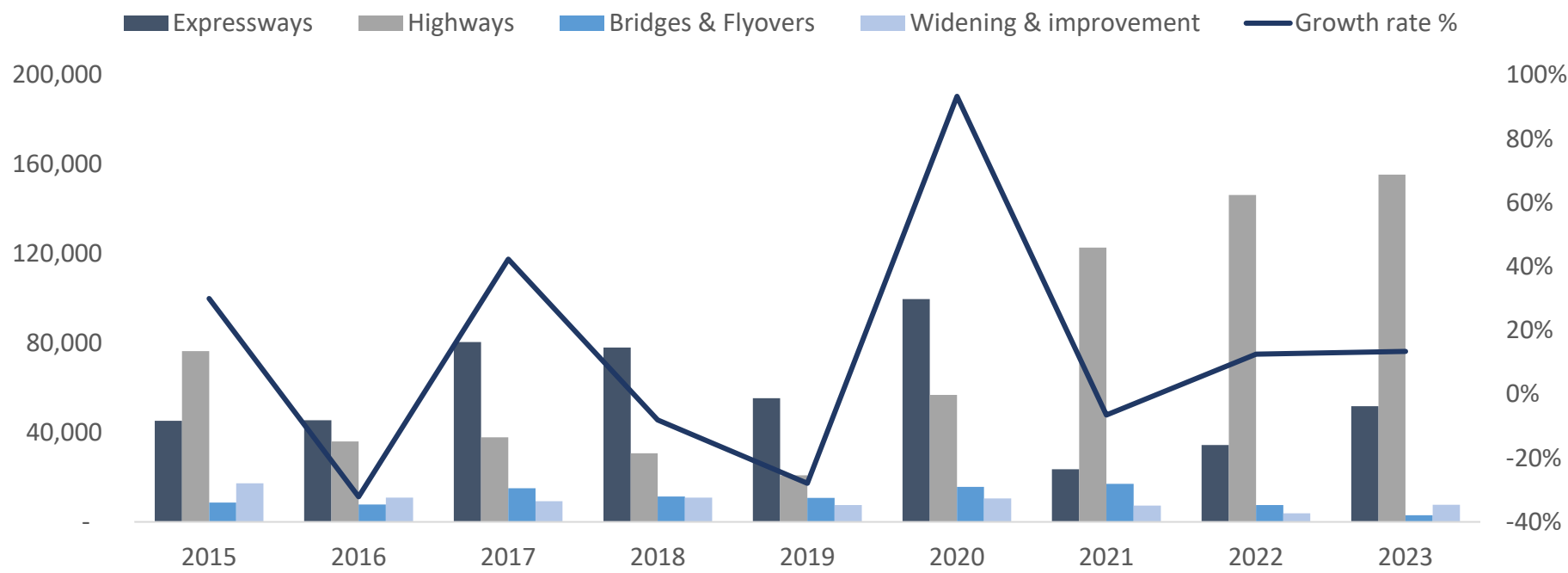


Recommendation: Buy

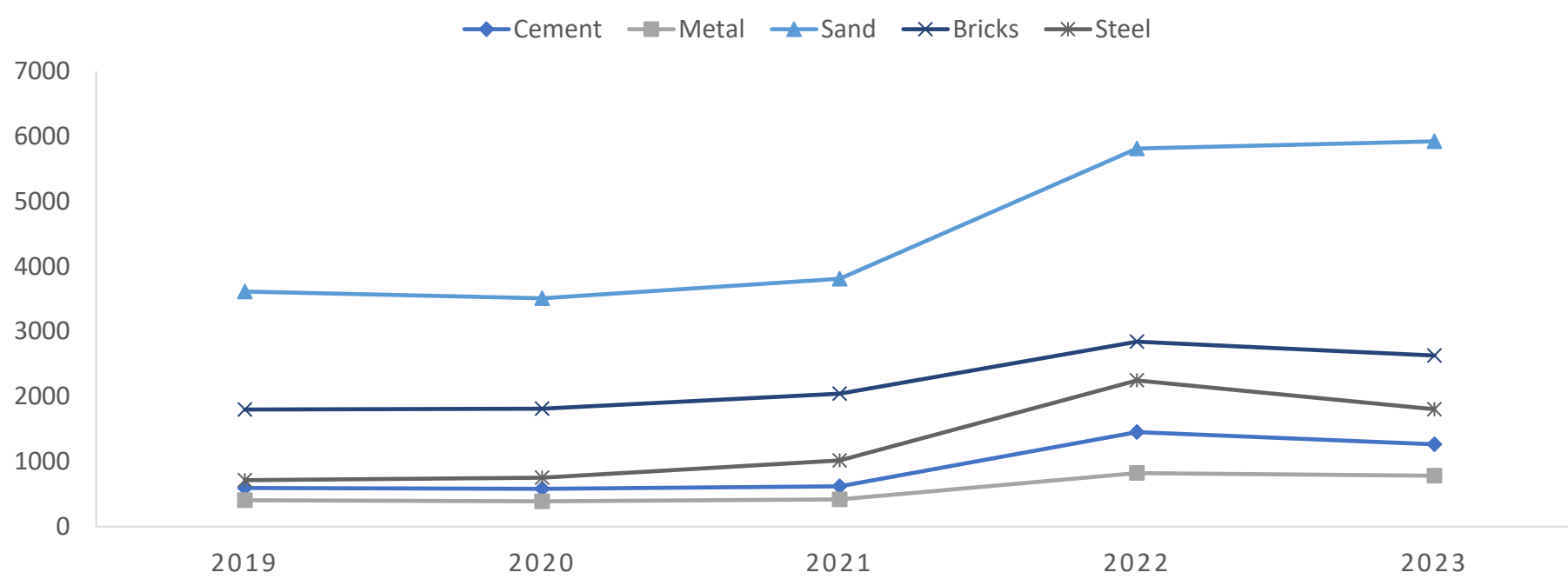
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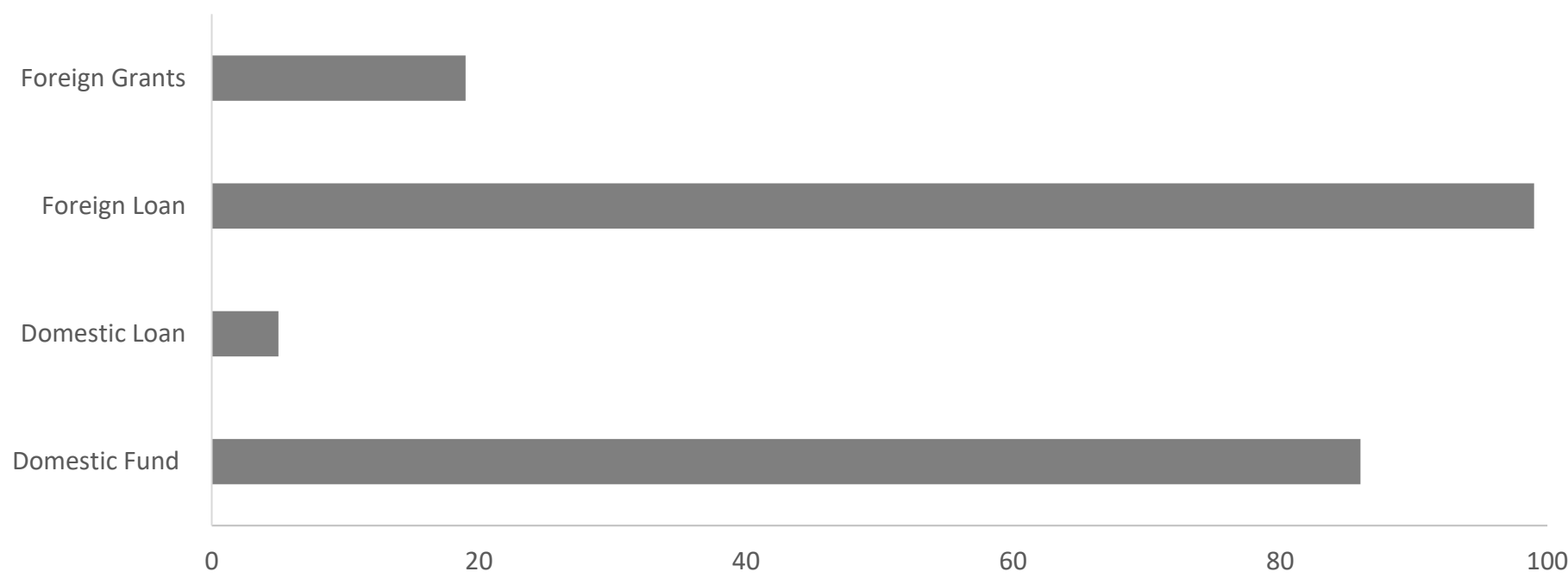
## Investment on major road developments projects grew by a CAGR of 5% during 2015-2023



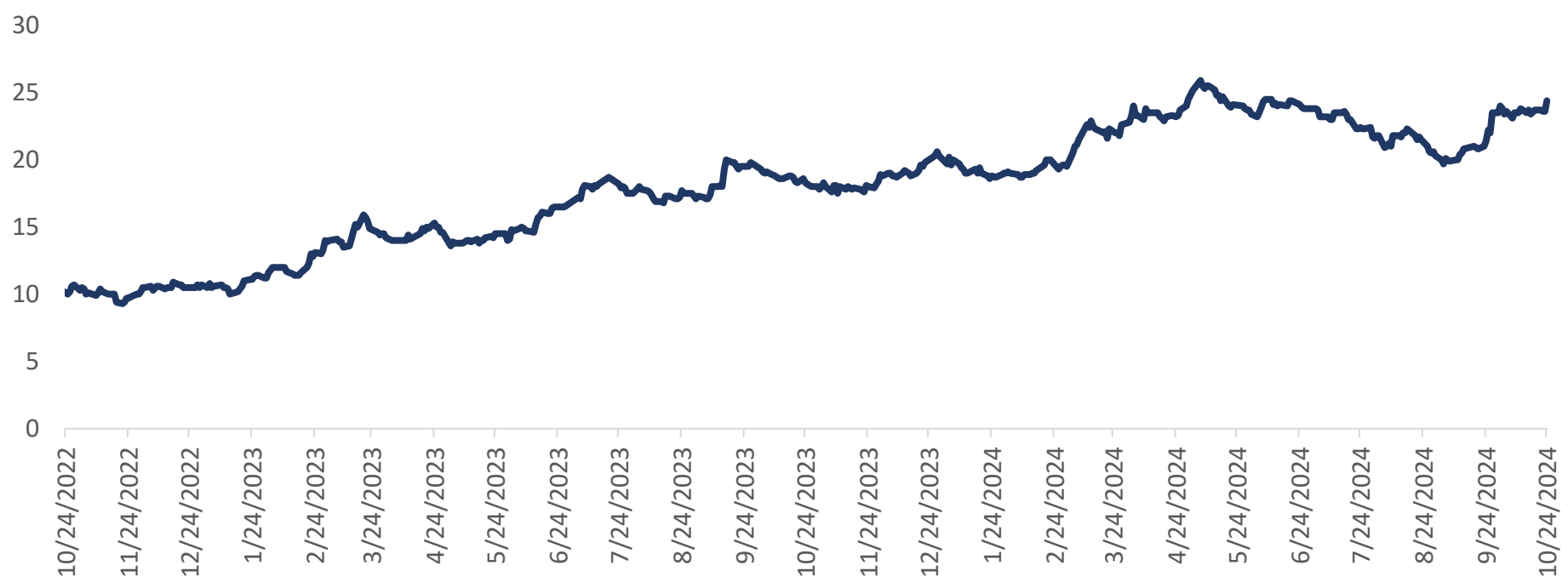
## Material prices are on a downward trend, further benefiting construction sector



## Reviving foreign-funded projects crucial in revitalizing construction sector (Classification of Mega-scale projects according to finance source)



## Share Price Performance



- Resumption of halted projects to drive AEL's revenue:** Sri Lanka's construction sector is set for a substantial revival following the successful completion of external debt restructuring, allowing for the resumption of previously stalled bilaterally funded projects. AEL is positioned to benefit from the gradual easing of restrictions on these initiatives, especially with the recommencement of the BIA development project funded by JICA and the Gatambe flyover project funded by the Government of Hungary.

- Declining material prices to benefit AEL's Construction-Related Material Segment Performance:** In 1Q'25, segment profit from construction-related materials increased over fivefold, driven by a 63%YoY rise in topline to LKR 1.8Bn, while production costs grew only 31%YoY to LKR 1.34Bn, largely due to lower material prices. The government also reduced the cess on imported cement by LKR 1 per kilogram, further benefiting the construction sector. As Sri Lanka's largest asphalt producer, AEL fulfills its raw material needs while also catering to external demand as well. Moreover, AEL's production plants and quarries continue to play a crucial role in supporting various ongoing projects such as WCT, ECT and Marina Square. In support of these projects, AEL's asphalt plants delivered about 220,000 metric tons of asphalt, quarries supplied over 260,000 cubic meters of quarry products, and crusher plants provided more than 65,000 cubic meters of aggregate. Hence, we anticipate that the topline from the construction materials segment to surge by 30%YoY to LKR 6.62Bn in FY25E and 35%YoY to LKR 8.94Bn in FY26E.

- Lifting of the vehicle import ban to bolster profitability:** AEL's automobile segment, primarily encompassing SMOT, has encountered difficulties due to ongoing vehicle import restrictions since 2020. SL plans to lift the suspension on commercial vehicle imports in Dec'2024, which will benefit SMOT, as ISUZU commands a 65% market share in commercial vehicle segment and 80% in the spare parts sector. Thus, we anticipate a 30% YoY growth in the segment's topline to LKR 3.36Bn in FY26E and a 45% YoY increase to LKR 4.87Bn in FY27E.

- Completion of the new warehouse facility and the Marina Square project to elevate profit margins:** The Export Green Field Facility at Ekala, secured under a 15-year lease, along with the Logistics Park at Kimbulapitiya, which has a 5-year lease agreement, is expected to generate an annual rental income of USD 750Mn. Moreover, AEL's Marina Square Development, comprising 1,088 residential condominium units, has already sold over 52% of its units and on track to be completed in Dec'25, supporting AEL's long-term growth.

- AEL's DCF valuation indicates an upside of 41% to the CMP:** We estimate AEL's equity holder's profit to reach LKR 4.69Bn in FY25E supported by the revenue from major ongoing construction projects, higher demand for construction materials, additional income from the property segment through the two warehouses and the completion of Marina Square along with the lifting of vehicle import ban. Base on DCF valuation we value the counter at LKR 33.80, derive an upside of 41% to the CMP of LKR 24.40. Thus, we recommend BUY.





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Earnings Forecast

YE 31 March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (LKR Mn)	32,277	24,027	23,879	39,702	20,565	21,501	29,536	34,486	41,967
YoY growth (%)	24%	-26%	-1%	66%	-48%	5%	37%	17%	22%
Equity Holder's Profit (LKR Mn)	2,150	979	2,427	5,183	2,482	6,861	4,699	6,043	7,852
YoY growth (%)	-14%	-54%	148%	114%	-52%	176%	-32%	29%	30%
Reported EPS (LKR)	2.2	1.0	2.4	5.2	2.5	6.9	4.7	6.0	7.8
DPS (LKR)	0.5	0.5	0.5	1.0	0.0	1.5	1.2	1.7	2.4
BVPS (LKR)	23.6	24.4	26.5	30.6	32.0	37.9	41.5	45.8	51.3
Ratios (%)									
Dividend Payout(%)	23%	51%	21%	19%	0%	22%	25%	28%	30%
Dividend Yield (%)	2.1%	2.1%	2%	4%	0%	6%	5.0%	7.2%	10.0%
ROE (%)	9%	4%	9%	17%	8%	18%	11%	13%	15%
PE (x)	11.0	24.1	9.7	4.6	9.5	3.4	5.0	3.9	3.0
PBV (x)	1.0	1.0	0.9	0.8	0.7	0.6	0.6	0.5	0.5

Note – The profit for FY24 includes an exceptional item of LKR 2.5Bn related to tax reversal.



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