

BRC Asia

Strong start to FY22

SINGAPORE | INDUSTRIAL | 1Q22 results

- 1Q22 net profit exceeded our expectations. We believe the beat came from higher volumes delivered. Orderbook stands at \$1.3bn.
- Significant deleveraging of Group's balance sheet as it saw a \$132mn cash inflow for the quarter.
- The Building and Construction Authority (BCA) has upgraded forecasts of construction demand for 2022 by 3.5%. Steel rebar demand is forecasted to grow ~22% to 1mn-1.2mn tonnes in tandem with the overall construction sector recovery.
- Maintain BUY with an unchanged target price of S\$1.84.** Our TP is based on 11x FY22e P/E, still at a 15% discount to the 10-year historical average, on account of the uncertain environment. Catalysts expected from higher foreign-worker inflows to Singapore.

Results at a glance

FYE Sept (\$'000)	1Q22	4Q21	QoQ	Comments
Revenue	357,405	335,723	6.5%	We estimate that increase came from higher volumes moved.
Gross Profit	26,314	24,715	6.5%	In-line with revenue growth
Gross Profit margin	7.4%	7.4%	0.0%	
Net (Loss)/Profit	13,335	10,184	30.9%	
Net profit margin	3.7%	3.0%	23.0%	
Net gearing (x)	0.49	1.17	-58.3%	Leverage reduced from \$132mn in free cash flow used to repay debt.

Source: Company, PSR

The Positives

+ 1Q22 net profit exceeded our expectations. In spite of the resurgence of COVID-19 in Singapore, we estimate that order deliveries went up as disruptions to construction schedules were minimised with more frequent testing. The 6.5% higher QoQ sales (from the Group's voluntary update) also came as a surprise because of the seasonally weaker 1H of the financial year. Despite the strong beat, we are keeping our forecasts for FY22e unchanged as we monitor the overall recovery of the construction sector.

The Group's order book inched up to \$1.3bn from \$1.2bn as the construction sector continues its recovery. We estimate that half of the order book will be fulfilled within the next 12-15 months.

+ Significant deleveraging of Group's balance sheet. The Group benefitted from a free cash inflow of \$132mn for the quarter, which was used to deleverage its balance sheet. We believe a significant portion of the cash inflow was used to repay the trade facilities that it takes on to procure steel raw materials.

Despite the lower gearing ratio in 1Q22, we still expect gearing for FY22e-23e to remain elevated as we forecast firmer steel prices in 2022. Even though steel prices corrected by about 30% late last year, they have since rebounded by ~19% underpinned by prospects of strong demand supported by China's plans of infrastructure investment in a bid to boost economic stability.

14 February 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 1.680
FORECAST DIV	SGD 0.120
TARGET PRICE	SGD 1.840
TOTAL RETURN	16.7%

COMPANY DATA

BLOOMBERG CODE:	BRC SP
O/S SHARES (MN) :	274
MARKET CAP (USD mn / SGD mn) :	343 / 461
52 - WK HI/LO (SGD) :	1.7 / 1.37
3M Average Daily T/O (mn) :	0.12

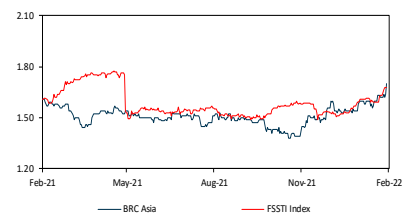
MAJOR SHAREHOLDERS (%)

ESTEEL ENTERPRISE	68.9%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.3	18.3	11.4
STI RETURN	5.7	6.5	21.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

V/E Sept (\$\$, 'mn)	FY20	FY21e	FY22e	FY23e
Revenue	612.4	1,168.6	1,176.6	1,235.5
NPAT	19.3	49.7	54.6	58.7
DPS	0.06	0.12	0.12	0.12
Dividend yield	4.0%	8.1%	8.1%	8.1%
P/NAV (x)	1.5	1.4	1.3	1.2
P/E (x)	17.1	7.6	8.1	7.6
ROE (%)	2.9%	6.6%	5.6%	5.4%

Source: Company, PSR

VALUATION METHOD

11x FY22e P/E

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Outlook

Easing border restrictions to aid further recovery in the construction sector. With higher vaccination rates (~88%), we believe the government will progressively loosen border restrictions to alleviate the tightness in the labour market. The number of seasonally adjusted job vacancies in the overall economy rose to an all-time high of 98,700 in September 2021. The number of vacancies is especially acute in sectors which rely most on foreign workers, such as construction and manufacturing. In the first half of 2021, the total number of foreign workers declined by 32,600. The seasonally adjusted job vacancy to unemployed person ratio rose to 2.09 in September 2021, from 1.63 in June 2021. We therefore believe the government will progressively facilitate the safe inflow of new foreign workers to alleviate the manpower crunch while ensuring that the risk of COVID-19 importation is well-managed to protect public health. The Ministry of Health recently announced the easing of measures for travellers from various countries, including Malaysia.

BCA upgrades forecasts of construction demand for 2022. The BCA has upgraded its forecasts of construction demand for 2022 to \$27bn-32bn per year from the original \$25bn-32bn per year, comparable with the preliminary \$30bn in 2021. The BCA also projects that demand for building materials will increase in tandem with the increased construction demand. Steel rebar demand is forecasted to grow to 1mn-1.2mn tonnes in 2022, representing ~22% YoY increase.

We note that BCA's forecasts for average construction demand in 2022-2025 excludes the development of Changi Airport Terminal 5 and expansion of the two integrated resorts. As our forecasts have not included these projects, there is upside if they go live.

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 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 TP of S\$1.84

We maintain our BUY recommendation with an unchanged target price of S\$1.84. Our TP is based on 11x FY22e P/E, still at a 15% discount to the 10-year historical average P/E, on account of the uncertain environment.

Financials

Income Statement

Y/E Sept, (\$'000)	FY20	FY21	FY22e	FY23e
Revenue	612,378	1,168,647	1,176,644	1,235,476
less: Cost of sales	(546,227)	(1,086,514)	(1,082,983)	(1,133,302)
Gross profit	66,151	82,133	93,661	102,174
Distribution expenses	(5,545)	(5,721)	(5,760)	(7,413)
Administrative expenses	(10,075)	(18,448)	(18,574)	(19,503)
Finance costs	(6,768)	(4,696)	(6,657)	(7,548)
Others	(3,771)	5,854	1,766	1,453
Operating profit	39,992	59,122	64,435	69,163
Share of results of associates and	(14,092)	1,951	2,319	2,421
Profit before tax	25,900	61,073	66,754	71,584
Taxation	(6,638)	(11,347)	(12,180)	(12,914)
Net Profit	19,262	49,726	54,574	58,670
Profit attributable to owners	20,352	47,026	50,478	53,520

Per share data (\$)

Y/E Sept	FY20	FY21	FY22e	FY23e
BVPS	0.96	1.10	1.16	1.24
DPS	0.06	0.12	0.12	0.12
EPS	0.09	0.20	0.18	0.20

Cash Flow

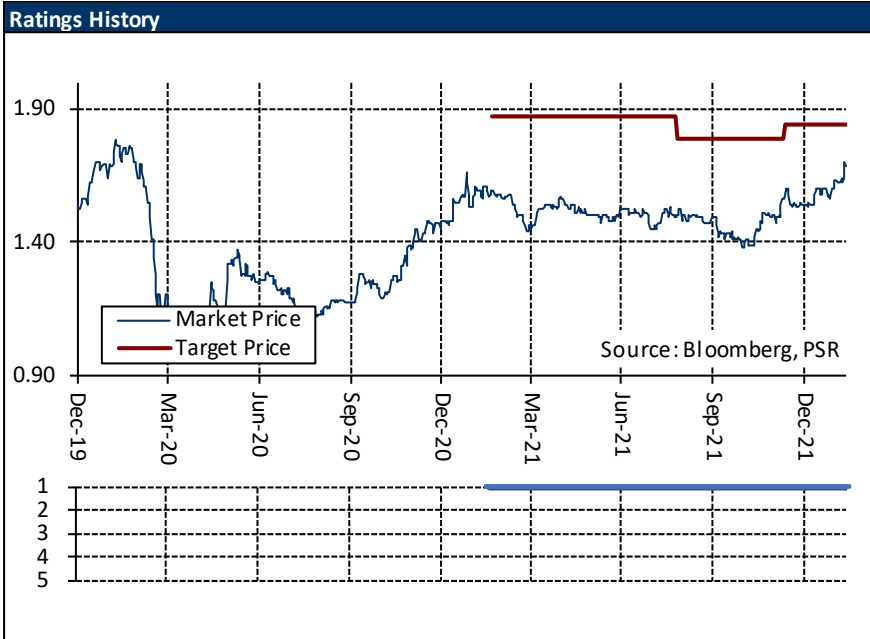
Y/E Sept, (\$'000)	FY20	FY21	FY22e	FY23e
CFO				
Profit before tax	26,990	58,373	62,658	66,434
Adjustments	39,536	70,384	(5,152)	(9,007)
WC changes	61,196	(245,322)	(90,446)	(12,629)
Cash generated from ops	127,722	(116,565)	(32,939)	44,797
Others	(5,620)	(9,597)	(12,180)	(12,914)
Cashflow from ops	122,102	(126,162)	(45,119)	31,883
CFI				
CAPEX, net	(2,540)	(1,935)	(7,605)	(7,735)
Others	1,135	802	-	-
Cashflow from investments	(1,405)	(1,133)	(7,605)	(7,735)
CFF				
Dividends paid to owners	(18,667)	(24,334)	(32,922)	(32,922)
Proceeds from borrowings, net	(87,107)	151,043	100,136	67,125
Proceeds from equity issuance, n	-	13,753	-	-
Others	(6,054)	(4,600)	(7,548)	(7,548)
Cashflow from financing	(111,828)	135,862	59,666	26,655
Net change in cash	8,869	8,567	6,941	50,803
Cash at the start of the period	65,778	74,438	82,970	89,911
Currency translation	(209)	(35)	-	-
Others	-	-	-	-
Ending cash	74,438	82,970	89,911	140,714

*nm - not meaningful

Balance Sheet

Y/E Sept, (\$'000)	FY20	FY21	FY22e	FY23e
ASSETS				
PPE & Investment Properties	157,088	146,161	144,146	137,752
Others	16,739	23,806	26,125	28,546
Total non-current assets	173,827	169,967	170,271	166,298
Inventories	237,185	466,171	515,789	544,964
Trade and other receivables	89,824	155,661	276,917	266,924
Cash and cash equivalents	77,892	82,970	89,911	140,714
Others	41,220	9,951	8,301	8,301
Total current assets	446,121	714,753	890,919	960,902
Total Assets	619,948	884,720	1,061,190	1,127,200
LIABILITIES				
Trade and other payables	27,918	69,154	87,461	94,012
ST borrowings	180,039	358,114	463,577	536,029
Others	34,947	68,779	99,827	61,085
Total current liabilities	242,904	496,047	650,865	691,126
LT borrowings	99,225	77,652	77,652	77,652
Others	13,272	10,072	14,168	19,318
Total non-current liabilities	112,497	87,724	91,820	96,970
Total liabilities	355,401	583,771	742,685	788,096
EQUITY				
Share Capital	125,001	138,754	138,754	138,754
Retained profits	142,871	165,563	183,119	203,717
Others	(3,325)	(3,368)	(3,368)	(3,368)
Total equity	264,547	300,949	318,505	339,103
Total equity and liabilities	619,948	884,720	1,061,190	1,127,200
Valuation Ratios				
Y/E Sept	FY20	FY21	FY22e	FY23e
P/E (x)	17.1	7.6	8.1	7.6
P/B (x)	1.5	1.4	1.3	1.2
EV/EBITDA (x)	NA	NA	NA	NA
Dividend yield (%)	4.0%	8.1%	8.1%	8.1%
Growth & Margins (%)				
Growth				
Revenue	-32.9%	90.8%	0.7%	5.0%
EBITDA	NA	NA	NA	NA
EBIT	NA	NA	NA	NA
PBT	-32.6%	135.8%	9.3%	7.2%
Margins				
EBITDA margin	NA	NA	NA	NA
EBIT margin	NA	NA	NA	NA
Net profit margin	3.1%	4.3%	4.6%	4.7%
Key Ratios				
ROE	2.9%	6.6%	5.6%	5.4%
ROA	2.9%	6.6%	5.6%	5.4%
Net Gearing (%)	76.1%	117.2%	141.7%	139.5%

Source: Company, Phillip Securities Research (Singapore) Estimates



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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