

Pan-United Corporation Ltd

Muted FY23e outlook, stronger FY24e

SINGAPORE | CONSTRUCTION | UPDATE

- Industry contract awards fell 13.5% in the first four months of 2023. At this rate, total contract awards for 2023 could come in at the lower end of BCA's forecasts of S\$27bn-32bn, and fall below 2022's S\$29.8bn. Lower contract awards will translate into lower construction output and building materials consumption in the following 6 to 12 months.
- A ramp up in the 2H 2023 government land sale programme will lift total supply of private housing units in 2023 to 9,250, nearly 50% higher than 2022. The development projects are expected to be awarded from early 2024, leading to an uplift in demand for building materials from 2H24e.
- We lower our FY23e net earnings estimates by 20% to factor in lower volume. Maintain BUY with lower TP of S\$0.50 (prev. S\$0.54). The business generates strong operating cash flow, underpinning a dividend yield of at least 4.5%.

Highlights

- Industry contracts awarded fell 13.5% in first four months of 2023 (Figure 1)**, after a 0.5% YoY decline in 2022. These contracts would translate into work performed and billed in 2H23e. We therefore expect slower revenue and profit growth in FY23e.
Construction companies are turning more cautious in taking on new jobs as they face margin pressure from higher labour, material and safety compliance costs. We think this could have impacted tenders for larger projects with longer construction lead time.
- Consumption of RMC fell 4.6% in the first three months of 2023 (Figure 2)**. Selling price has also eased by 1.7% from the peak in June 2022 (Figure 3). Delivery of building materials have been affected by the authority-imposed heightened safety measures at worksites. These measures were lifted from June 2023.
- The GLS programme will yield about 9,250 private housing units in 2023**, nearly 50% higher than 2022, and 2.5x the supply in 2021. The HDB also plans to supply up to 23,000 new Built-To-Order (BTO) flats in 2023 (2022: 23,184 flats). The construction contracts for these projects are expected to be awarded in the subsequent quarter, and translate into construction works over the next two years. We therefore expect an uplift in order delivery for building materials from 2H24e.
- Increased awareness and adoption of Pan-U's low-carbon concrete solutions.** The push towards sustainability construction has raised adoption of Pan-U's low-carbon concrete solutions. These include the use of recycled, upcycled and waste materials, as well as carbon capture and utilisation (CCU) technologies such as CO2 mineralisation technology. Pan-U has supplied CO2 mineralised concrete to PSA's Tuas Port and Capitaland's building construction at 3 Science Park Drive. Greater industry adoption of these products would set Pan-U apart from its competitors.
- We lower our FY23e net profit estimates by 20%** to factor in lower volume. Revenue and net profit growth in FY23e would be driven mainly by higher selling prices.

Maintain BUY with a lower TP of S\$0.50

We maintain BUY with a lower DCF-derived TP of S\$0.50 (prev. S\$0.54). The operations generate strong FFO/share of S\$0.0317 in FY23e, which underpins a dividend yield of at least 4.5%.



StocksBnB.com

5 July 2023

BUY (MAINTAINED)

LAST CLOSE PRICE	SGD 0.400
FORECAST DIV	SGD 0.018
TARGET PRICE	SGD 0.500
TOTAL RETURN	29.5%

COMPANY DATA

BLOOMBERG CODE:	PAN SP
O/S SHARES (MN) :	698
MARKET CAP (USD mn / SGD mn) :	207 / 279
52 - WK HI/LO (SGD) :	0.47 / 0.37
3M Average Daily T/O (mn) :	0.05

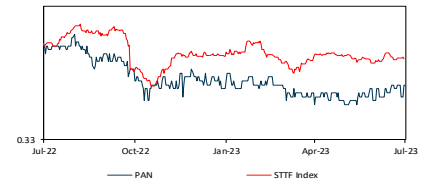
MAJOR SHAREHOLDER (%)

NG HAN WHATT	61.2%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	5.3	10.3	(7.0)
STTF RETURN	1.3	(0.3)	8.4

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (\$'mn)	FY21	FY22	FY23e	FY24e
Revenue	586	703	738	829
Gross Profit	108	133	137	152
EBIT	26	36	34	40
NPAT	19	23	25	30
P/NAV (x)	1.4	1.3	1.2	1.2
P/E (x)	15.0	12.0	11.1	9.4
ROE (%)	9.8%	13.3%	11.8%	13.0%

Source: Company, PSR

VALUATION METHOD

Discounted cash flow

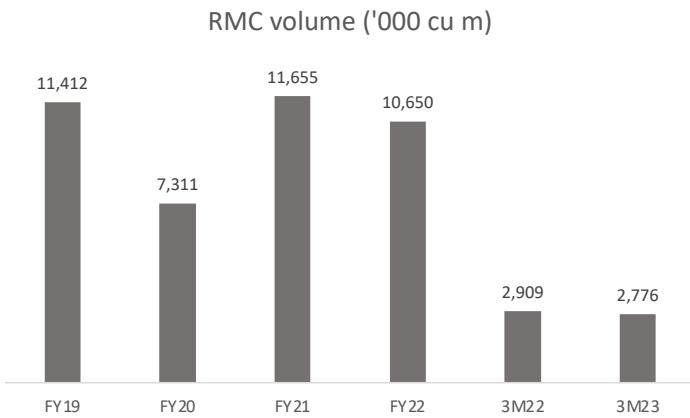
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Figure 1: Contracts awarded declined 13.5% in first four months of 2023



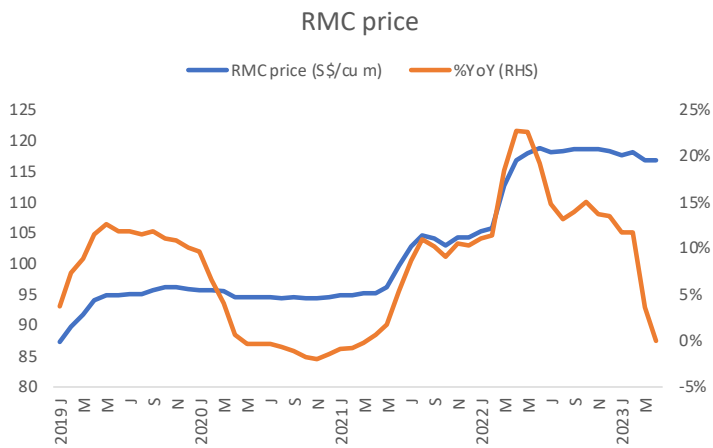
Source: BCA

Figure 2: RMC volume fell 4.6% in first three months of 2023



Source: BCA

Figure 3: RMC selling prices eased from the peak in June 2022



Source: BCA

Financials

Income Statement

Y/E Dec (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
Revenue	405	586	703	738	829
Cost of sales	(320)	(478)	(571)	(602)	(677)
Gross Profit	85	108	133	137	152
Staff costs	(33)	(43)	(49)	(48)	(54)
Depreciation & amortisation	(24)	(21)	(22)	(21)	(21)
Other expenses	(24)	(22)	(32)	(35)	(38)
Share of results of associates	0	5	6	1	1
EBIT	5	26	36	34	40
Net finance expenses	(3)	(2)	(3)	(3)	(3)
Profit before tax	2	24	34	31	37
Taxation	(0)	(4)	(6)	(6)	(7)
Net Profit	2	20	28	26	30
Minority interests	(0)	(0)	(0)	(1)	(1)
Discontinued operations	0	(1)	(4)	0	0
Profit attributable to owners	1	19	23	25	30

Per share data (\$ cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
BVPS	27.7	29.3	30.2	32.3	34.4
DPS	0.8	1.6	1.8	1.8	2.1
EPS	0.1	2.7	3.3	3.6	4.3

Cash Flow

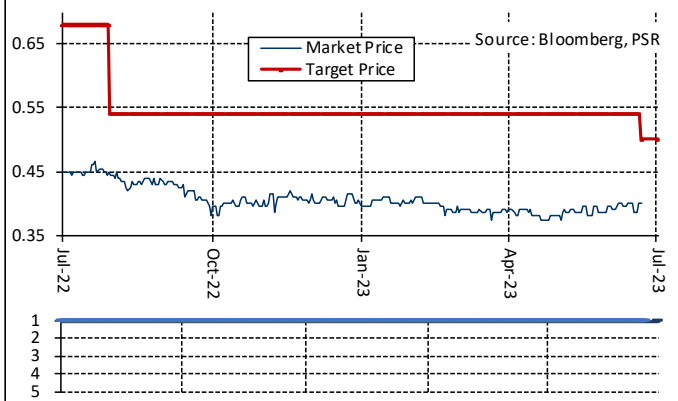
Y/E Dec (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	2	24	34	31	37
Adjustments	27	22	17	22	23
WC changes	39	15	(24)	(22)	(6)
Cash generated from ops	68	61	27	32	54
Others	(8)	2	(1)	(10)	(8)
Cashflow from ops	60	63	26	22	45
CFI					
CAPEX, net	(6)	(6)	(11)	(10)	(10)
Others	(2)	(3)	(3)	4	-
Cashflow from investments	(8)	(9)	(15)	(6)	(10)
CFF					
Dividends paid to owners	(8)	(9)	(12)	(13)	(15)
Proceeds from borrowings, net	(26)	(47)	3	-	-
Others	0	(1)	(1)	-	-
Cashflow from financing	(34)	(57)	(9)	(13)	(15)
Net change in cash	18	(3)	2	3	20
Cash at the start of the period	50	68	64	65	68
Currency translation	(0)	0	(1)	-	-
Ending cash	68	65	65	68	88

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec (\$'mn)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
PPE & Investment Properties	174	166	148	137	125
Others	11	12	14	15	16
Total non-current assets	186	179	161	152	141
Cash and cash equivalents	68	64	65	68	88
Inventories	24	24	23	36	31
Trade and other receivables	117	125	153	163	201
Others	8	5	19	11	11
Total current assets	217	218	260	278	330
Total Assets	402	397	421	429	472
LIABILITIES					
Trade and other payables	80	98	107	108	133
ST borrowings	45	21	28	28	28
Others	9	13	23	16	17
Total current liabilities	134	132	157	152	178
LT borrowings	43	25	27	27	27
Others	23	26	19	19	19
Total non-current liabilities	66	51	46	46	46
Total liabilities	199	183	203	197	224
EQUITY					
Share Capital	13	13	13	13	13
Retained profits	182	193	202	214	229
Others	-	(1)	(3)	(1)	(1)
Total equity	195	205	211	225	240
Minority interests	8	8	7	7	7
Total equity and liabilities	402	397	421	430	472
Valuation Ratios					
Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	269.9	15.0	12.0	11.1	9.4
P/B (x)	1.4	1.4	1.3	1.2	1.2
EV/EBITDA (x)	10.4	6.2	5.2	5.0	4.1
Dividend yield (%)	2.0	4.0	4.5	4.5	5.3
Growth & Margins (%)					
Growth					
Revenue	-47.3%	44.6%	20.1%	5.0%	12.2%
Gross profit	-36.2%	27.0%	23.2%	2.9%	11.0%
EBIT	-83.4%	401.7%	38.6%	-6.6%	16.6%
PBT	-93.4%	1280.9%	41.2%	-7.3%	18.0%
Margins					
Gross profit margin	20.9%	18.4%	18.9%	18.5%	18.3%
EBIT margin	1.3%	4.5%	5.2%	4.6%	4.8%
Net profit margin	0.3%	3.2%	3.3%	3.4%	3.6%
Key Ratios					
ROE	0.8%	9.8%	13.3%	11.8%	13.0%
ROA	0.4%	4.9%	6.8%	6.0%	6.7%
Net Gearing (%)	9.8%	net cash	net cash	net cash	net cash

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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