

Acal

Trading update

Design & Manufacturing drives growth

Acal has seen underlying growth of 2% at a group level in H116, with particular strength from the Design & Manufacturing division. The strength of sterling continues to have a negative effect on reported numbers, and we trim our forecasts to reflect continued headwinds. The company continues to develop its cross-selling activities and has additional acquisitions in its sights, with debt resources available.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/14	211.6	6.9	13.1	6.80	19.5	2.6
03/15	271.1	12.4	16.4	7.60	15.5	3.0
03/16e	294.7	14.4	16.5	7.95	15.5	3.1
03/17e	305.8	15.7	17.5	8.30	14.6	3.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Underlying growth in H116 masked by currency

Acal expects to report y-o-y revenue growth of 18% in H116 (revenues of £142.7m); at constant exchange rates (CER), growth was 30%, and like-for-like sales grew 2%. Custom Distribution revenues were flat in constant currency and down 6% on a reported basis, affected by the strength of sterling as well as the discontinuation of the last non-specialist low-margin supplier and a few large one-off orders last year. Continental European sales grew 4% CER (+11% CER excluding the one-offs); in the UK demand remained soft but has stabilised. Design & Manufacturing revenues nearly doubled in constant currency and grew 4% on a like-for-like basis, growing to 46% of revenues from 37% in FY15 (in line with our forecast for FY16).

Small revision to estimates

To reflect the continued weakness of the euro and the Nordic currencies against sterling, we have revised down our revenue forecasts by 3% in FY16 and FY17. Offsetting the decline in revenues, we assume a slightly better gross margin (as H116 GM was better than the 31.1% reported in FY15), and slightly lower interest charges (from non-sterling debt), leading to an overall reduction in EPS of 2.5% for FY16e and 3.0% for FY17e. While for FY16e this produces essentially flat EPS y-o-y, we note that this masks the underlying growth of the business as FY15 EPS in constant currency was 14.7p (giving a CER increase of 12%).

Valuation: Specialist focus to drive performance

The stock is trading on a P/E of 15.5x FY16e and 14.6x FY17e, in line with its peer group. While streamlining the product portfolio to remove non-specialist suppliers has a short-term revenue impact, this combined with recent restructuring in the UK should improve profitability in the longer term. Recent acquisitions provide increased geographic coverage, integration benefits and cross-selling potential, helping the company to move up the value chain. In the medium term, as Acal grows the proportion of revenue generated from Design and Manufacturing, we expect to see improving operating margins. The stock is supported by a dividend yield of more than 3%.

Industrial support services

22 October 2015

Price **255.00p**
Market cap **£161m**

€1.36/£1/NOK12.5

Net debt (£m) at end FY15 19.0

Shares in issue 63.1m

Free float 99%

Code ACL

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (7.4) (16.4) 21.4

Rel (local) (10.3) (11.3) 19.0

52-week high/low 325.75p 192.00p

Business description

Acal is a leading international supplier of customised electronics to industry. It designs, manufactures and distributes customer-specific electronic products and solutions to 25,000 industrial manufacturers.

Next event

H116 results 30 November 2015

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Exhibit 1: Financial summary

	£m	2009	2010	2011	2012	2013	2014	2015	2016e	2017e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
Revenue		165.4	181.6	264.8	257.8	177.4	211.6	271.1	294.7	305.8
Cost of Sales		(121.5)	(131.5)	(189.6)	(179.9)	(123.0)	(148.6)	(186.7)	(201.9)	(209.5)
Gross Profit		43.9	50.1	75.2	77.9	54.4	63.0	84.4	92.8	96.3
EBITDA		2.3	0.9	9.1	10.2	7.4	9.1	16.6	19.5	20.8
Operating Profit (before am, SBP and except.)		0.4	(0.5)	7.7	8.7	6.1	7.7	14.0	16.5	17.8
Operating Profit (before am. and except.)		0.2	(0.7)	7.4	8.1	5.5	7.1	13.4	15.7	17.0
Amortisation of acquired intangibles		0.0	(0.1)	(0.3)	(0.8)	(0.7)	(1.0)	(2.1)	(3.0)	(3.0)
Exceptionals		(27.7)	(4.7)	(4.6)	(3.4)	(3.4)	(0.9)	(5.2)	(2.0)	(2.0)
Share-based payments		(0.2)	(0.2)	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)	(0.8)	(0.8)
Operating Profit		(27.5)	(5.5)	2.5	3.9	1.4	5.2	6.1	10.7	12.0
Net Interest		0.5	(0.2)	(0.3)	(0.9)	(0.5)	(0.8)	(1.6)	(2.1)	(2.1)
Profit Before Tax (norm)		0.9	(0.7)	7.4	7.8	5.6	6.9	12.4	14.4	15.7
Profit Before Tax (FRS 3)		(32.6)	(6.3)	1.9	2.7	0.7	4.2	4.3	8.3	9.6
Tax		(4.4)	(0.3)	(0.2)	(0.6)	1.4	(0.5)	(1.4)	(2.1)	(2.5)
Profit After Tax (norm)		(0.6)	(1.3)	5.8	6.4	4.6	6.0	10.0	11.0	11.9
Profit After Tax (FRS 3)		(37.0)	(6.6)	1.7	2.1	2.1	3.7	2.9	6.2	7.2
Average Number of Shares Outstanding (m)		36.3	37.1	39.1	39.2	39.2	43.1	57.6	63.1	63.1
EPS - normalised & diluted (p)		(1.7)	(3.4)	14.2	15.7	11.3	13.1	16.4	16.5	17.5
EPS - IFRS basic (p)		(101.8)	(17.8)	4.3	5.4	(4.8)	3.0	5.0	9.8	11.4
EPS - IFRS diluted (p)		(101.8)	(17.4)	4.2	5.1	(4.7)	2.8	4.8	9.3	10.5
Dividend per share (p)		5.1	5.1	5.4	5.8	6.2	6.8	7.6	8.0	8.3
Gross Margin (%)		26.5	27.6	28.4	30.2	30.7	29.8	31.1	31.5	31.5
EBITDA Margin (%)		1.4	0.5	3.4	4.0	4.2	4.3	6.1	6.6	6.8
Operating Margin (before am, SBP and except.) (%)		0.2	-0.3	2.9	3.4	3.4	3.6	5.2	5.6	5.8
BALANCE SHEET										
Fixed Assets		22.3	22.6	27.7	32.5	30.9	33.1	88.6	85.9	83.2
Intangible Assets		15.0	16.0	21.1	25.7	24.2	25.5	69.9	67.1	64.3
Tangible Assets		4.7	3.9	3.8	3.5	3.1	3.5	13.8	13.9	14.0
Deferred tax assets		2.6	2.7	2.8	3.3	3.6	4.1	4.9	4.9	4.9
Current Assets		97.8	94.9	98.3	86.8	81.8	92.7	127.3	128.3	129.3
Stocks		24.7	23.7	25.3	25.7	19.3	19.4	39.8	43.6	45.2
Debtors		39.5	53.7	59.3	48.8	44.7	48.3	60.2	65.4	67.9
Cash		33.2	17.3	13.6	12.3	17.8	18.1	26.7	18.7	15.6
Current Liabilities		(53.7)	(56.6)	(63.9)	(58.8)	(50.9)	(58.3)	(62.1)	(67.7)	(70.5)
Creditors		(45.1)	(53.2)	(58.8)	(53.6)	(46.6)	(51.5)	(61.9)	(67.5)	(70.3)
Short term borrowings		(8.6)	(3.4)	(5.1)	(5.2)	(4.3)	(6.8)	(0.2)	(0.2)	(0.2)
Long Term Liabilities		(7.8)	(9.0)	(10.8)	(11.4)	(10.3)	(19.0)	(61.1)	(56.1)	(51.1)
Long term borrowings		(0.1)	0.0	(1.8)	(0.8)	(1.7)	(9.5)	(45.5)	(40.5)	(35.5)
Other long term liabilities		(7.7)	(9.0)	(9.0)	(10.6)	(8.6)	(9.5)	(15.6)	(15.6)	(15.6)
Net Assets		58.6	51.9	51.3	49.1	51.5	48.5	92.7	90.4	91.0
CASH FLOW										
Operating Cash Flow		(2.4)	5.2	0.5	9.1	5.7	6.1	6.6	13.3	17.8
Net Interest		0.6	(0.2)	(0.3)	(0.9)	(0.6)	(0.8)	(1.6)	(2.1)	(2.1)
Tax		(3.4)	(3.1)	0.5	(1.1)	(1.4)	(0.9)	(3.3)	(3.8)	(4.3)
Capex		(1.4)	(1.1)	(1.3)	(1.4)	(1.3)	(1.4)	(2.5)	(3.3)	(3.3)
Acquisitions/disposals		10.9	(10.3)	(4.4)	(3.9)	(0.5)	(9.2)	(37.3)	(2.2)	(1.2)
Financing		0.0	0.1	0.0	0.3	5.7	0.1	52.7	0.0	0.0
Dividends		(4.8)	(1.6)	(2.0)	(2.2)	(2.3)	(2.7)	(3.6)	(4.9)	(5.0)
Net Cash Flow		(0.5)	(11.0)	(7.0)	(0.1)	5.3	(8.8)	11.0	(3.0)	1.9
Opening net cash/(debt)		25.6	24.5	13.9	6.7	6.3	11.8	1.8	(19.0)	(22.0)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(0.6)	0.4	(0.2)	(0.3)	0.2	(1.2)	(31.8)	(0.0)	0.0
Closing net cash/(debt)		24.5	13.9	6.7	6.3	11.8	1.8	(19.0)	(22.0)	(20.1)

Source: Acal, Edison Investment Research

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