

## Pan-United Corporation Limited

29 March 2022

### BUY (Maintained)

<b>BBG</b>	PAN SP
<b>Market cap</b>	S\$245m
<b>Price (28 Mar 2022)</b>	S\$0.39
<b>52-week range</b>	S\$0.295 – S\$0.410
<b>Target Price</b>	S\$0.53 (previously S\$0.50)
<b>Shares Outstanding</b>	700m
<b>Free Float</b>	35%
<b>Major Shareholder</b>	Ng Family 65%

<b>P/BV (12/21)</b>	1.2x
<b>Net Debt to EBITDA (12/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

### Brightening outlook

FY21 revenue and gross profit were largely in line. Net profit (S\$18.7m) exceeded our estimates (S\$16.7m) by 12%, due to higher share of profits from associates (S\$5.3m) and government grants (S\$3.4m).

Construction works are gaining pace. Consumption of RMC in Dec 21 came in at 1.09m m<sup>3</sup> (+18% yoy) and 11.6m m<sup>3</sup> for the full year. BCA forecasts FY22 numbers to come within 12.5-14m m<sup>3</sup>, potentially outperforming pre-pandemic level of 13m m<sup>3</sup>. Labor shortage is also improving. Nov-Dec 2021 has seen a monthly average inflow of 18,000 CMP workers vs 2,000-3,000 workers between May-Oct 21. From 13 Mar onwards, entry process via industry-led route is further shortened for new work permit holders under the two-day pre-departure program. (7 days previously)

Cost of raw materials remains a concern. Price of cement has been rising steadily since July 21 to S\$98/tonne in Jan 22 (+3%). With coal prices up ~178% yoy, cement prices are unlikely to correct in the near term. Higher costs will be reflected in RMC prices. Jan 22 price of S\$104/m<sup>3</sup> is +10% higher vs Jan 21. RMC prices will also be further propped up by robust demand as FY22 forecasted construction demand returns to FY19 level of S\$27-32b. The coming years (FY23-FY26) also have an average annual demand of S\$25-32b and this have yet to include the development of the 2 integrated resorts (~S\$5-7b) and Changi Airport T5.

Vietnam's construction sector is forecasted to grow at a CAGR of 8.71% in the next 5 years whereas in Malaysia, we would only get a clearer picture of its spending plan for major infrastructure projects post-election. In the meantime, MRT3 Circle Line project of RM30b (~S\$10b) is slated to open for tender this coming May. Timely rollout of this major project would help to lift Malaysia's construction outlook. Both Vietnam and Malaysia subsidiaries make up 7% of the Group's total revenue.

**Maintain BUY at target price of \$0.53**, pegged to pre pandemic FY19 PE ratio of 12.3x. Our FY22E topline remains unchanged. Earnings estimate is revised upward to account for higher share of profit from associate due to upward trend in coal prices. We also introduced our FY23E estimates.

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FY ended 31 Dec (\$m)	FY2019	FY2020	FY2021A	FY2022E	FY2023E
Revenue	768.3	405.0	586.9	734.1	765.0
EBIT	30.4	4.9	20.1	34.7	36.1
Net profit	20.5	1.0	18.7	30.8	30.5
EPS (S cents)	2.9	0.1	2.7	4.4	4.4
Dividend per share (S cents)	1.6	0.8	1.6	2.2	2.1
Net cash / (debt)	(57.2)	(19.8)	17.5	23.2	45.0
<b>Valuation</b>					
EBIT margin (%)	4.0	1.2	3.4	4.7	4.7
ROIC (%)	10.7	0.2	8.7	16.2	16.5
EV/EBITDA (x)	6.1	10.2	5.9	4.3	3.7
P/E (x)	13.3	264.1	14.6	8.9	8.9
Dividend yield (%)	4.1	2.1	4.1	5.5	5.5

## Income Statement

YE 31 Dec					
S\$m	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>768.3</b>	<b>405.0</b>	<b>586.9</b>	<b>734.1</b>	<b>765.0</b>
Cost of sales	(635.4)	(320.2)	(459.8)	(586.7)	(611.4)
<b>Gross profit</b>	<b>133</b>	<b>85</b>	<b>127</b>	<b>147</b>	<b>154</b>
Other income	3.5	7.3	5.7	3.3	3.3
Other expenses	(106.0)	(87.2)	(112.6)	(116.0)	(120.9)
<b>Operating profits</b>	<b>30.4</b>	<b>4.9</b>	<b>20.1</b>	<b>34.7</b>	<b>36.1</b>
Interest expense	(5.3)	(3.5)	(2.3)	(2.3)	(2.3)
Share of results of associates	1.1	0.3	5.3	6.6	4.9
<b>Profit before tax</b>	<b>26.2</b>	<b>1.7</b>	<b>23.1</b>	<b>39.0</b>	<b>38.7</b>
Tax expense	(5.3)	(0.2)	(4.2)	(6.6)	(6.6)
Minority interests	0.4	0.5	0.2	1.6	1.6
<b>PATMI</b>	<b>20.5</b>	<b>1.0</b>	<b>18.7</b>	<b>30.8</b>	<b>30.5</b>

## Balance Sheet

YE 31 Dec					
S\$m	FY19A	FY20A	FY21A	FY22E	FY23E
Intangible assets	5.7	6.5	6.7	9.6	13.0
Investment in associate	3.4	3.7	4.3	10.9	15.9
Other investments	0.2	0.0	0.0	0.0	0.0
PPE	189.6	174.3	166.2	149.2	133.1
Other receivables	0.2	0.1	0.2	0.2	0.2
Deferred tax assets	0.9	1.0	1.2	1.2	1.2
<b>Total non-current assets</b>	<b>199.8</b>	<b>185.6</b>	<b>178.6</b>	<b>171.2</b>	<b>163.3</b>
Inventories	22.4	23.9	23.7	30.4	31.6
Trade and other receivables	159.7	116.8	125.5	151.5	157.9
Derivatives	-	-	0.3	0.3	0.3
Other assets	8.6	6.9	2.9	2.9	2.9
Prepayments	2.0	1.6	1.6	1.6	1.6
Cash and cash equivalents	49.6	67.6	64.1	69.8	91.7
<b>Current assets</b>	<b>242.3</b>	<b>216.8</b>	<b>218.1</b>	<b>256.5</b>	<b>286.0</b>
<b>Total assets</b>	<b>442.1</b>	<b>402.3</b>	<b>396.7</b>	<b>427.8</b>	<b>449.4</b>
Finance lease payables	6.6	4.8	6.1	6.1	6.1
Provisions	1.4	1.1	1.3	1.3	1.3
Trade and other payables	83.7	77.9	98.4	112.4	117.2
Deferred income	0.3	1.6	-	-	-
Derivatives	0.4	1.1	0.0	0.0	0.0
Bank borrowings	57.8	44.9	21.4	21.4	21.4
Income tax payable	6.1	0.6	5.2	5.2	5.2
<b>Total current liabilities</b>	<b>156.4</b>	<b>131.9</b>	<b>132.5</b>	<b>146.5</b>	<b>151.3</b>
Deferred tax liabilities	6.9	7.3	6.3	6.3	6.3
Finance lease payables	15.6	11.4	13.2	13.2	13.2
Other liability	-	1.7	1.6	1.6	1.6
Provisions	3.6	4.4	4.4	4.4	4.4
Bank borrowings	49.1	42.5	25.2	25.2	25.2
<b>Total non-current liabilities</b>	<b>75.1</b>	<b>67.4</b>	<b>50.8</b>	<b>50.8</b>	<b>50.8</b>
<b>Total liabilities</b>	<b>231.5</b>	<b>199.3</b>	<b>183.2</b>	<b>197.3</b>	<b>202.0</b>
Share capital	12.6	12.6	12.6	12.6	12.6
Treasury shares	(1.0)	(0.3)	(0.8)	(0.8)	(0.8)
Retained earnings	190.6	182.3	193.2	209.0	224.6
Minority interests	8.3	8.3	8.4	9.6	10.9
<b>Total equity</b>	<b>210.6</b>	<b>203.0</b>	<b>213.5</b>	<b>230.5</b>	<b>247.3</b>

## Ratios

YE 31 Dec					
	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitability (%)</b>					
Gross margin	17.3	20.9	21.6	20.1	20.1
Pretax margin	3.4	0.4	3.9	5.3	5.1
<b>Liquidity (x)</b>					
Current ratio	1.5	1.6	1.6	1.8	1.9
Quick ratio	1.4	1.5	1.5	1.5	1.7
Interest coverage ratio	5.8	1.4	8.6	14.8	15.4
Net Debt to Equity	0.3	0.1	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	13.3	264.1	14.6	8.9	8.9
P/B	1.3	1.4	1.3	1.2	1.2
EV/EBITDA	6.1	10.2	5.9	4.3	3.7
<b>Cash Conversion Cycle</b>					
Trade receivable days	73	125	75	75	75
Inventory days	13	26	19	19	19
Trade payable days	46	92	70	70	70
CCC days	40	59	24	24	24

## Cash Flow Statement

YE 31 Dec					
S\$m	FY19A	FY20A	FY21A	FY22E	FY23E
PBT	26.2	1.7	23.1	39.0	38.7
Depreciation & amortization	24.0	23.8	23.3	24.0	24.8
Other adjustments	6.3	3.3	(0.9)	(4.4)	(2.7)
<b>Working capital</b>					
Receivables	(11.3)	43.2	(8.4)	(26.1)	(6.4)
Inventories	(0.1)	(1.5)	0.2	(6.7)	(1.3)
Payables	7.6	(5.9)	20.6	14.1	4.7
Other WC changes	(3.4)	3.0	2.4	-	-
<b>Operating cashflow</b>	<b>49.4</b>	<b>67.6</b>	<b>60.3</b>	<b>39.9</b>	<b>57.8</b>
Others	(6.7)	(8.0)	(2.8)	(8.8)	(8.8)
<b>Cash flow from operations</b>	<b>42.6</b>	<b>59.6</b>	<b>57.5</b>	<b>31.1</b>	<b>49.1</b>
CAPEX	(6.0)	(7.9)	(8.8)	(10.0)	(12.0)
Other adjustments	0.8	0.2	4.8	-	-
<b>Cash flow from investments</b>	<b>(5.1)</b>	<b>(7.8)</b>	<b>(4.0)</b>	<b>(10.0)</b>	<b>(12.0)</b>
<b>Free cashflow</b>	<b>37.5</b>	<b>51.9</b>	<b>53.5</b>	<b>21.1</b>	<b>37.1</b>
Dividends paid to SH	(9.1)	(7.7)	(9.1)	(15.0)	(14.9)
Proceeds from borrowings	77.0	71.7	68.9	-	-
Other adjustments	(103.4)	(97.6)	(117.1)	(0.3)	(0.3)
<b>Cash flow from financing</b>	<b>(35.5)</b>	<b>(33.6)</b>	<b>(57.3)</b>	<b>(15.4)</b>	<b>(15.2)</b>
<b>Net cash flow</b>	<b>2.0</b>	<b>18.2</b>	<b>(3.8)</b>	<b>5.7</b>	<b>21.8</b>
Exch diff on consolidation	(0.2)	(0.3)	(0.4)	-	-
<b>Opening cash balance</b>	<b>47.9</b>	<b>49.6</b>	<b>67.6</b>	<b>64.1</b>	<b>69.8</b>
<b>Ending cash balance</b>	<b>49.6</b>	<b>67.6</b>	<b>64.1</b>	<b>69.8</b>	<b>91.7</b>

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