

Pan-United Corporation Ltd.

Construction recovery gaining pace



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SINGAPORE | CONSTRUCTION | 1Q22 Update

13 June 2022

- According to data from the Building and Construction Authority (BCA), demand for ready-mixed concrete for the first three months of 2022 was 5% higher than the same period in 2021.
- The price of ready-mixed concrete (RMC) has also risen by 8.4% from Dec 2021 to April 2022 driven by a combination of higher raw materials costs and demand. The average daily charter hire of the Supramax and Handysize has risen from an average US\$28,650 per day in 2021 to US\$31,150 today.
- Supply-chain disruptions and volatile freight costs continue to hamper growth recovery. We believe the rising cost of RMC is a potential concern, though this is mitigated by the Group's ability to pass-through these costs to the customer.
- Maintain BUY with higher target price of S\$0.68, from S\$0.46. We raise FY22e/FY23e earnings by 35%/26% respectively on account of the higher demand for ready-mixed concrete brought about by the construction recovery. Our TP is based on 12x FY22e 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 Building and Construction Authority, demand for ready-mixed concrete for the first three months of 2022 was 5% higher than the same period in 2021 (Figure 1). The construction recovery remains on track with progress payments billed for 2021 32.5% higher than 2020 (Figure 2). Contracts awarded for the first three months of 2022 was also 33.2% higher than 2021.

The price of RMC has also risen by 8.4% from Dec 2021 to April 2022 (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. For instance, the average daily charter hire of the Supramax and Handysize has risen from an average US\$28,650 per day in 2021 to US\$31,350 today.

The Positives

+ Construction recovery ahead of our expectations; we upgrade forecast of total RMC volume to 13.5mn m3 for 2022 vs. 12.8mn previously. With the construction sector recovering at a faster pace in the first quarter of the year than we expected, we upgrade our forecast of total RMC volume for the year. We expect construction demand to remain robust for the next few years, supported by strong demand for public housing and the backlog of projects from Covid-19 delays. BCA has forecasted annual construction demand of \$25-32bn from FY23-26 and these forecast do not include the resumption of Changi Airport T5.

+ Manpower shortage resolved. With Singapore's borders gradually reopening, work permit holders have returned to the hardest-hit sectors such as construction and marine shipyard. According to the Ministry of Manpower, work permit holders in these sectors now account for more than 90% of pre-pandemic levels. We expect that the manpower tightness at PanU has now been fully resolved and staffing can be ramped up should the Group require it to meet the rising demand in the next few years.

+ Strong operating results to drive Group into net cash position by 1H22e. With the faster pace of recovery in 1Q22, we have revised upwards our forecast for the Group. We now expect PanU to report free cash flows of ~\$14mn for 1H22, which will be used to repay down ~\$5mn in loans. We expect this to accelerate the Group's move into a net cash position by 1H22e.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.430
FORECAST DIV	SGD 0.028
TARGET PRICE	SGD 0.680
TOTAL RETURN	64.7%

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

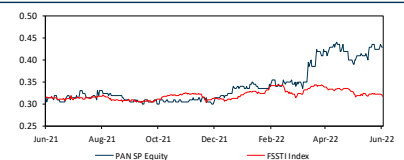
MAJOR SHAREHOLDERS (%)

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

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

V/E Dec (S\$'000)	FY20	FY21	FY22e	FY23e
Gross Rev	405,024	586,872	660,724	692,471
Gross Profit	84,830	127,039	151,967	152,344
EBITDA	28,000	48,864	71,137	69,422
NPAT	1,514	18,857	39,521	39,545
P/B (x)	1.23	1.12	1.02	0.94
P/E (x)	226.67	12.73	6.02	6.02
ROE (%)	0.75	8.83	16.95	15.63
Div yield (%)	2.4%	4.7%	8.2%	8.2%

Source: Company, PSR

VALUATION METHOD

12x FY22e P/E

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

(+65 6212 1852)

The Negative

- **Supply-chain disruptions and volatile freight costs squeeze margins.** With the rapidly rising price of RMC, we continue to watch for receivables risk in the sector. GP margin was slightly weaker for 2H21 as raw materials price rose at a faster pace than the average selling price. Apr-22 ASPs are 8.4% higher vs. Dec-21 at S\$113/cu m. 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. With coal prices up 135% YTD, we believe cement prices will remain elevated. We believe the rising cost of RMC is a potential concern, though this is mitigated by the Group’s ability to pass-through these costs to its customer and trade credit insurance.

Outlook

Construction sector sees faster pace of recovery in 1Q22; expects escalation of activity for rest of 2022. 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. Minister for Transport S Iswaran also recently announced that Changi Airport’s Terminal 5 project will resume after being put on hold for two years due to the Covid-19 pandemic.

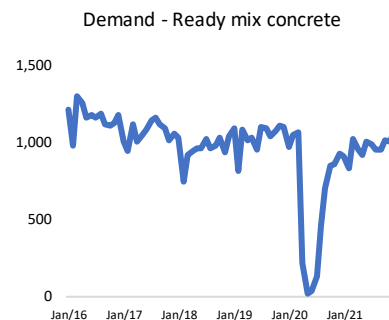
BCA’s forecasts of average construction demand over 2022-2026 of \$25-32bn will support construction demand in the next few years.

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.

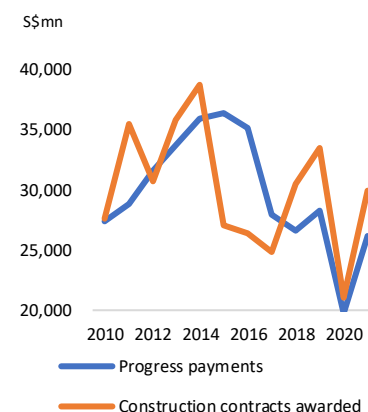
Maintain BUY with a higher TP of \$0.68, from \$0.46. We raise FY22e/FY23e earnings by 35%/26% respectively on account of the higher demand for RMC brought about by the construction recovery. Our TP is raised to \$0.68 from S\$0.46 based on 12x FY22e P/E, a 20% discount to its 10-year historical P/E 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 5% higher YoY for 3M22



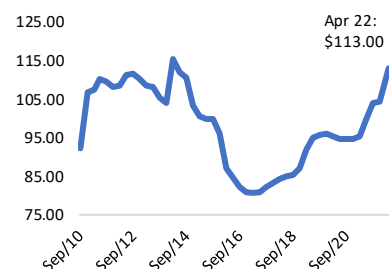
Source: BCA, PSR

Figure 2: Progress payments and construction contracts awarded for 3M22 over 30% higher YOY

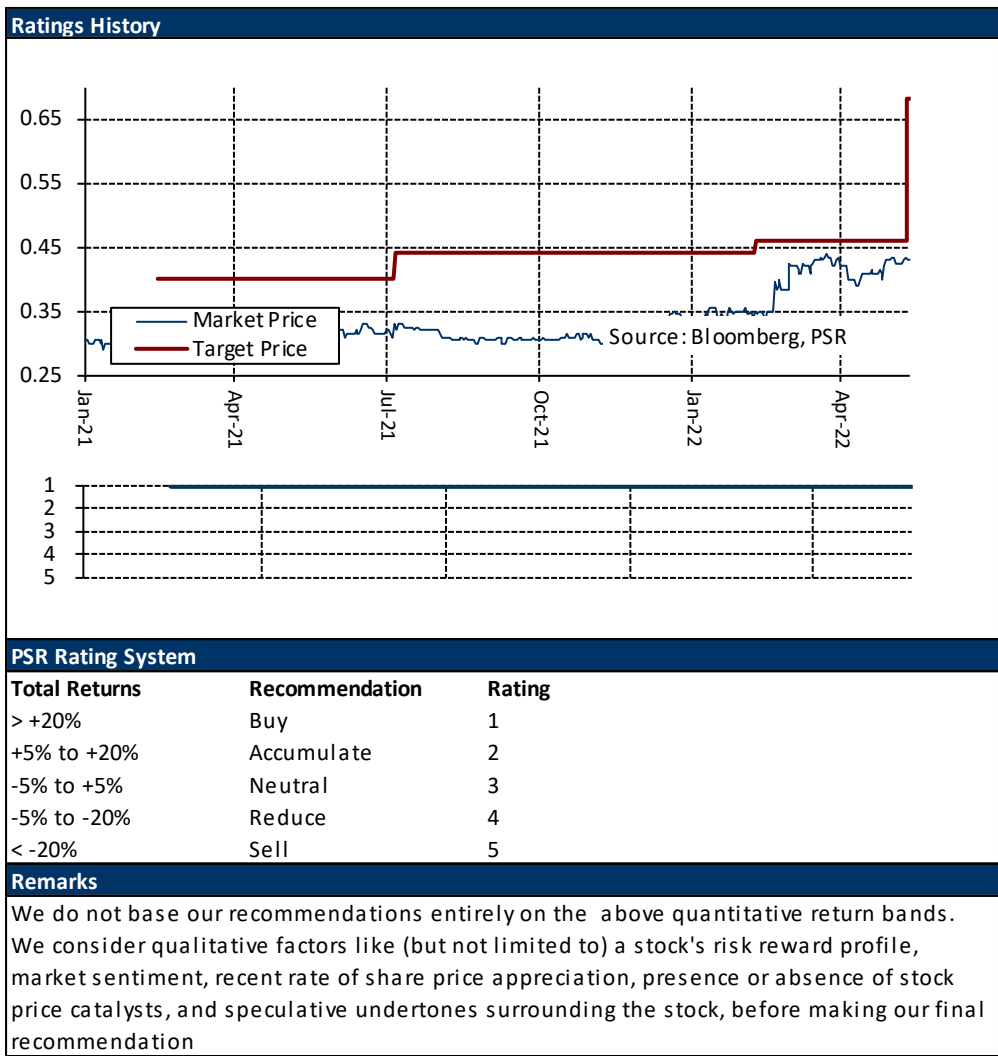


Source: BCA, PSR

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



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

Contact Information (Regional Member Companies)

SINGAPORE	MALAYSIA	HONG KONG
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.poe.ms.com.sg	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.poe.ms.com.my	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
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	INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id	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
THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangkok, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website www.phillip.co.th	FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com	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
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	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.phillipcapital.com.au	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
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.phillipcapital.in	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.phillipcapital.com.tr	DUBAI Phillip Futures DMCC Member of the Dubai Gold and Commodities Exchange (DGEX) 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

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