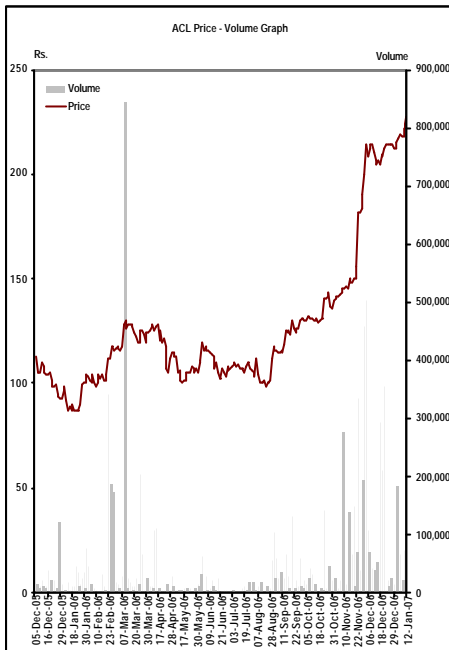




# ACL Cables (ACL)

ACL - Rs. 245.00

BUY



Fiscal year	Net profit (Rs m)	EPS (Rs)	Growth (%)	PER (X)	P/BV (x)	ROA (%)	ROE (%)
2004	82	5.4	8.12	45.00	3.16	3.1	7.0
2005	343	22.9	320.65	10.70	2.47	10.3	23.1
2006	515	34.4	50.04	7.13	1.84	11.6	25.8
2007E	959	64.1	86.47	3.82	1.25	15.8	32.6
2008E	1462	97.6	52.37	2.51	0.83	17.0	33.2

\* Financial Year End : March / Unadjusted for bonus issue

- ✓ ACL has benefited from the global commodity boom of the last five years, having passed raw material price increases onto their customers and using their market dominance to widen margins. Despite copper prices easing substantially in the last six months we feel that ACL will be able to use their market dominance to continue to widen margins.
- ✓ The ACL Group has two major operating companies, ACL Cables and Kelani Cables which largely share the same product range. ACL acquired Kelani Cables in 1999, but the distinction between the companies is maintained in order to retain the brand equity of Kelani Cables.
- ✓ The Rs.5 to 6bn cable market is segmented into the retail building wire market for housing, institutional project demand (factories and other business facilities) as well as the power transmission segment for which the sole customer is the state-owned monopoly power company the CEB. While household wiring tends to be copper based, aluminium conductors are used for low voltage power transmission. The market for power cables (for power distribution) is estimated to be around Rs.2bn per annum, while overall demand for building wire from the housing market alone comes to Rs.2.5bn.
- ✓ ACL dominates all three segments with over 50% of the retail segment as well as an over 70% share of the institutional segment. ACL is also the biggest supplier to the state utility. In FY06 about 18% of ACL's revenue came from exports which are largely from their magnet wire product.
- ✓ ACL has a 4,000 strong dealer network to service the retail segment, but has been losing market share in this segment to cheaper lower quality product. A brand overhaul was done in 2006 to reinforce the marketing effort and the company is confident that as the market matures the need for higher quality product to maintain safety standards will help them regain lost share
- ✓ The institutional segment is more profitable than retail for ACL with the contracts for projects here being longer term and providing larger volume. VAT and duty considerations are a hindrance, but ACL continues to be the preferred cable supplier for most BOI projects. Most of the rapid growth over the last five years is believed to have come from this segment.
- ✓ Demand from the state utility used to be the dominant part of ACL's business, but this trend has eased over the last five years. The CEB and LECO continue to be ACL's largest customers however, with their tendered contracts coming to almost 20% of revenue. Previously the CEB used to procure the raw materials and then hand it over to ACL for manufacture, but are now phasing out this practice.

ACL			
Reuters Code	ACL CM		
Bloomberg Code	ACL SL		
Share Price LKR	228		
Issued Share Capital (Shares)			
Voting Par Value Rs.(10.00)	14,973,000		
*Note that a bonus issue of 1 for 1 has been offered with no dates given			
12 mth High/Low (Rs.)	245 / 87		
Average Daily Volume (Shares)	43,129		
Market Capitalisation (Rs. mn)	3,668		
Price Performance (%)			
	1 mth	6 mth	12 mth
ASPI	3.1	32.7	48.6
ACL	10.3	113.1	161.3

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- ✓ ACL's largest export market is India with their recent economic growth spurring new power projects. ACL believes its quality is more than sufficient to compete with Indian and other competitors when bidding for these contracts. ACL also has product being used in Maldives and can see potential in other sub-continental markets like Pakistan as well as Africa.
- ✓ ACL has also started a facility to process imported scrap aluminium into rods for their own needs as well as for export. There is a premium for aluminium rods over ingots that should be captured by this project. The facility should be operational by March 2008.
- ✓ Apart from copper, other raw materials like aluminium as well as insulation materials, which are oil and natural gas-based products such as PVC, polyethylene and polypropylene account for 80% of ACL's product cost. Despite the increase in raw material cost, the inelastic demand for their product and their market dominance have helped pass these increases onto the customer. We feel that these factors will help ACL maintain and even expand their margins despite the fall in raw material prices during the second half of 2006.
- ✓ The Group saw a 41% yoy increase in revenue and a 50% yoy increase in net earnings for FY06. This is in excess of the 5 year revenue CAGR of 24% and the 5 year net earnings CAGR of 44%. ACL has been the dominant cable manufacturer for over a decade and has seen few serious regulatory or competitive threats to its position. We expect net earnings to increase by 86% in FY07 which corresponds to a PER of 3.8x and to increase by 52% in FY08 which corresponds to a PER of 2.5x. These are severe discounts to the current FY06 manufacturing sector PER of 8x which lead us to believe that ACL is undervalued.

<b>Income Statement</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
<b>Year ending 31st Mar</b>	<b>Rs mn</b>	<b>Rs mn</b>	<b>Rs mn</b>	<b>Rs mn</b>	<b>Rs mn</b>
Revenue	1,997	3,167	4,460	7,940	10,560
COGS	(1,628)	(2,458)	(3,340)	(6,114)	(8,184)
Other income	30	48	60	71	78
Expenses	(200)	(244)	(318)	(398)	(493)
Operating profit	199	513	863	1,499	1,961
Finance cost	(80)	(88)	(102)	(119)	(142)
PBT	118	425	761	1,380	1,819
Taxation	(29)	(54)	(206)	(373)	(299)
PAT	89	371	555	1,007	1,520
Minority Interest	(8)	(28)	(40)	(48)	(58)
Net Profit	82	343	515	959	1,462

<b>Balance Sheet</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007E</b>	<b>2008E</b>
<b>Year ending 31st Mar</b>	<b>Rs mn</b>	<b>Rs mn</b>	<b>Rs mn</b>	<b>Rs mn</b>	<b>Rs mn</b>
Fixed Assets	929	911	887	892	945
Current Assets					
Inventories	543	884	1,334	1,781	2,292
Receivables	658	988	1,546	2,620	3,217
Cash & equivalents	513	550	627	720	2,101
Other			38	43	52
	1,715	2,422	3,545	5,164	7,662
Current Liabilities					
Short-term loans & OD	864	547	681	886	1,152
Payables	271	563	968	1,221	1,587
Other	12	35	137	193	649
Long-term Liabilities					
Term Debt	-	345	264	184	122
Other	136	133	122	314	329
Net Assets	1,361	1,710	2,261	3,259	4,769
Issued Capital	123	123	150	299	299
Reserves	1,038	1,363	1,841	2,641	4,103
Shareholder's Funds	1,161	1,485	1,991	2,940	4,402
Minority Interest	201	225	270	318	366
Capital Employed	1,361	1,710	2,261	3,259	4,769