

## SMALL/MID CAP HIGHLIGHTS

### BRC Asia (BRC SP)

3QFY22: Excellent Quarter But Margins Take A Hit

**BRC reported strong 3QFY22 net profit of S\$20.4m (+100% yoy), in line with our expectations, backed by higher delivery volumes and better construction demand. However, a lower-margin product mix compressed margins. Orderbook remains robust at S\$1.15b, 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 4QFY22. Maintain BUY with a lower target price of S\$2.00 (S\$2.15 previously).**

#### 3QFY22 RESULTS

Year to 30 Sep (\$m)	3QFY22	qoq % chg	yoy % chg
Revenue	515.3	18.2	51.5
Gross Profit	36.7	(13.5)	106.7
Profit After Tax	20.4	(23.2)	100.0
Gross Margin (ppts)	7.1	(2.6ppts)	1.9ppts
Net Margin (ppts)	4.0	(2.1ppts)	1.0ppts

Source: BRC, UOB Kay Hian

#### RESULTS

- **Robust results, slightly below expectations.** BRC Asia (BRC) reported strong 3QFY22 revenue (+51.5% yoy, +18.2% qoq) and net profit (+100.0% yoy, -23.2% qoq) of S\$515.3m and S\$20.4m respectively, forming 85.6% and 71.4% of our full-year estimates. Net profit was slightly below expectations, driven by a lower margin product mix in 3QFY22. Although gross profit was up 106.7% yoy, it moderated 13.5% qoq as higher manpower and utilities costs compressed margins, leading to gross margin softening 2.6ppt qoq in 3QFY22.
- **Provisions unchanged.** Management noted that provisions for onerous contracts remained unchanged in 3QFY22 from 2QFY22. As steel prices have started to moderate, we expect to see some reversals for provisions which would help boost margins for 4QFY22 onwards.
- **Recovery in labour supply, dragged by dengue and accidents.** Although management noted that the influx of new foreign workers has aided in alleviating the labour shortage, many experienced workers are also returning home as borders get lifted. Due to the inexperience of these new workers, 3QFY22 saw many fatal workplace accidents which led to sporadic stoppages of work. Furthermore, emerging dengue clusters in workplaces also led to several stoppages and checks as well. Overall, we expect Singapore's labour supply recovery to eventually ramp up and normalise to pre-pandemic levels by 4QFY22/1QFY23.
- **Orderbook remains robust.** BRC has maintained its dominant market share and has seen its orderbook grow slightly to S\$1.14b from S\$1b last quarter. We expect the group to deliver half of its current orderbook in the next 3-4 quarters as BRC's current production capacity of 70% starts to ramp up. Management noted that 3QFY22 delivery volumes were higher qoq as demand for construction recovers.

#### KEY FINANCIALS

Year to 30 Sep (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	612	1,169	1,816	1,974	2,168
EBITDA	47	57	103	114	126
Operating profit	38	49	95	107	119
Net profit (rep./act.)	20	47	78	88	97
Net profit (adj.)	20	47	78	88	97
EPS (S\$ cent)	8.7	19.6	32.6	36.6	40.6
PE (x)	19.5	8.7	5.2	4.6	4.2
P/B (x)	1.5	1.4	1.1	0.9	0.8
EV/EBITDA (x)	13.4	11.0	6.1	5.5	5.0
Dividend yield (%)	3.5	4.7	5.3	5.9	5.9
Net margin (%)	3.3	4.0	4.3	4.5	4.5
Net debt/(cash) to equity (%)	76.1	117.2	45.2	27.8	15.3
Interest cover (x)	7.0	12.2	14.1	14.4	14.5
ROE (%)	7.7	16.6	23.4	21.6	19.9
Consensus net profit	-	-	80	87	87
UOBKH/Consensus (x)	-	-	0.98	1.01	1.12

Source: BRC, Bloomberg UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.70
Target Price	S\$2.00
Upside	+17.5%
(Previous TP:	S\$2.15)

#### 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):	466.4
Market cap (US\$m):	337.7
3-mth avg daily t'over (US\$m):	0.2

#### Price Performance (%)

52-week high/low		S\$1.83/S\$1.35		
1mth	3mth	6mth	1yr	YTD
(2.3)	0.6	4.4	17.0	13.2

#### Major Shareholders

	%
Estee Enterprise	61.2
Hong Leong Asia	20.8
FY22 NAV/Share (S\$)	1.53
FY22 Net Debt/Share (S\$)	0.69

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Still room for growth in the construction sector.** The construction sector grew by 3.8% yoy in 2Q22 as Singapore eased its COVID-19 restrictions. In absolute terms, the sector still remained 23.7% below its pre-pandemic levels as labour supply-demand imbalance persists. However, with the lifting of border restrictions, Singapore's labour shortage is expected to ease moving forward as construction companies step up hiring while ramping up construction activities. Also, Singapore has a strong pipeline of upcoming public sector projects along with an increased supply in HDB launches. BRC remains a strong proxy for Singapore's construction sector, given its commanding market share domestically.

### EARNINGS REVISION/RISK

- **We increase our FY22-24 revenue forecasts but drop our FY22-24 net profit forecasts,** after accounting for higher sales volumes and lower gross margin assumptions. We decrease our FY22-24 net profit forecasts by 7.2%, 2.4% and 4.0% respectively.

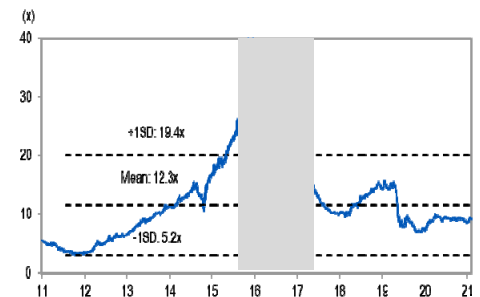
### VALUATION/RECOMMENDATION

- **Maintain BUY with a lower target price of S\$2.00 (S\$2.15),** based on the same 7.0x FY22F PE, pegged to -0.5SD of BRC's long-term average PE (excluding outliers of >2SD at 25x).
- We reckon BRC is poised to post robust earnings in FY22, backed by favourable industry tailwinds and higher steel prices. However, we are cautious of any potential sharp moderation in steel prices which may lead to a reversal of provisions and supernormal earnings thereafter. Therefore, taking a conservative view, we have pegged our target price to -0.5SD of BRC's long-term average PE instead of its mean.

### SHARE PRICE CATALYST

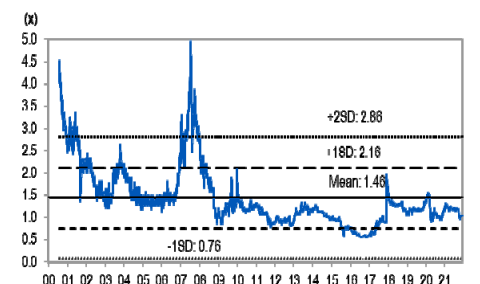
- Faster-than-expected recovery in construction activities.
- More public housing projects awarded.
- Complete relaxation of foreign labour restrictions.

### PE



Source: Bloomberg, UOB Kay Hian

### P/B



Source: Bloomberg, UOB Kay Hian

**PROFIT & LOSS**

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Net turnover	1,168.6	1,816.0	1,974.0	2,167.5
EBITDA	57.5	102.9	114.4	125.9
Deprec. & amort.	8.7	7.9	7.1	6.4
EBIT	48.8	95.0	107.2	119.4
Total other non-operating income	12.3	8.0	8.0	8.0
Associate contributions	2.0	0.0	0.0	0.0
Net interest income/(expense)	(4.7)	(7.3)	(7.9)	(8.7)
<b>Pre-tax profit</b>	<b>58.4</b>	<b>95.7</b>	<b>107.3</b>	<b>118.7</b>
Tax	(11.3)	(17.4)	(19.4)	(21.3)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>47.0</b>	<b>78.3</b>	<b>87.9</b>	<b>97.4</b>
Net profit (adj.)	47.0	78.3	87.9	97.4

**BALANCE SHEET**

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
Fixed assets	143.9	139.0	134.8	132.4
Other LT assets	26.1	26.1	26.1	26.1
Cash/ST investment	83.0	159.4	152.0	144.2
Other current assets	631.8	554.8	602.2	660.2
<b>Total assets</b>	<b>884.7</b>	<b>879.2</b>	<b>915.1</b>	<b>962.8</b>
ST debt	358.1	268.1	238.1	208.1
Other current liabilities	137.9	175.1	184.1	195.4
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	368.3	445.2	531.6
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>884.7</b>	<b>879.2</b>	<b>915.1</b>	<b>962.8</b>

**CASH FLOW**

Year to 30 Sep (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>(126.2)</b>	<b>207.7</b>	<b>64.5</b>	<b>65.8</b>
Pre-tax profit	58.4	95.7	107.3	118.7
Tax	(9.5)	(17.4)	(19.4)	(21.3)
Deprec. & amort.	18.0	7.9	7.1	6.4
Associates	(2.0)	0.0	0.0	0.0
Working capital changes	(245.3)	114.2	(38.4)	(46.7)
Non-cash items	6.0	0.0	0.0	0.0
Other operating cashflows	48.3	7.3	7.9	8.7
<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>(128.3)</b>	<b>(68.9)</b>	<b>(69.7)</b>
Dividend payments	(24.3)	(11.0)	(11.0)	(11.0)
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	(7.3)	(7.9)	(8.7)
<b>Net cash inflow (outflow)</b>	<b>8.6</b>	<b>76.4</b>	<b>(7.4)</b>	<b>(7.9)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>74.4</b>	<b>83.0</b>	<b>159.4</b>	<b>152.0</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>159.4</b>	<b>152.0</b>	<b>144.2</b>

**KEY METRICS**

Year to 30 Sep (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	4.9	5.7	5.8	5.8
Pre-tax margin	5.0	5.3	5.4	5.5
Net margin	4.0	4.3	4.5	4.5
ROA	6.3	8.9	9.8	10.4
ROE	16.6	23.4	21.6	19.9
<b>Growth</b>				
Turnover	90.8	55.4	8.7	9.8
EBITDA	21.4	79.0	11.1	10.1
Pre-tax profit	116.3	64.0	12.1	10.7
Net profit	131.1	66.5	12.3	10.8
Net profit (adj.)	131.1	66.5	12.3	10.8
EPS	124.5	66.5	12.3	10.8
<b>Leverage</b>				
Debt to total capital	59.1	46.9	38.3	29.8
Debt to equity	144.8	88.5	61.9	42.5
Net debt/(cash) to equity	117.2	45.2	27.8	15.3
Interest cover (x)	12.2	14.1	14.4	14.5

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