

BRC Asia Holdings Ltd

6 Dec 2021

HOLD (maintained)

BBG	BRC SP
Market cap	S\$408.8m
Price (6 Dec 2021)	S\$1.49
52-week range	S\$1.37 – S\$1.67
Target Price	S\$1.64
Shares Outstanding	274.4m
Free Float	30%
Major Shareholder	Esteel Enterprise 61.2% Hong Leong Asia 20%
P/BV (09/21)	1.2x
Net Debt to EBITDA (09/21)	4.3x

Source: Company data, Bloomberg, SAC Capital

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Demand intact, order execution to accelerate

FY21 (Sep) revenue and gross profit were in line, but net earnings beat our estimates of S\$37.3m, due to forex gain (S\$6.0m), fair value change on derivative (S\$1.2m) and lower interest charges.

The spectacular jump in revenue (+91%) and net profit (+131%) was built on a low base in the previous year. We estimate ASP was ~49.2% higher and volume grew 24% yoy, though still ~16% below FY19's level. BRC set aside S\$45.3m as provisions for onerous contracts to reflect higher steel prices vs the contracted price for outstanding orders. Lower-margined trading business increased 58.9%, though this forms a mere 6.6% of revenue. Hence gross margin fell to 7.0% (FY20: 10.8%).

Orderbook rose to S\$1.2bn (FY20: S\$1bn), in part due to pick-up in construction demand, and in part caused by slow construction progress limited by manpower crunch and movement restrictions. Total contracts awarded for the construction sector for Jan-Sep 2021 was S\$21.7bn (+36.7% yoy) and surpassed S\$21bn for full year 2020. BCA projects a total of S\$23-28bn for 2021, still below 2019's S\$33.5bn. Contracts awarded will translate into project deliveries in 12-24 months for contractors and building materials suppliers. Singapore is opening its borders to let more foreign workers return which will raise construction output.

Total borrowings rose to S\$435.8m to support inventory of S\$466.2m (+96%) in anticipation of higher expected deliveries. Net gearing has risen to 1.2x (FY20: 0.76x). Average cost of debt remains low at about 1.3% (FY20: 2.2%).

Rebar price reached a peak of RMB5,925/ton in early Oct and have corrected by 27.4% along with lower coking coal and freight costs. BRC hedges its steel requirements. This gives room to write back provisions for onerous contracts. We raised FY22E net profit projections by 24.4%, and introduced FY23E estimates. Our target price stays unchanged at S\$1.64 (WACC: 5.5%) to account for higher debt. The risks are roll-back of reopening and spike in interest rates.

YE 30 Sep (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	913.3	612.4	1,168.6	1,262.1	1,451.5
EBIT	48.0	33.8	63.1	79.1	95.8
Net profit	31.6	20.4	47.0	57.0	70.5
EPS (S cents)	13.5	8.7	19.3	20.8	25.7
DPS (S cents)	8.0	6.0	12.0	6.0	6.0
Net cash / (debt)	(263.8)	(201.4)	(352.8)	(253.3)	(268.4)
Valuation					
EBIT margin (%)	5.3	5.5	5.4	6.3	6.6
ROIC (%)	14.6	8.7	16.7	21.6	21.1
EV/EBITDA (x)	9.1	8.3	8.7	6.5	5.8
P/E (x)	11.0	17.1	7.7	7.2	5.8
Dividend yield (%)	5.4	4.0	8.1	4.0	4.0

Income Statement

FYE 30 Sep (\$m)	FY20A	FY21E	FY22E	FY22E
Revenue	612.4	1,168.6	1,262.1	1,451.5
Cost of sales	(527.2)	(1,068.5)	(1,125.9)	(1,296.3)
Gross profit	85.2	100.1	136.2	155.1
Other income	10.0	12.4	-	-
Operating expenses	(28.8)	(30.6)	(34.3)	(38.4)
EBITDA	66.4	81.8	102.0	116.7
Depreciation	(19.0)	(18.0)	(18.9)	(19.0)
Associates & JV	(14.0)	2.0	(1.0)	-
Exceptional items	0.5	(2.7)	(3.0)	(2.0)
EBIT	33.8	63.1	79.1	95.8
Finance costs	(6.8)	(4.7)	(8.7)	(8.7)
Pretax profit	27.0	58.4	70.4	87.0
Tax expense	(6.6)	(11.3)	(13.4)	(16.5)
Minority interests	-	-	-	-
Net profit	20.4	47.0	57.0	70.5

Balance Sheet

FYE 30 Sep (\$m)	FY20A	FY21E	FY22E	FY22E
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	435.7	501.1
Trade receivables	89.8	155.7	172.9	198.8
Prepayments & deposits	7.3	9.0	9.0	9.0
Cash	77.9	83.0	182.5	167.4
Others	33.9	1.0	1.0	1.0
Current assets	446.1	714.8	801.0	877.2
Total assets	619.9	884.7	952.8	1,011.7
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	62.2	71.6
Loan from holdco	20.0	-	-	-
Provisions	3.0	46.1	36.1	26.1
Tax provisions	10.3	19.9	13.4	16.5
Others	0.2	-	-	-
Current liabilities	242.9	496.0	472.6	475.1
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	392.5	448.9
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	211.2	267.6
	264.5	300.9	392.5	448.9
Minority interests	-	-	-	-
Total equity	264.5	300.9	392.5	448.9

Cash Flow

FYE 30 Sep (\$m)	FY20A	FY21E	FY22E	FY22E
Pretax profit	27.0	58.4	70.4	87.0
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)	(3.7)	(92.0)
Interest paid	(5.7)	(4.3)	(8.7)	(8.7)
Dividend from associates	-	-	-	-
Tax paid	(5.6)	(9.6)	(19.9)	(13.4)
Operating cash flow	116.4	(130.4)	66.7	0.7
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)	(2.5)	(2.5)
Free cash flow	114.6	(131.9)	65.0	(1.0)
Dividend paid	(18.7)	(24.3)	(11.4)	(14.1)
Borrowings	(87.1)	151.0	-	-
Equity	-	13.8	45.9	-
Financing cash flow	(105.8)	140.5	34.5	(14.1)
Net change	8.9	8.6	99.5	(15.1)

Ratios

FYE 30 Sep (\$m)	FY20A	FY21E	FY22E	FY22E
Profitability (%)				
Gross margin	10.8	7.0	9.3	9.4
EBIT margin	5.5	5.4	6.3	6.6
Liquidity (x)				
Current ratio	1.8	1.4	1.7	1.8
Net Debt/EBITDA	3.0	4.3	2.5	2.3
Interest coverage ratio	9.8	17.4	11.7	13.4
Net Debt to Equity (%)	76.1	117.2	64.5	59.8
Valuation (x)				
P/E	17.0	7.7	7.2	5.8
P/B	1.3	1.2	1.0	0.9
EV/EBITDA	8.3	8.7	6.5	5.8
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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