

## SMALL/MID CAP HIGHLIGHTS

### BRC Asia (BRC SP)

1HFY23: Muted Results In Line With Expectations; No Near-Term Catalysts

BRC reported lower 1HFY23 earnings of S\$26.2m (-34% yoy, -48% hoh), dragged by lower project contractual offtake and an unfavourable product mix. Management noted that Singapore's construction sector is expected to recover from 3QFY23 onwards, backed by easing of the labour shortage and a strong pipeline of upcoming construction projects. However, with no near-term catalysts as well as compressed volumes in 3QFY23, we maintain HOLD but with a higher target price of S\$1.73.

#### 1HFY23 RESULTS

Year to 31 Sep (\$m)	1HFY23	hoh % chg	yoy % chg	2QFY23	qoq % chg	yoy % chg
Revenue	717.1	(20.8)	(9.6)	375.8	10.1	(13.8)
Gross Profit	52.7	(37.9)	(23.4)	29.3	25.1	(31.0)
Net Profit	26.2	(47.9)	(34.1)	14.5	23.9	(45.3)
Gross Margin (%)	7.4	(2.0ppt)	(1.3ppt)	7.8	0.9ppt	0.4ppt
Net Margin (%)	3.7	(1.9ppt)	(1.3ppt)	3.9	0.4ppt	(2.2ppt)

Source: BRC, UOB Kay Hian

#### RESULTS

- Muted 1HFY23 results.** BRC Asia (BRC) reported 1HFY23 revenue and net profit of S\$717.1m (-9.6% yoy, -20.8% hoh) and S\$26.2m (-34.1% yoy, -47.9% hoh) respectively, forming 50.2% and 40.0% of our full-year estimates and in line with our expectations. The drops in both top- and bottom lines was due to lower project contractual offtake. As mentioned in our previous report, the extension of the "Heightened Safety" period till 31 May 23 slowed down construction activity and depressed delivery volumes. However, management did note that this issue was sector-wide and other local competitors also faced similar slowdown in delivery volumes. The group declared a lower yoy 1HFY23 dividend of 5 S cents/share, compared with 6 S cents/share in 1HFY22, and implies an annualised FY23 yield of around 6%.
- Lower margins cushioned by reversal of onerous contracts.** Gross (-1.3ppt yoy) and net margins (-1.3ppt yoy) fell in 1HFY23 due to an unfavourable product mix along with lower construction activity. However, as we had expected in our previous report, margins were supported by a reversal of onerous contracts in 1HFY23, with a reversal of S\$7.9m as compared to S\$1.8m in 1HFY22. As of end-2QFY23, around S\$28.8m of provisions for onerous contracts still remain on the balance sheet (end-4QFY22: S\$36.7m)
- Improving outlook.** Management noted that Singapore's construction sector is expected to recover from 3QFY23 onwards, backed by easing of the labour shortage and a strong pipeline of upcoming construction projects. Also, the group's project contractual offtake improved moderately in Apr-May 23 coupled with a normalisation of prices for key construction materials. With BRC's commanding leadership position, we reckon BRC would be the main beneficiary for the expected recovery facing Singapore's construction sector. However, we opine that BRC would rather face a delayed/significant recovery in 4QFY23 instead of 3QFY23, given that the ongoing "Heightened Safety" period ends at end-3QFY23.

#### KEY FINANCIALS

Year to 30 Sep (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,169	1,699	1,493	1,574	1,705
EBITDA	57	115	91	103	117
Operating profit	49	107	84	96	112
Net profit (rep./act.)	47	90	68	79	91
Net profit (adj.)	47	90	68	79	91
EPS (S\$ cent)	19.6	32.7	24.8	28.6	33.2
PE (x)	8.3	5.0	6.6	5.7	4.9
P/B (x)	1.3	1.1	1.0	0.9	0.8
EV/EBITDA (x)	8.8	4.4	5.6	4.9	4.3
Dividend yield (%)	7.4	11.0	6.1	8.6	9.8
Net margin (%)	4.0	5.3	4.6	5.0	5.4
Net debt/(cash) to equity (%)	117.2	76.1	13.3	3.5	(2.9)
Interest cover (x)	12.2	16.0	15.2	16.2	17.1
ROE (%)	16.6	25.8	16.0	16.3	16.6
Consensus net profit	-	-	65	74	83
UOBKH/Consensus (x)	-	-	1.05	1.07	1.11

Source: BRC, Bloomberg UOB Kay Hian

## HOLD

(Maintained)

Share Price	S\$1.63
Target Price	S\$1.73
Upside	+6.3%
(Previous TP)	S\$1.66)

#### 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):	447.2
Market cap (US\$m):	331.8
3-mth avg daily t'over (US\$m):	0.1

#### Price Performance (%)

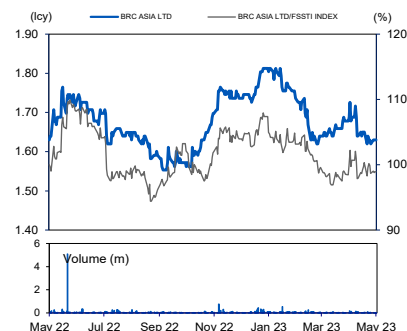
52-week high/low S\$1.81/S\$1.55

1mth	3mth	6mth	1yr	YTD
(2.9)	(6.1)	(4.0)	(0.6)	(6.6)

#### Major Shareholders

	%
Estee Enterprise P/L	61.2
Hong Leong Asia	20.8
FY23 NAV/Share (S\$)	1.65
FY23 Net Debt/Share (S\$)	0.21

#### PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **Resolute orderbook and diversified supply chain.** BRC's orderbook remains robust, standing at S\$1.42b at end-2QFY23. We expect the group to deliver half of its current orderbook in the next 3-4 quarters as BRC's current production capacity of around 70% starts to ramp up.
- **Robust growth in the construction sector.** The construction sector grew by 8.5% yoy and 1.8% qoq in 1Q23, largely driven by expansions in both public and private construction output. In absolute terms, the value-add on the sector remained 21.3% below its pre-pandemic (1Q19) level. According to the Building and Construction Industry (BCA), total local construction demand is expected at S\$27b-32b in 2023, similar to 2022's. Singapore has a strong pipeline of upcoming public sector projects along with an increased supply of HDB launches. The Singapore government's infrastructure commitment and private sector investments are expected to maintain the growth in residential, commercial and infrastructure segments in the long term. BRC remains a strong proxy for Singapore's construction sector, given its commanding market share domestically.

### EARNINGS REVISION/RISK

- **We increase our FY23-25 earnings forecasts by around 4%,** on the back of a better-than-expected recovery in domestic construction demand.

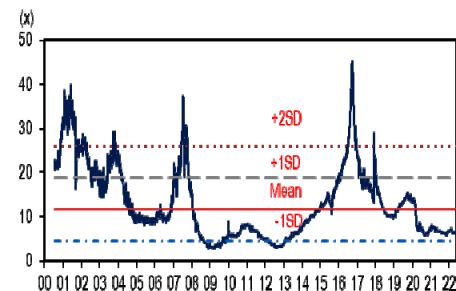
### VALUATION/RECOMMENDATION

- **Maintain HOLD with a higher PE-based target price of S\$1.73 (S\$1.66 previously),** based on the same 7.0x FY23F PE, pegged to -0.5SD of BRC's long-term average PE. With lower delivery volumes till 9MFY23, we do not see any near-term catalysts for FY23. Despite a decent FY23 annual dividend yield of 6.1%, we recommend investors to wait for better entry levels at current valuations.

### SHARE PRICE CATALYST

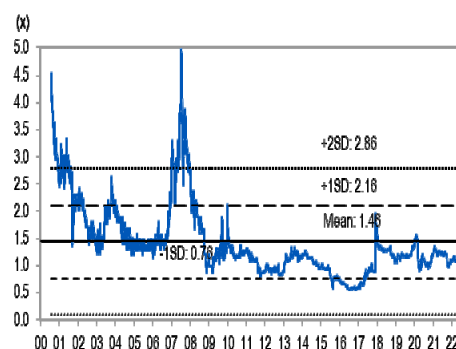
- Faster-than-expected recovery in construction activities.
- Complete relaxation of foreign labour restrictions.
- More public housing projects awarded.

### PE



Source: Bloomberg, UOB Kay Hian

### P/B



Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Net turnover	1,699.3	1,493.0	1,573.7	1,704.9
EBITDA	114.7	91.1	102.8	117.4
Deprec. & amort.	7.9	7.1	6.4	5.8
EBIT	106.8	83.9	96.3	111.7
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)	(6.0)	(6.3)	(6.9)
Pre-tax profit	107.4	83.0	95.1	109.9
Tax	(17.2)	(14.7)	(16.2)	(18.4)
Minorities	0.0	0.0	0.0	0.0
Net profit	90.2	68.3	78.8	91.5
Net profit (adj.)	90.2	68.3	78.8	91.5

### 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	367.6	380.0	385.1
Other current assets	659.4	518.7	545.3	588.6
Total assets	973.1	1,057.1	1,093.7	1,140.3
ST debt	410.1	380.1	350.1	320.1
Other current liabilities	108.8	168.3	172.6	179.8
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	453.3	515.6	585.0
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	973.1	1,057.1	1,093.7	1,140.3

### CASH FLOW

Year to 30 Sep (\$m)	2022	2023F	2024F	2025F
Operating	46.1	265.9	69.3	68.0
Pre-tax profit	107.4	83.0	95.1	109.9
Tax	(17.0)	(14.7)	(16.2)	(18.4)
Deprec. & amort.	17.7	7.1	6.4	5.8
Associates	(2.7)	0.0	0.0	0.0
Working capital changes	(54.4)	184.4	(22.3)	(36.1)
Non-cash items	6.1	0.0	0.0	0.0
Other operating cashflows	(11.1)	6.0	6.3	6.9
Investing	(1.4)	(3.0)	(4.0)	(4.0)
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
Financing	22.8	(49.8)	(52.9)	(58.9)
Dividend payments	(38.4)	(13.8)	(16.6)	(22.1)
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	(6.0)	(6.3)	(6.9)
Net cash inflow (outflow)	67.5	213.1	12.4	5.1
Beginning cash & cash equivalent	83.0	154.6	367.6	380.0
Changes due to forex impact	4.1	0.0	0.0	0.0
Ending cash & cash equivalent	154.6	367.6	380.0	385.1

### KEY METRICS

Year to 30 Sep (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	6.8	6.1	6.5	6.9
Pre-tax margin	6.3	5.6	6.0	6.4
Net margin	5.3	4.6	5.0	5.4
ROA	9.7	6.7	7.3	8.2
ROE	25.8	16.0	16.3	16.6
Growth				
Turnover	45.4	(12.1)	5.4	8.3
EBITDA	99.6	(20.6)	12.8	14.3
Pre-tax profit	84.0	(22.7)	14.5	15.6
Net profit	91.8	(24.3)	15.4	16.1
Net profit (adj.)	91.8	(24.3)	15.4	16.1
EPS	66.9	(24.3)	15.4	16.1
Leverage				
Debt to total capital	53.5	48.6	43.6	38.6
Debt to equity	114.8	94.4	77.2	62.9
Net debt/(cash) to equity	76.1	13.3	3.5	(2.9)
Interest cover (x)	16.0	15.2	16.2	17.1

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