

Pan-United Corporation Limited

17 December 2021

BUY (Maintained)

Target Price: S\$0.50

BBG	PAN SP
Market cap	S\$224.5 m
Price (16 Dec 2021)	S\$0.32
52-week range	S\$0.265 – S\$0.350
Target Price	S\$0.50 (maintained)
Shares Outstanding	702m
Free Float	26.1%
Major Shareholder	Ng Bee Soon 5% Ng Han Whatt 1%
P/BV (06/21)	1.1x
Net Debt to EBITDA (12/20)	0.7x

Source: Company data, Bloomberg, SAC Capital

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Gearing up for re-opening ramp

We expect Singapore to proceed with its re-opening plans, in spite of the new Omicron variant. And we think the pace of the pick-up in construction activities will accelerate as the industry play catch-up after two slow years impeded by COVID restrictions.

As a dominant supplier of ready-mixed concrete in the Singapore market, Pan-U is likely to ramp up capacity to meet with the increased demand in FY22E and FY23E. We are imputing higher operating costs to bring capacity back on stream, which will lower net margin to 3.8% for FY22E, from our earlier estimate of 5.0%. This lowers our earlier FY22E net profit estimates by 29%.

Year-to-Sep, Singapore's consumption of ready-mixed concrete is 82.7% higher yoy at 8.5m cu m, but this is still 7.4% lower than same period in 2019. In the first 10 months of 2021, total contract awards are 1.2x that of full year FY20, and 0.7x that of FY19. These awards will translate into construction work in the next 12 to 18 months.

Nov ASP are 9.2% higher yoy at S\$103/cu m and +7.2% vs Nov 2019. Prices jumped in July 2021 and have stayed elevated at the current level in the last 5 months. Baltic Dry Index are down 42% from Oct 2021 peak. However, given the strong re-opening demand in the region, we do not think prices of building material would moderate.

Maintain BUY at target price of \$0.50. In spite of a revision in FY22E earnings estimate, the operations are cash flow generative, hence keeping the TP intact. At current share price of \$0.32/share, the stock trades at FY22E PE of 8.1x, EV/EBITDA of 3.8x, and 1x P/B.

FY ended 31 Dec (\$m)	FY2018*	FY2019	FY2020	FY2021E	FY2022E
Revenue	863.5	768.3	405.0	600.0	734.1
EBIT	11.5	30.4	4.9	21.9	34.7
Net profit	7.0	20.5	1.0	16.7	27.7
EPS (S cents)	1.0	2.9	0.1	2.4	3.9
Dividend per share (S cents)	0.8	1.6	0.8	1.1	1.7
Net cash / (debt)	(78.6)	(57.2)	(19.8)	(14.1)	(1.7)
Valuation					
EBIT margin (%)	1.3	4.0	1.2	3.7	4.7
ROIC (%)	4.5	10.7	0.2	9.4	14.7
EV/EBITDA (x)	9.9	5.1	8.2	5.0	3.8
P/E (x)	31.3	10.6	210.0	13.0	8.1
Dividend yield (%)	2.6	5.2	2.6	3.4	5.4

*Excludes discontinued operations

Income Statement

YE 31 Dec					
S\$m	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	863.5	768.3	405.0	600.0	734.1
Cost of sales	(755.2)	(635.4)	(320.2)	(468.0)	(586.7)
Gross profit	108	133	85	132	147
Other income	2.9	3.5	7.3	3.3	3.3
Other expenses	(99.8)	(106.0)	(87.2)	(113.4)	(116)
Operating profits	11.5	30.4	4.9	21.9	34.7
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	35.1
Tax expense	(2.4)	(5.3)	(0.2)	(4.7)	(6.0)
Minority interests	0.6	0.4	0.5	0.9	1.4
PATMI	7.0	20.5	1.0	16.7	27.7

Balance Sheet

YE 31 Dec					
S\$m	FY18A	FY19A	FY20A	FY21E	FY22E
Intangible assets	4.9	5.7	6.5	7.6	11.0
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	141.3
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	162.5
Inventories	22.3	22.4	23.9	16.4	20.6
Trade and other receivables	149.4	159.7	116.8	120.7	147.7
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	85.7
Current assets	232.1	242.3	216.8	218.9	262.4
Total assets	421.9	442.1	402.3	393.3	424.9
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	73.9
Deferred 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	127.9
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	195.4
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	207.2
Minority interests	6.8	8.3	8.3	8.9	10.0
Total equity	198.3	210.6	203.0	212.9	229.5

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	5.0
Liquidity (x)					
Current ratio	1.6	1.5	1.6	1.9	2.1
Quick ratio	1.4	1.4	1.5	1.8	1.9
Interest coverage ratio	2.6	5.8	1.4	9.4	14.8
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	8.1
P/B	1.1	1.1	1.1	1.1	1.0
EV/EBITDA	9.9	5.1	8.2	5.0	3.8
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	35.1
Depreciation & amortization	18.4	24.0	23.8	24.0	24.8
Other adjustments	3.2	6.3	3.3	(5.5)	(5.7)
Working capital					
Receivables	(13.6)	(11.3)	43.2	(3.9)	(27.0)
Inventories	12.0	(0.1)	(1.5)	7.5	(4.2)
Payables	(17.3)	7.6	(5.9)	(18.9)	15.0
Other WC changes	(4.9)	(3.4)	3.0	-	-
Operating cashflow	8.3	49.4	67.6	25.5	38.2
Others	(6.3)	(6.7)	(8.0)	(1.9)	(3.2)
Cash flow from operations	2.0	42.6	59.6	23.6	35.1
CAPEX	(12.2)	(6.0)	(7.9)	(10.2)	(11.5)
Other adjustments	(1.2)	0.8	0.2	-	-
Cash flow from investments	(13.4)	(5.1)	(7.8)	(10.2)	(11.5)
Free cashflow	(11.4)	37.5	51.9	13.4	24.9
Dividends paid to SH	(5.6)	(9.1)	(7.7)	(7.4)	(12.2)
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)	(12.5)
Net cash flow	(15.9)	2.0	18.2	5.7	12.4
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	85.7

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