

# BRC Asia

## 3Q23 in line, construction progress still muted

### SINGAPORE | INDUSTRIAL | 3Q23 UPDATE

- 3Q23 net profit was in line. The marginal 10.9% gain was driven by forex gain from a stronger US dollar, and writeback in provisions for onerous contracts with a fall in steel price (about -25% YTD). Volume remains below pre-COVID though safety controls at worksites were lifted in May.
- Demand remains robust, though construction progress is still inhibited by shortage of manpower and new enforcement measures by the authorities. BRC's orderbook is S\$1.34bn at end June.
- Maintain BUY with unchanged target price of \$1.99.**

#### Results at a glance

FYE Sep (\$\$mn)	3Q22	3Q23	YoY	Comments
Revenue	515	460	-10.8%	Volume picked up from May, but progress remained slow. ASP is 25% lower YoY.
Gross profit	37	35	-5.6%	Write back of provisions for onerous contracts
Gross margin	7.1%	7.5%	0.4 ppt	
Net profit	20	23	10.9%	Forex gain from stronger US\$
Net margin	4.0%	4.9%	1.0 ppt	
Net gearing (x)	0.61	0.49	-19.4%	Lower inventory

Source: Company, PSR, # only selected financials are provided in the 3Q23 update

#### The Positives

+ **Volume and construction activities picked up from May (>2x higher MoM)**, though they are still below pre-COVID levels. Construction progress is hampered by the shortage of dormitory beds, workers and step-up in safety enforcement on worksites and construction personnel. Demand, however, remains robust, underpinned by public housing, record government land sales for private housing, and infrastructure projects. BRC has an orders on hand of S\$1.34bn.

+ **BRC is largely insulated from potential bad debts through credit insurance.** Some construction companies are facing financial stress due to lower-margin legacy projects, project delays and rising costs. For BRC, the impact is non-delivery/cancellation of outstanding orders, but there is no collection risk for jobs that have been delivered.

#### The Negative

- **Net margin remains low at 4.9%.** We think margins might not return to FY22's 5.3% due to higher share of trading business which are lower-margin, and large-scale infrastructure projects.

#### Outlook

We think order deliveries might be pushed out to FY24e and beyond. The construction sector will do the heavy-lifting for the Singapore economy. BRC as a leading supplier of construction steel will ride on the uptrend.

**Maintain BUY with unchanged TP of \$1.99.**

10 August 2023

#### BUY (MAINTAINED)

LAST CLOSE PRICE	SGD 1.670
FORECAST DIV	SGD 0.120
TARGET PRICE	SGD 1.990
TOTAL RETURN	26.3%

#### COMPANY DATA

BLOOMBERG CODE:	BRC SP
O/S SHARES (MN):	274
MARKET CAP (USD mn / SGD mn):	340 / 458
52 - WK HI/LO (SGD):	1.82 / 1.54
3M Average Daily T/O (mn):	0.03

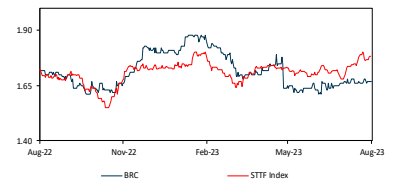
#### MAJOR SHAREHOLDERS (%)

ESTEEL Enterprise	61.6%
Hong Leong Asia	20.0%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.6	1.2	4.2
STTF RETURN	6.2	2.8	5.8

#### PRICE VS. STTF



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Sep (\$\$ 'mn)	FY21	FY22	FY23e	FY24e
Revenue	1,169	1,699	1,506	1,645
Gross Profit	100	171	146	161
EBIT	64	112	95	107
NPAT	47	90	66	79
P/NAV (x)	1.5	1.1	1.1	1.0
P/E (x)	9.7	5.1	6.9	5.8
ROE (%)	16.6%	25.8%	15.9%	17.4%

Source: Company, PSR

#### VALUATION METHOD

Discounted cash flow

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## Financials

### Income Statement

Y/E Sep, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>Revenue</b>	<b>612</b>	<b>1,169</b>	<b>1,699</b>	<b>1,506</b>	<b>1,645</b>
Cost of sales	(527)	(1,069)	(1,528)	(1,360)	(1,484)
<b>Gross Profit</b>	<b>85</b>	<b>100</b>	<b>171</b>	<b>146</b>	<b>161</b>
Distribution expenses	(6)	(6)	(7)	(8)	(8)
Administration expenses	(10)	(18)	(30)	(20)	(21)
Others	(22)	(12)	(23)	(24)	(24)
<b>Operating profit</b>	<b>47</b>	<b>64</b>	<b>112</b>	<b>95</b>	<b>107</b>
Net finance expenses	(7)	(5)	(7)	(14)	(10)
Share of results of associates and	(14)	2	3	-	-
Impairment loss	0	(3)	(0)	-	-
<b>Profit before tax</b>	<b>27</b>	<b>58</b>	<b>107</b>	<b>81</b>	<b>97</b>
Taxation	(7)	(11)	(17)	(15)	(18)
<b>Net Profit</b>	<b>20</b>	<b>47</b>	<b>90</b>	<b>66</b>	<b>79</b>
<b>Profit attributable to owners</b>	<b>20</b>	<b>47</b>	<b>90</b>	<b>66</b>	<b>79</b>

### Per share data (\$ cents)

Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
BVPS	113.4	123.7	145.4	157.4	171.7
DPS	6.0	12.0	18.0	12.0	14.3
EPS	8.7	19.3	32.9	24.0	28.6

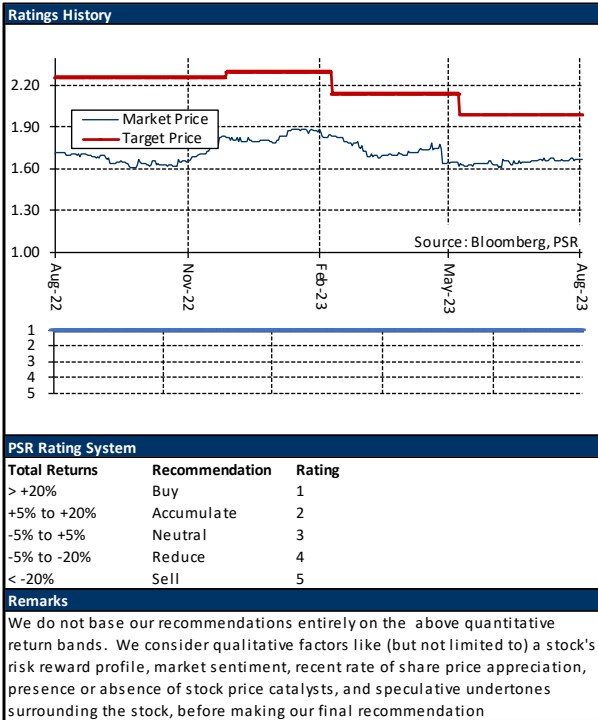
### Cash Flow

Y/E Sep, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>CFO</b>					
<b>Pretax profit</b>	<b>27</b>	<b>58</b>	<b>107</b>	<b>81</b>	<b>97</b>
Adjustments	40	70	10	32	29
WC changes	61	(245)	(54)	20	(61)
<b>Cash generated from ops</b>	<b>128</b>	<b>(117)</b>	<b>63</b>	<b>133</b>	<b>64</b>
Others	(11)	(14)	(22)	(34)	(26)
<b>Cashflow from ops</b>	<b>116</b>	<b>(130)</b>	<b>41</b>	<b>99</b>	<b>38</b>
<b>CFI</b>					
<b>CAPEX, net</b>	<b>(3)</b>	<b>(2)</b>	<b>(3)</b>	<b>(5)</b>	<b>(5)</b>
Others	1	0	0	-	-
<b>Cashflow from investments</b>	<b>(2)</b>	<b>(1)</b>	<b>(3)</b>	<b>(5)</b>	<b>(5)</b>
<b>CFF</b>					
<b>Dividends paid to owners</b>	<b>(19)</b>	<b>(24)</b>	<b>(38)</b>	<b>(33)</b>	<b>(39)</b>
Proceeds from borrowings, net	(87)	151	22	(200)	-
Others	-	14	46	-	-
<b>Cashflow from financing</b>	<b>(106)</b>	<b>140</b>	<b>29</b>	<b>(233)</b>	<b>(39)</b>
<b>Net change in cash</b>	<b>9</b>	<b>9</b>	<b>68</b>	<b>(139)</b>	<b>(6)</b>
Cash at the start of the period	66	74	83	155	16
Currency translation	(0)	(0)	4	-	-
Others	-	-	-	-	-
<b>Ending cash</b>	<b>74</b>	<b>83</b>	<b>155</b>	<b>16</b>	<b>10</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Sep, (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
<b>ASSETS</b>					
PPE & Investment Properties	157	146	131	118	104
Others	17	24	29	29	29
<b>Total non-current assets</b>	<b>174</b>	<b>170</b>	<b>159</b>	<b>146</b>	<b>133</b>
Cash and cash equivalents	78	83	155	16	10
Inventories	237	466	446	391	427
Trade and other receivables	90	156	188	206	225
Others	41	10	26	26	26
<b>Total current assets</b>	<b>446</b>	<b>715</b>	<b>814</b>	<b>639</b>	<b>688</b>
<b>Total Assets</b>	<b>620</b>	<b>885</b>	<b>973</b>	<b>785</b>	<b>821</b>
<b>LIABILITIES</b>					
Trade and other payables	28	69	44	37	41
ST borrowings	160	358	410	210	210
Others	55	69	65	51	44
<b>Total current liabilities</b>	<b>243</b>	<b>496</b>	<b>519</b>	<b>298</b>	<b>294</b>
LT borrowings	99	78	48	48	48
Others	13	10	8	8	8
<b>Total non-current liabilities</b>	<b>113</b>	<b>88</b>	<b>55</b>	<b>55</b>	<b>55</b>
<b>Total liabilities</b>	<b>355</b>	<b>584</b>	<b>574</b>	<b>353</b>	<b>350</b>
<b>EQUITY</b>					
Share Capital	125	139	185	185	185
Retained profits	143	166	217	250	290
Others	(3)	(3)	(3)	(3)	(3)
<b>Total equity</b>	<b>265</b>	<b>301</b>	<b>399</b>	<b>432</b>	<b>471</b>
<b>Total equity and liabilities</b>	<b>620</b>	<b>885</b>	<b>973</b>	<b>785</b>	<b>821</b>
<b>Valuation Ratios</b>					
Y/E Sep	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	22.5	9.7	5.1	6.9	5.8
P/B (x)	1.7	1.5	1.1	1.1	1.0
EV/EBITDA (x)	9.6	9.9	5.9	6.2	5.6
Dividend yield (%)	3.59	7.19	10.78	7.19	8.57
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	-32.9%	90.8%	45.4%	-11.4%	9.2%
Gross profit	-8.0%	17.5%	71.2%	-14.8%	10.4%
EBIT	-7.8%	34.7%	76.0%	-15.4%	13.0%
PBT	-29.8%	116.3%	84.0%	-24.2%	19.2%
<b>Margins</b>					
Gross profit margin	13.9%	8.6%	10.1%	9.7%	9.8%
EBIT margin	7.7%	5.5%	6.6%	6.3%	6.5%
Net profit margin	3.3%	4.0%	5.3%	4.4%	4.8%
<b>Key Ratios</b>					
ROE	7.7%	16.6%	25.8%	15.9%	17.4%
ROA	3.1%	6.3%	9.7%	7.5%	9.8%
Net Gearing (%)	68.6%	117.2%	76.1%	56.1%	52.7%



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