

Pan-United Corporation Ltd.

FY21 results above our expectations on construction recovery



StocksBnB.com

SINGAPORE | CONSTRUCTION | FY21 RESULTS

14 March 2022

- 2H21 revenue and profit beat expectations, at 60.7% and 76.2% of FY21e estimates respectively. The beat was driven by higher sales from its concrete and cement business which recovered faster on the back of the faster pace of recovery in the construction sector.
- Net gearing was 22% lower than our forecasts; FY21 DPS 0.6 cents higher than our expectations. Full-year 2021 dividend at 1.6 cents, represented a 60% payout, signalling confidence in the near- and mid- term outlook.
- Manpower shortages, supply-chain disruptions and volatile freight costs continue to hamper growth recovery. We tweaked our GP margin expectations lower for FY22e/FY23e in anticipation of higher raw materials cost and supply-chain disruptions.
- Maintain BUY with higher target price of S\$0.46, from S\$0.44. We raise FY22e earnings by 11% on account of the higher demand for ready-mixed concrete brought about by the construction recovery. Our TP is based on 16x FY22e P/E, a 15% discount to its 10-year historical average P/E on account of the still uncertain environment.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.350
FORECAST DIV	SGD 0.014
TARGET PRICE	SGD 0.460
TOTAL RETURN	35.4%

COMPANY DATA

BLOOMBERG CODE:	PAN SP
O/S SHARES (MN) :	702
MARKET CAP (USD mn / SGD mn) :	166 / 225
52 - WK HI/LO (SGD) :	0.35 / 0.27
3M Average Daily T/O (mn) :	0.14

MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

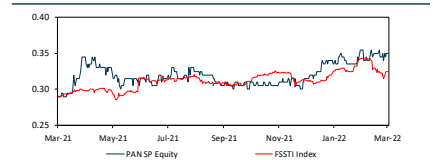
	1MTH	3MTH	YTD
COMPANY	3.1	5.8	18.8
STI RETURN	1.9	1.1	13.9

Results at a glance

SGD '000	2H21	2H20	YoY	Comments
Revenue	310,288	214,650	45%	Concrete and cement beat expectations as recovery of construction activities in Singapore surpass expectations.
Gross Profit	68,589	48,828	40%	
Gross Profit margin	22.1%	22.7%	-0.6%	GP margin lower as raw materials rose at a faster pace than selling price.
NPAT	11,544	1,376	739%	Boosted by higher share of results of associates and higher revenue.
Free cash flow (For full year)	53,526	51,860	3%	Repayment of bank loans led to lower interest expense of 38% YoY.
Proposed final dividend (SG cents)	1.1	0.8	38%	In-line with better profitability. FY21 dividend at 1.6 SG cents.

Source: Company, PSR

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (S\$'000)	FY20	FY21	FY22e	FY23e
Gross Rev	405,024	586,872	585,963	630,175
Gross Profit	84,830	127,039	123,052	126,035
EBITDA	28,000	48,864	47,605	46,069
NPAT	1,514	18,857	20,288	20,458
P/B (x)	1.23	1.12	1.06	1.02
P/E (x)	226.67	12.73	11.73	11.63
ROE (%)	0.75	8.83	9.07	8.75
Div yield (%)	2.4%	4.7%	4.1%	4.4%

Source: Company, PSR

VALUATION METHOD

16x FY22e P/E

Terence Chua
Senior Research Analyst
terencechuat@phillip.com.sg

(+65 6212 1852)

The Positives

+ 2H21 revenue and profit above, driven by recovery in concrete and cement segment; higher associate contributions. Group revenue increased 45% YoY in 2H21, growing at the same pace as 1H21 as the recovery of construction activities in Singapore continued to drive growth. According to the Building and Construction Authority (BCA), ready-mixed concrete (RMC) demand rose 52.7% in 2H21 and 59.4% for full-year 2021. RMC sales volumes rose, and is now at pre-COVID levels (Figure 2). Contributions from its associate, PT. Lanna Harita Indonesia in which it owns a 10% stake, also rose on the back of higher coal prices.

+ Net gearing 22% lower than our forecasts; FY21 DPS 0.6 cents higher than our expectations. Backed by net operating cashflows of S\$33mn in 2H21, PanU repaid S\$17.7mn in loans to lower its overall net gearing from 0.14x to a net cash position of \$17mn. Interest expenses accordingly dropped by 38% YoY. It also declared a final DPS of 1.1 SG cents for FY21, bringing full-year 2021 dividend to 1.6 SG cents, representing a payout of 60%, above its dividend policy to distribute at least 30% of its annual PATMI. This, in our view, signals the Group's confidence in its near- and mid- term outlook.

The Negative

- **Manpower shortages, supply-chain disruptions and volatile freight costs.** GP margin was slightly weaker YoY as raw materials price rose at a faster pace than average selling price. Dec-21 ASPs are 9% higher YoY at S\$104/cu m and 7% higher vs. the same period in 2019. Given the strong demand for construction materials in the region, we do not think prices would moderate in the near-term. PanU also faced disruptions in raw-material supplies and had to search for alternatives. Supplies from new sources require lead times of a month for BCA testing before they can be imported. This hampered its ability to fulfil contracts. We tweaked our GP margin expectations lower for FY22e/FY23e in anticipation of higher raw materials cost from supply-chain disruptions.

Outlook

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.

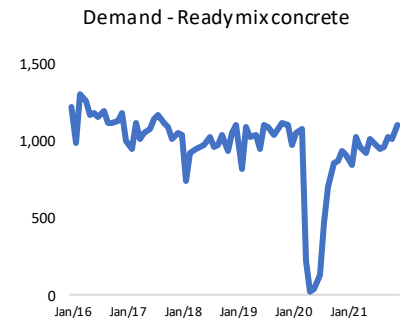
We note that BCA's forecasts for average construction demand in 2022-2025 excludes the development of Changi Airport Terminal 5 and expansion of the two integrated resorts. As our forecasts have not included these projects, there is upside if they go live.

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 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.

Maintain BUY with a higher TP of \$0.46, from \$0.44. We raise FY22e earnings by 11% on account of the higher demand for RMC brought about by the construction recovery. Our TP is raised to \$0.46 from S\$0.44 based on 16x FY22e P/E, a 15% discount to its 10-year historical P/E on account of the still uncertain environment. Stock catalysts are expected from higher contract volumes and better margins.

Figure 2: Demand for ready mix concrete back at pre-Covid levels



Source: BCA, PSR

Financials

Income Statement

Y/E Dec, (S\$ '000)	FY19	FY20	FY21	FY22e	FY23e
Revenue	768,258	405,024	586,872	585,963	630,175
Cost of sales	(635,371)	(320,194)	(459,833)	(462,911)	(504,140)
Gross Profit	132,887	84,830	127,039	123,052	126,035
Staff costs	(42,149)	(32,547)	(47,549)	(47,475)	(51,057)
Depreciation and amortisation expenses	(23,995)	(23,840)	(23,338)	(21,267)	(19,753)
Other expenses	(39,832)	(30,845)	(41,727)	(35,339)	(35,339)
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	24,822	25,031
Income tax expense	(5,250)	(220)	(4,215)	(4,535)	(4,573)
Profit/(loss) after tax	20,929	1,514	18,857	20,288	20,458
EBIT	31,445	5,231	25,407	26,338	26,316
EBITDA	53,600	28,000	48,864	47,605	46,069

Per unit data

Y/E Dec (S cents)	FY19	FY20	FY21	FY22e	FY23e
NAV	28.90	27.70	30.41	31.94	33.40
EPS	2.93	0.15	2.67	2.90	2.92
DPS	1.60	0.80	1.60	1.40	1.50

Cash Flow Statement

Y/E Dec, (S\$ '000)	FY19	FY20	FY21	FY22e	FY23e
CFO					
PBT	26,179	1,734	23,072	24,822	25,031
Adjustments	30,323	27,105	22,439	14,477	13,193
WC changes	(7,133)	38,746	14,785	(38,278)	28,672
Cash generated from ops	49,369	67,585	60,296	1,021	66,896
Others	(6,749)	(7,975)	(2,753)	(4,535)	(4,573)
Cashflow from ops	42,620	59,610	57,543	(3,514)	62,323
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)	(10,176)	(10,232)
Others	(6,989)	(6,099)	(7,620)	-	-
Cashflow from financing	(35,536)	(33,640)	(57,326)	(20,379)	(15,432)
Net change in cash	1,967	18,220	(3,800)	(32,400)	38,989
Cash at the start of the period	47,894	49,646	67,558	64,149	31,749
Currency translation	(215)	(308)	391	-	-
Others	-	-	-	-	-
Ending cash	49,646	67,558	64,149	31,749	70,738

*nm - not meaningful

Balance Sheet

Y/E Dec, (S\$ '000)	FY19	FY20	FY21	FY22e
ASSETS				
PPE	189,603	174,291	166,202	153,442
Intangible assets	5,659	6,467	6,651	6,651
Associates	3,388	3,677	4,335	9,610
Others	1,194	1,124	1,394	1,394
Total non-current assets	199,844	185,559	178,582	171,097
Inventories	22,364	23,908	23,673	15,676
Prepayments	1,958	1,596	1,620	1,796
Trade and other receivables	159,686	116,825	125,474	101,539
CCE and short-term deposits	49,646	67,558	64,149	31,749
Others	8,605	6,867	3,197	4,713
Total current assets	242,259	216,754	218,113	155,474
Total Assets	442,103	402,313	396,695	326,571

LIABILITIES

Payables and accruals	83,710	77,897	98,369	28,336
ST borrowings	57,829	44,878	21,440	11,237
Others	14,843	9,134	12,657	12,657
Total current liabilities	156,382	131,909	132,466	52,230
LT borrowings	49,064	42,503	25,184	25,184
Others	26,080	24,901	25,566	25,566
Total non-current liabilities	75,144	67,404	50,750	50,750
Total liabilities	231,526	199,313	183,216	102,980
Net assets	210,577	203,000	213,479	223,591
Represented by:				
Share capital	12,645	12,645	12,645	12,645
Reserves	190,628	182,339	193,206	203,317
Others	7,304	8,016	7,628	7,628
Total equity	210,577	203,000	213,479	223,590

Valuation Ratios

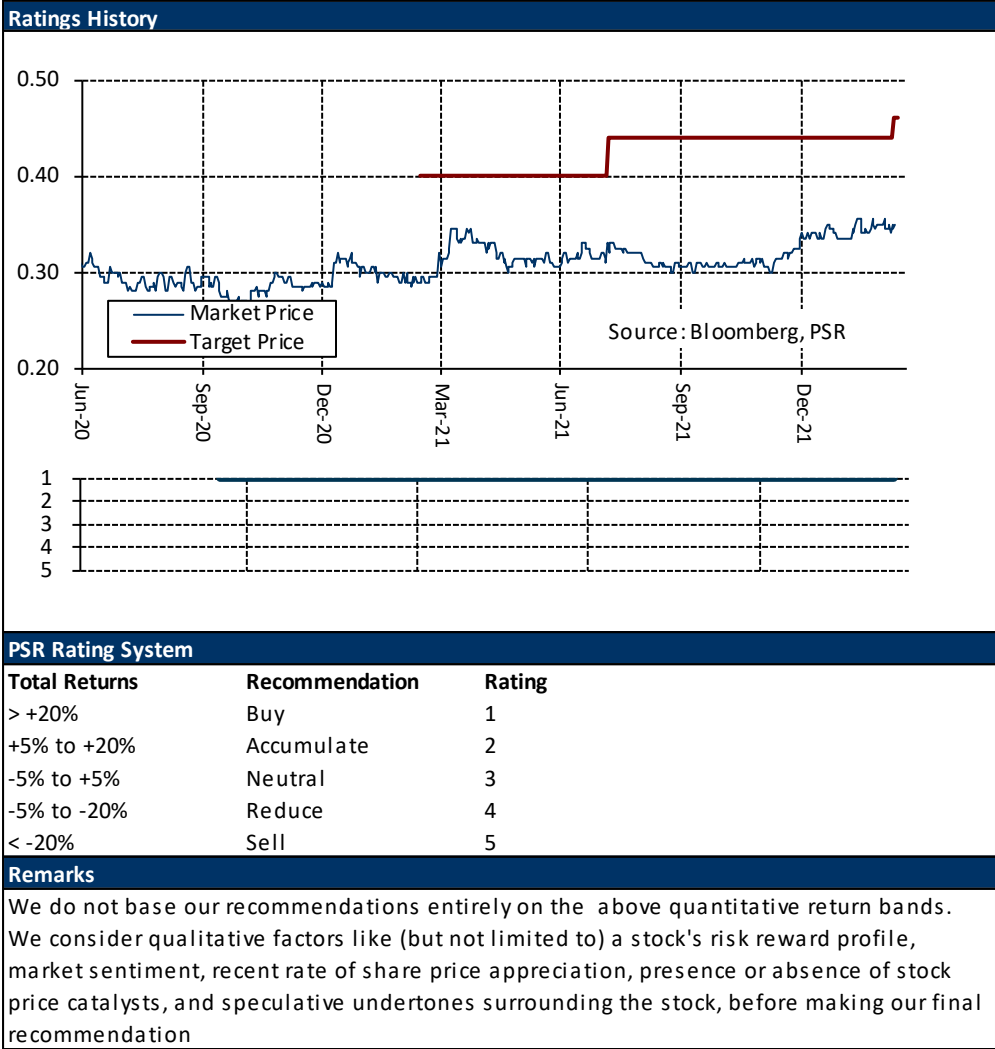
Y/E Dec	FY19	FY20	FY21	FY22e
P/NAV (x)	1.2	1.2	1.1	1.1
P/E (x)	11.6	226.7	12.7	11.7
EV/EBITDA (x)	4.5	8.7	5.0	5.1
Dividend yield (%)	4.7%	2.4%	4.7%	4.1%

Growth & Margins

Growth				
Revenue	-11.3%	-47.3%	44.9%	-0.2%
Gross profit	19.4%	-36.2%	49.8%	-3.1%
EBITDA	69.8%	-47.8%	74.5%	-2.6%
EBIT	135.3%	-83.4%	385.7%	3.7%
Margins				
Gross profit margin	17.3%	20.9%	21.6%	21.0%
EBITDA margin	7.0%	6.9%	8.3%	8.1%
EBIT margin	4.1%	1.3%	4.3%	4.5%

Key Ratios

ROE	9.9%	0.7%	8.8%	9.1%
ROA	4.7%	0.4%	4.8%	6.2%
Net Gearing	37.7%	17.8%	0.9%	10.8%



Contact Information (Research Team)		
Head of Research Paul Chew – paulchewkl@phillip.com.sg	Property REITs Natalie Ong – natalieongpf@phillip.com.sg	Research Admin Qystina Azli - qystina@phillip.com.sg
Consumer Industrial Conglomerates Terence Chua – terencechuatl@phillip.com.sg	US Technology Analyst (Hardware) Timothy Ang – timothyang@phillip.com.sg	Banking & Finance Glenn Thum – glennthumjc@phillip.com.sg
Small-Mid Cap Vivian Ye – yegw@phillip.com.sg	US Technology Analyst (Software/Services) Ambrish Shah – amshah@phillipcapiital.in	US Technology Analyst (Internet) Jonathan Woo – jonathanwook@phillip.com.sg
Credit Analyst Shawn Sng - shawnsngkh@phillip.com.sg		

Contact Information (Regional Member Companies)

<p>SINGAPORE Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poems.com.sg</p>	<p>MALAYSIA Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poems.com.my</p>	<p>HONG KONG Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk</p>
<p>JAPAN Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp</p>	<p>INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, JI Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id</p>	<p>CHINA Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn</p>
<p>THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website www.phillip.co.th</p>	<p>FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633 100 Fax +33-1 45636017 Website: www.kingandshaxson.com</p>	<p>UNITED KINGDOM King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com</p>
<p>UNITED STATES Phillip Capital Inc 141 W Jackson Blvd Ste 3050 The Chicago Board of Trade Building Chicago, IL 60604 USA Tel +1-312 356 9000 Fax +1-312 356 9005 Website: www.phillipusa.com</p>	<p>AUSTRALIA Phillip Capital Limited Level 10, 330 Collins Street Melbourne, Victoria 3000, Australia Tel +61-03 8633 9803 Fax +61-03 8633 9899 Website: www.phillipcapiital.com.au</p>	<p>CAMBODIA Phillip Bank Plc Ground Floor of B-Office Centre, #61-64, Norodom Blvd Corner Street 306, Sangkat Boeung Keng Kang 1, Khan Chamkamorn, Phnom Penh, Cambodia Tel: 855 (0) 7796 6151/855 (0) 1620 0769 Website: www.phillipbank.com.kh</p>
<p>INDIA PhillipCapital (India) Private Limited No.1, 18th Floor, Urmi Estate 95, Ganpatrao Kadam Marg Lower Parel West, Mumbai 400-013 Maharashtra, India Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969 Website: www.phillipcapiital.in</p>	<p>TURKEY PhillipCapital Menkul Degerler Dr. Cemil Bengü Cad. Hak Is Merkezi No. 2 Kat. 6A Caglayan 34403 Istanbul, Turkey Tel: 0212 296 84 84 Fax: 0212 233 69 29 Website: www.phillipcapiital.com.tr</p>	<p>DUBAI Phillip Futures DMCC Member of the Dubai Gold and Commodities Exchange (DGCC) Unit No 601, Plot No 58, White Crown Bldg, Sheikh Zayed Road, P.O.Box 212291 Dubai-UAE Tel: +971-4-3325052 / Fax: + 971-4-3328895</p>

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.