

## SMALL/MID CAP HIGHLIGHTS

### BRC Asia (BRC SP)

FY22: Above Expectations, Record Year And Special Dividend

**BRC reported posted record-high earnings of S\$90.2m (+92% yoy), backed by higher delivery volumes and elevated steel prices. Gross and net margins also expanded as steel prices started to fall, leading to net reversal of provisions. A labour supply recovery is underway as Singapore reopens and is expected to ramp up from 2QFY23 onwards. Maintain BUY with a higher target price of S\$2.42 (S\$2.00 previously).**

#### FY22 RESULTS

Year to 30 Sep (\$m)	FY22	FY21	yoy % chg	2HFY22	2HFY21	yoy % chg
Revenue	1,699	1,168	45	906	676	34
Gross Profit	154	82	87	85	42	100
Net Profit	90	47	92	60	35	81
Gross Margin (%)	9.0	7.0	2.0 ppt	9.4	6.2	3.2 ppt
Net Margin (%)	5.3	4.0	1.3 ppt	6.6	5.2	1.4 ppt

Source: BRC, UOB Kay Hian

#### RESULTS

- **Results surpassed expectations.** BRC Asia (BRC) reported record-high FY22 revenue and net profit of S\$1,699.3m (+45% yoy) and S\$90.2m (+92% yoy) respectively, forming 94% and 115% of our full-year estimates, surpassing our expectations. Similar to 9MFY22, stronger delivery volumes coupled with elevated steel rebar prices boosted the group's earnings. In addition to a 2HFY22 final dividend of 6 S cents/share (FY21: 4 S cents/share), the group also declared an additional special dividend of 6 S cents/share (FY21: 4 S cents/share), taking the total FY22 dividend to 18 S cents/share (FY21: 12 S cents/share) and a dividend payout ratio of 54%.
- **Margin expansion.** In line with higher revenue, FY22 gross profit also grew 87% yoy while gross margins expanded 2.0ppt yoy. This is largely due to lower steel prices in 2HFY22 which led to a net reversal of provisions for onerous contracts at S\$12.8m compared to a provision of S\$45.3m in FY21. Moving forward, management noted that the group expects further reversal of provisions for onerous contracts as steel prices continue to fall, boosting margins.
- **Resolute orderbook.** BRC's orderbook remains robust, standing at S\$1.4b, higher than the S\$1.14b at end-3QFY22. We expect the group to deliver half of its current orderbook in the next 3-4 quarters as local construction activity ramps up.
- **Challenging operating environment ahead.** As the "Heightened Safety" period is still ongoing with workplace stoppages, delivery volumes are expected to only ramp up once the period ends in late-2QFY23. Furthermore, rising operating costs along with stiffer competition are expected to erode margins. However, we reckon that BRC is able to pass on some of these costs, given its commanding market share and leadership position.

#### KEY FINANCIALS

Year to 30 Sep (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,169	1,699	1,974	2,168	2,297
EBITDA	57	115	126	143	155
Operating profit	49	107	119	137	150
Net profit (rep./act.)	47	90	95	110	120
Net profit (adj.)	47	90	95	110	120
EPS (S\$ cent)	19.6	32.7	34.6	39.8	43.5
PE (x)	9.3	5.6	5.3	4.6	4.2
P/B (x)	1.5	1.3	1.0	0.9	0.7
EV/EBITDA (x)	14.0	7.0	6.4	5.6	5.2
Dividend yield (%)	6.6	9.9	5.5	5.5	5.5
Net margin (%)	4.0	5.3	4.8	5.1	5.2
Net debt/(cash) to equity (%)	117.2	76.1	33.5	19.5	5.5
Interest cover (x)	12.2	16.0	15.9	16.4	16.8
ROE (%)	16.6	25.8	21.6	20.6	18.9
Consensus net profit	-	-	87	86	-
UOBKH/Consensus (x)	-	-	1.10	1.28	-

Source: BRC, Bloomberg, UOB Kay Hian

## BUY

(Maintained)

Share Price	S\$1.82
Target Price	S\$2.42
Upside	+32.9%
(Previous TP:	S\$2.00)

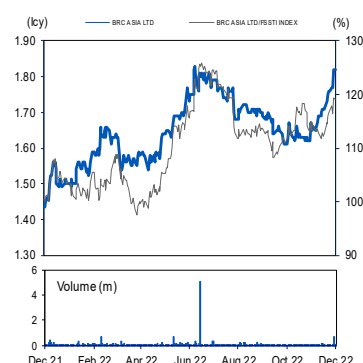
#### COMPANY DESCRIPTION

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 (\$m):	499.3			
Market cap (US\$m):	367.7			
3-mth avg daily t'over (US\$m):	0.1			
Price Performance (%)				
52-week high/low				S\$1.83/S\$1.43
1mth	3mth	6mth	1yr	YTD
9.0	7.1	4.6	24.5	21.2
Major Shareholders				%
Esteel Enterprise				61.2
Hong Leong Asia				20.8
-				-
FY23 NAV/Share (\$S)				1.75
FY23 Net Debt/Share (\$S)				0.59

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Llleythan Tan**  
+65 6590 6624  
yirong@uobkayhian.com

#### STOCK IMPACT

- **Robust growth in the construction sector.** The construction sector grew by 7.8% yoy in 3Q22, largely driven by the easing of Singapore's COVID-19 restrictions. In absolute terms, the value-add on the sector remained 18.0% below its pre-pandemic (3Q19) level. 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 raise our FY23-24 earnings forecasts by 9-13%**, on higher margin assumptions and a better-than-expected recovery in construction demand. We increase our FY23-24 net profit forecasts by 8.5% and 12.7% respectively, while adding our FY25 forecasts.

#### VALUATION/RECOMMENDATION

- **Maintain BUY with a higher target price of S\$2.42 (S\$2.00 previously)**, based on 7.0x FY23F PE, pegged to -0.5SD of BRC's long-term average PE (excluding outliers of >2SD at 25x). The higher target price is largely due to the rollover of our PE multiple to FY23 forecasts.

#### SHARE PRICE CATALYST

- Faster-than-expected recovery in construction activities.
- More public projects awarded.

### PROFIT & LOSS

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Net turnover	1,699.3	1,974.0	2,167.5	2,296.5
EBITDA	114.7	126.2	143.2	155.3
Deprec. & amort.	7.9	7.1	6.4	5.8
EBIT	106.8	119.1	136.8	149.5
Total other non-operating income	5.1	5.1	5.1	5.1
Associate contributions	2.7	0.0	0.0	0.0
Net interest income/(expense)	(7.2)	(7.9)	(8.7)	(9.2)
<b>Pre-tax profit</b>	<b>107.4</b>	<b>116.2</b>	<b>133.2</b>	<b>145.4</b>
Tax	(17.2)	(20.8)	(23.4)	(25.4)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>90.2</b>	<b>95.4</b>	<b>109.7</b>	<b>120.0</b>
Net profit (adj.)	90.2	95.4	109.7	120.0

### CASH FLOW

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>46.1</b>	<b>163.5</b>	<b>72.0</b>	<b>99.6</b>
Pre-tax profit	107.4	116.2	133.2	145.4
Tax	(17.0)	(20.8)	(23.4)	(25.4)
Deprec. & amort.	17.7	7.1	6.4	5.8
Associates	(2.7)	0.0	0.0	0.0
Working capital changes	(54.4)	53.0	(52.9)	(35.4)
Non-cash items	6.1	0.0	0.0	0.0
Other operating cashflows	(11.1)	7.9	8.7	9.2
<b>Investing</b>	<b>(1.4)</b>	<b>(3.0)</b>	<b>(4.0)</b>	<b>(4.0)</b>
Capex (growth)	(2.9)	(3.0)	(4.0)	(4.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	1.5	0.0	0.0	0.0
<b>Financing</b>	<b>22.8</b>	<b>(49.0)</b>	<b>(49.7)</b>	<b>(50.3)</b>
Dividend payments	(38.4)	(11.0)	(11.0)	(11.0)
Issue of shares	45.9	0.0	0.0	0.0
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	(26.3)	(30.0)	(30.0)	(30.0)
Others/interest paid	41.6	(7.9)	(8.7)	(9.2)
<b>Net cash inflow (outflow)</b>	<b>67.5</b>	<b>111.5</b>	<b>18.3</b>	<b>45.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>83.0</b>	<b>154.6</b>	<b>266.1</b>	<b>284.3</b>
Changes due to forex impact	4.1	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>154.6</b>	<b>266.1</b>	<b>284.3</b>	<b>329.7</b>

### BALANCE SHEET

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Fixed assets	128.4	140.0	137.5	135.8
Other LT assets	30.8	30.8	30.8	30.8
Cash/ST investment	154.6	266.1	284.3	329.7
Other current assets	659.4	677.4	741.3	783.8
<b>Total assets</b>	<b>973.1</b>	<b>1,114.3</b>	<b>1,193.9</b>	<b>1,280.1</b>
ST debt	410.1	380.1	350.1	320.1
Other current liabilities	108.8	195.7	206.6	213.8
LT debt	47.8	47.8	47.8	47.8
Other LT liabilities	7.5	7.5	7.5	7.5
Shareholders' equity	398.8	483.1	581.8	690.8
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>973.1</b>	<b>1,114.3</b>	<b>1,193.9</b>	<b>1,280.1</b>

### KEY METRICS

Year to 30 Sep (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	6.8	6.4	6.6	6.8
Pre-tax margin	6.3	5.9	6.1	6.3
Net margin	5.3	4.8	5.1	5.2
ROA	9.7	9.1	9.5	9.7
ROE	25.8	21.6	20.6	18.9
<b>Growth</b>				
Turnover	45.4	16.2	9.8	6.0
EBITDA	99.6	10.0	13.5	8.4
Pre-tax profit	84.0	8.2	14.6	9.2
Net profit	91.8	5.7	15.1	9.4
Net profit (adj.)	91.8	5.7	15.1	9.4
EPS	66.9	5.7	15.1	9.4
<b>Leverage</b>				
Debt to total capital	53.5	47.0	40.6	34.8
Debt to equity	114.8	88.6	68.4	53.3
Net debt/(cash) to equity	76.1	33.5	19.5	5.5
Interest cover (x)	16.0	15.9	16.4	16.8

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