

# Acal

Trading update

## Stronger trading drives upgrades

Acal experienced strong trading in Q417, with organic growth in both divisions further boosted by currency. Order intake in Q417 saw 13% organic growth, positioning the company well for FY18. We have revised our forecasts to reflect the stronger trading environment, resulting in EPS upgrades of 3.4% in FY17 and 2.3% in FY18. Despite some recovery in the share price, in our view the stock still represents good value.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/14	211.6	6.9	13.1	6.8	19.1	2.7
03/15	271.1	12.4	16.4	7.6	15.2	3.0
03/16	287.7	15.2	17.8	8.1	14.0	3.2
03/17e	335.8	17.4	19.0	8.4	13.2	3.4
03/18e	364.3	20.3	20.3	8.5	12.3	3.4

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

## Strong uptick in Q4 trading

Management had always expected a pick-up in trading in Q4, but actual results were better than expected, helped by recent restructuring and a better market environment, and management now anticipates FY17 results slightly ahead of their expectations. In Q417, Acal saw 15% constant currency revenue growth and 11% constant currency organic growth (Design & Manufacturing 8%, Custom Distribution 14%). H217 revenues grew 11% in constant currency and 6% organic. Order intake growth accelerated to 16% constant currency and 13% organic, from 4% organic growth in Q317, with similar growth in both divisions. Acal reduced net debt significantly, with net debt/EBITDA (annualised for acquisitions) falling from 1.9x at the end of Q317 to below 1.5x at the end of FY17. The Variohm acquisition (Jan 2017) is performing well and has already generated its first cross-selling deal.

## Estimates upgraded; further M&A likely

We have revised our forecasts to take account of stronger revenue growth in H217, resulting in a 3.0% upgrade to our FY17 revenue forecast and 3.1% to FY18. This flows through to higher operating profit in both years, resulting in a 3.4% upgrade to FY17 normalised EPS and 2.3% to FY18. We have also revised down our net debt forecasts and expect net debt/EBITDA to fall to 1.3x by end FY18. With the recent hiring of an M&A director, we expect to see more bolt-on acquisitions to strengthen the D&M business, which should boost earnings growth.

## Valuation: D&M progress to drive upside

Despite a 17% pick-up from the recent low of 211.5p, the stock continues to trade at a c 30% discount to the peer group average on EV/EBITDA and P/E multiples. The positive trading update combined with good progress in the strategy to grow the Design & Manufacturing side of the business provide confidence in both the near-term and longer-term outlook for the company. Continued growth in the proportion of revenue generated from design and manufacturing should support operating margin expansion, and should help to reduce the valuation discount. The stock is also supported by a dividend yield above 3%.

### Industrial support services

24 April 2017

**Price** **250.00p**
**Market cap** **£177m**

€1.193: NOK10.96: £1

Net debt (£m) at end Q317 41.1

Shares in issue 70.7m

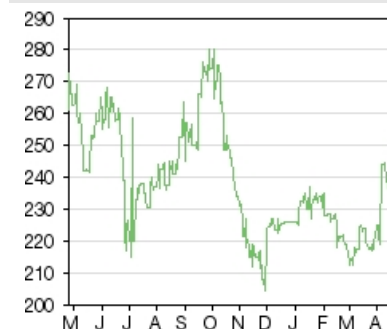
Free float 96%

Code ACL

Primary exchange LSE

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	14.6	7.3	(5.6)
Rel (local)	17.5	7.0	(15.8)

52-week high/low 280.0p 204.5p

### 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 events

FY17 results 6 June 2017

### Analysts

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**Exhibit 1: Financial summary**

	£m	2013	2014	2015	2016	2017e	2018e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>							
Revenue		177.4	211.6	271.1	287.7	335.8	364.3
Cost of Sales		(123.0)	(148.6)	(186.7)	(195.1)	(225.0)	(244.1)
Gross Profit		54.4	63.0	84.4	92.6	110.8	120.2
EBITDA		7.4	9.1	16.6	19.8	23.1	26.5
Operating Profit (before am, SBP and except.)		6.1	7.7	14.0	17.0	20.2	23.3
Operating Profit (before am. and except.)		5.5	7.1	13.4	16.3	19.5	22.5
Amortisation of acquired intangibles		(0.7)	(1.0)	(2.1)	(2.8)	(3.6)	(3.6)
Exceptionals		(3.4)	(0.9)	(5.2)	(2.1)	(10.4)	(3.5)
Share-based payments		(0.6)	(0.6)	(0.6)	(0.7)	(0.7)	(0.8)
Operating Profit		1.4	5.2	6.1	11.4	5.5	15.4
Net Interest		(0.5)	(0.8)	(1.6)	(1.8)	(2.8)	(3.0)
Profit Before Tax (norm)		5.6	6.9	12.4	15.2	17.4	20.3
Profit Before Tax (FRS 3)		0.7	4.2	4.3	9.4	2.5	12.2
Tax		1.4	(0.5)	(1.4)	(2.2)	(1.4)	(3.2)
Profit After Tax (norm)		4.6	6.0	10.0	11.8	13.2	15.4
Profit After Tax (FRS 3)		2.1	3.7	2.9	7.2	1.1	9.0
Average Number of Shares Outstanding (m)		39.2	43.1	57.6	63.3	65.4	70.7
EPS - normalised & diluted (p)		11.3	13.1	16.4	17.8	19.0	20.3
EPS - IFRS basic (p)		(4.8)	3.0	5.0	11.4	1.7	12.8
EPS - IFRS diluted (p)		(4.7)	2.8	4.8	10.9	1.6	11.9
Dividend per share (p)		6.2	6.8	7.6	8.1	8.4	8.5
Gross Margin (%)		30.7	29.8	31.1	32.2	33.0	33.0
EBITDA Margin (%)		4.2	4.3	6.1	6.9	6.9	7.3
Operating Margin (before am, SBP and except.) (%)		3.4	3.6	5.2	5.9	6.0	6.4
<b>BALANCE SHEET</b>							
Fixed Assets		30.9	33.1	88.6	108.4	116.4	112.7
Intangible Assets		24.2	25.5	69.9	88.2	96.5	92.8
Tangible Assets		3.1	3.5	13.8	14.7	14.4	14.4
Deferred tax assets		3.6	4.1	4.9	5.5	5.5	5.5
Current Assets		81.8	92.7	127.3	128.3	138.6	150.3
Stocks		19.3	19.4	39.8	42.9	47.8	51.9
Debtors		44.7	48.3	60.2	65.5	69.5	75.4
Cash		17.8	18.1	26.7	19.9	21.3	23.0
Current Liabilities		(50.9)	(58.3)	(62.1)	(61.7)	(77.5)	(89.7)
Creditors		(46.6)	(51.5)	(61.9)	(60.9)	(71.7)	(78.9)
Short term borrowings		(4.3)	(6.8)	(0.2)	(0.8)	(5.8)	(10.8)
Long Term Liabilities		(10.3)	(19.0)	(61.1)	(73.1)	(68.1)	(63.1)
Long term borrowings		(1.7)	(9.5)	(45.5)	(57.2)	(52.2)	(47.2)
Other long term liabilities		(8.6)	(9.5)	(15.6)	(15.9)	(15.9)	(15.9)
Net Assets		51.5	48.5	92.7	101.9	109.4	110.2
<b>CASH FLOW</b>							
Operating Cash Flow		5.7	6.1	6.6	14.6	17.0	20.7
Net Interest		(0.6)	(0.8)	(1.6)	(1.8)	(2.8)	(3.0)
Tax		(1.4)	(0.9)	(3.3)	(4.3)	(3.2)	(5.4)
Capex		(1.3)	(1.4)	(2.5)	(2.3)	(2.5)	(3.1)
Acquisitions/disposals		(0.5)	(9.2)	(37.3)	(19.8)	(15.2)	(1.5)
Financing		5.7	0.1	52.7	0.0	13.6	0.0
Dividends		(2.3)	(2.7)	(3.6)	(4.9)	(5.5)	(5.9)
Net Cash Flow		5.3	(8.8)	11.0	(18.5)	1.4	1.8
Opening net cash/(debt)		6.3	11.8	1.8	(19.0)	(38.1)	(36.7)
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0
Other		0.2	(1.2)	(31.8)	(0.6)	0.0	0.0
Closing net cash/(debt)		11.8	1.8	(19.0)	(38.1)	(36.7)	(35.0)

Source: Acal, Edison Investment Research

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