



Pan-United Corporation Ltd.

Construction recovery hit slight snag in 1H22

SINGAPORE | CONSTRUCTION | 1H22 Results

- 1H22 revenue in line with our expectations, at 51%. Profit however, came in lower at 34% as result of higher staff and materials costs.
- Net profit grew 83% YoY driven by higher ASP of ready-mixed concrete (RMC) +18% YoY, higher GPM +1.4% and a higher share of results from associates of \$3.6mn.
- Workplace fatalities and dengue hampered recovery. Volumes declined 10-15% as a result of the spate of stop-work orders issued by the authorities to construction sites.
- Maintain BUY with lower target price of S\$0.54, from S\$0.68. We trim FY22e/FY23e earnings by 26%/11% respectively on account of higher staff, utilities and materials costs. 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.

Results at a glance

SGD '000	1H22	1H21	YoY	Comments
Revenue	338,073	276,584	22.2%	Concrete and cement in-line with expectations driven by higher selling prices for ready-mix concrete.
Gross Profit	76,267	58,450	30.5%	
Gross Profit margin	22.6%	21.1%	1.4%	Lower than expectations due to higher materials costs.
NPAT	13,350	7,313	82.6%	Dragged by higher staff and materials costs.
Net gearing	-2.6%	3.0%	-5.6%	Ahead, due to faster repayment of bank loans.
Interim dividend (SG cents)	0.5	0.5	0.0%	In-line with better profitability.

Source: Company, PSR

The Positives

+ 1H22 net profit grew 83% YoY, driven by construction recovery and better GPM. We estimate that higher demand +5% (Figure 1) and ASP of RMC +18% higher YoY (Figure 3) drove revenue growth of 22% YoY for 1H22. The Group also saw better GPM during the period as it successfully passed on cost increases to its customers. Overall, the construction sector continued to see a healthy recovery in the 1H22 (Figure 2) in part due to the relaxation of border restrictions on the inflow of migrant workers.

+ Higher contributions from associates of \$3.6mn +168% YoY lift profits. The uplift in contribution was from the sale of coal from PT Lanna Harita Indonesia, which benefitted from higher coal prices during the period. Coal prices in 1H22 averaged US\$300 and are up 182% YTD.

The Negative

- Workplace fatalities and dengue hampered recovery. In the first six months of 2022, the Ministry of Manpower (MOM) reported 28 workplace fatalities, many of which were in the construction industry. This led to a call for companies to conduct a safety time-out on 9 May 2022. In addition, in 1H22, more than 12,000 cases of dengue cases were reported, far exceeding the 5,258 cases logged in the whole of 2021. This resulted in a spate of stop-work orders issued by the authorities to construction sites, which impeded construction progress.

12 August 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.450
FORECAST DIV	SGD 0.022
TARGET PRICE	SGD 0.540
TOTAL RETURN	24.9%

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

Y/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	159,268
EBITDA	28,000	48,864	60,990	64,444
NPAT	1,514	18,857	31,228	35,476
P/B (x)	1.23	1.12	1.04	0.96
P/E (x)	226.67	12.73	7.62	6.71
ROE (%)	0.75	8.83	13.63	14.38
Div yield (%)	2.4%	4.7%	6.5%	7.4%

Source: Company, PSR

VALUATION METHOD

12x FY22e P/E

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Management guided that the volume decrease as a result of such stop-work orders adversely impacted volumes by 10-15%.

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.

Outlook

Construction sector sees faster pace of recovery in 1H22; tailwinds remain 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.

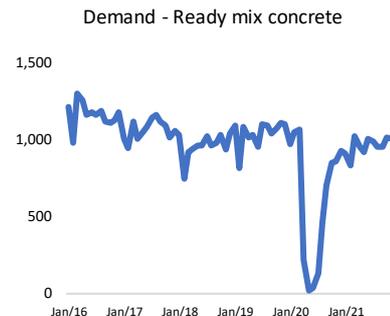
BCA's forecasts of average construction demand over 2022-2026 of \$25-32bn will support construction demand in the next few years.

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.

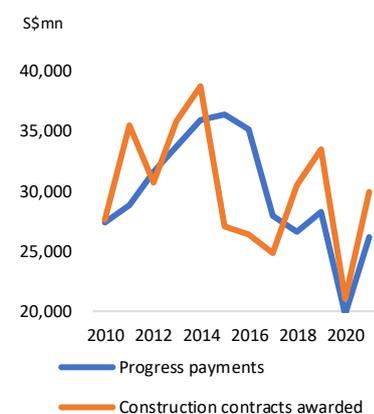
Maintain BUY with a lower TP of \$0.54, from \$0.68. We trim FY22e/FY23e earnings by 26%/11% respectively on account of higher staff, utilities and materials costs. Our TP is reduced to \$0.54 from S\$0.68 based on 12x FY22e P/E, a 20% discount to its 10-year historical P/E on account of the still uncertain 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



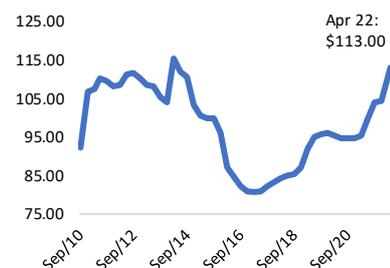
Source: BCA, PSR

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

Financials

Income Statement

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
Revenue	768,258	405,024	586,872	660,724	692,471
Cost of sales	(635,371)	(320,194)	(459,833)	(508,758)	(533,203)
Gross Profit	132,887	84,830	127,039	151,967	159,268
Staff costs	(42,149)	(32,547)	(47,549)	(54,179)	(54,705)
Depreciation and amortisation expenses	(23,995)	(23,840)	(23,338)	(21,267)	(19,753)
Other expenses	(39,832)	(30,845)	(41,727)	(44,164)	(46,549)
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	38,208	43,406
Income tax expense	(5,250)	(220)	(4,215)	(6,980)	(7,930)
Profit/(loss) after tax	20,929	1,514	18,857	31,228	35,476
EBIT	31,445	5,231	25,407	39,723	44,691
EBITDA	53,600	28,000	48,864	60,990	64,444

Per unit data

Y/E Dec (S cents)	FY19	FY20	FY21	FY22e	FY23e
NAV	28.90	27.70	30.41	32.72	35.25
EPS	2.93	0.15	2.67	4.46	5.07
DPS	1.60	0.80	1.60	2.20	2.50

Cash Flow Statement

Y/E Dec, (S\$'000)	FY19	FY20	FY21	FY22e	FY23e
CFO					
PBT	26,179	1,734	23,072	38,208	43,406
Adjustments	30,323	27,105	22,439	14,476	13,193
WC changes	(7,133)	38,746	14,785	(22,846)	16,713
Cash generated from ops	49,369	67,585	60,296	29,838	73,312
Others	(6,749)	(7,975)	(2,753)	(6,980)	(7,930)
Cashflow from ops	42,620	59,610	57,543	22,858	65,382
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)	(15,664)	(17,744)
Others	(6,989)	(6,099)	(7,620)	-	-
Cashflow from financing	(35,536)	(33,640)	(57,326)	(25,867)	(22,944)
Net change in cash	1,967	18,220	(3,800)	(11,515)	34,537
Cash at the start of the period	47,894	49,646	67,558	64,149	52,634
Currency translation	(215)	(308)	391	-	-
Others	-	-	-	-	-
Ending cash	49,646	67,558	64,149	52,634	87,171

*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

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	19,574	25,751
Prepayments	1,958	1,596	1,620	2,232	1,805
Trade and other receivables	159,686	116,825	125,474	130,503	137,773
CCE and short-term deposits	49,646	67,558	64,149	52,634	87,171
Others	8,605	6,867	3,197	4,713	5,998
Total current assets	242,259	216,754	218,113	209,655	258,498
Total Assets	442,103	402,313	396,695	380,752	423,018

LIABILITIES

Payables and accruals	83,710	77,897	98,369	77,065	106,798
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	100,959	125,492
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	151,709	176,242
Net assets	210,577	203,000	213,479	229,043	246,776
Represented by:					
Share capital	12,645	12,645	12,645	12,645	12,645
Reserves	190,628	182,339	193,206	208,770	226,502
Others	7,304	8,016	7,628	7,628	7,628
Total equity	210,577	203,000	213,479	229,043	246,775

Valuation Ratios

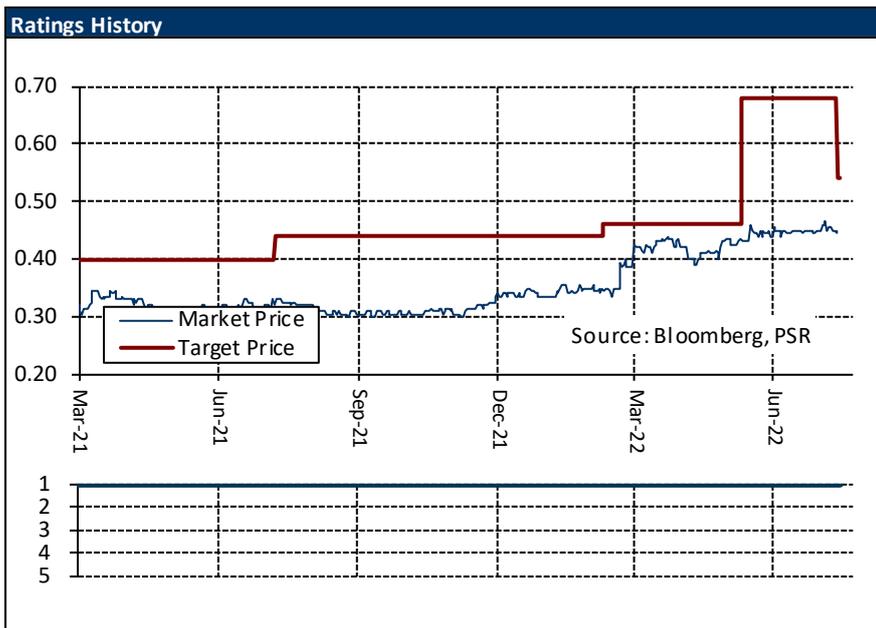
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.2	1.2	1.1	1.0	1.0
P/E (x)	11.6	226.7	12.7	7.6	6.7
EV/EBITDA (x)	4.1	7.9	4.5	3.6	3.4
Dividend yield (%)	4.7%	2.4%	4.7%	6.5%	7.4%

Growth & Margins

	FY19	FY20	FY21	FY22e	FY23e
Growth					
Revenue	-11.3%	-47.3%	44.9%	12.6%	4.8%
Gross profit	19.4%	-36.2%	49.8%	19.6%	4.8%
EBITDA	69.8%	-47.8%	74.5%	24.8%	5.7%
EBIT	135.3%	-83.4%	385.7%	56.3%	12.5%
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%	6.0%	6.5%

Key Ratios

ROE	9.9%	0.7%	8.8%	13.6%	14.4%
ROA	4.7%	0.4%	4.8%	8.2%	8.4%
Net Gearing	37.7%	17.8%	0.9%	1.4%	-14.8%



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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