

BRC Asia Holdings Ltd

17 Feb 2022

HOLD (maintained)

BBG	BRC SP
Market cap	S\$458.2m
Price (17 Feb 2022)	S\$1.67
52-week range	S\$1.37 – S\$1.70
Target Price	S\$1.92 (previously S\$1.64)
Shares Outstanding	274.4m
Free Float	30%
Major Shareholder	Estee Enterprise 61.2% Hong Leong Asia 20%
P/BV (09/21)	1.4x
Net Debt to EBITDA (09/21)	4.3x

Source: Company data, Bloomberg, SAC Capital

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Order deliveries picked up pace in 1Q22

BRC provided 1Q22 (year-end Sep) performance update. Revenue, at S\$357m, was +67.5% yoy and +6.5% qoq, as construction picked up pace with borders re-opened to bring in more workers. However, net profit of S\$13.3m was +38.8% yoy but -24.6% qoq. Margins were compressed by higher steel prices. Gross margin declined 1.4ppt from 4Q21 to 6%. Net debt halved to S\$175m (Sep 21: S\$353m) at end Dec 21 with S\$45.9m in new equity raised from Hong Leong Asia and draw down in inventory. Net gearing improved to 0.49x (Sep 21: 1.2x).

The provision for onerous contracts was negligible during the quarter, implying that current steel prices reflect the cost imputed in the S\$1.3bn orders on hand. BRC hedged its steel costs which limits risks from steel price fluctuations. We believe gross margin is unlikely to fall further.

We are raising earnings estimates for FY22E and FY23E to reflect:

1. Rebound in construction work. According to BCA, total contracts awarded in 2021 was 42.2% higher at S\$29.9bn (FY20: S\$21.0bn), and projected 2022 orders to reach S\$27-32bn. This excludes the upgrading work for the two integrated resorts estimated at S\$9bn. Contract awarded will translate in construction progress in 12 to 18 months, pointing to strong construction demand from 2022.

2. HDB is accelerating its building programme and is expected to launch about 23,000 units this year (on average 16,000 to 17,000 units) to play catch-up and to cope with the pent-up demand. HDB accounts for a big share of BRC orders.

Steel price is near peak level. The high price might attract competitors. If the price stayed elevated, customers might not be able to stomach the high price, compelling BRC to let go of some margins. There is room for prices to fall if infrastructure spending slows down in the developed countries. When prices fall, customers might default on taking deliveries or hold back on orders hoping for lower prices.

Our DCF-derived TP is raised to S\$1.92, based on COE of 14.0% and 2% risk-free rate. This translates into EV/EBITDA of 7.9x and 6.6x for FY22E and FY23E, respectively. Our TP takes into account higher working capital needs, in tandem with higher order deliveries in this year and next. We see net gearing rising to 0.9x at end Sep 2022. Maintain HOLD.

YE 30 Sep (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	913.3	612.4	1,168.6	1,537.4	1,820.5
EBIT	48.0	33.8	63.1	90.1	114.0
Net profit	31.6	20.4	47.0	65.9	85.3
EPS (S cents)	13.5	8.7	19.3	24.0	31.1
DPS (S cents)	8.0	6.0	12.0	6.0	6.0
Net cash / (debt)	(263.8)	(201.4)	(352.8)	(363.3)	(405.7)
Valuation					
EBIT margin (%)	5.3	5.5	5.4	5.9	6.3
ROIC (%)	14.6	8.7	16.7	17.6	17.6
EV/EBITDA (x)	9.7	8.9	9.3	7.3	6.4
P/E (x)	12.3	19.1	8.6	7.0	5.4
Dividend yield (%)	4.8	3.6	7.2	3.6	3.6

Income Statement

FYE 30 Sep (\$m)	FY20A	FY21E	FY22E	FY23E
Revenue	612.4	1,168.6	1,537.4	1,820.5
Cost of sales	(527.2)	(1,068.5)	(1,383.7)	(1,638.4)
Gross profit	85.2	100.1	153.7	182.0
Other income	10.0	12.4	-	-
Operating expenses	(28.8)	(30.6)	(40.8)	(47.0)
EBITDA	66.4	81.8	112.9	135.0
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	90.1	114.0
Finance costs	(6.8)	(4.7)	(8.7)	(8.7)
Pretax profit	27.0	58.4	81.3	105.3
Tax expense	(6.6)	(11.3)	(15.5)	(20.0)
Minority interests	-	-	-	-
Net profit	20.4	47.0	65.9	85.3

Balance Sheet

FYE 30 Sep (\$m)	FY20A	FY21E	FY22E	FY23E
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	530.7	628.4
Trade receivables	89.8	155.7	210.6	249.4
Prepayments & deposits	7.3	9.0	9.0	9.0
Cash	77.9	83.0	72.5	30.1
Others	33.9	1.0	1.0	1.0
Current assets	446.1	714.8	823.8	917.8
Total assets	619.9	884.7	975.6	1052.3
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	75.8	89.8
Loan from holdco	20.0	-	-	-
Provisions	3.0	46.1	36.1	26.1
Tax provisions	10.3	19.9	15.5	20.0
Others	0.2	-	-	-
Current liabilities	242.9	496.0	488.3	496.8
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	399.6	467.8
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	218.3	286.5
	264.5	300.9	399.6	467.8
Minority interests	-	-	-	-
Total equity	264.5	300.9	399.6	467.8

Cash Flow

FYE 30 Sep (\$m)	FY20A	FY21E	FY22E	FY23E
Pretax profit	27.0	58.4	81.3	105.3
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)	(122.8)	(132.5)
Interest paid	(5.7)	(4.3)	(8.7)	(8.7)
Dividend from associates	-	-	-	-
Tax paid	(5.6)	(9.6)	(19.9)	(15.5)
Operating cash flow	116.4	(130.4)	(41.5)	(23.7)
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)	(43.2)	(25.4)
Dividend paid	(18.7)	(24.3)	(13.2)	(17.1)
Borrowings	(87.1)	151.0	-	-
Equity	-	13.8	45.9	-
Financing cash flow	(105.8)	140.5	(32.7)	(17.1)
Net change	8.9	8.6	(10.5)	(42.4)

Ratios

FYE 30 Sep (\$m)	FY20A	FY21E	FY22E	FY23E
Profitability (%)				
Gross margin	10.8	7.0	8.8	9.0
EBIT margin	5.5	5.4	5.9	6.3
Liquidity (x)				
Current ratio	1.8	1.4	1.7	1.8
Net Debt/EBITDA	3.0	4.3	3.2	3.0
Interest coverage ratio	9.8	17.4	13.0	15.5
Net Debt to Equity (%)	76.1	117.2	90.9	86.7
Valuation (x)				
P/E	19.1	8.6	7.0	5.4
P/B	1.5	1.4	1.1	1.0
EV/EBITDA	8.9	9.3	7.3	6.4
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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