

### SMALL/MID CAP HIGHLIGHTS

#### BRC Asia (BRC SP)

1QFY22: Excellent Quarter As Demand For Construction Heats Up

**BRC reported strong 1QFY22 net profit of S\$13.3m, in line with our expectations, led by improving labour supply as well as better construction demand. Orderbook remains robust at S\$1.3b, helped by increased demand for public housing and civil engineering works. Labour supply is still below pre-pandemic levels and is expected to improve going into FY22. We reckon that BRC's recovery has just started and is an attractive value play at 7.4x FY22F PE. Maintain BUY with a higher target price of S\$2.02.**

#### 1QFY22 RESULTS

Year to 30 Sep (S\$m)	1QFY22	qoq % chg	yoy % chg
Revenue	357.4	6.5	67.5
Gross Profit	26.3	6.5	12.3
Profit After Tax	13.3	(24.6)	38.8
Gross Margin (ppts)	7.4	-	(3.6ppts)
Net Margin (ppts)	3.7	(1.5ppts)	(0.8ppts)

Source: BRC, UOB Kay Hian

#### RESULTS

- Robust results, in line with expectations.** BRC Asia (BRC) reported strong 1QFY22 net profit of S\$13.3m (+38.8% yoy, -24.6% qoq), forming 25.5% of our full-year estimates, in line with expectations. The drop in net profit qoq was due to 1QFY22 being a seasonally slow quarter. 1QFY22 revenue (+67.5% yoy, +6.5% qoq) and gross profit (+12.3% yoy, +6.5% qoq) surged as social distancing measures eased and construction activities returned.
- Labour supply recovering.** Labour supply has gradually improved since Oct 21 due to Singapore's reopening of its international borders but still remains below pre-COVID-19 levels. Recent outbreaks of the Omicron variant have dampened the recovery slightly as Singapore's government had become more stringent in allowing foreign workers to enter the country. Overall, worksite activity is expected to start ramping up around 2H22 as labour supply recovers; management expects to see a significant recovery in foreign labour over the next 3-4 months.
- Provisions to reverse.** Management noted that provisions for onerous contracts for 1QFY22 were not significant. Also, if steel prices were to stay at current levels, management expects to see some reversals for provisions, helping boost margins for FY22.
- Orderbook strong via dominant market share.** BRC has maintained its dominant market share and has seen its orderbook grow steadily to S\$1.3b from S\$1.2b last quarter due to higher steel prices. Competition wise, there has been an increase in JVs by smaller competitors bidding for projects as the industry has been hit hard. Also, there are risks of new entrants as demand for public housing ramps up.

#### KEY FINANCIALS

Year to 30 Sep (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	612	1,169	1,488	1,667	1,830
EBITDA	47	57	81	93	110
Operating profit	38	49	73	86	103
Net profit (rep./act.)	20	47	55	66	79
Net profit (adj.)	20	47	55	66	79
EPS (S\$ cent)	8.7	19.6	23.0	27.3	33.1
PE (x)	19.4	8.6	7.4	6.2	5.1
P/B (x)	1.5	1.3	1.2	1.0	0.9
EV/EBITDA (x)	15.2	12.5	9.0	7.7	6.6
Dividend yield (%)	3.6	4.7	5.3	5.9	5.9
Net margin (%)	3.3	4.0	3.7	3.9	4.3
Net debt/(cash) to equity (%)	76.1	117.2	74.3	51.8	31.9
Interest cover (x)	7.0	12.2	13.5	13.9	15.0
ROE (%)	7.7	16.6	17.0	17.5	18.2
Consensus net profit	-	-	51	56	62
UOBKH/Consensus (x)	-	-	1.07	1.18	1.29

Source: BRC, Bloomberg UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.69
Target Price	S\$2.02
Upside	+19.7%
(Previous TP:	S\$1.91)

#### COMPANY DESCRIPTION

BRC Asia designs, manufactures and markets steel meshes under the BRC brand name. The company's products include non-standard and customised meshes, a wide range of prefabricated products including beams and column cages, complete prefabricated beam and column reinforcement, staggered meshes, twin wire meshes, and pile cap cages.

#### STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	BRC SP
Shares issued (m):	274.4
Market cap (S\$m):	463.7
Market cap (US\$m):	344.4
3-mth avg daily t'over (US\$m):	0.1

#### Price Performance (%)

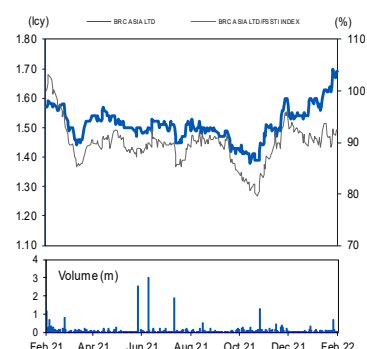
52-week high/low S\$1.70/S\$1.38

1mth	3mth	6mth	1yr	YTD
5.6	17.4	11.2	9.1	9.7

#### Major Shareholders

	%
Esteele Enterprise	61.2
Hong Leong Asia	20.8
FY22 NAV/Share (S\$)	1.44
FY22 Net Debt/Share (S\$)	1.07

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Outlook for the construction sector remains positive.** Singapore's Building and Construction Authority (BCA) projects total construction demand for 2022 at S\$27b-32b, while 2023-26 construction demand is forecasted at S\$25b-32b per year. According to BCA, public sector projects and civil engineering works would contribute 60% of 2022's total construction demand. Some notable projects include the relocation of Singapore Science Centre, Cross Island Line, Changi Terminal 5, the Toa Payoh Integrated Development and a new integrated hospital in Bedok.
- Supply of BTO flats to increase.** To keep up with the rising demand, the Housing & Development Board (HDB) announced that it plans to launch up to 23,000 flats per year in 2022 and 2023, a significant increase from the last three years, where a combined 48,509 flats were launched (16,170 flats per year). As HDB housing forms a significant part of BRC's orderbook, the increase in supply would help support and boost BRC's revenue moving forward.
- Government spending to spur public demand.** In May 21, the government passed the Significant Infrastructure Government Loan Act (Singa) that would help boost infrastructure spending in Singapore. Under the bill, the government will borrow up to S\$90b by issuing bonds to help finance long-term infrastructure that would last for 50 years. Some of the infrastructure projects include the new MRT lines such as the Cross Island and Jurong Regional Lines. The bill is expected to finance the huge upfront costs of upcoming projects along with an expected pipeline of projects for the next 15 years. With strong support for infrastructure spending from the government, we reckon construction companies, such as BRC, will benefit from the commencement of these infrastructure projects.

### EARNINGS REVISION/RISK

- Raise revenue and earnings forecasts for FY22-24,** on the back of sturdy demand for construction activities in the medium term and a stronger-than-expected recovery in labour supply. We increased our FY22-24 revenue forecasts to S\$1,488m (S\$1,246m), S\$1,667m (S\$1,395m) and S\$1,829m (S\$1,530.7m) respectively. We also lift our FY22-24 net profit forecasts to S\$55.2m (S\$52.2m), S\$65.6m (S\$59.2m) and S\$79.4m (S\$67.1m) respectively.

### VALUATION/RECOMMENDATION

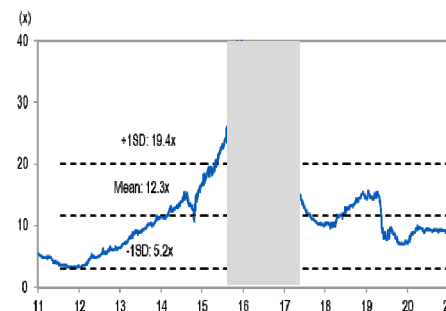
- Maintain BUY with a higher target price of S\$2.02 (previously S\$1.91),** based on the same 8.8x FY22F PE. This is pegged to -0.5SD of BRC's long-term average (excluding outliers of >2SD at 25x). The exclusion is primarily from the high base in FY16-17. Key re-rating catalysts would be the discovery of a new Omicron vaccine and the complete removal of COVID-19 restrictions.

- Key risks:** Credit risk from smaller construction players.

### SHARE PRICE CATALYST

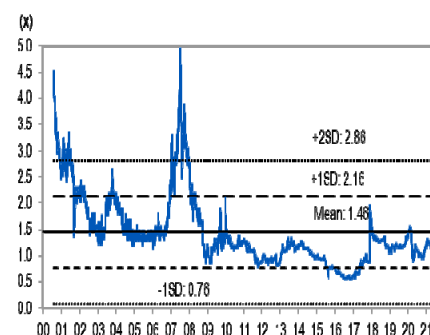
- Faster-than-expected recovery in construction activities.
- More public housing projects awarded.
- Complete relaxation of foreign labour restrictions.

### PE



Source: Bloomberg, UOB Kay Hian

### P/B



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
<b>Net turnover</b>	<b>1,168.6</b>	<b>1,488.4</b>	<b>1,667.0</b>	<b>1,829.9</b>
EBITDA	57.5	80.5	93.4	109.9
Deprec. & amort.	8.7	7.9	7.1	6.4
EBIT	48.8	72.6	86.3	103.5
Total other non-operating income	12.3	4.0	4.0	4.0
Associate contributions	2.0	0.0	0.0	0.0
Net interest income/(expense)	(4.7)	(6.0)	(6.7)	(7.4)
<b>Pre-tax profit</b>	<b>58.4</b>	<b>70.6</b>	<b>83.6</b>	<b>100.1</b>
Tax	(11.3)	(15.4)	(18.0)	(20.7)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>47.0</b>	<b>55.2</b>	<b>65.6</b>	<b>79.4</b>
Net profit (adj.)	47.0	55.2	65.6	79.4

### BALANCE SHEET

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
<b>Fixed assets</b>	<b>143.9</b>	<b>139.0</b>	<b>134.8</b>	<b>132.4</b>
Other LT assets	26.1	26.1	26.1	26.1
Cash/ST investment	83.0	68.4	67.4	75.1
Other current assets	631.8	605.3	626.8	650.4
<b>Total assets</b>	<b>884.7</b>	<b>838.8</b>	<b>855.0</b>	<b>883.9</b>
ST debt	358.1	268.1	238.1	208.1
Other current liabilities	137.9	156.4	166.6	175.7
LT debt	77.7	57.7	37.7	17.7
Other LT liabilities	10.1	10.1	10.1	10.1
Shareholders' equity	300.9	346.5	402.6	472.4
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>884.7</b>	<b>838.8</b>	<b>855.0</b>	<b>883.9</b>

### CASH FLOW

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>(126.2)</b>	<b>114.0</b>	<b>68.2</b>	<b>78.7</b>
Pre-tax profit	58.4	70.6	83.6	100.1
Tax	(9.5)	(15.4)	(18.0)	(20.7)
Deprec. & amort.	18.0	7.9	7.1	6.4
Associates	(2.0)	0.0	0.0	0.0
Working capital changes	(245.3)	44.9	(11.2)	(14.6)
Non-cash items	6.0	0.0	0.0	0.0
Other operating cashflows	48.3	6.0	6.7	7.4
<b>Investing</b>	<b>(1.1)</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(4.0)</b>
Capex (growth)	(1.9)	(3.0)	(3.0)	(4.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.8	0.0	0.0	0.0
<b>Financing</b>	<b>135.9</b>	<b>(125.6)</b>	<b>(66.3)</b>	<b>(67.0)</b>
Dividend payments	(24.3)	(9.6)	(9.6)	(9.6)
Issue of shares	14.2	0.0	0.0	0.0
Proceeds from borrowings	(8.0)	0.0	0.0	0.0
Loan repayment	(68.5)	(110.0)	(50.0)	(50.0)
Others/interest paid	222.5	(6.0)	(6.7)	(7.4)
<b>Net cash inflow (outflow)</b>	<b>8.6</b>	<b>(14.6)</b>	<b>(1.1)</b>	<b>7.7</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>74.4</b>	<b>83.0</b>	<b>68.4</b>	<b>67.4</b>
Changes due to forex impact	(0.0)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>83.0</b>	<b>68.4</b>	<b>67.4</b>	<b>75.1</b>

### KEY METRICS

Year to 30 Sep (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	4.9	5.4	5.6	6.0
Pre-tax margin	5.0	4.7	5.0	5.5
Net margin	4.0	3.7	3.9	4.3
ROA	6.3	6.4	7.8	9.1
ROE	16.6	17.0	17.5	18.2
<b>Growth</b>				
Turnover	90.8	27.4	12.0	9.8
EBITDA	21.4	40.1	16.1	17.7
Pre-tax profit	116.3	21.0	18.4	19.8
Net profit	131.1	17.4	18.9	21.0
Net profit (adj.)	131.1	17.4	18.9	21.0
EPS	124.5	17.4	18.9	21.0
<b>Leverage</b>				
Debt to total capital	59.1	48.5	40.7	32.3
Debt to equity	144.8	94.0	68.5	47.8
Net debt/(cash) to equity	117.2	74.3	51.8	31.9
Interest cover (x)	12.2	13.5	13.9	15.0

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