

# BRC Asia Holdings Ltd

19 Aug 2022

## HOLD (maintained)

<b>BBG</b>	BRC SP
<b>Market cap</b>	S\$469.1m
<b>Price (19 Aug 2022)</b>	S\$1.71
<b>52-week range</b>	S\$1.37 – S\$1.84
<b>Target Price</b>	S\$1.92
<b>Shares Outstanding</b>	274.4m
<b>Free Float</b>	30%
<b>Major Shareholder</b>	Estee Enterprise 61.2% Hong Leong Asia 20%
<b>P/BV (03/22)</b>	1.3x
<b>Net Debt to EBITDA (03/22)</b>	2.6x

Source: Company data, Bloomberg, SAC Capital

### Analyst

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## 3QFY22 earnings in line, benefit from robust demand

3QFY22 (Jun) revenue gained 18.2% qoq to S\$515.3m on higher ASP but lower volume, while net profit fell 23.2% qoq to S\$20.4m.

During the quarter, construction progress at worksites was disrupted by fatalities, dengue and Covid-related productivity loss. Overall progress payments (i.e. billings) in the construction industry fell 3.8% qoq in the June quarter. The volume of rebars delivered for the industry declined 30.4% yoy from Oct 21-May 22, with a steep 49.2% yoy decline for Apr-May 2022. We believe this is representative of BRC's volume shipment for FY22E (year-end Sep) to date.

While construction activities picked up from Aug, total volume in the Sep quarter is unlikely to return to the level in March quarter, as the regulator stepped up checks at the worksites. The lower delivery volume will keep inventory high and incur holding costs.

However, construction demand remains robust, underpinned by public housing construction to cope with the under-supply and curb run-away home prices. En-bloc transactions have also gained pace, which would spur construction activities. A possible near-term risk is the climb in mortgage rates and potential measures to cool the buying fever, hence lowering developers' appetite for new projects.

Rebar prices from China have corrected by -24% from the recent peak in May 2022 (RMB5,258/ton), beset by recessionary fears and slowing Chinese economy. The decline since end Jun 2022 was -11.2%.

However, we believe steel prices will recover due to current low inventory at the LME, the shuttering of China production capacity due to power rationing, and the higher energy prices that lift the cost of production.

We have raised our FY22E net earnings by 4.6% to S\$76.5m, to take into account lower provisions for onerous contracts as steel price increase levels off. Maintain HOLD at TP of S\$1.92.

YE 30 Sep (S\$m)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	913.3	612.4	1,168.6	1,623.5	1,869.7
EBIT	48.0	33.8	63.1	100.9	117.9
Net profit	31.6	20.4	47.0	76.5	90.6
EPS (S cents)	13.5	8.7	19.3	27.9	33.0
DPS (S cents)	8.0	6.0	12.0	12.0	12.0
Net cash / (debt)	(263.8)	(201.4)	(352.8)	(391.8)	(415.8)
<b>Valuation</b>					
EBIT margin (%)	5.3	5.5	5.4	6.2	6.3
ROIC (%)	14.6	8.7	16.7	18.5	17.8
EV/EBITDA (x)	9.8	9.0	9.4	7.0	6.4
P/E (x)	12.6	19.6	8.8	6.1	5.2
Dividend yield (%)	4.7	3.5	7.0	7.0	7.0

## Income Statement

FYE 30 Sep (\$m)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>612.4</b>	<b>1,168.6</b>	<b>1,623.5</b>	<b>1,869.7</b>
Cost of sales	(527.2)	(1,068.5)	(1,461.1)	(1,682.7)
<b>Gross profit</b>	<b>85.2</b>	<b>100.1</b>	<b>162.3</b>	<b>187.0</b>
Other income	10.0	12.4	0.0	0.0
Operating expenses	(28.8)	(30.6)	(38.6)	(48.2)
<b>EBITDA</b>	<b>66.4</b>	<b>81.8</b>	<b>123.7</b>	<b>138.8</b>
Depreciation	(19.0)	(18.0)	(18.9)	(19.0)
Associates & JV	(14.0)	2.0	(1.0)	-
Exceptional items	0.5	(2.7)	(2.9)	(1.9)
<b>EBIT</b>	<b>33.8</b>	<b>63.1</b>	<b>100.9</b>	<b>117.9</b>
Finance costs	(6.8)	(4.7)	(8.7)	(8.7)
Pretax profit	27.0	58.4	92.1	109.1
Tax expense	(6.6)	(11.3)	(15.7)	(18.6)
Minority interests	-	-	-	-
<b>Net profit</b>	<b>20.4</b>	<b>47.0</b>	<b>76.5</b>	<b>90.6</b>

## Balance Sheet

FYE 30 Sep (\$m)	FY20A	FY21A	FY22E	FY23E
<b>Assets</b>				
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
<b>Non-current assets</b>	<b>173.8</b>	<b>170.0</b>	<b>151.8</b>	<b>134.5</b>
Inventories	237.2	466.2	560.4	645.4
Trade receivables	89.8	155.7	222.4	256.1
Prepayments & deposits	7.3	9.0	9.0	9.0
Cash	77.9	83.0	43.9	20.0
Others	33.9	1.0	1.0	1.0
<b>Current assets</b>	<b>446.1</b>	<b>714.8</b>	<b>836.7</b>	<b>931.5</b>
<b>Total assets</b>	<b>619.9</b>	<b>884.7</b>	<b>988.5</b>	<b>1,066.0</b>
<b>Liabilities</b>				
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	80.1	92.2
Loan from holdco	20.0	-	-	-
Provisions	3.0	46.1	36.1	26.1
Tax provisions	10.3	19.9	15.7	18.6
Others	0.2	-	-	-
<b>Current liabilities</b>	<b>242.9</b>	<b>496.0</b>	<b>492.7</b>	<b>497.8</b>
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
<b>Non-current liabilities</b>	<b>112.5</b>	<b>87.7</b>	<b>87.7</b>	<b>87.7</b>
<b>Net assets</b>	<b>264.5</b>	<b>300.9</b>	<b>408.0</b>	<b>480.5</b>
<b>Equity</b>				
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	226.7	299.2
	<b>264.5</b>	<b>300.9</b>	<b>408.0</b>	<b>480.5</b>
Minority interests	-	-	-	-
<b>Total equity</b>	<b>264.5</b>	<b>300.9</b>	<b>408.0</b>	<b>480.5</b>

## Cash Flow

FYE 30 Sep (\$m)	FY20A	FY21A	FY22E	FY23E
Pretax profit	27.0	58.4	92.1	109.1
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)	(160.1)	(116.6)
Interest paid	(5.7)	(4.3)	(8.7)	(8.7)
Dividend from associates	-	-	-	-
Tax paid	(5.6)	(9.6)	(19.9)	(15.7)
<b>Operating cash flow</b>	<b>116.4</b>	<b>(130.4)</b>	<b>(68.0)</b>	<b>(4.1)</b>
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	-	-	-	-
<b>Investing cash flow</b>	<b>(1.7)</b>	<b>(1.5)</b>	<b>(1.7)</b>	<b>(1.7)</b>
<b>Free cash flow</b>	<b>114.6</b>	<b>(131.9)</b>	<b>(69.6)</b>	<b>(5.8)</b>
Dividend paid	(18.7)	(24.3)	(15.3)	(18.1)
Borrowings	(87.1)	151.0	-	-
Equity	-	13.8	45.9	-
<b>Financing cash flow</b>	<b>(105.8)</b>	<b>140.5</b>	<b>30.6</b>	<b>(18.1)</b>
<b>Net change</b>	<b>8.9</b>	<b>8.6</b>	<b>(39.0)</b>	<b>(23.9)</b>

## Ratios

FYE 30 Sep	FY20A	FY21A	FY22E	FY23E
<b>Profitability (%)</b>				
Gross margin	10.8	7.0	8.8	9.0
EBIT margin	5.5	5.4	6.2	6.3
<b>Liquidity (x)</b>				
Current ratio	1.8	1.4	1.7	1.9
Net Debt/EBITDA	3.0	4.3	3.2	3.0
Interest coverage ratio	9.8	17.4	14.2	15.9
Net Debt to Equity (%)	76.1	117.2	96.0	86.5
<b>Valuation (x)</b>				
P/E	19.6	8.8	6.1	5.2
P/B	1.5	1.4	1.1	1.0
EV/EBITDA	9.0	9.4	7.0	6.4
<b>Cash Conversion Cycle</b>				
Trade receivable days	53	49	50	50
Inventory days	162	166	140	140
Trade payable days	19	25	20	20

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