

## SMALL/MID CAP HIGHLIGHTS

### BRC Asia (BRC SP)

1QFY23: Weak Results From Ongoing Headwinds; Downgrade To HOLD

**BRC reported lower 1QFY23 revenue (-4.5% yoy) of S\$341.2m and net profit of S\$11.7m (-12.2% yoy), both below our expectations. The underperformance was due to rising operating costs, an unfavourable product mix and Singapore's Heightened Safety period dragging down delivery volumes. With ongoing headwinds till 9MFY23, we do not see any near-term catalysts for FY23. Thus, we downgrade to HOLD with a lower PE-based target price of S\$1.66 (S\$2.42 previously).**

#### 1QFY23 RESULTS

Year to 30 Sep (\$m)	1QFY23	qoq % chg	yoy % chg
Revenue	341.3	(12.6)	(4.5)
Gross Profit	23.4	(51.4)	(11.0)
Profit After Tax	11.7	(61.0)	(12.2)
Gross Margin (ppts)	6.9	(5.5ppts)	(0.5ppts)
Net Margin (ppts)	3.4	(4.3ppts)	(0.3ppts)

Source: BRC, UOB Kay Hian

#### RESULTS

- Weak results, below expectations.** Despite 1QFY23 being a seasonally slow quarter, BRC Asia (BRC) reported weak 1QFY23 net profit of S\$11.7m (-12.2% yoy, -61.0% qoq), forming 13.1% of our full-year estimates and below our expectations. 1QFY23 revenue (-4.5% yoy, -12.6% qoq) and gross profit (-11.0% yoy, -51.5% qoq) also fell, forming 20.0% and 15.2% of our full-year forecasts and below our expectations. This is largely due to Singapore's Heightened Safety period depressing delivery volumes, dragged by rising operating costs from ongoing inflationary pressures and a lower-margin product mix that compressed margins. 1QFY23 gross (-0.5ppt yoy, -5.5ppt qoq) and net margins (-0.3ppt yoy, -4.3ppt qoq) fell respectively.
- Insignificant reversal of provisions.** Despite falling steel prices, management noted that there were no significant reversal of provisions for onerous contracts in 1QFY23 that we initially expected. As steel prices continue to moderate, we reckon that there may be some reversals for provisions in 2QFY23, which would help support falling margins. As of end-4QFY22, around S\$33m of provisions for onerous contracts remain on the balance sheet.
- Strong orderbook due to dominant market share.** BRC has maintained its dominant market share and has seen its orderbook remain robust at S\$1.4b for 1QFY23, similar to end-4QFY22. We expect the group to deliver half of its current orderbook in the next 3-4 quarters as local construction activity recovers. Competition wise, slower offtake from lower construction activity has increased competition for new contracts. Coupled with rising costs, this has compressed margins industry-wide. 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	1,428	1,505	1,631
EBITDA	57	115	87	99	113
Operating profit	49	107	80	92	107
Net profit (rep./act.)	47	90	66	76	88
Net profit (adj.)	47	90	66	76	88
EPS (\$ cent)	19.6	32.7	23.8	27.4	31.8
PE (x)	9.0	5.4	7.4	6.5	5.6
P/B (x)	1.4	1.2	1.1	0.9	0.8
EV/EBITDA (x)	9.2	4.6	6.0	5.4	4.7
Dividend yield (%)	6.8	10.2	5.6	5.6	5.6
Net margin (%)	4.0	5.3	4.6	5.0	5.4
Net debt/(cash) to equity (%)	117.2	76.1	9.4	(0.6)	(7.9)
Interest cover (x)	12.2	16.0	15.2	16.3	17.2
ROE (%)	16.6	25.8	15.4	15.6	15.8
Consensus net profit	-	-	82	93	102
UOBKH/Consensus (x)	-	-	0.80	0.81	0.86

Source: BRC, Bloomberg, UOB Kay Hian

## HOLD

(Downgraded)

Share Price	S\$1.77
Target Price	S\$1.66
Upside	-6.0%
(Previous TP)	S\$2.42)

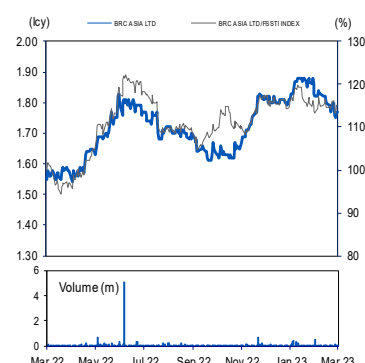
#### COMPANY DESCRIPTION

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):	485.6			
Market cap (US\$m):	359.0			
3-mth avg daily t'over (US\$m):	0.1			
<b>Price Performance (%)</b>				
52-week high/low		S\$1.88/S\$1.54		
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(3.3)	(2.2)	4.1	14.9	(2.2)
<b>Major Shareholders</b>				<b>%</b>
Estee Enterprise				61.2
Hong Leong Asia				20.8
-				-
FY23 NAV/Share (\$\$)				1.64
FY23 Net Debt/Share (\$\$)				0.15

#### PRICE CHART



Source: Bloomberg

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#### STOCK IMPACT

- **Robust growth in the construction sector.** The construction sector grew by 10.4% yoy in 4Q22, largely driven by the easing of Singapore's COVID-19 restrictions. In absolute terms, the value-add on the sector remained 19.3% below its pre-pandemic (4Q19) level. According to the Building and Construction Industry (BCA), 2023 total local construction demand is expected at between S\$27b to S\$32b, similar to 2022. 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.
- **Supply of BTO flats to increase.** To keep up with the rising demand, the Housing & Development Board (HDB) announced that it plans to launch up to 23,000 flats in 2023, a significant increase from the last three years, where a combined 48,509 flats were launched (16,170 flats per year). As HDB housing forms a significant part of BRC's orderbook, the increase in supply would help support and boost BRC's revenue moving forward.
- **Near-term headwinds.** Initially supposed to end on 28 Feb 23, Singapore's Heightened Safety period has been extended by three months to end-May 23, owing to a rise in workplace fatalities in 1Q23. With the extension, workplace safety measures would continue to be in place which would lower on-site construction activities and delay project timelines. We opine that BRC is poised to face weaker 9MFY23 as these measures would have an unfavourable knock-on effect on BRC's delivery volumes. Furthermore, additional potential downside may come from another extension if more companies were found to breach workplace safety measures.

#### EARNINGS REVISION/RISK

- **We cut our FY23-25 net profit estimates sharply,** on the back of lower revenue and margin assumptions. For FY23-25, our net profit forecasts are S\$65.6m (S\$95.4m previously), S\$75.6m (S\$109.7m previously) and S\$87.7m (S\$120.0m previously) respectively.

#### VALUATION/RECOMMENDATION

- **Downgrade to HOLD with a lower PE-based target price of S\$1.66 (S\$2.42 previously),** based on the same 7.0x FY23F PE, pegged to -0.5SD of BRC's long-term average PE (excluding outliers of >2SD at 25x).

#### SHARE PRICE CATALYST

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

**PROFIT & LOSS**

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Net turnover	1,699.3	1,428.1	1,505.3	1,630.7
EBITDA	114.7	87.4	98.6	112.6
Deprec. & amort.	7.9	7.1	6.4	5.8
EBIT	106.8	80.3	92.1	106.8
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)	(5.7)	(6.0)	(6.6)
<b>Pre-tax profit</b>	<b>107.4</b>	<b>79.6</b>	<b>91.2</b>	<b>105.3</b>
Tax	(17.2)	(14.1)	(15.5)	(17.6)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>90.2</b>	<b>65.6</b>	<b>75.6</b>	<b>87.7</b>
Net profit (adj.)	90.2	65.6	75.6	87.7

**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	385.3	401.0	414.9
Other current assets	659.4	497.3	522.7	564.1
<b>Total assets</b>	<b>973.1</b>	<b>1,053.3</b>	<b>1,092.0</b>	<b>1,145.6</b>
ST debt	410.1	380.1	350.1	320.1
Other current liabilities	108.8	164.5	168.6	175.5
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	453.3	517.9	594.6
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>973.1</b>	<b>1,053.3</b>	<b>1,092.0</b>	<b>1,145.6</b>

**CASH FLOW**

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>46.1</b>	<b>280.5</b>	<b>66.8</b>	<b>65.5</b>
Pre-tax profit	107.4	79.6	91.2	105.3
Tax	(17.0)	(14.1)	(15.5)	(17.6)
Deprec. & amort.	17.7	7.1	6.4	5.8
Associates	(2.7)	0.0	0.0	0.0
Working capital changes	(54.4)	202.0	(21.3)	(34.5)
Non-cash items	6.1	0.0	0.0	0.0
Other operating cashflows	(11.1)	5.7	6.0	6.6
<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>(46.8)</b>	<b>(47.1)</b>	<b>(47.6)</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	(5.7)	(6.0)	(6.6)
<b>Net cash inflow (outflow)</b>	<b>67.5</b>	<b>230.7</b>	<b>15.7</b>	<b>13.9</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>83.0</b>	<b>154.6</b>	<b>385.3</b>	<b>401.0</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>385.3</b>	<b>401.0</b>	<b>414.9</b>

**KEY METRICS**

Year to 30 Sep (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	6.8	6.1	6.5	6.9
Pre-tax margin	6.3	5.6	6.1	6.5
Net margin	5.3	4.6	5.0	5.4
ROA	9.7	6.5	7.1	7.8
ROE	25.8	15.4	15.6	15.8
<b>Growth</b>				
Turnover	45.4	(16.0)	5.4	8.3
EBITDA	99.6	(23.8)	12.8	14.2
Pre-tax profit	84.0	(25.9)	14.5	15.6
Net profit	91.8	(27.3)	15.3	16.0
Net profit (adj.)	91.8	(27.3)	15.3	16.0
EPS	66.9	(27.3)	15.3	16.0
<b>Leverage</b>				
Debt to total capital	53.5	48.6	43.5	38.2
Debt to equity	114.8	94.4	76.8	61.9
Net debt/(cash) to equity	76.1	9.4	(0.6)	(7.9)
Interest cover (x)	16.0	15.2	16.3	17.2

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