

# ACL CABLES PLC

## COMPANY UPDATE

FAIR VALUE LKR 72.60 (+45.78%)

No. 42, Sir Mohammed Macan Markar Mawatha, Colombo 3, Sri Lanka.  
Hotline : 0705 666 777 | Whatsapp : 0777 233 633

### Market Data

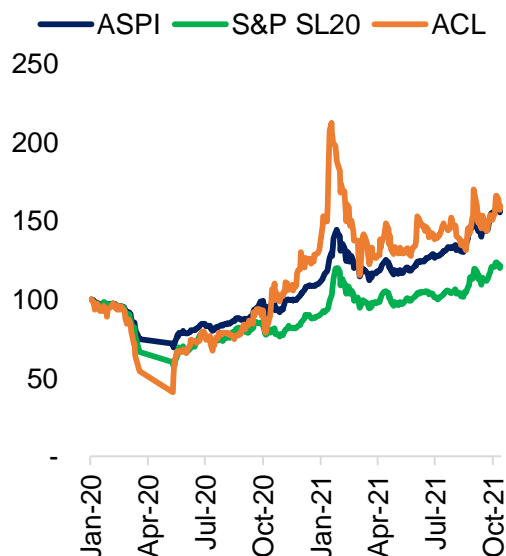
Tickers	
CSE/Bloomberg: ACL.N0000/ACL SL	
Market price as at 15.10.2021 (LKR)	49.80
Market Cap. (LKR mn)	11,930.82
Market Cap. (USD mn)	59.43
Market Cap as a % of total	0.28%
Issued Number of Shares (mn)	239.57
Foreign Shareholding	0.73%
Free Float	37.34%

### Major Shareholders

As at 30th June 2021

Mr. U. G. Madanayake	38.15%
Mr. Suren Madanayake	22.21%
Employees Provident Fund	4.93%
SLIC- General Fund	2.80%
Mrs. N.C. Madanayake	1.72%
FAB Foods (Private) Ltd	1.28%
Employees Trust Fund Board	1.07%
National Savings Bank	1.02%
Star Packaging Pvt Ltd	0.69%
Perera R.D.M.	0.59%

### Relative Price Chart



**Local Market Leader in Cables to benefit from capacity expansion and multiple selling price increases to mitigate the challenge of higher raw material costs....**

**ACL Cables PLC** manufactures electric cables, switches and accessories in Sri Lanka and holds **c.70% of the domestic market**. The Group's product range includes power cables and conductors, armored cables, aerial bundled cables, control cables, telephone cables and auto cables. With the acquisition of **ACL Electric in 2014**, ACL markets electrical switches, sockets, breakers and accessories thereby strengthening its value chain and becoming a one stop shop for electrical requirements.

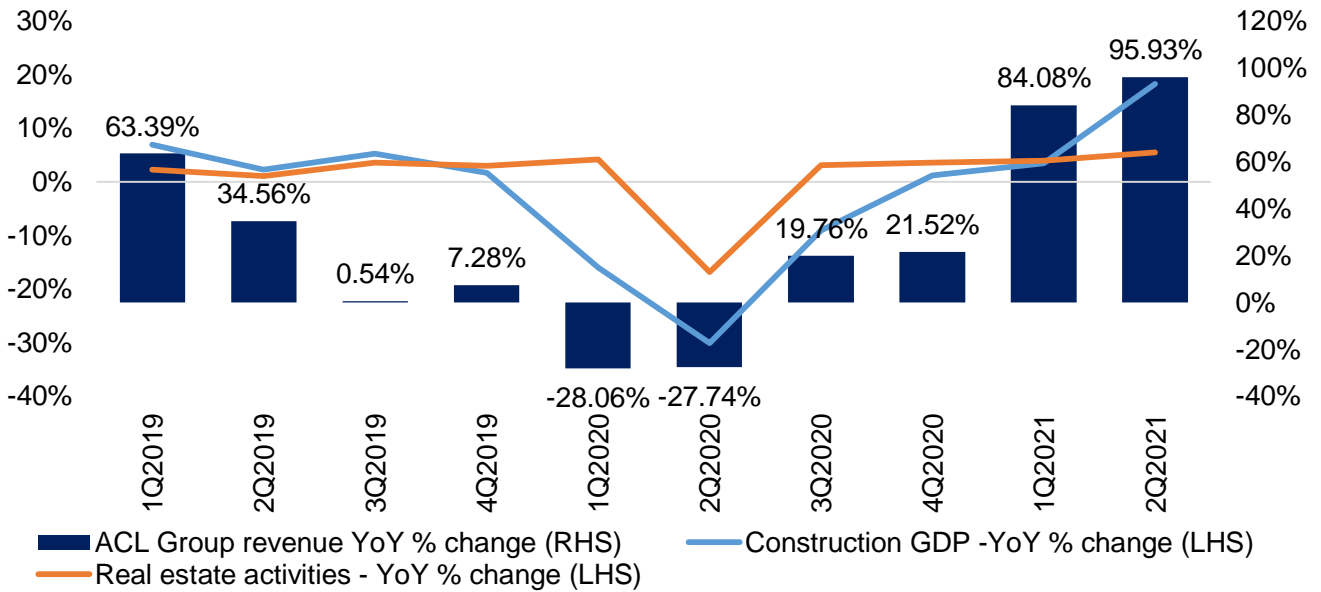
ACL acquired **Cable Solutions Pvt. Ltd in November 2019**. This resulted in the expansion of ACL's product range to include niche products. This acquisition enables the ACL Group to access untapped markets including Europe and US and improve marketing capabilities. Further, **industry consolidation** was seen in **1QFY22** where ACL acquired the **machinery of Kamal Cables**, a Company which was among the top 5 players. This capacity addition is expected to expand dealer market capacity **by 50% from 3QFY22F**.

### Figure 1- Group structure

ACL Cables PLC		
79.30%	Kelani Cables PLC	Manufacturing and selling power cables, telecommunication cables and enameled winding wires
65.20%	ACL Plastics PLC	Manufacturing plastic and PVC compound
100.00%	Lanka Olex Cables (Pvt) Ltd	Investing Company
93.79%	ACL Kelani Magnet Wire (Pvt) Ltd	Manufacturing and export of enameled winding wires
65.20%	ACL Polymers (Pvt) Ltd	Manufacturing of PVC compounds
100.00%	ACL Metals & Alloys (Pvt) Ltd	Manufacturing and selling aluminium and aluminium alloy rods
100.00%	Ceylon Copper (Pvt) Ltd	Manufacturing of copper rods, bus bars, strips and profiles for the local and export market
100.00%	ACL Electric (Pvt) Ltd	Manufacturing of electrical accessories
51.00%	Cable Solutions (Pvt) Ltd	Manufacturing of cables and cable accessories
32.53%	Resus Energy PLC	Power & energy generation

Source: Annual Reports

**Figure 2- Construction & Real Estate Activities YoY % Change in GDP Vs. YoY % change in ACL Cables Revenue**



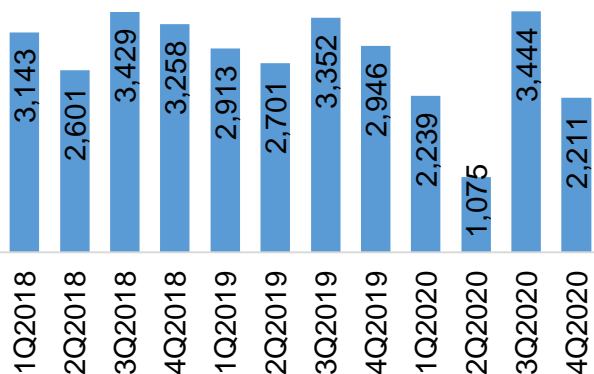
Source: Central Bank of Sri Lanka, Department of Census and Statistics, Annual & Interim Reports

The construction and real estate industries witnessed a recovery from 3Q2020 onwards. ACL Group Revenue mirrored the adverse impact of construction and Real Estate Sectors due to COVID-19 in 1H2020 and recorded steady **Revenue growth from 3Q2020** (figure 2).

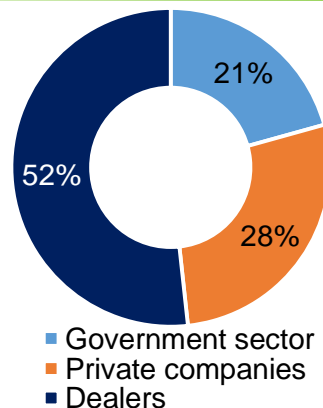
ACL Group is the **main cables supplier to all Government projects** and is expected to record **strong performance over the next 2 years** backed by the ongoing construction and infrastructure development drive. Further, the number of building approvals each quarter signals steady revenue streams for the sector with ongoing construction and maintenance work (figure 3).

The **local Cable Market** size currently amounts to **c.LKR 29bn** (figure 4) led by the **Dealer Market (52%)**, **Private Sector Institutions (28%)** and **Government Institutions (21%)** which mainly includes the Ceylon Electricity Board (CEB).

**The The Figure 3- Greater Colombo Building Approvals**



**Figure 4- Sri Lankan Cable Industry Market Mix**



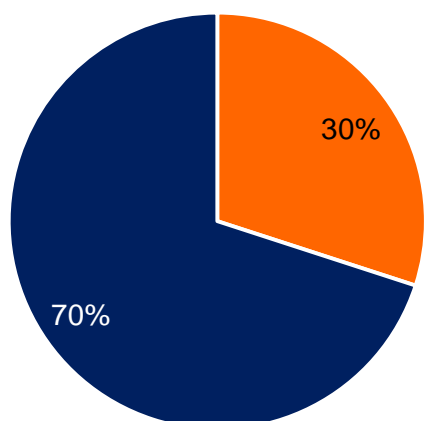
Source: Central Bank of Sri Lanka, Annual Reports and Market Participants

ACL holds **c.70% market share** within the **Dealer Market** (figure 5) where they operate with **over 7,000** dealers island-wide. The dealer market does not rely on imported products. Therefore, the ACL Group is **not expected to be impacted adversely if the current import ban on cables is lifted**. Further, the strict import controls implemented has positively impacted the local manufacturers as **smuggled cables products are not available**. The Group holds **75% market share** within the **institutional market** (figure 6).

The Group serves key **Government Institutions** including CEB, Lanka Electricity Company, Railways and Sri Lanka Telecom. Among **Private Institutions**, some of the key projects catered to include Cinnamon Life by John Keells Holdings, Colombo City Center by Abans Group, Grand Hyatt Colombo by Sinolanka Hotels and Spa (Pvt) Ltd, Altair by the Indocean Group, Astoria Condominium by AVIC and Laugfs Solar Panel Terminal Hambanthota by Laugfs Holdings.

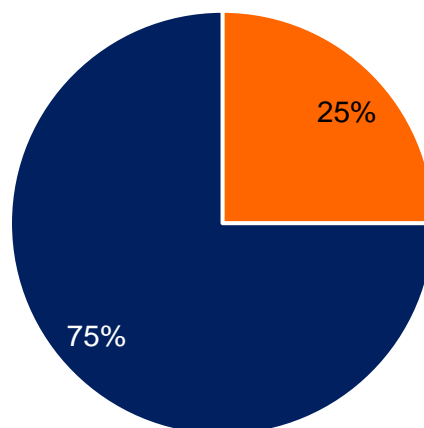
Among state owned institutions, CEB was allowed to import cables at duty free pricing while the local manufacturers had to quote ex-factory price which included taxes on raw materials. **ACL supplied 80%** of the requirements of **Duty Free projects** owned by overseas investors and approved by the Board of Investment. Thereby ACL benefits from the current import ban within the Government Institutions segment. Before the import ban some foreign projects have been granted permission to import cables by the Board of Investments when the required type of cables are not available in Sri Lanka. In FY18, the industry saw a tendency towards relaxation of the negative list for some Free Trade Agreements. Therefore the cables industry lobbied the government to keep cables in the negative list in the case of Free Trade Agreements. At present cables remain on the BOI negative list providing an opportunity to the local manufacturers to supply the product for these projects.

**Figure 5- ACL Group’s market share in the dealer market**



■ ACL Group  
■ Others include Sierra Cables, Orange, Sun Cables, SR Cables and Ruhunu Cables

**Figure 6 – ACL Group’s market share in Institutional market**



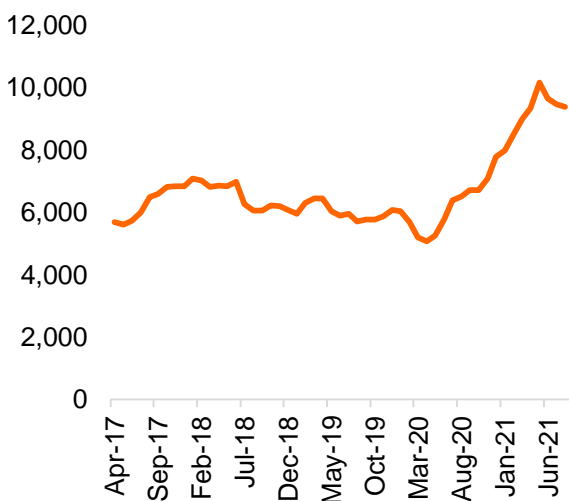
■ ACL Group  
■ Others include Sierra and Orange Cables

Source: Annual Reports, Media Articles and Market Participants

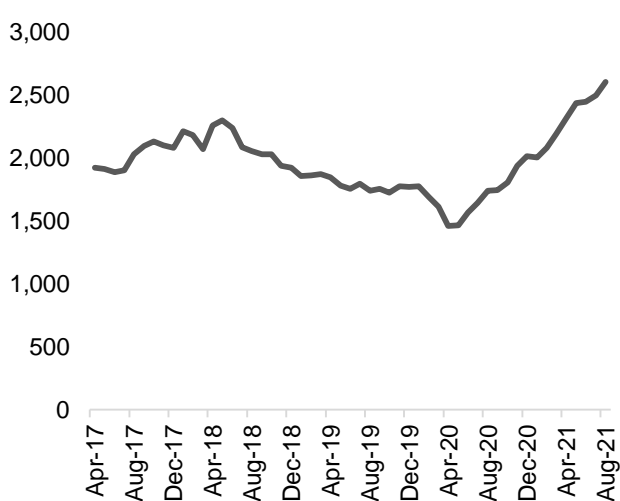
Imported raw materials such as Copper, Aluminum and PVC account for the majority of ACL's Cost of Sales. **Copper** prices grew **17.44% YoY** in **FY21** and by a significant **65.74% YoY** during **April-August 2021** (figure 7). This was mainly driven by higher demand from the leading global consumer, China and the greater industrial demand driven by economic recovery after the global vaccine rollouts. However, the price retreated in July and August 2021 amid concerns of slower growth in China and rising COVID-19 cases globally. Copper prices are expected to remain high, however prices are likely to come under pressure in 2H2021 owing to the slowdown in the Chinese economy and expectations of troubles with mine supply easing in 2021.

**Aluminium prices rose 56.17% YoY** on average during April-August 2021 (figure 8). This was driven by expectations of economic recovery post COVID-19 and concerns that world's largest producer, China's new climate policy, which focuses on greenhouse gas emissions reduction could limit future supply of the metal. Continued high demand has boosted the price outlook for aluminium. ACL imports majority of the raw material as availability of scrap metal is limited and there is a **ban on importing scrap** unless for export purposes. The Company does **not book contracts in advance** and therefore is largely dependent on prevailing prices.

**Figure 7- Copper price movement (USD/MT)**



**Figure 8- Aluminium price movement (USD/MT)**



Source: Indexmundi

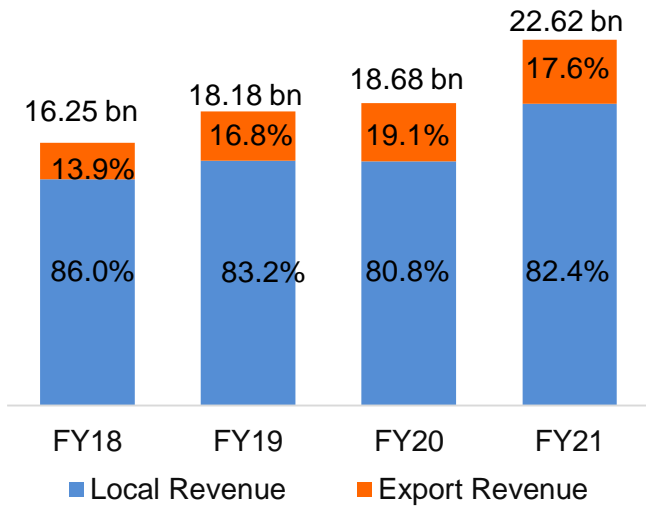
Note: Indexes used include Copper, grade A cathode Monthly Price & Aluminium (LME) London Metal Exchange, unalloyed primary ingots, high grade, minimum 99.7% purity, settlement price

## Financials

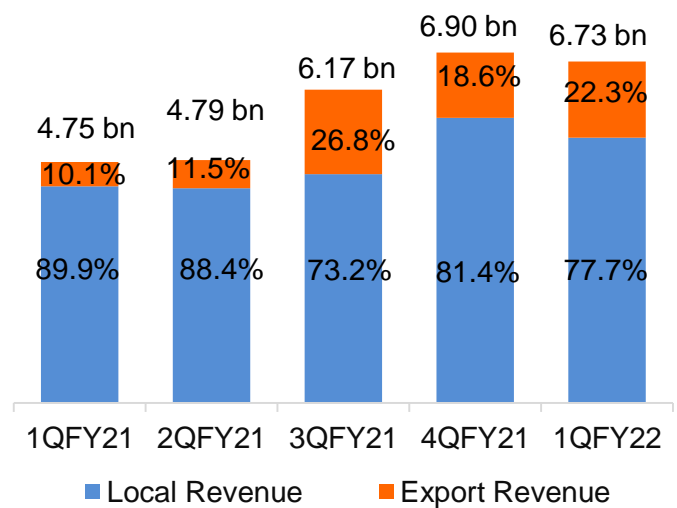
ACL's Revenue recorded **8.39% CAGR in FY17-FY20** despite marginal growth in GDP of both construction and real estate activities during this period. **FY21** saw **Revenue growth of 21.07% YoY** to **LKR22.62 bn** and **95.93% YoY** in **1QFY22** from a low base amid the disruptions caused by the pandemic. The 2.58% QoQ dip in 1QFY22 Revenue is attributable to COVID-19 led lockdowns. 1Q is also generally a relatively slower quarter for the demand of building materials due to the new year holidays in Sri Lanka.

**Local Revenue** grew at **5.46% CAGR in FY17-FY20** and recorded **strong growth of 23.44% YoY** to **LKR18.64 bn** in **FY21**. This was led by **strong volume growth** in the dealer market and project market segments coupled with **higher Average Selling Prices** implemented due to the increase in cost of raw materials from November 2020 onwards. In line with its strategy to focus on the electrical segment, switches including its low voltage switch series; miniature circuit breakers (MCB) range recorded a significant growth YoY. **Export Revenue** grew at a higher pace with **25.88% CAGR in FY17-FY20** and recorded **11.09% YoY in FY21** (figure 9). The Revenue contribution from **exports** increased from **12.23%** in **FY17** to **17.57%** in **FY21** which further increased to **22.33%** in **1QFY22**.

**Figure 9- Annual Revenue Mix (LKR bn)**



**Figure 10- Quarterly Revenue Mix (LKR bn)**



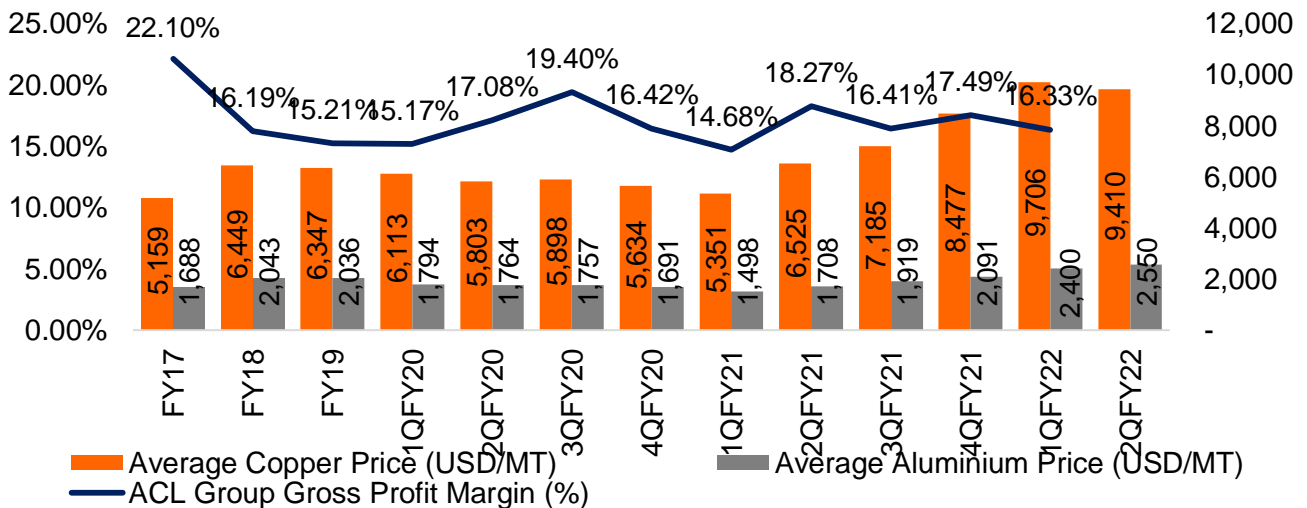
Source: Annual & Interim Reports

We expect **Revenue growth of 40.07% YoY in FY22F** and **11.60% YoY in FY23F**. The Revenue mix in FY22F is expected to be dominated by the **Dealer Market (35%), Government Sector (25%), Private Companies (25%) and Exports (15%)**. Revenue growth is backed by the **expected capacity** increase of **c.50%** through acquiring and modernizing Kamal Cables' machinery to materialize in **2HFY22F**. The increase in capacity is mainly expected in the dealer market of ACL and the power cables segment at Kelani Cables. Revenue growth is expected to be supported by ACL's **steady project pipeline in FY22F-23F**. This includes CEB projects, Bandaranaike International Airport Terminal 2 Development Project, Cinnamon Life and Colombo Port City projects. Given the significant increase in raw material prices over the year and the volatility in both commodity prices and exchange rate, **ACL implemented four price increases from November 2020 to 1<sup>st</sup> September 2021** amounting to **over 50% YoY**. A further price **increase of 10% came into effect in September 2021**.

ACL is also expected to benefit through synergies from **Cable Solutions Pvt. Ltd** which was acquired in **November 2019**. The Group expects to use its **marketing strength** to capture **untapped export markets** including **Europe and USA**. The export segment is currently battling the challenge of higher freight rates to selected markets. However efforts are underway to expand its reach to new markets including Malaysia and Indonesia with niche products in addition to its key export markets; Bangladesh and Maldives.

Gross Profit Margin declined marginally from 17.06% in FY20 to 16.98% in FY21. This was mainly due to by 17.44% YoY increase in average global copper prices and marginal increase in Aluminium prices. Further, the **LKR/USD Depreciation of 5.52% during FY21** adversely impacted the Cost of Sales. Copper and Aluminium prices were volatile and increased significantly by 65.74% YoY and 56.17% YoY on average respectively during April-August 2021 (figure 11). Given its **dominant market position**, ACL passed on the higher cost of raw material to the end consumer through **four price increases from November 2020 to August 2021**. A further price increase came into effect **from September 2021**. **Energy costs are negligible** as the Company has invested LKR400 mn in solar. Both gas and furnace oil are used when needed. As a result we expect **Gross Margins** to be maintained at **16.33% levels** over **FY22F-23F**. We believe that Gross Margins can be sustained at these levels as ACL is likely to pass on any cost increases to the end consumer similar to FY21 in FY22F-FY23F. Further ACL expects to improve its product mix through increasing high value added product sales which would support margins.

**Figure 11- Gross Profit Margin Vs. Average Price of Key Raw Materials**



Source: Annual & Interim Reports and Indexmundi

Distribution Cost increased at 6.05% CAGR in FY17-FY21 and was maintained at 4.29% of Revenue in FY22F-23F in line with 1QFY22F level. Administration Cost recorded 8.57% CAGR in FY17-FY21. We expect a 8.71% CAGR in Administration Cost during FY22F-FY23F. Strong Revenue growth led by the capacity expansion in 2HFY22F and effective management of Operational Costs is expected to result in **Recurring Operating Profit growth of 50.90% YoY in FY22F and 15.87% YoY in FY23F**. Recurring Operating Profit Margins are expected to be **9.28% and 9.64% in FY22F and FY23F** respectively vs. 8.62% in FY21.

**Resus Energy PLC (HPRW)'s Share of Profit from Associate Company grew at 14.44% CAGR** in FY16-FY21 to LKR107.43 mn and is expected to bring in a steady contribution to ACL's profitability in FY22F-23F. This reflects ACL's 32.53% holding in renewable energy player; Resus Energy (HPWR SL: LKR26.40) which operates **Hydro Power** plants with a capacity of **14.5 MW** and a **Solar Power** plant with a capacity of **2 MW**.

The project pipeline includes a 2 MW Karapalagama hydropower Project at an investment of LKR700 mn which is nearing completion and solar power projects with a cumulative capacity of 12 MW in Mahiyanganaya, Ampara and Siyabalanduwa. Development is expected to commence in FY22F at an estimated cost of LKR2 bn. After these projects are operational, **HPWR's** portfolio is expected to see a significant increase in Solar Power capacity where the **Hydro and Solar** capacity mix would stand at **15.6 MW and 14 MW respectively**.

**Net Borrowings** increased **LKR2.63 bn QoQ** during **1QFY22** and **Capital Expenditure** recorded **LKR163.97 mn** during the same period. This was in order to gear up towards building up capacity with **modernized machinery** to cater to the Dealer Market and ACL's project pipeline from 2HFY22F onwards. Excluding the recent acquisition of machinery, significant Capital Expenditure is not expected in FY22F-23F.

Considering the current operating environment, ACL recently announced its preference for sales on a **cash upfront basis** which is expected to strengthen its working capital cycle and its cash position. Further, the Company holds sufficient raw materials for the short term and its strong financial position including **USD reserves** are expected to be utilized to mitigate any adverse impact from importing raw materials. Recurring **Net Earnings Attributable to Equity Holders** grew **55.82% YoY** to **LKR1.19 bn** in FY21 and is expected to grow **46.34% YoY** to **LKR1.74 bn** in **FY22F** and **19.21% YoY** to **LKR2.07 bn** in **FY23F**.

## Valuation

ACL's growth story is backed by its **market leading position** and **established track record of catering to large scale projects** including CEB projects and majority of the high rise residential apartments in Colombo. Further, **timely in-house capacity additions and inorganic growth** including recent acquisitions are also expected to strengthen earnings.

**Key catalysts for FY22F and FY23F** include the **expansion of capacity by 50% from 2HFY22F** via the acquisition of machinery, **utilizing synergies from the acquisition of Cable Solutions** by expanding to new export markets with niche products. Strong volume growth with a **steady order book** and **multiple Average Selling Price increases** implemented in 2HFY21 and 1HFY22F is also expected to boost earnings in FY22F-23F. Further, the current regulatory environment where imports of cables are restricted also impacts ACL favourably.

The Group announced a **2 for 1 share sub division** which came into effect from February 2021 and improved the liquidity of the counter. **We expect ACL to trade at 10.00x PER considering its dominant market position and comparable peers within the building materials sector. This results in a Fair Value of LKR72.60 (+45.78%) in FY22F.** The counter **currently trades at 6.86x FY22F PER and 5.76x** Notably, **ACL trades below book value at 0.83x and 0.75x** its Net Asset Value in FY22F and FY23F respectively.

We expect a **Dividend Payout** in line with **FY21** at **35.29%** of recurring EPS over the forecast period. Accordingly **Dividend Yields** stand at **5.14%** and **6.13%** in **FY22F** and **FY23F** respectively.

Figures are in LKR mn	FY17	FY18	FY19	FY20	FY21	FY22F	FY23F
<b>Revenue</b>	<b>14,669.74</b>	<b>16,251.91</b>	<b>18,183.30</b>	<b>18,682.25</b>	<b>22,619.12</b>	<b>31,683.54</b>	<b>35,359.14</b>
% change YoY	14.51%	10.79%	11.88%	2.74%	21.07%	40.07%	11.60%
<b>Recurring EBIT**</b>	<b>1,986.12</b>	<b>1,303.17</b>	<b>1,379.04</b>	<b>1,671.81</b>	<b>1,948.68</b>	<b>2,940.57</b>	<b>3,407.29</b>
% change YoY	6.23%	-34.39%	5.82%	21.23%	16.56%	50.90%	15.87%
<b>EBIT Margin (%)</b>	<b>13.54%</b>	<b>8.02%</b>	<b>7.58%</b>	<b>8.95%</b>	<b>8.62%</b>	<b>9.28%</b>	<b>9.64%</b>
<b>Recurring Net Profit (Equity Holders)**</b>	<b>1,095.10</b>	<b>598.03</b>	<b>544.75</b>	<b>762.48</b>	<b>1,188.11</b>	<b>1,738.67</b>	<b>2,072.59</b>
% change YoY	2.29%	-45.39%	-8.91%	39.97%	55.82%	46.34%	19.21%
<b>Adjusted Market Price Per Share (LKR)*</b>	<b>27.25</b>	<b>20.50</b>	<b>16.15</b>	<b>15.55</b>	<b>35.90</b>	<b>49.80</b>	<b>49.80</b>
Recurring Earnings Per Share (LKR)	4.57	2.50	2.27	3.18	4.96	7.26	8.65
<b>Price to Earnings Ratio (x)</b>	<b>5.96</b>	<b>8.21</b>	<b>7.10</b>	<b>4.89</b>	<b>7.24</b>	<b>6.86</b>	<b>5.76</b>
Book Value Per Share (LKR)	38.95	43.11	44.00	46.91	51.06	60.33	66.42
<b>Price to Book Value Ratio (x)</b>	<b>0.70</b>	<b>0.48</b>	<b>0.37</b>	<b>0.33</b>	<b>0.70</b>	<b>0.83</b>	<b>0.75</b>
Dividend Payout (%)	16.4%	30.0%	33.0%	23.57%	35.29%	35.29%	35.29%
Adjusted Dividend Per Share (LKR)*	0.75	0.75	0.75	0.75	1.75	2.56	3.05
<b>Dividend Yield (%)</b>	<b>2.75%</b>	<b>3.66%</b>	<b>4.64%</b>	<b>4.82%</b>	<b>4.87%</b>	<b>5.14%</b>	<b>6.13%</b>
Return on Equity (%)	11.74%	5.79%	5.17%	6.79%	9.71%	12.03%	13.02%
Debt to equity (%)	26.71%	26.63%	54.84%	48.87%	27.15%	38.28%	34.31%

\*Historical number of shares, market prices and dividends have been restated to reflect the 2 for 1 share sub division in February 2021

\*\*Recurring EBIT and net profit excludes gains from fair valuation adjustments to investment property

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