Pan-United Corporation Limited

18 November 2021

BUY
(Initiation)

Target Price: S$0.50

BBG	PAN SP
Market cap	S$217.5 m
Price (17 Nov 2021)	S$0.31
52-week range	S$0.265 – S$0.350
Target Price	S$0.50
Shares Outstanding	702m
Free Float	26.1%
Major Shareholder	Ng Han Whatt Ng Bee Bee Jane Kimberly Ng Bee Kiok
P/BV (06/21)	1.1x
Net Debt to EBITDA (12/20)	0.7x

Source: Company data, Bloomberg, SAC Capital

Market leader with a green vision

Pan-United Corporation Ltd is a ready mixed concrete supplier that harnesses technology in the course of innovating new concrete products and processes along the supply chain. The Group Also supplies RMC to Malaysia and Vietnam. Singapore sales makes up 80% of FY20 revenue.

Return of projects postponed in FY20 and improved demand bring more projects back on stream. BCA projected total contract value awarded for FY21 to reach S$23-28b. YT-Aug, S$19b of contracts has been awarded. FY2022-2025 construction demand is forecasted to be at S$25-32b. We can expect PanU with a dominant market share (~40%) in local RMC market to capture those projects .

PanU's flagship sustainability product, PanU CarbonCure™, is the first and only concrete product in Singapore to use CCUS technology that fully eliminate carbon emissions to the environment. The Group also holds exclusive distribution rights to the technology. On top of that, more than half of PanU's product portfolio are low-carbon and green-certified. Singapore government aims to green 80% of buildings by 2030 under Singapore Green Plan 2030. Greater emphasis on green building promotes greater usage of sustainable concrete products.

Future catalysts include 1) AiR offered as SaaS. and **2) Resumption of activities in Malaysia and Vietnam** on higher vaccination rates. **Key risks are 1) Labor shortage** and **2) Liquidation of struggling contractors**

BUY at price target of S$0.50. Our price target of S$0.50 is derived from DCF (WACC 10%). Stock is trading at forward PE of 13.0x and 5.6x for FY21E and FY22E respectively, and FY21E and FY22E EV/EBITDA of 5.0x and 3.2x.

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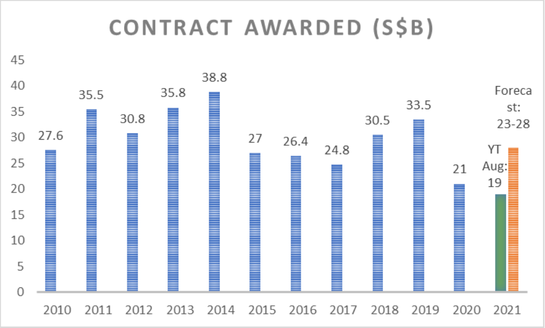
Key Financials

FY ended 31 Dec (S$m)	FY2018*	FY2019	FY2020	FY2021E	FY2022E
Revenue	863.5	768.3	405.0	600.0	772.7
EBIT	11.5	30.4	4.9	21.9	45.1
Net profit	7.0	20.5	1.0	16.7	38.8
EPS (S cents)	1.0	2.9	0.1	2.4	5.5
Dividend per share (S cents)	0.8	1.6	0.8	1.0	2.4
Net cash / (debt)	(78.6)	(57.2)	(19.8)	(14.1)	5.2
Valuation					
EBIT margin (%)	1.3	4.0	1.2	3.7	5.8
ROIC (%)	4.5	10.7	0.2	9.4	19.3
EV/EBITDA (x)	9.9	5.1	8.2	5.0	3.2
P/E (x)	31.3	10.6	210.0	13.0	5.6
Dividend yield (%)	2.6	5.2	2.6	3.4	7.8

*Excludes discontinued operations

Investment Summary

Recovering sector with intact demand



Source: Building and Construction Authority

Upcoming public projects	Estimated value of projects
Johor Bahru Singapore Rapid Transit System	S$3.2b
SGH Elective Care & National Dental Center (Phase 2)	S$113.2m
North South Corridor	S$7.5b
Deep Tunnel Sewage System Phase 2	S$6.5b
Tuas Nexus Phase 1	>S$5b

Building and Construction Authority (BCA) projected total contract value awarded for FY21 to reach S$23-28b on return of projects that were postponed in FY20 and improved demand. Public sector will be the driver for majority of the construction works at present. Forecast of FY2022-2025 construction demand is at S$25-32b. We can expect PanU to be significantly involved in the projects as they come onstream given its dominant market position (~ 40% market share).

Greater emphasis on green building

Under Singapore Green Plan 2030, the government aims to green 80% of buildings (by gross floor area) by 2030. As at end 2020, 37% of buildings are left to reach the target. Apart from optimizing energy efficiency which reduce "operational carbon" (i.e. produced from buildings being used), there is also the need to minimize "embodied carbon" (i.e. generated during the construction process). Embodied carbon makes up 30-40% of a building's lifetime emissions. PanU innovated a solution to this problem. Its flagship sustainability product, PanU CarbonCure™ uses Carbon Capture, Utilisation and Storage (CCUS) technology which traps CO_2 in concrete, thus, effectively eliminate emission into the environment. PanU also holds exclusive distribution rights to the technology in local market.

Additionally, the Group has also developed over 300 specialized concrete products, of which more than half are low-carbon and green-certified. For example, its PanU Green™ uses recycled materials including eco-friendly cement. It was used in the construction of Garden by the Bay and Jewel Changi Airport.

A greater call for usage of greener concrete solutions would see greater appeal for its eco-friendly concrete products and CCUS technology.

Investment Summary

Future catalysts: 1) AiR offered as Software as a Service, 2) Resumption of construction activities in Malaysia and Vietnam

1) Being an established player in the construction industry, PanU understood the pain points along the construction process and thus, able to build solutions specifically addressing those problems when developing AiR. Modules on AiR can be licensed individually to clients based on their needs. We see potential for other players in the industry who are facing the same issues to capitalize on AiR. PanU has partnered with Eugene Corporation, South Korea's largest RMC player, to explore uses of AiR in its end-to-end operations. Progress has since resumed after a slowdown caused by COVID restrictions. Positive development would further vouch for AiR's practicality and see more interests coming from other players.

2) Malaysia and Vietnam are recording higher vaccination rates and gradually opening up their economies. In Malaysia, Melaka and Klang Valley (including KL, Putrajaya and Selangor) has entered phase 3 which allows for most economic sectors to operate. All states have since moved out of the most restrictive phase 1 of its four-step national recovery plan. In Vietnam, Ho Chi Minh City has lifted its lockdown since 1 Oct. Construction works in the two countries accounted for 13% of FY20 revenue.

Technologies built resilience

PanU employs AiR, a self developed AI platform, and goTruck!, its B2B logistics platform to streamline processes along its supply chain. The Group has also adapted accordingly during the pandemic using AI In-transit Mixing technology for slump management, eBilling and eSampling to reduce reliance on manpower and raise overall productivity. The pandemic has exposed inefficiencies in the way the built industry operates and has shown how vulnerable it is to disruption. Digitalization and automation are here to stay and will help to future proof its business.

Key Risks

Labor still a major concern

2020 saw an outflow of 59,100 workers from construction, marine ship yards and process (CMC) sectors, a 16% drop yoy from 370,100 to 311,000. The figure has since fallen further to 304,200 in June 2021. Since then, measures such as 1-year extension of validity of in-principle approvals for all work pass holders have been introduced to cope with the tight labor supply. Recent move to reopen borders to India, Bangladesh and other countries in Oct would slowly but definitely relieve manpower crunch in the industry. The rate of workers allowed in has yet to be confirmed.

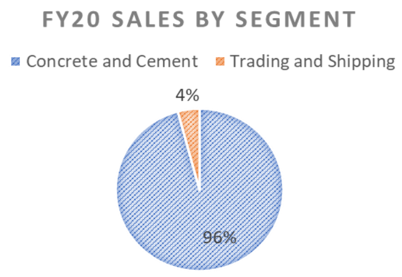
PanU outsources the transportation of raw materials and RMC to contractors. While availability of tipper trucks are 10-15% below pre-Covid level, use of technologies has helped offset the impact and the Group is back to pre-Covid operational level.

Liquidation of struggling contractors

The winding up of Greatearth Construction in Aug 2021 has resulted in project delays and liquidity issues for sub-contractors who have not been fully paid for work done. Greatearth was the main contractor for 5 BTO projects and 2 other public projects – Mandai Crematorium and Columbarium and Gali Batu bus depot. Partial payment are typically retained under a retention clause in construction contracts for developers or main contractors to cover any cost of defects within specified time period. The chance of recouping owed fees are small as funds received from liquidation of assets are paid to secured creditors such as banks first. Subcontractors are usually classified as unsecured creditors. This has a palpable impact on the entire industry as any more similar cases to Greatearth could further weigh on the cashflow of embattled subcontractors and affects their ability to stay afloat. This in turn could affect the delivery of projects and incur extra costs for main contractors to engage new subcontractors, hence weighing down on companies’ financials.

Background

Pan-United Corporation Ltd is a ready mixed concrete supplier for the construction industry in Singapore, Malaysia and Vietnam. Its strong R&D capabilities has contributed to its current product portfolio of over 300 highly specialized concrete solutions for various built environment needs. Its Trading & Shipping business relates to commodity trading.



Source: Company data

Source: Company data

RMC

PanU has vertically integrated along the supply chain of RMC via its subsidiaries to secure the supply of raw materials required for making RMC. RMC constitutes primarily of cement, aggregates, sand and water. The main component, cement is obtained from its subsidiaries, Raffles Cement (49% interests) and United Cement (wholly-owned). Itochu and UBE Industries hold the remaining stake in Raffles Cement. They are trading partners with PanU and supplies cement to the Group. PanU also obtains cement from other countries in the region. (e.g. Malaysia and South Korea) Diversification of raw material supplies are crucial to safeguard against future black swan events after seeing the severity of the impacts pandemic has on global supply chain.

PanU has 3 cement silos with a combined storage capacity of 115,000 tonnes in Jurong Port. Jurong Port houses all cement silos operated by local cement suppliers. Lack of space to build new silos keeps out foreign cement players. Local RMC players who do not own cement silos have to source from local cement players.

Ground-granulated blast-furnace slag (GGBS) is supplied by Meridian Maplestar (100% owned) in Malaysia. It is a by-product of fuel production and is greener as it can be used to substitute Ordinary Portland Cement and can form up to 80%-90% of cement usage in concrete. Aggregates are delivered by PT Pacific Granitama (49% interests) which owned a coal mine in Indonesia.

The Group owns a large network of batching plants at all landing sites (i.e. Tuas, Punggol, Jurong). This makes PanU the largest RMC supplier in Singapore, holding a ~40% market share in local RMC supply. This also makes it difficult for small or new players to compete in terms of scalability and cost savings. Limited land availability for batching plants and high investment capex to scale to the same level as current market players further deters new entrant. PanU engages external contractors to dispatch RMC from the plants to clients' construction site.

Background

Other construction markets

The Group also supplies RMC to construction projects in Malaysia and Vietnam through its subsidiaries Fortis Star (100% owned) and Fico Pan-United Concrete (55% interest). Fico Pan-United is one of the largest RMC supplier in Ho Chi Minh City (HCMC). Substantial projects that they are working on are the 20.1km Damansara-Shah Alam Elevated Expressway in Klang Valley, 24.4km Sungai Besi-Ulu Kelang Elevated Expressway in Kuala Lumper and the construction of Empire City comprising residential, retail and office properties, at the future central business district of HCMC.

Transforming conventional process with technologies

PanU is invested in transforming the built environment with technologies. The Group developed Artificial Intelligence for Ready-mix concrete (AiR) which is so far deployed for internal use and goTruck! which PanU uses for the transportation of its raw materials. There are plans to commercialize these technologies and market to other industry users.

AiR's modules
Raw materials management
Plant optimization
Fleet planning
Quality control
Customer relationship management
E-billing

Source: Company data

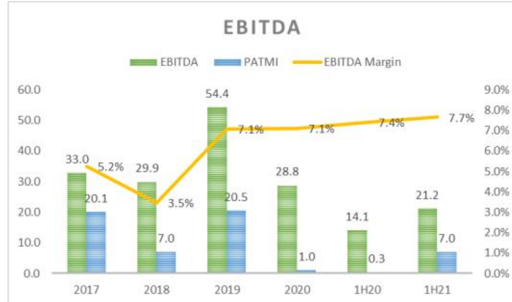
AiR is a platform that comprises 6 software modules to manage operations across the entire supply chain for building materials. Industry players can also subscribe to any of the modules to optimize their operations. Deployment of AiR helps with plant optimization and automation of planning and scheduling processes, thus saving on manpower and improving the overall efficiency of its operations. In view of high transmissibility of coronavirus, AiR has also provided the Group contactless solutions for its operations (e.g. e-sampling).

goTruck! is an independent B2B logistics platform that arranges the transportation of raw materials and other earthworks. goTruck! leverages on the optimization technologies to match available trucks to demand. Currently the platform is used by external parties including suppliers and construction companies in the industry.

Financial performance

1H 2021 results

Source: Company data



Source: Company data

Resumption of construction activities has led to a 50% increase in 1H21 revenue from a pandemic-induced low base in 1H20. 1H21 showed an improvement in gross margin as a result of higher RMC prices and better operational efficiency. The Group has already posted a 7x fold increase in PATMI to S$7.0m in spite of a lower grant amount received in 1H21. COVID-related government grant of S$3.9m has lifted FY20 PATMI to S$1.0m.

PanU has been generating positive operating cash flow over the past years. Net cash generated from operations in FY20 was higher at S$59.6m (FY19: S$42.6m), largely due to intensified efforts in collection of AR (S$43.2m) to boost liquidity position and safeguard against bad debt during the pandemic. The Group has a net gearing ratio of 0.03x and PB of 1.1x as of 30 Jun 21.

Comparables

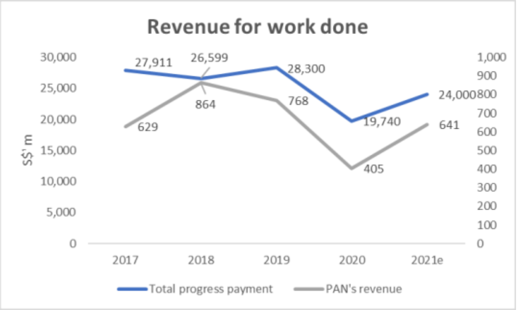
Hong Leong Asia (HLA) supplies cement, precast concrete products, RMC and quarry products to construction industries in Singapore and Malaysia. In 2020, HLA has generated S$363m in revenue and S$12.7m in profit from sale of building materials, making up 8% of its total revenue. The Group is also involved in the sale of diesel engine and rigid packaging which contributes the remaining 92% of revenue. Operating margin for its building materials unit is 4.6%. (PanU: 2.5%)

YTL cement, a major cement supplier in Malaysia, has a negative operating margin for its RMC business which makes up 18% of its FY20 revenue.

Name	YE	Mkt Cap	Revenue	EBITDA	EBIT	Net profit	EBIT margin %	Net margin %	ROE %	ROIC %	EV/EBITDA (x)	EBIT/EV %	PER (x)	PBR (x)
Pan United Corporation (BBG: PAN)	31 Dec	217.5	405.0	28.8	4.9	1.0	1.2	0.3	0.8	0.2	8.2	2.1	210	1.1
Hong Leong Asia (BBG: HLA)	31 Dec	643.1	4496.2	366.8	244.3	45.3	5.4	1.0	17.4	8.7	0.3	2.0	14.2	0.7

Source: Companies' data

Valuation



Source: BCA, Company data

Revenue booked usually lags 1-2 years behind the award of contracts. We project PanU to record S$600m for FY21 revenue, in line with the trend of total progress billing.

Cost of production is expected to increase on higher cement price attributed to higher fuel costs. Resumption of economic activities in neighboring countries is likely to drive up demand for construction materials as well. Freight costs remain elevated as port delays have yet to ease. Nevertheless RMC producers including PanU are able to pass on the additional costs to their customers as reflected in RMC prices. Sept 21 RMC price has rose to ~S$104/$m^3$ as compared to ~S$99.70/$m^3$ in June. As such we expect gross margin for 2H21 to be around ~22% supported by climbing RMC price.

For PanU, we arrived at an equity value of S$353.6m (S$0.50/share) on DCF using WACC of 10% and a terminal growth rate of 1%. At the current share price of S$0.31, forward PE is 13.0x and 5.6x for FY21E and FY22E respectively. FY21E and FY22E EV/EBITDA is at 5.0x and 3.2x each.

Income Statement

YE 31 Dec S$m	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	**863.5**	**768.3**	**405.0**	**600.0**	**772.7**
Cost of sales	(755.2)	(635.4)	(320.2)	(468.0)	(617.6)
Gross profit	**108**	**133**	**85**	**132**	**155**
Other income	2.9	3.5	7.3	3.3	3.3
Other expenses	(99.8)	(106.0)	(87.2)	(113.4)	(113.4)
Operating profits	**11.5**	**30.4**	**4.9**	**21.9**	**45.1**
Interest expense	(4.4)	(5.3)	(3.5)	(2.3)	(2.3)
Share of results of associates	1.9	1.1	0.3	2.7	2.7
Profit before tax	**8.9**	**26.2**	**1.7**	**22.2**	**45.4**
Tax expense	(2.4)	(5.3)	(0.2)	(4.7)	(4.7)
Minority interests	0.6	0.4	0.5	0.9	2.0
PATMI	**7.0**	**20.5**	**1.0**	**16.7**	**38.8**

Balance Sheet

YE 31 Dec S$m	FY18A	FY19A	FY20A	FY21E	FY22E
Intangible assets	4.9	5.7	6.5	7.6	13.1
Investment in associate	3.1	3.4	3.7	6.3	9.0
Other investments	0.4	0.2	0.0	0.0	0.0
PPE	180.1	189.6	174.3	159.3	144.5
Other receivables	0.7	0.2	0.1	0.1	0.1
Deferred tax assets	0.7	0.9	1.0	1.0	1.0
Total non-current assets	**189.8**	**199.8**	**185.6**	**174.4**	**167.8**
Inventories	22.3	22.4	23.9	16.4	21.7
Trade and other receivables	149.4	159.7	116.8	120.7	155.4
Derivatives	0.4	-	-	-	-
Other assets	10.3	8.6	6.9	6.9	6.9
Prepayments	1.8	2.0	1.6	1.6	1.6
Cash and cash equivalents	47.9	49.6	67.6	73.3	82.2
Current assets	**232.1**	**242.3**	**216.8**	**218.9**	**267.8**
Total assets	**421.9**	**442.1**	**402.3**	**393.3**	**435.5**
Finance lease payables	-	6.6	4.8	4.8	4.8
Provisions	1.2	1.4	1.1	1.1	1.1
Trade and other payables	76.4	83.7	77.9	59.0	77.8
Deferrred income	5.2	0.3	1.6	1.6	1.6
Derivatives	-	0.4	1.1	1.1	1.1
Bank borrowings	62.3	57.8	44.9	44.9	44.9
Income tax payable	2.0	6.1	0.6	0.6	0.6
Total current liabilities	**147.1**	**156.4**	**131.9**	**113.0**	**131.8**
Deferred tax liabilities	7.7	6.9	7.3	7.3	7.3
Finance lease payables	-	15.6	11.4	11.4	11.4
Other liability	0.5	-	1.7	1.7	1.7
Provisions	3.9	3.6	4.4	4.4	4.4
Bank borrowings	64.2	49.1	42.5	42.5	42.5
Total non-current liabilities	**76.4**	**75.1**	**67.4**	**67.4**	**67.4**
Total liabilities	**223.5**	**231.5**	**199.3**	**180.4**	**199.2**
Share capital	12.6	12.6	12.6	12.6	12.6
Treasury shares	(1.0)	(1.0)	(0.3)	(0.3)	(0.3)
Retained earnings	179.9	190.6	182.3	191.7	213.4
Minority interests	6.8	8.3	8.3	8.9	10.5
Total equity	**198.3**	**210.6**	**203.0**	**212.9**	**236.3**

Ratios

YE 31 Dec	FY18A	FY19A	FY20A	FY21E	FY22E
Profitability (%)					
Gross margin	12.5	17.3	20.9	22.0	20.1
Pretax margin	1.0	3.4	0.4	3.7	5.9
Liquidity (x)					
Current ratio	1.6	1.5	1.6	1.9	2.0
Quick ratio	1.4	1.4	1.5	1.8	1.9
Interest coverage ratio	2.6	5.8	1.4	9.4	19.2
Net Debt to Equity	0.4	0.3	0.1	0.1	0.0
Valuation (x)					
P/E	31.3	10.6	210.0	13.0	5.6
P/B	1.1	1.1	1.1	1.1	1.0
EV/EBITDA	9.9	5.1	8.2	5.0	3.2
Cash Conversion Cycle					
Trade receivable days	61	73	125	73	73
Inventory days	14	13	26	13	13
Trade payable days	42	46	92	46	46
CCC days	32	40	59	40	40

Cash Flow Statement

YE 31 Dec S$m	FY18A	FY19A	FY20A	FY21E	FY22E
PBT	10.4	26.2	1.7	22.2	45.4
Depreciation & amortization	18.4	24.0	23.8	24.0	24.8
Other adjustments	3.2	6.3	3.3	(5.5)	(5.5)
Working capital					
Receivables	(13.6)	(11.3)	43.2	(3.9)	(34.7)
Inventories	12.0	(0.1)	(1.5)	7.5	(5.3)
Payables	(17.3)	7.6	(5.9)	(18.9)	18.8
Other WC changes	(4.9)	(3.4)	3.0	-	-
Operating cashflow	8.3	49.4	67.6	25.5	43.6
Others	(6.3)	(6.7)	(8.0)	(1.9)	(1.9)
Cash flow from operations	**2.0**	**42.6**	**59.6**	**23.6**	**41.7**
CAPEX	(12.2)	(6.0)	(7.9)	(10.2)	(15.5)
Other adjustments	(1.2)	0.8	0.2	-	-
Cash flow from investments	**(13.4)**	**(5.1)**	**(7.8)**	**(10.2)**	**(15.5)**
Free cashflow	**(11.4)**	**37.5**	**51.9**	**13.4**	**26.2**
Dividends paid to SH	(5.6)	(9.1)	(7.7)	(7.4)	(17.1)
Proceeds from borrowings	108.2	77.0	71.7	-	-
Other adjustments	(107.1)	(103.4)	(97.6)	(0.3)	(0.3)
Cash flow from financing	**(4.5)**	**(35.5)**	**(33.6)**	**(7.7)**	**(17.4)**
Net cash flow	**(15.9)**	**2.0**	**18.2**	**5.7**	**8.9**
Exch diff on consolidation	0.7	(0.2)	(0.3)	-	-
Opening cash balance	**63.1**	**47.9**	**49.6**	**67.6**	**73.3**
Ending cash balance	**47.9**	**49.6**	**67.6**	**73.3**	**82.2**

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Nature of Business Relation	**Date of Business Relation**
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Nil	Nil

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