

BRC Asia

Disappointing 1H23, strong uptick expected in 2H23

SINGAPORE | INDUSTRIAL | 1H23 Results

- 1H23 net profit was below our expectations, at 31% of our FY23e forecasts. Net profit fell 34.1% YoY, due to 1) 15% decline in ASP; and 2) slow construction progress with safety measures implemented at worksites, which caused deliveries to be deferred. Lower order delivery was mitigated by trading volume, which reduced gross margin by 1.3% pt to 7.4%.
- Construction activities have picked up since April. Demand remains strong, underpinned by pent-up demand in residential and infrastructure development. BCA has projected 2023 construction demand at S\$27bn-32bn (2022: S\$29.8bn) and progress payment to grow by 9-20%. BRC's orderbook has further grown to S\$1.42bn. Rebar prices have stabilized from Feb 2023.
- Maintain BUY with a lower DCF-derived target price of \$1.99 (prev. \$2.14).** We cut our forecasts by 23.2% and 27.7% for FY23e and FY24e to reflect the lower 1H23 earnings. We expect steel prices to stabilize for the rest of the year, though this implies a 20.4% YoY decline in 2H23. Order deliveries should rise as construction activities are ramped up.

Results at a glance

FYE Sep (\$\$mn)	1H23	1H22	YoY	Comments
Revenue	717	793	-9.6%	ASP fell 15%. Volume impacted by worksite safety measures, mitigated by trading business
Gross profit	53	69	-23.4%	Higher cost of inventory
Gross margin	7.4%	8.7%	-1.3%	Trading business generates lower margin
Net profit	26	40	-34.1%	Higher finance costs
Net margin	3.7%	5.0%	-1.4%	
Net gearing (x)	0.38	0.83	-54.6%	Improved cash flow from lower inventory

Source: Company, PSR

The Negative

- **1H23 earnings came in at only 31% of our FY23e estimates.** The shortfall was due to lower order deliveries, which was impeded by low construction progress at work sites to meet heightened safety measures. The measures are mandated to last till end-May, but activities are picking up with improved safety conditions. BRC booked more lower-margined trading businesses during the period, and gross margin fell 1.3% pt to 7.4%. Interest costs rose 170% YoY to S\$6.3mn, resulting in 34.1% YoY decline in 1H23 net profit.

The Positives

+ **Net gearing improved to 0.38x (Sep 22: 0.76x).** With easing of steel prices and freight costs, inventory holdings were brought down. Credit terms from suppliers become more favourable, leading to strong operating cash inflow of about S\$0.608/share.

+ **Orderbook edged higher to S\$1.42bn** (Sep 22: \$1.4bn), as demand remains robust. BCA estimates that progress payments, which represent work done and revenue booked, to grow by 9-20% in 2023. We estimate about 60% of the orderbook are for jobs in the public sector which are less volatile and payments are more certain. While the delay in construction work had affected cash flow and credit conditions of some contractors, we do not see any risk of default that could impact building material suppliers.

Outlook

1H23 was likely to be the trough in earnings. Order deliveries should rise as construction activities are ramped up, leading to a much stronger 2H23 and a YoY growth in net profit in FY24e. The improved balance sheet would ease finance costs and lift net margin.

18 May 2023

BUY (MAINTAINED)

LAST CLOSE PRICE	SGD 1.640
FORECAST DIV	SGD 0.118
TARGET PRICE	SGD 1.990
TOTAL RETURN	28.5%

COMPANY DATA

BLOOMBERG CODE:	BRC SP
O/S SHARES (MN) :	274
MARKET CAP (USD mn / SGD mn) :	337 / 450
52 - WK HI/LO (SGD) :	1.82 / 1.54
3M Average Daily T/O (mn) :	0.06

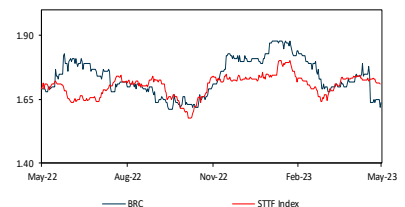
MAJOR SHAREHOLDERS (%)

ESTEEL Enterprise	61.6%
Hong Leong Asia	20.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.1	(5.5)	6.5
STTF RETURN	(0.9)	(0.1)	4.8

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Sep (\$\$ 'mn)	FY21	FY22	FY23e	FY24e
Revenue	1,169	1,699	1,274	1,392
Gross Profit	100	171	140	153
EBIT	64	112	93	104
NPAT	47	90	65	76
P/NAV (x)	1.3	1.1	1.0	1.0
P/E (x)	8.5	5.0	7.0	5.9
ROE (%)	16.6%	25.8%	15.6%	16.8%

Source: Company, PSR

VALUATION METHOD

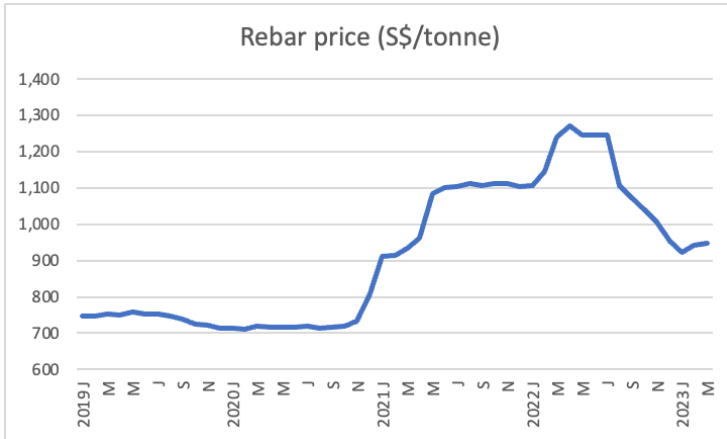
Discounted cash flow

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Maintain BUY with lower TP of \$1.99 (prev. \$2.14)

We cut our forecasts by 23.2% and 27.7% for FY23e and FY24e to reflect the lower 1H23 earnings. We expect steel prices to stabilize for the rest of the year, though this implies a 20.4% YoY decline in 2H23. Our revised DCF-derived TP is S\$1.99.

Figure I: Rebar prices are down this year



Source: BCA

Financials

Income Statement

Y/E Sep, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
Revenue	612	1,169	1,699	1,274	1,392
Cost of sales	(527)	(1,069)	(1,528)	(1,134)	(1,239)
Gross Profit	85	100	171	140	153
Distribution expenses	(6)	(6)	(7)	(6)	(7)
Administration expenses	(10)	(18)	(30)	(17)	(18)
Others	(22)	(12)	(23)	(24)	(24)
Operating profit	47	64	112	93	104
Net finance expenses	(7)	(5)	(7)	(14)	(10)
Share of results of associates and	(14)	2	3	-	-
Impairment loss	0	(3)	(0)	-	-
Profit before tax	27	58	107	80	93
Taxation	(7)	(11)	(17)	(15)	(18)
Net Profit	20	47	90	65	76
Profit attributable to owners	20	47	90	65	76

Per share data (\$\$ cents)

Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
BVPS	113.4	123.7	145.4	157.1	170.9
DPS	6.0	12.0	18.0	11.8	13.8
EPS	8.7	19.3	32.9	23.5	27.6

Cash Flow

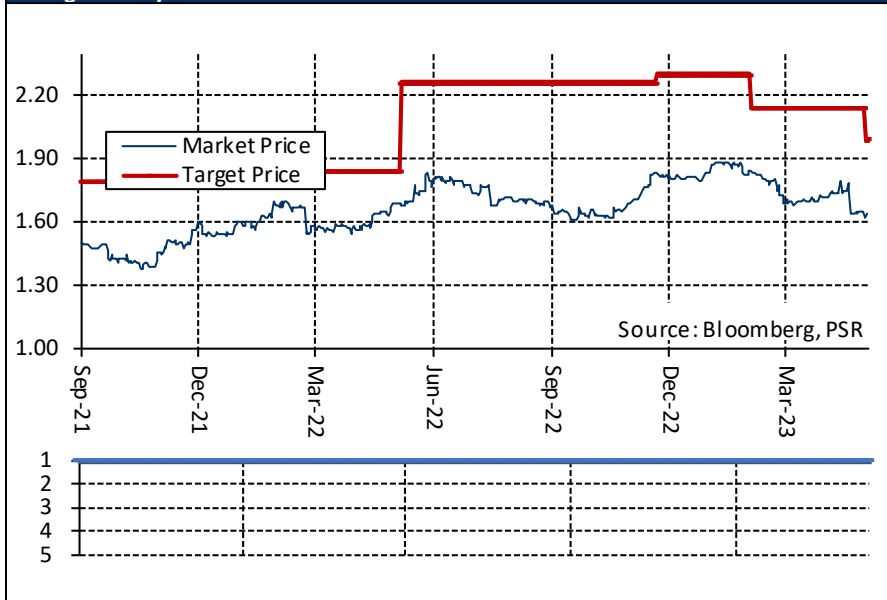
Y/E Sep, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Pretax profit	27	58	107	80	93
Adjustments	40	70	10	32	29
WC changes	61	(245)	(54)	110	(53)
Cash generated from ops	128	(117)	63	221	69
Others	(11)	(14)	(22)	(34)	(25)
Cashflow from ops	116	(130)	41	188	43
CFI					
CAPEX, net	(3)	(2)	(3)	(5)	(5)
Others	1	0	0	-	-
Cashflow from investments	(2)	(1)	(3)	(5)	(5)
CFF					
Dividends paid to owners	(19)	(24)	(38)	(32)	(38)
Proceeds from borrowings, net	(87)	151	22	(200)	-
Others	-	14	46	-	-
Cashflow from financing	(106)	140	29	(232)	(38)
Net change in cash	9	9	68	(50)	0
Cash at the start of the period	66	74	83	155	105
Currency translation	(0)	(0)	4	-	-
Others	-	-	-	-	-
Ending cash	74	83	155	105	105

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Sep, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE & Investment Properties	157	146	131	118	104
Others	17	24	29	29	29
Total non-current assets	174	170	159	146	133
Cash and cash equivalents	78	83	155	105	105
Inventories	237	466	446	326	356
Trade and other receivables	90	156	188	175	191
Others	41	10	26	26	26
Total current assets	446	715	814	632	678
Total Assets	620	885	973	778	811
LIABILITIES					
Trade and other payables	28	69	44	31	34
ST borrowings	160	358	410	210	210
Others	55	69	65	50	43
Total current liabilities	243	496	519	292	287
LT borrowings	99	78	48	48	48
Others	13	10	8	8	8
Total non-current liabilities	113	88	55	55	55
Total liabilities	355	584	574	347	342
EQUITY					
Share Capital	125	139	185	185	185
Retained profits	143	166	217	250	287
Others	(3)	(3)	(3)	(3)	(3)
Total equity	265	301	399	431	469
Total equity and liabilities	620	885	973	778	811
Valuation Ratios					
Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	18.8	8.5	5.0	7.0	5.9
P/B (x)	1.4	1.3	1.1	1.0	1.0
EV/EBITDA (x)	9.5	9.8	5.8	5.4	4.9
Dividend yield (%)	3.7%	7.3%	11.0%	7.2%	8.4%
Growth & Margins (%)					
Growth					
Revenue	-32.9%	90.8%	45.4%	-25.0%	9.3%
Gross profit	-8.0%	17.5%	71.2%	-18.2%	9.2%
EBIT	-7.8%	34.7%	76.0%	-17.0%	11.3%
PBT	-29.8%	116.3%	84.0%	-25.9%	17.3%
Margins					
Gross profit margin	13.9%	8.6%	10.1%	11.0%	11.0%
EBIT margin	7.7%	5.5%	6.6%	7.3%	7.5%
Net profit margin	3.3%	4.0%	5.3%	5.1%	5.4%
Key Ratios					
ROE	7.7%	16.6%	25.8%	15.6%	16.8%
ROA	3.1%	6.3%	9.7%	7.4%	9.5%
Net Gearing (%)	68.6%	117.2%	76.1%	35.5%	32.6%

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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