

BRC Asia

Construction sector recovery surpasses our estimates

SINGAPORE | INDUSTRIAL | 1H22 results

- 1HFY22 revenue and net profit was ahead of our expectations at 81%/83% of FY22e. The beat came from a faster-than-expected recovery of the construction sector. We estimate that volume moved increased ~30% YoY in 1HFY22.
- \$1.8mn in net reversal for onerous contracts made in 1HFY22 as contracts were fulfilled, though this was offset by additional provisions for deliveries beyond the period.
- Provision for impairment on trade receivables fell over 60% YoY aided by the recovery of the construction sector and government support.
- Maintain BUY with a higher target price of S\$2.26 (prev. S\$1.84).** Our TP is based on 8x FY22e P/E, still at a 15% discount to the 10-year historical average, on account of the uncertain external environment. We revised upwards our FY22e earnings by 37% to account for the faster pace of recovery in the construction sector. 1H22 dividends jumped 50% YoY to 6 cents. Stock is now trading at 10.7% dividend yield.

Results at a glance

FYE Sept (S\$'mn)	1H22	1H21	YoY	Comments
Revenue	793.3	493	61.0%	Driven by a combination of ASP and volume increase as construction sector recovers.
Gross Profit	68.8	39.6	73.7%	We estimate that tonnage delivered rose ~30% on a YoY basis.
Gross Profit margin	8.7%	8.0%	0.6%	
Net (Loss)/Profit	39.8	19.2	107.3%	
Net profit margin	5.0%	3.9%	1.1%	
Net gearing (x)	0.83	0.21	61.6%	Driven by surge in treasury receipts and letters of credit to finance rising cost of inventory.

Source: Company, PSR

The Positives

+ 1HFY22 revenue and net profit exceeded our expectations. We estimate that order deliveries went up ~30% YoY as activity levels at project sites escalated in the last few months. As Singapore started to relax foreign labour restrictions, the influx of foreign workers – estimated at 15,000 – started to gather pace and has resulted in activities in the construction site picking up.

On the back of its strong set of half-year results, the Group has declared an interim dividend of 6 Singapore cents for 1HFY22, 2 cents higher than for the same period last year, signaling the management's confidence in the near-term outlook of the Group.

+ \$1.8mn in net reversal for onerous contracts made in 1HFY22. The Group benefitted from a \$1.8mn net reversal for onerous contracts in 1H22 as contracts were fulfilled, though this was offset by additional provisions made for deliveries beyond the period. With the steel rebar price having risen 18% to S\$1,300 per tonne since the start of the geo-political conflict in Ukraine in February this year, we expect provisions for onerous contracts to remain elevated for FY22e and FY23e.

+ Provision for impairment loss on trade receivables fell over 60% on a YoY basis in 2QFY22 aided by the recovery of the construction sector and government support. The local construction sector's growth accelerated in 1Q22 to grow by 2.8% on a QoQ seasonally-adjusted basis from 4Q21's 2.1% as industry-led pilot schemes to bring back foreign workers to the sector bore fruit. Despite concerns over supply chain disruptions to the construction industry from China's lockdowns and the upsurge in raw material prices due to the Russia-Ukraine conflict, the construction sector's recovery remains well with government support cushioning the

20 May 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.680
FORECAST DIV	SGD 0.120
TARGET PRICE	SGD 2.260
TOTAL RETURN	41.7%

COMPANY DATA

BLOOMBERG CODE:	BRC SP
O/S SHARES (MN) :	274
MARKET CAP (USD mn / SGD mn) :	332 / 461
52 - WK HI/LO (SGD) :	1.71 / 1.34
3M Average Daily T/O (mn) :	0.10

MAJOR SHAREHOLDERS (%)

ESTEEL ENTERPRISE	68.9%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	7.0	4.6	19.4
STI RETURN	(1.0)	(4.2)	6.6

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept (S\$'mn)	FY20	FY21e	FY22e	FY23e
Revenue	612.4	1,168.6	1,731.2	2,065.5
NPAT	19.3	49.7	80.7	99.1
DPS	0.06	0.12	0.16	0.20
Dividend yield	4.0%	8.1%	10.7%	13.4%
P/NAV (x)	1.5	1.4	1.2	1.0
P/E (x)	17.1	7.6	5.3	4.3
ROE (%)	2.9%	6.6%	8.1%	8.4%

Source: Company, PSR

VALUATION METHOD

8x FY22e P/E

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impact of external factors. HDB for instance, is partnering with its contractors to enhance their stockpiles of building materials by procuring them in advance to mitigate potential disruptions.

HDB has also extended the period of protection against steel price fluctuations, and is supplying contractors with more concreting materials at protected prices. This has helped to mitigate the higher cost of materials faced by suppliers.

The Negatives

- **Net gearing to remain elevated with higher steel rebar prices.** Net gearing rose 340bps on a QoQ basis along with the rise in inventory of the Group. We expect gearing for FY22e-23e to remain elevated as we forecast firmer steel prices in 2022. We are not overly concerned with the uptick however, as the bulk of its short-term loans and borrowings are letter of credit and treasury receipts used to finance inventory purchase for order fulfillment.

We estimate that the Group is currently operating at ~70% capacity, and management guided that there is still room for capacity to increase when required. We do not expect any material capex spend for FY22.

Outlook

Construction sector see faster pace of recovery in 1Q22; expects escalation of activity for rest of 2022. The Group's order book remained above \$1bn as the construction sector continues its recovery. We estimate that half of its order book will be fulfilled within the next 12-15 months.

According to the Ministry of Trade and Industry, in absolute terms, the value-added of the sector remained at 25.3% below its pre-pandemic level, as activity at construction worksites continued to be weighed down by labour shortages. Despite this, we see the labour shortage situation easing with the relaxation of border restrictions and remain positive on the outlook for the sector.

HDB has announced that it will ramp up the supply of new build-to-order (BTO) flats over the next two years to meet the strong housing demand from Singaporeans. It plans to launch up to 23,000 flats per year in 2022 and 2023, which represents a significant increase of 35% from the 17,000 flats launched in 2021. Minister for Transport S Iswaran also recently announced that Changi Airport's Terminal 5 project will resume after being put on hold for two years due to the Covid-19 pandemic.

With an approximately 65% market share in the reinforced steel industry, we continue to see BRC Asia as a key beneficiary of the construction sector recovery.

Maintain BUY with higher TP of S\$2.26

We revise up our FY22e/FY23e earnings by 37%/56% to account for the faster pace of recovery in the construction sector. We maintain our BUY recommendation with a higher target price of S\$2.26 (prev. \$1.84). Our TP is based on 8x FY22e P/E, still at a 15% discount to the 10-year historical average P/E, on account of the uncertain external environment.

Financials

Income Statement

Y/E Sept, (\$'000)	FY20	FY21	FY22e	FY23e
Revenue	612,378	1,168,647	1,731,246	2,065,511
less: Cost of sales	(546,227)	(1,086,514)	(1,593,439)	(1,894,693)
Gross profit	66,151	82,133	137,807	170,818
Distribution expenses	(5,545)	(5,721)	(8,475)	(12,393)
Administrative expenses	(10,075)	(18,448)	(27,329)	(32,606)
Finance costs	(6,768)	(4,696)	(6,657)	(7,548)
Others	(3,771)	5,854	1,766	1,453
Operating profit	39,992	59,122	97,112	119,724
Share of results of associates and joint ventures	(14,092)	1,951	2,319	2,421
Profit before tax	25,900	61,073	99,431	122,145
Taxation	(6,638)	(11,347)	(18,705)	(22,995)
Net Profit	19,262	49,726	80,726	99,150

Profit attributable to owners	20,352	47,026	77,518	95,298
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Per share data (\$)

Y/E Sept	FY20	FY21	FY22e	FY23e
BVPS	0.96	1.10	1.24	1.43
DPS	0.06	0.12	0.16	0.20
EPS	0.09	0.20	0.28	0.35

Cash Flow

Y/E Sept, (\$'000)	FY20	FY21	FY22e	FY23e
CFO				
Profit before tax	26,990	58,373	96,223	118,293
Adjustments	39,536	70,384	(4,345)	(7,969)
WC changes	61,196	(245,322)	(62,528)	(105,393)
Cash generated from ops	127,722	(116,565)	29,349	4,932
Others	(5,620)	(9,597)	(18,705)	(22,995)
Cashflow from ops	122,102	(126,162)	10,644	(18,063)
CFI				
CAPEX, net	(2,540)	(1,935)	(2,413)	(2,161)
Others	1,135	802	-	-
Cashflow from investments	(1,405)	(1,133)	(2,413)	(2,161)
CCF				
Dividends paid to owners	(18,667)	(24,334)	(38,409)	(43,896)
Proceeds from borrowings, net	(87,107)	151,043	100,136	67,125
Proceeds from equity issuance, net	-	13,753	-	-
Others	(6,054)	(4,600)	(7,548)	(7,548)
Cashflow from financing	(111,828)	135,862	54,179	15,681
Net change in cash	8,869	8,567	62,410	(4,543)
Cash at the start of the period	65,778	74,438	82,970	145,380
Currency translation	(209)	(35)	-	-
Others	-	-	-	-
Ending cash	74,438	82,970	145,380	140,837

*nm - not meaningful

Balance Sheet

Y/E Sept, (\$'000)	FY20	FY21	FY22e	FY23e
ASSETS				
PPE & Investment Properties	157,088	146,161	139,036	127,326
Others	16,739	23,806	26,125	28,546
Total non-current assets	173,827	169,967	165,161	155,872
Inventories	237,185	466,171	616,608	707,367
Trade and other receivables	89,824	155,661	183,143	223,602
Cash and cash equivalents	77,892	82,970	145,380	140,837
Others	41,220	9,951	8,301	8,301
Total current assets	446,121	714,753	953,433	1,080,107
Total Assets	619,948	884,720	1,118,594	1,235,979
LIABILITIES				
Trade and other payables	27,918	69,154	122,424	148,248
ST borrowings	180,039	358,114	463,577	536,029
Others	34,947	68,779	101,603	65,458
Total current liabilities	242,904	496,047	687,604	749,735
LT borrowings	99,225	77,652	77,652	77,652
Others	13,272	10,072	13,280	17,132
Total non-current liabilities	112,497	87,724	90,932	94,784
Total liabilities	355,401	583,771	778,536	844,519
EQUITY				
Share Capital	125,001	138,754	138,754	138,754
Retained profits	142,871	165,563	204,672	256,075
Others	(3,325)	(3,368)	(3,368)	(3,368)
Total equity	264,547	300,949	340,058	391,461
Total equity and liabilities	619,948	884,720	1,118,594	1,235,979

Valuation Ratios

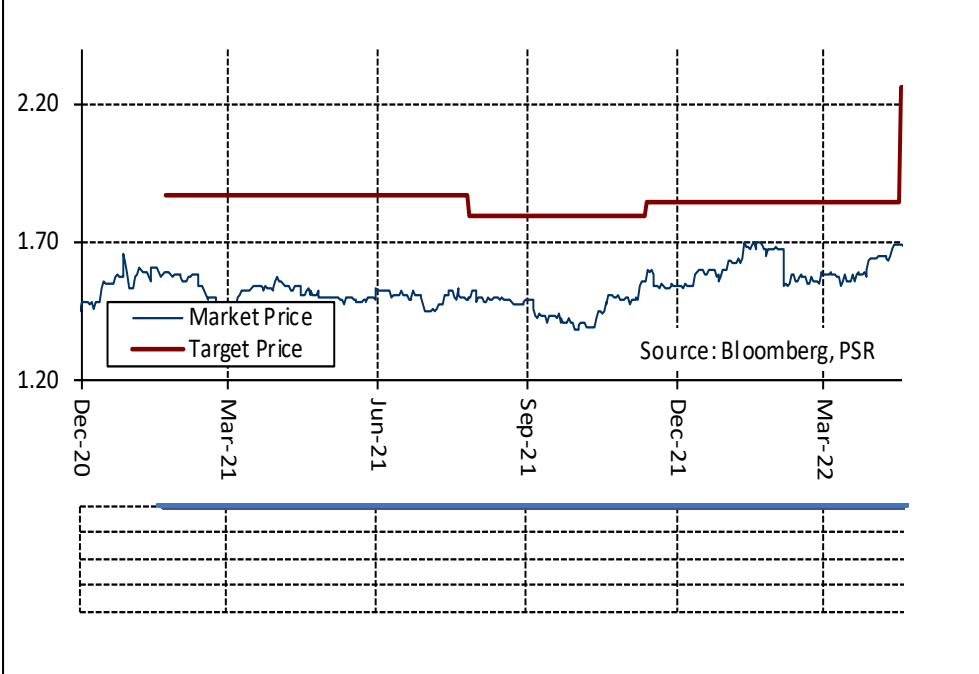
Y/E Sept	FY20	FY21	FY22e	FY23e
P/E (x)	17.1	7.6	5.3	4.3
P/B (x)	1.5	1.4	1.2	1.0
EV/EBITDA (x)	NA	NA	NA	NA
Dividend yield (%)	4.0%	8.1%	10.7%	13.4%

Growth & Margins (%)

	FY20	FY21	FY22e	FY23e
Growth				
Revenue	-32.9%	90.8%	48.1%	19.3%
EBITDA	NA	NA	NA	NA
EBIT	NA	NA	NA	NA
PBT	-32.6%	135.8%	62.8%	22.8%
Margins				
EBITDA margin	NA	NA	NA	NA
EBIT margin	NA	NA	NA	NA
Net profit margin	3.1%	4.3%	4.7%	4.8%
Key Ratios				
ROE	2.9%	6.6%	8.1%	8.4%
ROA	2.9%	6.6%	8.1%	8.4%
Net Gearing (%)	76.1%	117.2%	116.4%	120.8%

Source: Company, Phillip Securities Research (Singapore) Estimates

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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