

# BRC Asia Holdings Ltd

6 Aug 2021

## HOLD

<b>BBG</b>	BRC SP
<b>Market cap</b>	S\$362.5m
<b>Price (6 Aug 2021)</b>	S\$1.49
<b>52-week range</b>	S\$1.09 – S\$1.67
<b>Target Price</b>	S\$1.64
<b>Shares Outstanding</b>	243.3m
<b>Free Float</b>	31%
<b>Major Shareholder</b>	Estee Enterprise 69%

<b>P/BV (06/21)</b>	1.2x
<b>Net Debt to EBITDA (09/20)</b>	3.0x

Source: Company data, Bloomberg, SAC Capital

## Analyst

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## 3Q21 beat expectations with stronger deliveries

BRC surprised with a QoQ improvement in 3Q21 (ended June) for both topline (+21.8% qoq) and bottomline (+6.7% qoq), in spite of tighter movement controls from mid May to end June in Singapore. 9M21 net earnings of S\$29.3m almost met our FY21's estimates of S\$30.2m. Besides the stronger order fulfillment, other key variances are lower interest costs and smaller provision for onerous contracts.

Gross margin fell to 5.2% in 3Q (2Q21: 5.8%) due to 1) S\$11.5m provisions set aside (2Q21: S\$21.0m) to reflect the higher steel price for the orders that have yet to be delivered; and 2) higher manpower costs. As BRC hedges its steel raw materials costs, some of these provisions may be reversed in 4Q when deliveries are made. Total provisions accrued to-date is S\$43.4m.

BRC recorded negative operating cash flow of –S\$261m, in part due to working capital needs in line with higher sales, and build up of inventory (+38% to S\$388.6m) to meet the deliveries in 4Q. This pushed up total borrowings to S\$395m (Mar 21: S\$134.5m). Net gearing had also risen from 0.2x as at end Mar to 1.1x.

Movement controls were tightened further from early July to mid Aug. Any prolonged border closure will again delay construction works due to lack of foreign manpower. As with other companies in the construction sector, BRC's biggest hurdle is the ability to execute orders.

We raised our earnings estimates for FY21E (Sep) and FY22E (Sep) by 23% and 12% respectively to reflect higher order deliveries. The orderbook remains firm at S\$1.1bn. However, uncertainties surrounding COVID Delta variant and regulatory measures to cope with the infection pose risks to our earnings estimates. Our target price stays at S\$1.64. HOLD.

YE 30 Sep (S\$m)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	567.0	913.3	612.4	1,156.7	1,272.4
EBIT	20.9	48.0	33.8	53.6	64.0
Net profit	11.8	31.6	20.4	37.3	45.8
EPS (S cents)	5.0	13.5	8.7	15.3	18.8
DPS (S cents)	1.0	8.0	6.0	6.0	6.0
Net cash / (debt)	(297.0)	(263.8)	(201.4)	(332.9)	(325.1)
<b>Valuation</b>					
EBIT margin (%)	3.7	5.3	5.5	4.6	5.0
ROIC (%)	5.1	14.6	8.7	10.6	11.9
EV/EBITDA (x)	19.7	9.0	8.2	9.7	8.5
P/E (x)	29.4	10.9	17.0	9.7	7.9
Dividend yield (%)	0.7	5.4	4.1	4.1	4.1

## Income Statement

FYE 30 Sep (\$\$m)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>913.3</b>	<b>612.4</b>	<b>1,156.7</b>	<b>1,272.4</b>
Cost of sales	(820.8)	(527.2)	(1,058.0)	(1,162.1)
<b>Gross profit</b>	<b>92.6</b>	<b>85.2</b>	<b>98.7</b>	<b>110.2</b>
Other income	1.9	10.0	2.0	2.0
Operating expenses	(27.1)	(28.8)	(29.5)	(32.0)
<b>EBITDA</b>	<b>67.4</b>	<b>66.4</b>	<b>71.2</b>	<b>80.2</b>
Depreciation	(16.0)	(19.0)	(15.6)	(14.3)
Associates & JV	(0.8)	(14.0)	(2.0)	(2.0)
Exceptional items	(2.5)	0.5	-	-
<b>EBIT</b>	<b>48.0</b>	<b>33.8</b>	<b>53.6</b>	<b>63.9</b>
Finance costs	(9.6)	(6.8)	(8.1)	(8.1)
Pretax profit	38.4	27.0	45.4	55.9
Tax expense	(6.9)	(6.6)	(8.2)	(10.1)
Minority interests	-	-	-	-
<b>Net profit</b>	<b>31.6</b>	<b>20.4</b>	<b>37.3</b>	<b>45.8</b>

## Balance Sheet

FYE 30 Sep (\$\$m)	FY19A	FY20A	FY21E	FY22E
<b>Assets</b>				
Fixed assets	134.1	154.8	140.8	128.3
Associates & JV	26.2	12.3	10.3	8.3
Investment properties	2.4	2.3	2.3	2.3
Others	0.1	4.5	4.5	4.5
<b>Non-current assets</b>	<b>162.8</b>	<b>173.8</b>	<b>157.9</b>	<b>143.3</b>
Inventories	231.9	237.2	370.8	407.9
Trade receivables	195.3	89.8	174.3	191.7
Prepayments & deposits	8.1	7.3	7.0	7.0
Cash	65.8	77.9	6.4	14.2
Others	30.7	33.9	33.9	33.9
<b>Current assets</b>	<b>531.8</b>	<b>446.1</b>	<b>592.7</b>	<b>655.0</b>
<b>Total assets</b>	<b>694.6</b>	<b>619.9</b>	<b>750.6</b>	<b>798.3</b>
<b>Liabilities</b>				
Bank loans	245.8	160.0	220.0	220.0
Contract liabilities	4.0	21.4	21.4	21.4
Trade payables	67.2	27.9	57.0	62.7
Loan from holdco	23.1	20.0	20.0	20.0
Provisions	8.7	3.0	3.0	3.0
Tax provisions	9.1	10.3	7.1	9.6
Others	-	0.2	0.2	0.2
<b>Current liabilities</b>	<b>357.9</b>	<b>242.9</b>	<b>329.9</b>	<b>340.9</b>
Bank loans	60.7	99.3	99.3	99.3
Provisions	1.0	1.4	1.4	1.4
Deferred tax	12.1	11.9	11.9	11.9
<b>Non-current liabilities</b>	<b>73.8</b>	<b>112.5</b>	<b>112.5</b>	<b>112.5</b>
<b>Net assets</b>	<b>262.9</b>	<b>264.5</b>	<b>308.2</b>	<b>344.8</b>
<b>Equity</b>				
Share capital	125.0	125.0	138.8	138.8
Other reserves	(3.3)	(3.4)	(3.3)	(3.3)
Retained earnings	141.2	142.9	172.7	209.3
	<b>262.9</b>	<b>264.5</b>	<b>308.2</b>	<b>344.8</b>
Minority interests	-	-	-	-
<b>Total equity</b>	<b>262.9</b>	<b>264.5</b>	<b>308.2</b>	<b>344.8</b>

## Cash Flow

FYE 30 Sep (\$\$m)	FY19A	FY20A	FY21E	FY22E
Pretax profit	38.4	27.0	37.3	50.5
Depreciation & amortisation	16.0	19.0	15.6	14.3
Associates & JV	0.8	14.1	2.0	2.0
Net finance expense	8.5	5.4	8.0	8.0
Non-fund items	(6.9)	1.0	-	-
Working capital changes	25.1	61.2	(188.9)	(48.8)
Interest paid	(9.2)	(5.7)	(8.1)	(8.1)
Dividend from associates	1.1	-	-	-
Tax paid	(2.7)	(5.6)	(10.3)	(8.2)
<b>Operating cash flow</b>	<b>71.1</b>	<b>116.4</b>	<b>(136.2)</b>	<b>15.1</b>
Capex	(2.3)	(2.5)	(2.5)	(2.5)
Net investments	-	-	-	-
Fixed assets disposall	0.2	0.8	0.8	0.8
Others	(10.4)	-	-	-
<b>Investing cash flow</b>	<b>(7.9)</b>	<b>(1.7)</b>	<b>(1.7)</b>	<b>(1.7)</b>
<b>Free cash flow</b>	<b>58.6</b>	<b>114.6</b>	<b>(137.9)</b>	<b>13.4</b>
Dividend paid	(2.3)	(18.7)	(7.5)	(9.2)
Borrowings	(31.6)	(87.1)	60.0	-
Equity	-	-	13.8	-
<b>Financing cash flow</b>	<b>(33.9)</b>	<b>(105.8)</b>	<b>66.3</b>	<b>(9.2)</b>
<b>Net change</b>	<b>24.6</b>	<b>8.9</b>	<b>(71.6)</b>	<b>4.3</b>

## Ratios

FYE 30 Sep (\$\$m)	FY19A	FY20A	FY21E	FY22E
<b>Profitability (%)</b>				
Gross margin	8.4	10.8	7.2	7.5
EBIT margin	5.3	5.5	4.6	5.0
<b>Liquidity (x)</b>				
Current ratio	1.5	1.8	1.8	1.9
Net Debt/EBITDA	3.9	3.0	4.7	4.1
Interest coverage ratio	7.0	9.8	8.7	9.9
Net Debt to Equity (%)	100.3	76.1	108.0	94.3
<b>Valuation (x)</b>				
P/E	10.9	17.0	9.7	7.9
P/B	1.3	1.3	1.2	1.0
EV/EBITDA	9.0	8.2	9.7	8.5
<b>Cash Conversion Cycle</b>				
Trade receivable days	78	53	55	55
Inventory days	101	162	130	130
Trade payable days	29	19	20	20

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