

Singapore

**Overweight** (no change)

#### Highlighted Companies

##### BRC Asia Ltd

**ADD, TP S\$2.50, S\$1.65 close**

BRC is our top pick for the sector. Our TP of S\$2.50 is based on 1.74x CY22F P/BV. Valuations are currently attractive at 5.7x CY23F P/E. We also believe BRC potentially offers a dividend yield of c.10% given strong free cash flow generation.

##### Pan-United Corp Ltd

**ADD, TP S\$0.57, S\$0.43 close**

Our TP of S\$0.57 is based on 6.6x CY23F EV/EBITDA, a c.10% discount to peers on account of its size. Pan-United currently trades at 10.5x CY23F P/E, with a dividend yield of 5.6%.

#### Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
BRC Asia Ltd	5.90	5.69	
Pan-United Corp Ltd	10.94	10.50	10.12
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
BRC Asia Ltd	1.15	1.06	
Pan-United Corp Ltd	1.39	1.33	1.26
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
BRC Asia Ltd	8.94%	10.45%	
Pan-United Corp Ltd	5.58%	5.81%	5.81%

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# Building Materials

## Labour situation improving

- Sector employment further improved in 2Q22 (+14% yoy), almost back to pre-Covid levels (end-Dec 19) as contractors accelerate project executions.
- We believe activities should remain supported medium-term by elevated order books, resumption of major projects and higher public housing supply.
- Reiterate sector Overweight. BRC is our top sector pick on attractive valuations and higher dividend yield (c.10%).

### Improving labour situation should point to a better 2H22F

Construction sector employment in Singapore rose 14% yoy in 2Q22, forming c.99% of end-Dec 19 levels, as border controls were significantly relaxed in Apr 22. In addition, average weekly paid overtime hours worked by construction employees in 2Q22 rose 7% yoy, supporting our thesis of contractors accelerating project execution to make up for lost time. While the sector still faces some transient productivity issues (time needed to train newer workers) and safety time-outs (from increased workplace accidents) in 3Q22F, we believe these issues should gradually be alleviated in the coming quarters.

### Construction activities anchored by resilient public sector projects

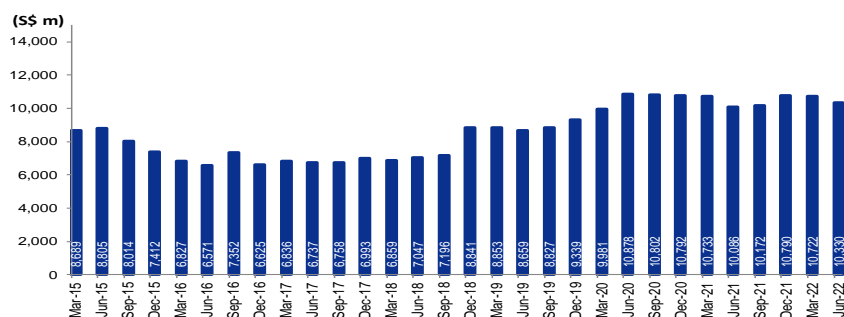
While recent macroeconomic headwinds and elevated construction costs could dampen investment appetite from the private sector (c.40% of annual construction demand), we believe construction activities should remain supported in the medium term by:

- 1) **Elevated order books.** The combined order book (as of end-Jun 22) of 19 Singapore-listed construction firms remained elevated at c.20% above the 7-year (FY15-21) historical average.
- 2) **Resumption of major projects.** Previously-shelved projects, including Terminal 5 (c.S\$10bn) and the integrated resorts expansion (MBS and RWS, c.S\$4.5bn each), have since resumed progressively. These projects were not included in the Building and Construction Authority's (BCA) forecasts; based on indicative timelines, we believe these three projects could add c.10% to the midpoint of BCA's initial 2023-26F construction demand projections.
- 3) **Continued ramp-up in public housing supply.** To meet stronger housing demand, Singapore aims to increase its Build-To-Order (BTO) flat supply to c.21k per annum over 2022-25F (2019: 14.6k, 2021: 17.1k). BCA estimates public housing to account for c.15% of 2022F construction demand.

### Reiterate sector Overweight; BRC is our top sector pick

We retain our Overweight call on the sector as we expect both BRC and Pan-United to benefit from ramp-up in project execution and healthy profit spreads. Our top sector pick is BRC given its relatively attractive valuation (c.6x CY23F P/E) and higher dividend yield of c.10%. Key re-rating catalysts include faster improvement in labour productivity and robust construction demand. Downside risks include counterparty credit risks.

**Figure 1: Combined order book of 19 Singapore-listed construction firms remained elevated at c.20% of the 7-year historical average**

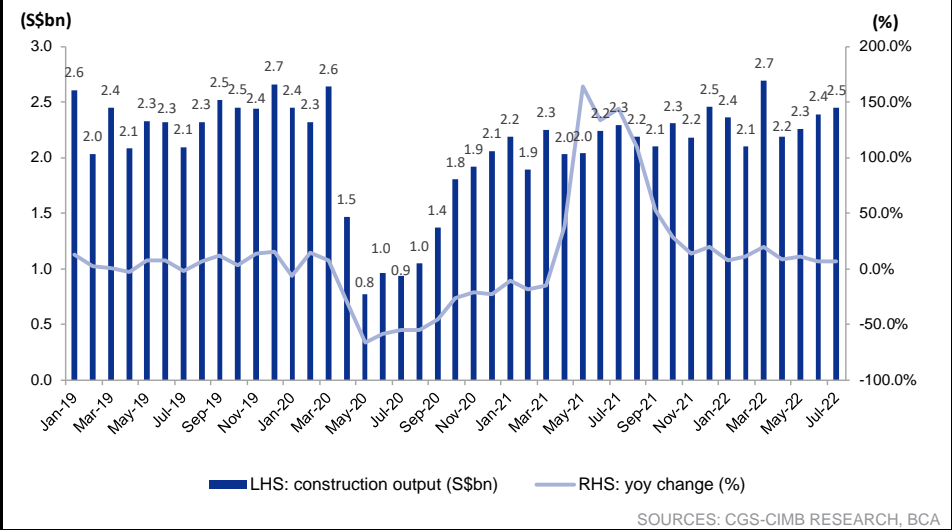


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

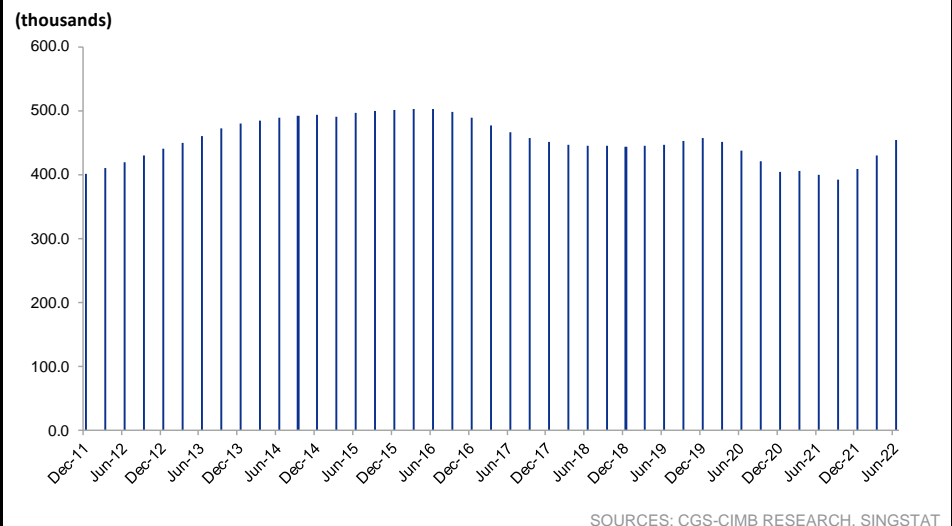
## Construction output recovered well in July

Construction output in Singapore (as measured by progress payments) rose to S\$2.5bn in Jul 22, 17% higher than pre-Covid-19 (Jul 19) levels. YTD, construction output has formed c.55% of BCA's year-end target of S\$29bn-32bn; we see activity picking up in 2H22F as foreign workers return and contractors race to clear their mounting order books. While we understand that there were some issues faced in May-Jul 22 from lower worker productivity, safety work stoppages and bad weather, we believe these issues should be transient and will be alleviated gradually in line with increased construction activities.

**Figure 2: Construction output currently at pre-pandemic levels as restrictions continue to ease**



**Figure 3: Total construction employment rose 14% yoy in Jun 22, forming c.97% of pre-Covid (FY15-19 average) levels**



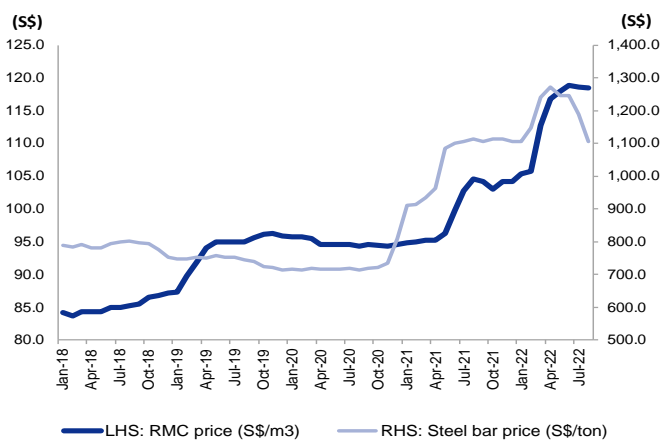
## Building material ASPs showing signs of moderation

Prices of ready-mix concrete (RMC) and steel are showing signs of moderation post a strong start to the year. Recall that ASPs spiked in Mar-Apr 22 on the back of supply chain disruptions (from the Russia-Ukraine conflict) and inflationary pressures. Latest pricing data indicate that ASPs have started to moderate, albeit still elevated compared to pre-Covid-19 times. RMC prices peaked in Jun 22 while steel prices peaked in May 22, with both materials

recording gradual mom price declines since then. While we think prices could moderate further in 2H22F as supply chain disruptions ease, ASPs are still likely to remain high vs. pre-Covid-19 levels on the back of improving construction demand and rising input costs.

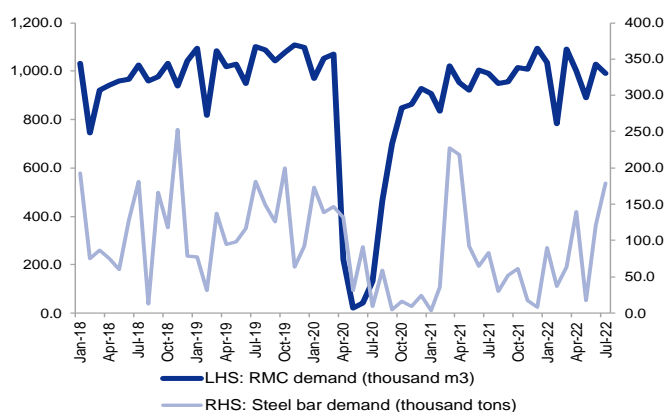
Based on channel checks, we believe building material players' margins remain healthy. Given the moderation in steel bar prices, we also see potential for BRC to reverse some of its provisions for onerous contracts; we currently forecast BRC to record FY9/22F net profit of S\$75m (+60% yoy). For PanU, we expect 2H22F EBITDA margin (flat hoh, +0.8% pts yoy) to sustain at strong levels and we forecast FY22F net profit of S\$28m (+47% yoy).

**Figure 4: RMC prices remained elevated as of end Aug 2022 while steel bar prices have pulled back since July 2022**



SOURCES: CGS-CIMB RESEARCH, BCA

**Figure 5: Both RMC and steel demand has recovered to c.95% of pre-Covid-19 levels**



SOURCES: CGS-CIMB RESEARCH, BCA

Key downside risks for the sector include 1) counterparty credit risks given weakened contractors' balance sheet; 2) slower-than-expected productivity recovery due to time needed to train new workforce, and 3) inability to pass on cost pressures from higher input prices, thus resulting in margin erosion.

**Figure 6: Peer comparison (as of 21 Sep 22)**

Company	Bloomberg		Price	Target Price	Market Cap	P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)
	Ticker	Recom.				(lcl curr)	(lcl curr)		(US\$ m)	CY22F	CY23F	CY22F	CY23F	CY22F	
BRC Asia Ltd	BRC SP	Add	1.65	2.50	321	5.9	5.7	19.8%	1.15	1.06	21.5%	5.8	5.7	8.9%	
Pan-United Corp Ltd	PAN SP	Add	0.43	0.57	213	10.9	10.5	15.7%	1.39	1.33	13.2%	4.8	4.3	5.6%	
<b>Mean</b>						<b>8.4</b>	<b>8.1</b>	<b>17.7%</b>	<b>1.27</b>	<b>1.19</b>	<b>17.3%</b>	<b>5.3</b>	<b>5.0</b>	<b>7.3%</b>	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG

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643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%



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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

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Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.