

### SMALL/MID CAP HIGHLIGHTS

#### BRC Asia (BRC SP)

3QFY23: Results In Line; No Near-term Catalysts

**BRC reported lower 9MFY23 earnings of S\$48.8m (-19% yoy), dragged by lower delivery volumes and an unfavourable product mix. 3QFY23 saw a better sequential recovery from the end of the Heightened Safety period. However, due to increased regulations, Singapore's construction sector is facing a shortage of dormitory beds, affecting construction activities. With no near-term catalysts as well as compressed volumes moving forward, we maintain HOLD with the same target price of S\$1.73.**

#### 3QFY23 RESULTS

Year to 31 Sep (\$m)	9MFY23	yoy % chg	3QFY23	qoq % chg	yoy % chg
Revenue	1,176.9	(10.1)	459.8	22.4	(10.8)
Gross Profit	87.4	(17.2)	34.7	18.4	(5.6)
Net Profit	48.8	(18.9)	22.6	55.8	10.9
Gross Margin (%)	7.4	(0.6ppt)	7.5	(0.3ppt)	2.3ppt
Net Margin (%)	4.1	(0.5ppt)	4.9	1.1ppt	1.0ppt

Source: BRC, UOB Kay Hian

#### RESULTS

- Stable 3QFY23 results.** BRC Asia (BRC) reported 9MFY23 revenue and net profit of S\$1,176.9m (-10.1% yoy) and S\$48.8m (-18.9% yoy) respectively, forming 78.8% and 71.5% of our full-year estimates and in line with our expectations. The yoy declines in both top- and bottom lines were due to lower delivery volumes, dragged by Singapore's Heightened Safety period which ended in May 23. However, although 3QFY23 revenue dipped 10.8% yoy, net profit was 10.9% higher, driven by some reversal of provisions for onerous contracts. On a sequential basis, 3QFY23 revenue and net profit surged by 22.4% qoq and 55.8% qoq respectively as construction activity surged from the Heightened Safety period coming to an end.
- Margins unlikely to expand further.** 3QFY23 gross margins dipped slightly by 0.3ppt qoq to 7.5%, dragged by larger contributions from its trading activities. Furthermore, with upcoming large infrastructure projects that usually have lower margins, we reckon that margins would stay muted in 4QFY23. However, as steel prices have started to fall, management is expecting some reversal of provisions for onerous contracts in 4QFY23, which may provide support to net margins. As of end-2QFY23, around S\$28.8m of provisions for onerous contracts still remain on the balance sheet (end-4QFY22: S\$36.7m)
- Uncertain short-term outlook.** Although 3QFY23 delivery volumes have improved qoq, Singapore's construction sector is currently facing a short-term shortage of dormitory beds due to increased governmental regulations on safety. This has caused a general labour shortage and depressed construction activities industry-wide. Management noted that unless the shortage of dormitory beds sees an improvement, construction levels would not return to 2019 pre-COVID-19 levels. We reckon that it would take 1-2 quarters before we see any significant improvement, given the surge (~2x) in costs to build new dormitories.

#### KEY FINANCIALS

Year to 30 Sep (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	1,169	1,699	1,688	1,779	1,927
EBITDA	57	115	92	101	113
Operating profit	49	107	85	95	107
Net profit (rep./act.)	47	90	68	76	86
Net profit (adj.)	47	90	68	76	86
EPS (S\$ cent)	19.6	32.7	24.7	27.5	31.1
PE (x)	8.5	5.1	6.7	6.0	5.3
P/B (x)	1.3	1.1	1.0	0.9	0.8
EV/EBITDA (x)	9.9	5.0	6.2	5.6	5.0
Dividend yield (%)	7.2	10.8	6.0	8.4	9.6
Net margin (%)	4.0	5.3	4.0	4.3	4.5
Net debt/(cash) to equity (%)	117.2	76.1	24.9	14.8	8.8
Interest cover (x)	12.2	16.0	13.6	14.1	14.6
ROE (%)	16.6	25.8	16.0	15.7	15.8
Consensus net profit	-	-	66	75	85
UOBKH/Consensus (x)	-	-	1.03	1.01	1.02

Source: BRC, Bloomberg UOB Kay Hian

### HOLD

(Maintained)

Share Price	S\$1.66
Target Price	S\$1.73
Upside	+4.1%

#### 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):	455.4
Market cap (US\$m):	335.6
3-mth avg daily t'over (US\$m):	0.0

#### Price Performance (%)

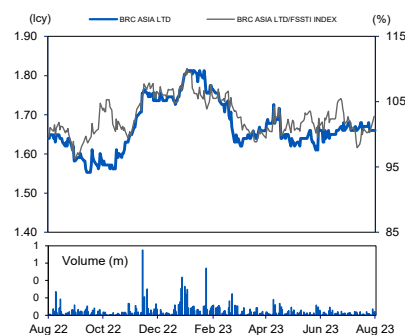
52-week high/low S\$1.81/S\$1.55

1mth	3mth	6mth	1yr	YTD
0.0	1.2	(6.0)	1.2	(4.9)

#### Major Shareholders

	%
Esteele Enterprise P/L	61.2
Hong Leong Asia	20.8
FY23 NAV/Share (S\$)	1.64
FY23 Net Debt/Share (S\$)	0.41

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Llelleythan Tan Yi Rong**  
 +65 6590 6624  
 yirong@uobkayhian.com

**Heidi Mo**  
 +65 6590 6630  
 heidimo@uobkayhian.com

### STOCK IMPACT

- **Resolute orderbook.** In the medium term, BRC faces a better outlook as strong demand from an expected large number of HDB projects being planned and upcoming infrastructure projects would help support delivery volumes. BRC's orderbook remains robust, standing at S\$1.34b at end-3QFY23. 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 6.6% yoy in 2Q23, largely driven by expansions in both public and private construction output. According to the Building and Construction Industry (BCA), total local construction demand is expected at S\$29.8b in 2023, similar to 2021'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 decrease our FY23-25 net profit estimates slightly by 1-6%**, on the back of lower margin assumptions. We now forecast FY23-25 PATMI at S\$68.1m (S\$68.3m previously), S\$75.9m (S\$78.8m previously) and S\$85.8m (S\$91.5m previously) respectively.

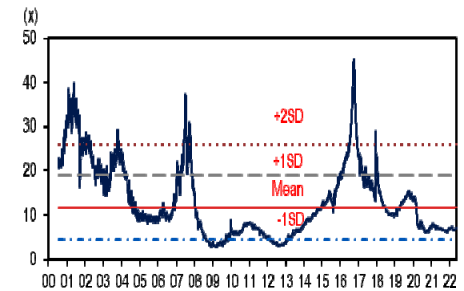
### VALUATION/RECOMMENDATION

- **Maintain HOLD with the same PE-based target price of S\$1.73**, based on the same 7.0x FY23F PE, pegged to -0.5SD of BRC's long-term average PE. With lower delivery volumes till 1QFY24, we do not see any near-term catalysts for FY23. Despite a decent FY23 annual dividend yield of 6.0%, we recommend investors to wait for better entry levels at current valuations.

### SHARE PRICE CATALYST

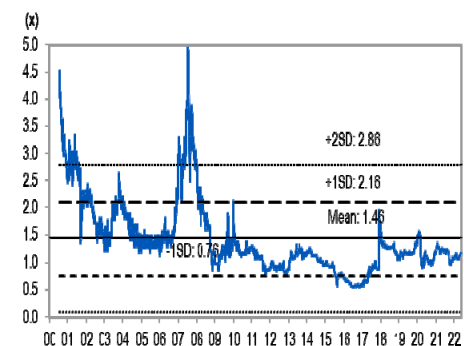
- Faster-than-expected recovery in construction activities.
- Complete relaxation of foreign labour restrictions.
- More public housing projects awarded.

### 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	1,687.8	1,779.0	1,927.2
EBITDA	114.7	92.4	101.1	112.7
Deprec. & amort.	7.9	7.1	6.4	5.8
EBIT	106.8	85.3	94.6	107.0
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)	(6.8)	(7.1)	(7.7)
Pre-tax profit	107.4	83.6	92.6	104.3
Tax	(17.2)	(15.5)	(16.7)	(18.5)
Minorities	0.0	0.0	0.0	0.0
Net profit	90.2	68.1	75.9	85.8
Net profit (adj.)	90.2	68.1	75.9	85.8

### 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	315.1	322.0	317.0
Other current assets	659.4	583.0	613.1	662.0
<b>Total assets</b>	<b>973.1</b>	<b>1,068.9</b>	<b>1,103.4</b>	<b>1,145.6</b>
ST debt	410.1	380.1	350.1	320.1
Other current liabilities	108.8	180.3	185.5	193.9
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	453.1	512.5	576.2
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>973.1</b>	<b>1,068.9</b>	<b>1,103.4</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>214.2</b>	<b>64.6</b>	<b>58.8</b>
Pre-tax profit	107.4	83.6	92.6	104.3
Tax	(17.0)	(15.5)	(16.7)	(18.5)
Deprec. & amort.	17.7	7.1	6.4	5.8
Associates	(2.7)	0.0	0.0	0.0
Working capital changes	(54.4)	132.1	(24.9)	(40.5)
Non-cash items	6.1	0.0	0.0	0.0
Other operating cashflows	(11.1)	6.8	7.1	7.7
<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>(50.6)</b>	<b>(53.7)</b>	<b>(59.8)</b>
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	(6.8)	(7.1)	(7.7)
Net cash inflow (outflow)	67.5	160.6	6.9	(5.0)
Beginning cash & cash equivalent	83.0	154.6	315.1	322.0
Changes due to forex impact	4.1	0.0	0.0	0.0
Ending cash & cash equivalent	154.6	315.1	322.0	317.0

### KEY METRICS

Year to 30 Sep (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	6.8	5.5	5.7	5.8
Pre-tax margin	6.3	5.0	5.2	5.4
Net margin	5.3	4.0	4.3	4.5
ROA	9.7	6.7	7.0	7.6
ROE	25.8	16.0	15.7	15.8
<b>Growth</b>				
Turnover	45.4	(0.7)	5.4	8.3
EBITDA	99.6	(19.5)	9.4	11.5
Pre-tax profit	84.0	(22.2)	10.8	12.7
Net profit	91.8	(24.5)	11.5	13.0
Net profit (adj.)	91.8	(24.5)	11.5	13.0
EPS	66.9	(24.5)	11.5	13.0
<b>Leverage</b>				
Debt to total capital	53.5	48.6	43.7	39.0
Debt to equity	114.8	94.5	77.7	63.9
Net debt/(cash) to equity	76.1	24.9	14.8	8.8
Interest cover (x)	16.0	13.6	14.1	14.6

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