

BRC Asia

Construction sector recovery remains on track

SINGAPORE | INDUSTRIAL | 3QFY22 results

- 9MFY22 revenue and net profit was in line with our expectations at 75%/75% of FY22e. 3Q22 net profit spiked 113.4% YoY driven by the continued recovery in the construction sector and the moderation of steel prices.
- Construction order books inched up slightly to \$1.135bn from ~\$1bn in the previous quarter. Strong demand for public housing and infrastructure projects in Singapore continued to drive up the Group's order books.
- Construction site activity levels adversely affected by workplace fatalities and dengue in 1H22, impeding construction progress.
- Maintain BUY with an unchanged target price of S\$2.26.** 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 kept FY22e and FY23e earnings unchanged as we expect construction activity to continue its recovery in the next two years. Stock is now trading at 10.7% dividend yield.

Results at a glance

FYE Sept (S\$'mn)	3Q22	3Q21	YoY	Comments
Revenue	515.3	340.2	51.5%	We estimate that tonnage delivered rose ~50% on a YoY basis.
Gross Profit	36.7	17.8	106.7%	
Gross Profit margin	7.1%	5.2%	1.9%	
Net (Loss)/Profit	20.4	9.5	113.4%	
Net profit margin	4.0%	2.8%	1.1%	Higher scale economies and reversal of onerous contracts.
Net gearing (x)	0.61	1.12	-50.9%	Driven by \$97mn in free cash flows generated for 9MFY22

Source: Company, PSR
Condensed financial statements released as Company has moved to half-yearly reporting.

The Positives

+ 9MFY22 revenue and net profit was in line with our expectations at 75%/75%. Net profit rose 113.4% YoY driven by the continued recovery in the construction sector and the moderation of steel prices. We estimate that volumes grew ~30% YoY in 3Q22, driven by the increase in work activity at construction sites. According to the Ministry of Trade and Industry (MTI), the local construction sector grew 3.8% in the second quarter, faster than the 1.8% growth in the preceding quarter. This was in part due to the relaxation of border restrictions on the inflow of migrant workers.

+ Net reversal for onerous contracts made in 3QFY22. Steel rebar prices declined ~6% during the period. We believe the Group benefitted from write-backs in onerous contracts in the latest quarter with steel prices moderating. Recall that for 1H22, the Group benefitted from a \$1.8mn net reversal for onerous contracts as contracts were being fulfilled with steel rebar prices down 13.6% during that same period. The Group generated \$69mn in free cash flows in 3QFY22, that was used to lower gearing to 0.61x from 0.83x in 1H22.

+ Construction order books inched up slightly to \$1.135bn (vs \$1bn 2Q22). Strong demand for public housing and infrastructure projects in Singapore continued to drive up the Group's order books. BRC Asia is benefitting from the backlog of projects that were postponed during the Covid-19 pandemic and the higher number of public housing projects that are being launched to meet demand.

4 August 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) :	338 / 466
52 - WK HI/LO (SGD) :	1.84 / 1.34
3M Average Daily T/O (mn) :	0.17

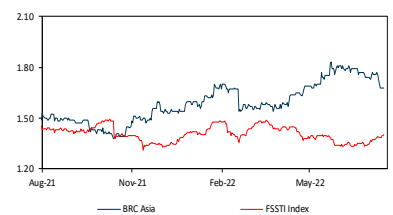
MAJOR SHAREHOLDERS (%)

ESTEEL ENTERPRISE	68.9%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(1.1)	7.9	27.6
STI RETURN	5.3	(2.0)	7.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sept (S\$, 'mn)	FY20	FY21	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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The Negatives

- **Construction site activity levels adversely affected by workplace fatalities and dengue.** In the first six months of 2022, the Ministry of Manpower (MOM) reported 28 workplace fatalities, many of which were in the construction industry. This led to a call for companies to conduct a safety time-out on 9 May 2022. In addition, in 1H22, more than 12,000 cases of dengue cases were reported, far exceeding the 5,258 cases logged in the whole of 2021. This resulted in a spate of stop-work orders issued by the authorities to construction sites, which impeded construction progress.

Outlook

Construction sector continue to see faster pace of recovery in 2Q22; increase in activity for rest of 2022 expected. The Group's order book inched up to \$1.135bn from \$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 MTI, in absolute terms, the value-add of the sector is still below its pre-pandemic level, but improved to 23.7% from 25.3% 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. 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 unchanged TP of S\$2.26

We kept FY22e and FY23e earnings unchanged as we expect construction activity to continue its recovery in the next two years. We maintain our BUY recommendation with an unchanged target price of S\$2.26. 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 an	(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

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)
CFF				
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, n	-	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

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

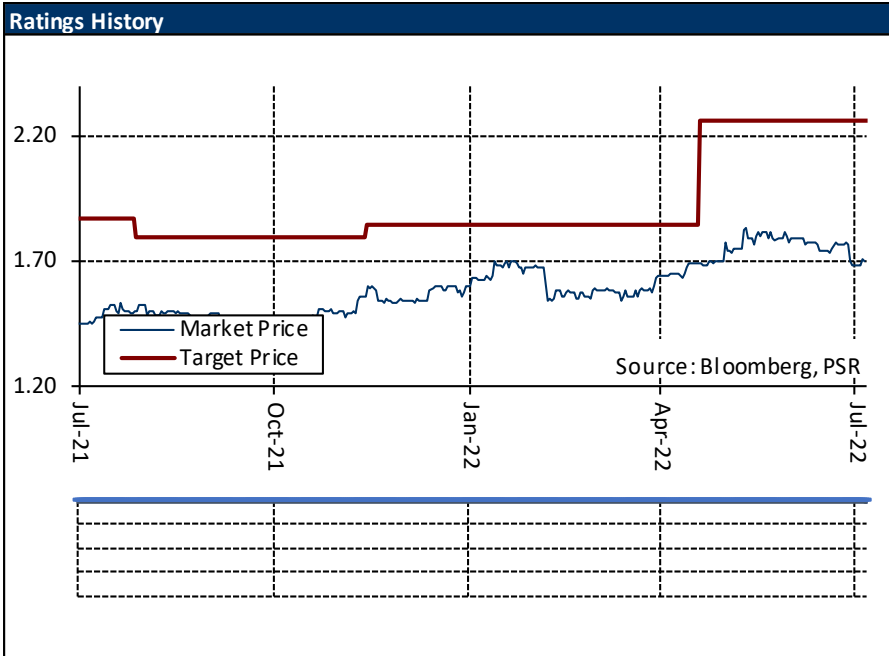
Y/E Sept, (\$'000)	FY20	FY21	FY22e	FY23e
ASSETS				
PPE & Investment Properties	157,088	146,161	139,036	127,326
Others	16,739	23,806	26,125	28,546
Total non-current assets	173,827	169,967	165,161	155,872
Inventories	237,185	466,171	616,608	707,367
Trade and other receivables	89,824	155,661	183,143	223,602
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%



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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