Pan-United Corporation Ltd.

Construction recovery slower than expected

SINGAPORE | CONSTRUCTION | Update

- Workplace incidents hampered the recovery. As a result of the Heightened Safety period imposed by the Ministry of Manpower (MOM), local construction projects are, in general, progressing slower than expected. YTD22 contracts awarded is down 9.4% YoY.
- According to data from the Building and Construction Authority (BCA), demand for ready-mixed concrete (RMC) for the first nine months of 2022 was ~8.8mn cu/m, about 8% lower than our estimate and up 14.2% YoY.
- **Maintain BUY with unchanged target price of S$0.54.** We trim FY22e/FY23e earnings by 12%/11% respectively on account of the Heightened Safety period imposed. Our TP is unchanged as we roll forward our valuations, still based on 12x FY23e P/E, a 20% discount to its 10-year historical average P/E on account of the still uncertain business environment.

According to data from the BCA, demand for RMC for the first nine months of 2022 was ~8.8mn cu/m, about 8% lower than our estimate but higher than ~8.5mn cu/m in the same period last year (Figure 1). The construction recovery has slowed, with contracts awarded for the first nine months of 2022 5.3% lower than 2021. Construction progress payments for the same period, however, rose in 2022 by 14.2%.

No results update from PanU as it has moved to half-yearly reporting.

The Positives

+ Construction progress payments for first 9 months of 2022 rose 14.2% YoY. We believe construction progress payments were higher due to the relaxation of border restrictions on the inflow of migrant workers in 2022. This is an important metric, as it tracks work done in the sector.

The Negative

- Workplace fatalities hampered recovery. As of 1 Sept 2022, the number of workplace fatalities stands at 36 for the 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 Ministry of Manpower (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.

- Contracts awarded for first 10 months of 2022 9.4% weaker than 2021. Despite the strong pipeline of projects, contracts awarded slowed in 3Q22 as workplace fatalities hampered project progression rates.

Outlook

Construction sector expected to be weighed down by higher operating costs; tailwinds intact. The prospects of the local construction supply chain is expected to be weighed down by higher operating costs, particularly for skilled labour and energy. The operating climate is likely to be complicated and burdened by high financing cost and heightened credit risks on the back of an inflationary and rising interest rates environment.

Construction materials costs have stabilised in 3Q22 after surging in the first half of the year. The price of RMC has risen by 21.6% from the beginning of the year to $118.60/tonne (Figure 3) driven by a combination of higher raw materials costs and demand. The higher cost of its components like sand, freight and bunker fuel cost have all driven up the price of RMC. That said, prices have remained stable in the last six months.

12 December 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.405
FORECAST DIV	SGD 0.020
TARGET PRICE	SGD 0.540
TOTAL RETURN	38.3%

COMPANY DATA

BLOOMBERG CODE:	PAN SP
O/S SHARES (MN) :	699
MARKET CAP (USD mn / SGD mn) :	209 / 283
52 - WK HI/LO (SGD) :	0.47 / 0.3
3M Average Daily T/O (mn) :	0.06

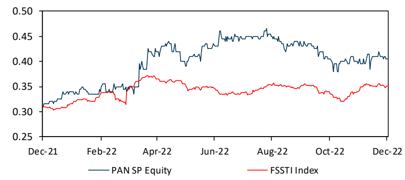
MAJOR SHAREHOLDERS (%)

NG BEE SOON	5.0%
NG HAN WHATT	1.0%
LEE CHEONG SENG	0.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	2.5	(8.0)	40.1
STI RETURN	3.0	0.0	7.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S$'000)	FY20	FY21	FY22e	FY23e
Gross Rev	405,024	586,872	611,299	642,552
Gross Profit	84,830	127,039	140,599	147,787
EBITDA	28,000	48,864	56,311	59,618
NPAT	1,514	18,857	27,403	31,532
P/B (x)	1.23	1.12	1.05	0.98
P/E (x)	226.67	12.73	8.68	7.55
ROE (%)	0.75	8.83	12.06	12.98
Div yield (%)	2.4%	4.7%	5.9%	6.8%

Source: Company, PSR

VALUATION METHOD

12x FY23e P/E

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Despite the near-term headwinds, we believe the construction recovery remains intact. 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.

BCA's forecasts of average construction demand over 2022-2026 of $25-32bn will support construction demand in the next few years.

In the near term, projects in the pipeline that will likely support the group's growth are the Singapore Science Centre's relocation, the Toa Payoh integrated development, Alexandra Hospital redevelopment, Bedok's new integrated hospital, Phases 2-3 of the Cross Island MRT Line and the Downtown Line's extension to Sungei Kadut.

With an approximately 40% market share in the industry, we continue to see PanU as a key beneficiary of the construction sector recovery. PanU's batching plants still have capacity to take on a 10-15% increase in RMC demand in Singapore.

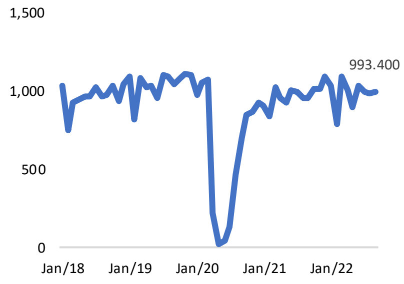
ESG

Pan-United has committed to supplying only low-carbon concrete by 2030 and pledged to offer carbon-neutral concrete products by 2040. It is committed to reducing its carbon output by 50% from 2005's level by 2030. The company has already started its journey towards being more carbon-neutral. In 2021, it provided Surbana Jurong with concrete that was created with carbon mineralisation technology. As the concrete is mixed, carbon dioxide is injected to form calcium carbonate. This not only captures and stores carbon, but also strengthens the material.

We believe its move to more green products is not only more sustainable for the environment but also opens up new markets for them. In January this year, the Group signed a memorandum of understanding with Shell to collaborate on ways to repurpose carbon dioxide and industrial waste from the oil major's Singapore operations as raw materials to produce low-carbon concrete.

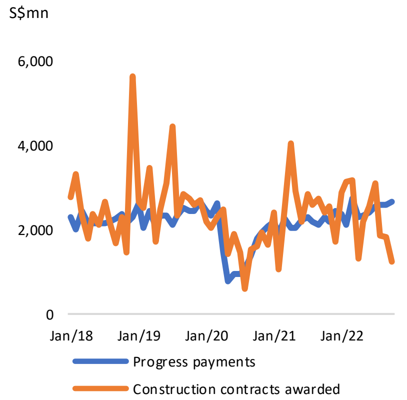
Maintain BUY with unchanged TP of $0.54. We trim FY22e/FY23e earnings by 12%/11% respectively on account of the Heightened Safety period imposed. We believe 1H23 will see a low-key start followed by more robust project activity levels in 2H23 anchored by strong local construction demand backlog. Our TP is unchanged from $0.54 as we roll forward our valuations to 12x FY23e P/E, still at a 20% discount to its 10-year historical P/E on account of the still uncertain business environment. Stock catalysts are expected from higher contract volumes and better margins.

Figure 1: Demand for ready mix concrete has slowed in 3Q22



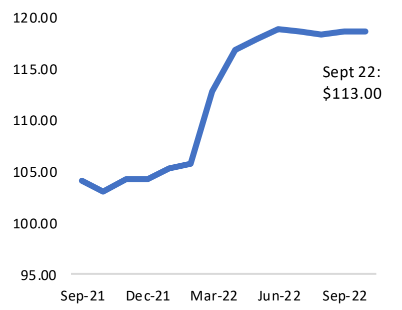
Source: BCA, PSR

Figure 2: Construction contracts awarded for 9M22 9.4% lower YOY but progress payments higher



Source: BCA, PSR

Figure 3: The price of RMC has risen 8.4% from the period Dec 21-Apr 22 driven by higher cost of raw materials



Source: BCA, PSR

Financials

Income Statement

Y/E Dec, (S$'000)	FY19	FY20	FY21	FY22e	FY23e
Revenue	**768,258**	**405,024**	**586,872**	**611,299**	**642,552**
Cost of sales	(635,371)	(320,194)	(459,833)	(470,700)	(494,765)
Gross Profit	**132,887**	**84,830**	**127,039**	**140,599**	**147,787**
Staff costs	(42,149)	(32,547)	(47,549)	(50,127)	(50,762)
Depreciation and amortisation expenses	(23,995)	(23,840)	(23,338)	(21,267)	(19,753)
Other expenses	(39,832)	(30,845)	(41,727)	(41,528)	(43,837)
Finance costs	(5,266)	(3,497)	(2,335)	(1,516)	(1,285)
Share of results of associate	1,074	289	5,275	5,275	5,275
Profit/(loss) before tax	**26,179**	**1,734**	**23,072**	**33,529**	**38,580**
Income tax expense	(5,250)	(220)	(4,215)	(6,125)	(7,048)
Profit/(loss) after tax	**20,929**	**1,514**	**18,857**	**27,403**	**31,532**
EBIT	**31,445**	**5,231**	**25,407**	**35,044**	**39,865**
EBITDA	**53,600**	**28,000**	**48,864**	**56,311**	**59,618**

Per unit data

Y/E Dec (S cents)	FY19	FY20	FY21	FY22e	FY23e
NAV	28.90	27.70	30.41	32.45	34.70
EPS	2.93	0.15	2.67	3.92	4.51
DPS	1.60	0.80	1.60	2.00	2.30

Cash Flow Statement

Y/E Dec, (S$'000)	FY19	FY20	FY21	FY22e	FY23e
CFO					
PBT	**26,179**	**1,734**	**23,072**	**33,529**	**38,580**
Adjustments	30,323	27,105	22,439	14,476	13,193
WC changes	(7,133)	38,746	14,785	(13,298)	7,260
Cash generated from ops	**49,369**	**67,585**	**60,296**	**34,707**	**59,033**
Others	(6,749)	(7,975)	(2,753)	(6,125)	(7,048)
Cashflow from ops	**42,620**	**59,610**	**57,543**	**28,582**	**51,985**
CFI					
Additions to PPE	(4,779)	(6,168)	(5,510)	(8,507)	(7,901)
Additions to intangible assets	(1,173)	(1,773)	(3,265)	-	-
Dividend income from associates	764	-	4,617	-	-
Others	71	191	141	-	-
Cashflow from investments	**(5,117)**	**(7,750)**	**(4,017)**	**(8,507)**	**(7,901)**
CFF					
Proceeds from bank borrowings	76,984	71,661	68,908	-	-
Repayment of bank borrowings	(96,419)	(91,487)	(109,491)	(10,203)	(5,200)
Dividends paid to shareholders	(9,112)	(7,715)	(9,123)	(13,745)	(15,771)
Others	(6,989)	(6,099)	(7,620)	-	-
Cashflow from financing	**(35,536)**	**(33,640)**	**(57,326)**	**(23,948)**	**(20,971)**
Net change in cash	**1,967**	**18,220**	**(3,800)**	**(3,873)**	**23,113**
Cash at the start of the period	47,894	49,646	67,558	64,149	60,276
Currency translation	(215)	(308)	391	-	-
Others	-	-	-	-	-
Ending cash	**49,646**	**67,558**	**64,149**	**60,276**	**83,388**

*nm - not meaningful

Balance Sheet

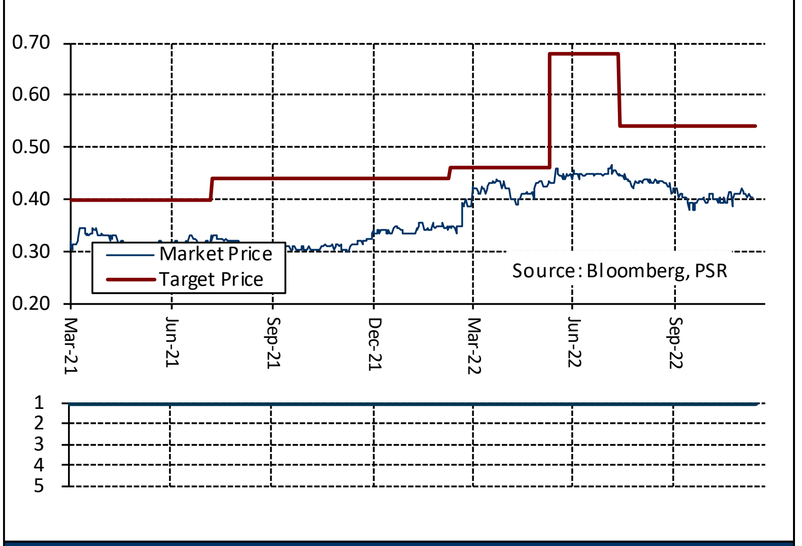
Y/E Dec, (S$'000)	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
PPE	189,603	174,291	166,202	153,442	141,590
Intangible assets	5,659	6,467	6,651	6,651	6,651
Associates	3,388	3,677	4,335	9,610	14,885
Others	1,194	1,124	1,394	1,394	1,394
Total non-current assets	**199,844**	**185,559**	**178,582**	**171,097**	**164,520**
Inventories	22,364	23,908	23,673	16,339	25,719
Prepayments	1,958	1,596	1,620	1,944	1,802
Trade and other receivables	159,686	116,825	125,474	111,355	137,582
CCE and short-term deposits	49,646	67,558	64,149	60,276	83,388
Others	8,605	6,867	3,197	4,713	5,998
Total current assets	**242,259**	**216,754**	**218,113**	**194,626**	**254,489**
Total Assets	**442,103**	**402,313**	**396,695**	**365,723**	**419,009**
LIABILITIES					
Payables and accruals	83,710	77,897	98,369	63,941	106,667
ST borrowings	57,829	44,878	21,440	11,237	6,037
Others	14,843	9,134	12,657	12,657	12,657
Total current liabilities	**156,382**	**131,909**	**132,466**	**87,835**	**125,361**
LT borrowings	49,064	42,503	25,184	25,184	25,184
Others	26,080	24,901	25,566	25,566	25,566
Total non-current liabilities	**75,144**	**67,404**	**50,750**	**50,750**	**50,750**
Total liabilities	**231,526**	**199,313**	**183,216**	**138,585**	**176,111**
Net assets	**210,577**	**203,000**	**213,479**	**227,137**	**242,898**
Represented by:					
Share capital	12,645	12,645	12,645	12,645	12,645
Reserves	190,628	182,339	193,206	206,864	222,625
Others	7,304	8,016	7,628	7,628	7,628
Total equity	**210,577**	**203,000**	**213,479**	**227,137**	**242,898**

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.2	1.2	1.1	1.0	1.0
P/E (x)	11.6	226.7	12.7	8.7	7.5
EV/EBITDA (x)	4.0	7.6	4.4	3.8	3.6
Dividend yield (%)	4.7%	2.4%	4.7%	5.9%	6.8%
Growth & Margins					
Growth					
Revenue	-11.3%	-47.3%	44.9%	4.2%	5.1%
Gross profit	19.4%	-36.2%	49.8%	10.7%	5.1%
EBITDA	69.8%	-47.8%	74.5%	15.2%	5.9%
EBIT	135.3%	-83.4%	385.7%	37.9%	13.8%
Margins					
Gross profit margin	17.3%	20.9%	21.6%	23.0%	23.0%
EBITDA margin	7.0%	6.9%	8.3%	9.2%	9.3%
EBIT margin	4.1%	1.3%	4.3%	5.7%	6.2%
Key Ratios					
ROE	9.9%	0.7%	8.8%	12.1%	13.0%
ROA	4.7%	0.4%	4.8%	7.5%	7.5%
Net Gearing	37.7%	17.8%	0.9%	-2.0%	-13.5%

Source: Company, Phillip Securities Research (Singapore) Estimates

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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