

BRC Asia Holdings Ltd

25 May 2022

HOLD (maintained)

BBG	BRC SP
Market cap	S\$463.7m
Price (25 May 2022)	S\$1.69
52-week range	S\$1.34 – S\$1.71
Target Price	S\$1.92
Shares Outstanding	274.4m
Free Float	30%
Major Shareholder	Estee Enterprise 61.2% Hong Leong Asia 20%
P/BV (03/22)	1.3x
Net Debt to EBITDA (03/22)	2.6x

Source: Company data, Bloomberg, SAC Capital

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A record half

1H22 earnings beat our expectations, as BRC continued to ride on the rebound in construction activities post COVID. Revenue grew 61.0% yoy to S\$793.3m, and net profit +108% to S\$39.8m, buoyed by higher steel prices (+~35%) and volume (+~25%). Sales in the Singapore market accounted for 85.5% of revenue, as BRC remains a major supplier of rebars for the construction sector. As at end Mar, it has order backlog of S\$1bn.

Gross margin rose from 8.1% in 1H21 to 8.7% in 1H22, with a S\$1.8m reversal of provision for onerous contracts, versus S\$28.9m provision in the prior year. BRC set aside S\$42.5m to cover undelivered orders that quoted steel price at below current market price. Excluding these provisions, gross margin fell from 15.7% in 1H21 to 9.6% in 1H22, as cost of raw materials rose in tandem with ASP.

Steel rebar futures are heading lower from May. Rebar prices surged by about 30% from late Feb when the war in Ukraine erupted, as steel exports from Russia and Ukraine were cut. Since early May, prices have eased by 17% to US\$790/tonne. The decline in steel prices could bring about an earlier reversion of the S\$42.5m in provisions for onerous contracts, an upside risk to our earnings projections.

We are, however, more concern about the impact of a price decline. Building and Construction Association (BCA) stipulates a monthly material price index for implementation of fluctuation clauses in supply contracts for rebars for public sector projects. While this index has so far tracked the market price closely, there is a risk, albeit small, if rebars market price fall sharply and come in below the prices that BRC has contracted to buy.

Net gearing has improved to 0.8x (from 1.17x at Sep 2021) with lower net debt to EBITDA of 2.6x (Sep 21: 4.3x). We believe debt will rise as working capital requirements grow with higher revenue. The company generates strong 1H22 annualized ROIC of 27.4%, which cushions the risk of rising interest rates.

We raised our FY22E and FY23E revenue by 5.6% and 2.7%, and net profit by 10.9% and 6.2%, respectively, to reflect higher order deliveries. Maintain HOLD at DCF-derived TP of S\$1.92 (COE 13.8%).

YE 30 Sep (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	913.3	612.4	1,168.6	1,623.5	1,869.7
EBIT	48.0	33.8	63.1	96.8	117.9
Net profit	31.6	20.4	47.0	73.1	90.6
EPS (S cents)	13.5	8.7	19.3	26.6	33.0
DPS (S cents)	8.0	6.0	12.0	12.0	12.0
Net cash / (debt)	(263.8)	(201.4)	(352.8)	(395.2)	(418.5)
Valuation					
EBIT margin (%)	5.3	5.5	5.4	6.0	6.3
ROIC (%)	14.6	8.7	16.7	17.7	17.8
EV/EBITDA (x)	9.8	9.0	9.4	7.2	6.4
P/E (x)	12.5	19.4	8.7	6.3	5.1
Dividend yield (%)	4.7	3.5	7.1	7.1	7.1

Income Statement

FYE 30 Sep (\$m)	FY20A	FY21A	FY22E	FY23E
Revenue	612.4	1,168.6	1,623.5	1,869.7
Cost of sales	(527.2)	(1,068.5)	(1,461.1)	(1,682.7)
Gross profit	85.2	100.1	162.3	187.0
Other income	10.0	12.4	0.0	0.0
Operating expenses	(28.8)	(30.6)	(42.7)	(48.2)
EBITDA	66.4	81.8	119.6	138.8
Depreciation	(19.0)	(18.0)	(18.9)	(19.0)
Associates & JV	(14.0)	2.0	(1.0)	-
Exceptional items	0.5	(2.7)	-	-
EBIT	33.8	63.1	96.8	117.9
Finance costs	(6.8)	(4.7)	(8.7)	(8.7)
Pretax profit	27.0	58.4	88.1	109.1
Tax expense	(6.6)	(11.3)	(15.0)	(18.6)
Minority interests	-	-	-	-
Net profit	20.4	47.0	73.1	90.6

Balance Sheet

FYE 30 Sep (\$m)	FY20A	FY21A	FY22E	FY23E
Assets				
Fixed assets	154.8	143.9	126.7	109.4
Associates & JV	12.3	17.7	16.7	16.7
Investment properties	2.3	2.3	2.3	2.3
Others	4.5	6.2	6.2	6.2
Non-current assets	173.8	170.0	151.8	134.5
Inventories	237.2	466.2	560.4	645.4
Trade receivables	89.8	155.7	222.4	256.1
Prepayments & deposits	7.3	9.0	9.0	9.0
Cash	77.9	83.0	40.5	17.1
Others	33.9	1.0	1.0	1.0
Current assets	446.1	714.8	833.3	928.8
Total assets	619.9	884.7	985.1	1,063.3
Liabilities				
Bank loans	160.0	358.1	358.1	358.1
Contract liabilities	21.4	2.8	2.8	2.8
Trade payables	27.9	69.2	80.1	92.2
Loan from holdco	20.0	-	-	-
Provisions	3.0	46.1	36.1	26.1
Tax provisions	10.3	19.9	15.0	18.6
Others	0.2	-	-	-
Current liabilities	242.9	496.0	492.1	497.8
Bank loans	99.3	77.7	77.7	77.7
Provisions	1.4	3.5	3.5	3.5
Deferred tax	11.9	6.5	6.5	6.5
Non-current liabilities	112.5	87.7	87.7	87.7
Net assets	264.5	300.9	405.3	477.8
Equity				
Share capital	125.0	138.8	184.7	184.7
Other reserves	(3.4)	(3.5)	(3.5)	(3.5)
Retained earnings	142.9	165.6	224.0	296.5
	264.5	300.9	405.3	477.8
Minority interests	-	-	-	-
Total equity	264.5	300.9	405.3	477.8

Cash Flow

FYE 30 Sep (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	27.0	58.4	88.1	109.1
Depreciation & amortisation	19.0	18.0	18.9	19.0
Associates & JV	14.1	(2.0)	1.0	-
Net finance expense	5.4	3.4	8.7	8.7
Non-fund items	1.0	51.0	-	-
Working capital changes	61.2	(245.3)	(160.1)	(116.6)
Interest paid	(5.7)	(4.3)	(8.7)	(8.7)
Dividend from associates	-	-	-	-
Tax paid	(5.6)	(9.6)	(19.9)	(15.0)
Operating cash flow	116.4	(130.4)	(72.0)	(3.4)
Capex	(2.5)	(1.9)	(2.5)	(2.5)
Net investments	-	0.4	-	-
Fixed assets disposal	0.8	0.0	0.8	0.8
Others	-	-	-	-
Investing cash flow	(1.7)	(1.5)	(1.7)	(1.7)
Free cash flow	114.6	(131.9)	(73.7)	(5.1)
Dividend paid	(18.7)	(24.3)	(14.6)	(18.1)
Borrowings	(87.1)	151.0	-	-
Equity	-	13.8	45.9	-
Financing cash flow	(105.8)	140.5	31.3	(18.1)
Net change	8.9	8.6	(42.5)	(23.2)

Ratios

FYE 30 Sep	FY20A	FY21A	FY22E	FY23E
Profitability (%)				
Gross margin	10.8	7.0	8.8	9.0
EBIT margin	5.5	5.4	6.0	6.3
Liquidity (x)				
Current ratio	1.8	1.4	1.7	1.9
Net Debt/EBITDA	3.0	4.3	3.3	3.0
Interest coverage ratio	9.8	17.4	13.7	15.9
Net Debt to Equity (%)	76.1	117.2	97.5	87.6
Valuation (x)				
P/E	19.4	8.7	6.3	5.1
P/B	1.5	1.4	1.1	1.0
EV/EBITDA	9.0	9.4	7.2	6.4
Cash Conversion Cycle				
Trade receivable days	53	49	50	50
Inventory days	162	166	140	140
Trade payable days	19	25	20	20

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