

# BRC Asia

Earnings ahead, 1H23 to be impacted by “Heightened Safety”



## SINGAPORE | INDUSTRIAL | FY22 results

- FY22 net profit was ahead of our expectations at 112% of our FY22e forecasts. Revenue was in line at 99% of FY22e. Earnings were above expectations as higher-than-expected volume moved despite the “Heightened Safety” period imposed.
- \$11mn net reversal for onerous contracts made. With steel rebar prices declining ~20% in 2H22, the Group benefitted from write-backs. GP margins improved 500bps for the period.
- Construction order book grew to \$1.4bn from \$1.135bn in the previous quarter. Strong demand for public housing and infrastructure projects in Singapore continued to boost the Group’s order books.
- Maintain BUY with a higher target price of S\$2.30.** Our TP is based on 7x FY22e P/E, lowered from 8x previously, on account of the uncertain external environment. But our TP is raised to \$2.30 from \$2.26 as we roll forward our valuation to FY23e. We kept FY23e earnings unchanged as we expect construction activity to continue its recovery after 1H23.

### Results at a glance

FYE Sept (S\$'mn)	4Q22	4Q21	YoY	Comments
Revenue	390.6	335.7	16.3%	We estimate that tonnage delivered rose ~20% on a YoY basis.
Gross Profit	48.2	24.7	95.0%	
Gross Profit margin	12.3%	7.4%	5.0%	Mainly due to a net reversal of onerous contracts of \$11mn in 2H22.
Net (Loss)/Profit	20.4	10.2	100%	
Net profit margin	5.2%	3.0%	2.2%	Higher scale economies and reversal of onerous contracts.
Net gearing (x)	0.76	1.17	-40.9%	Driven by \$44mn in free cash flows generated for FY22

Source: Company, PSR

### The Positives

**+ FY22 net profit ahead of our expectations at 112% of our FY22e forecasts.** Revenue was in line at 99% of FY22e. Earnings were above expectations as higher-than-expected volume moved despite the “Heightened Safety” period imposed by the Ministry of Manpower (MOM) from 1 Sept to 28 Feb 2023. The measures were announced after a spate of workplace fatalities since the start of the year prompted the MOM to intervene in the sector.

In view of its strong results, the Group has declared a total of 12 cents of dividends (~55% payout), comprising 6 cents final and 6 cents special dividend to reward shareholders. FY22 dividends of 18 cents represents a dividend yield of 9.8%, exceeding our 16 cents estimate.

**+ \$11mn net reversal for onerous contracts made.** With steel rebar prices declining ~20% in 2H22, the Group benefitted from \$11mn of write-backs in onerous contracts. For FY22, the Group generated a net reversal of provision of onerous contracts of \$12.8mn. Correspondingly, GP margins improved 500bps for the period.

The management has guided for further reversals in onerous contracts for FY23 should steel prices remain at these levels.

**+ Construction order book grew to \$1.4bn (vs \$1.135bn 3Q22), above our \$1.2bn projections.** Strong demand for public housing and infrastructure projects in Singapore continued to boost 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.

5 December 2022

### BUY (Maintained)

LAST CLOSE PRICE	SGD 1.680
FORECAST DIV	SGD 0.120
TARGET PRICE	SGD 2.300
TOTAL RETURN	44.0%

### COMPANY DATA

BLOOMBERG CODE:	BRC SP
O/S SHARES (MN) :	274
MARKET CAP (USD mn / SGD mn) :	372 / 502
52 - WK HI/LO (SGD) :	1.84 / 1.44
3M Average Daily T/O (mn) :	0.05

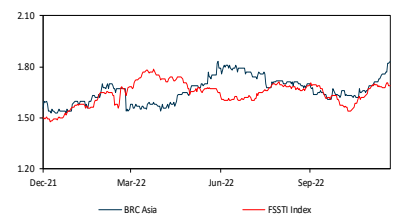
### MAJOR SHAREHOLDERS (%)

ESTEEL ENTERPRISE	68.9%
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### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	10.9	8.3	35.6
STI RETURN	4.1	2.1	9.9

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Sept (S\$, 'mn)	FY21	FY22	FY23e	FY24e
Revenue	1,168.6	1,699.3	2,065.5	2,272.1
NPAT	49.7	90.7	96.9	104.7
DPS	0.12	0.18	0.18	0.21
Dividend yield	8.1%	12.1%	12.1%	14.1%
P/NAV (x)	1.4	1.0	0.9	0.8
P/E (x)	7.6	4.5	4.4	3.9
ROE (%)	6.6%	9.8%	8.6%	8.0%

Source: Company, PSR

### VALUATION METHOD

7x FY22e P/E

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## The Negatives

- **Construction site activity levels adversely affected by workplace fatalities and dengue.** As of 1 Sept 2022, the number of workplace fatalities stands at 36 for whole of 2022, up from the 28 workplace fatalities reported for the first six months of 2022, many of which were in the construction industry. As a result of the Heightened Safety period imposed by the MOM, local construction projects are, in general, progressing slower than expected. The time-outs and punitive measures imposed on the sector has slowed construction progress.

## Outlook

**Group to see slower 1H23 from six month “Heightened Safety” period.** The “Heightened Safety” period from 1 Sept to 28 Feb 2023 in view of the concerning rise in workplace fatalities this year will see MOM adopt punitive measures on construction companies that have serious lapses such as unsafe workplace conditions or poor risk control. These companies are also required to conduct safety time-out by allocating time to review their safety procedures and complete the safety-time out activities. These measures have a material impact on the timeline of the projects. The “Heightened Safety” period may also be extended if there is non-compliance.

**Local construction demand remains robust with BCA projecting total construction demand for 2022 to be between \$27-32bn.** The Group’s order book inched up to \$1.4bn from \$1.135bn as the construction sector continues its recovery. We estimate that half of its order book will be fulfilled within the next 12-15 months.

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 higher TP of S\$2.30

We kept FY23e earnings unchanged as we expect construction activity to continue its recovery in 2Q23. We maintain our BUY recommendation with a higher target price of S\$2.30. Our TP is based on 7x FY22e P/E, lowered from 8x previously (15% discount to historical average) on account of the uncertain external environment.

## Financials

## Income Statement

Y/E Sept, (\$'000)	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>612,378</b>	<b>1,168,647</b>	<b>1,699,266</b>	<b>2,065,511</b>	<b>2,272,062</b>
less: Cost of sales	(546,227)	(1,086,514)	(1,545,549)	(1,894,693)	(2,090,297)
<b>Gross profit</b>	<b>66,151</b>	<b>82,133</b>	<b>153,717</b>	<b>170,818</b>	<b>181,765</b>
Distribution expenses	(5,545)	(5,721)	(6,693)	(12,393)	(13,632)
Administrative expenses	(10,075)	(18,448)	(29,508)	(32,606)	(35,866)
Finance costs	(6,768)	(4,696)	(7,166)	(7,548)	(7,425)
Others	(3,771)	5,854	(5,170)	(655)	3,283
<b>Operating profit</b>	<b>39,992</b>	<b>59,122</b>	<b>105,180</b>	<b>117,616</b>	<b>128,124</b>
Share of results of associates and joint	(14,092)	1,951	2,701	1,817	1,838
<b>Profit before tax</b>	<b>25,900</b>	<b>61,073</b>	<b>107,881</b>	<b>119,433</b>	<b>129,962</b>
Taxation	(6,638)	(11,347)	(17,217)	(22,547)	(25,263)
<b>Net Profit</b>	<b>19,262</b>	<b>49,726</b>	<b>90,664</b>	<b>96,886</b>	<b>104,699</b>
<b>Profit attributable to owners</b>	<b>20,352</b>	<b>47,026</b>	<b>90,216</b>	<b>93,441</b>	<b>104,699</b>

## Per share data (\$)

Y/E Sept	FY20	FY21	FY22	FY23e	FY24e
BVPS	0.96	1.10	1.45	1.61	1.82
DPS	0.06	0.12	0.18	0.18	0.21
EPS	0.09	0.20	0.33	0.34	0.38

## Cash Flow

Y/E Sept, (\$'000)	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>Profit before tax</b>	<b>26,990</b>	<b>58,373</b>	<b>107,433</b>	<b>115,988</b>	<b>129,962</b>
Adjustments	39,536	70,383	10,133	(8,120)	17,009
WC changes	61,196	(245,322)	(54,392)	(141,624)	(66,273)
<b>Cash generated from ops</b>	<b>127,722</b>	<b>(116,566)</b>	<b>63,174</b>	<b>(33,756)</b>	<b>80,698</b>
Others	(5,620)	(9,596)	(17,101)	(22,547)	(25,263)
<b>Cashflow from ops</b>	<b>122,102</b>	<b>(126,162)</b>	<b>46,073</b>	<b>(56,302)</b>	<b>55,435</b>
<b>CFI</b>					
CAPEX, net	(2,540)	(1,935)	(2,912)	(2,161)	(2,976)
Others	1,135	802	1,528	429	429
<b>Cashflow from investments</b>	<b>(1,405)</b>	<b>(1,133)</b>	<b>(1,384)</b>	<b>(1,732)</b>	<b>(2,547)</b>
<b>CCF</b>					
Dividends paid to owners	(18,667)	(24,334)	(38,409)	(49,383)	(49,383)
Proceeds from borrowings, net	(87,107)	151,043	21,955	67,125	(15,327)
Proceeds from equity issuance, net	-	14,200	45,902	-	-
Others	(6,054)	(5,047)	(6,632)	(7,425)	-
<b>Cashflow from financing</b>	<b>(111,828)</b>	<b>135,862</b>	<b>22,816</b>	<b>10,317</b>	<b>(64,710)</b>
<b>Net change in cash</b>	<b>8,869</b>	<b>8,567</b>	<b>67,505</b>	<b>(47,717)</b>	<b>(11,822)</b>
Cash at the start of the period	65,778	74,438	82,970	154,574	106,857
Currency translation	(209)	(35)	4,099	-	-
Others	-	-	-	-	-
<b>Ending cash</b>	<b>74,438</b>	<b>82,970</b>	<b>154,574</b>	<b>106,857</b>	<b>95,034</b>

\*nm - not meaningful

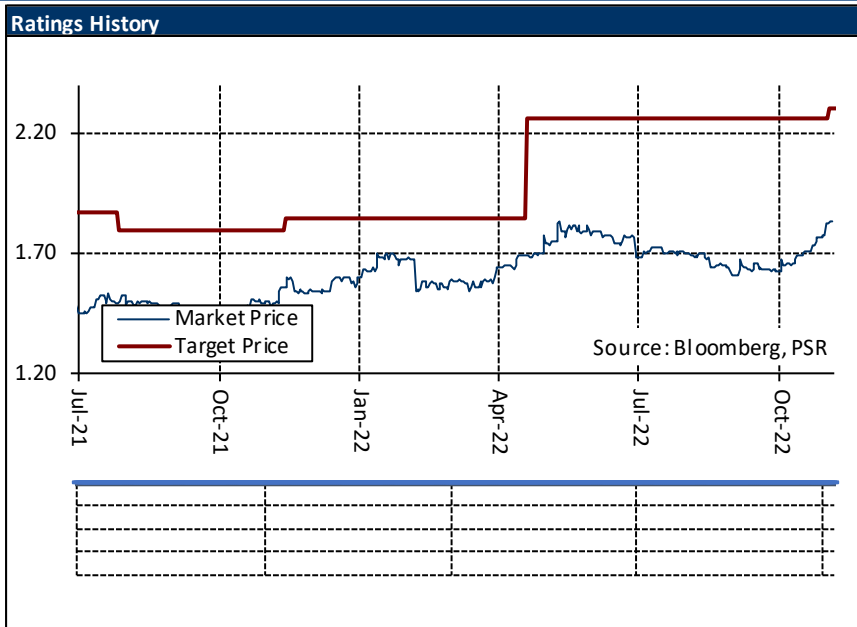
Source: Company, Phillip Securities Research (Singapore) Estimates

## Balance Sheet

Y/E Sept, (\$'000)	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
PPE & Investment Properties	157,088	146,161	130,551	128,483	118,579
Others	16,739	23,806	28,589	244,645	246,483
<b>Total non-current assets</b>	<b>173,827</b>	<b>169,967</b>	<b>159,140</b>	<b>373,128</b>	<b>365,062</b>
Inventories	237,185	466,171	445,771	594,188	653,607
Trade and other receivables	89,824	155,661	187,633	183,990	202,098
Cash and cash equivalents	77,892	82,970	154,574	106,857	95,034
Others	41,220	9,951	25,987	25,987	25,987
<b>Total current assets</b>	<b>446,121</b>	<b>714,753</b>	<b>813,965</b>	<b>911,021</b>	<b>976,727</b>
<b>Total Assets</b>	<b>619,948</b>	<b>884,720</b>	<b>973,105</b>	<b>1,284,150</b>	<b>1,341,789</b>
<b>LIABILITIES</b>					
Trade and other payables	27,918	69,154	43,533	122,294	133,548
ST borrowings	180,039	358,114	410,128	536,029	526,029
Others	34,947	68,779	65,296	94,373	95,442
<b>Total current liabilities</b>	<b>242,904</b>	<b>496,047</b>	<b>518,957</b>	<b>752,695</b>	<b>755,019</b>
LT borrowings	99,225	77,652	47,849	77,652	77,652
Others	13,272	10,072	7,513	10,958	10,958
<b>Total non-current liabilities</b>	<b>112,497</b>	<b>87,724</b>	<b>55,362</b>	<b>88,610</b>	<b>88,610</b>
<b>Total liabilities</b>	<b>355,401</b>	<b>583,771</b>	<b>574,319</b>	<b>841,305</b>	<b>843,629</b>
<b>EQUITY</b>					
Share Capital	125,001	138,754	184,546	184,546	184,546
Retained profits	142,871	165,563	217,370	261,428	316,744
Others	(3,225)	(3,368)	(3,130)	(3,130)	(3,130)
<b>Total equity</b>	<b>264,547</b>	<b>300,949</b>	<b>398,786</b>	<b>442,844</b>	<b>498,160</b>
<b>Total equity and liabilities</b>	<b>619,948</b>	<b>884,720</b>	<b>973,105</b>	<b>1,284,149</b>	<b>1,341,789</b>

## Valuation Ratios

Y/E Sept	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	17.1	7.6	4.5	4.4	3.9
P/B (x)	1.5	1.4	1.0	0.9	0.8
EV/EBITDA (x)	NA	NA	NA	NA	NA
Dividend yield (%)	4.0%	8.1%	12.1%	12.1%	14.1%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-32.9%	90.8%	45.4%	21.6%	10.0%
EBITDA	-29.7%	86.8%	81.7%	7.8%	11.2%
EBIT	-17.6%	53.6%	63.3%	3.0%	10.3%
PBT	-32.6%	135.8%	76.6%	10.7%	8.8%
<b>Margins</b>					
EBITDA margin	8.6%	6.9%	7.8%	6.6%	6.6%
EBIT margin	5.5%	5.4%	6.7%	6.0%	6.0%
Net profit margin	3.1%	4.3%	5.3%	4.7%	4.6%
<b>Key Ratios</b>					
ROE	2.9%	6.6%	9.8%	8.6%	8.0%
ROA	2.9%	6.6%	9.8%	8.6%	8.0%
Net Gearing (%)	76.1%	117.2%	76.1%	114.4%	102.1%



### 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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