

## Pan-United Corporation Limited

10 August 2022

### BUY (Maintained)

<b>BBG</b>	PAN SP
<b>Market cap</b>	S\$322m
<b>Price (08 August 2022)</b>	S\$0.45
<b>52-week range</b>	S\$0.30 – S\$0.47
<b>Target Price</b>	S\$0.53 (maintained)
<b>Shares Outstanding</b>	699m
<b>Free Float</b>	35%
<b>Major Shareholder</b>	Ng Family 65%
<b>P/BV (06/22)</b>	1.5x
<b>Net Debt to EBITDA (12/21)</b>	Net cash

Source: Company data, Bloomberg, SAC Capital

### Sector prospect unchanged

1H22 results are in line with our expectations. Revenue of S\$338m and net profit of S\$13m are 46%/44% of our estimates. Revenue rose 22% yoy on the back of sector recovery and a steeper climb in ready mixed concrete ASP by ~18% (Jun 22: S\$118/m<sup>3</sup> vs Jun 21: S\$99.70/m<sup>3</sup>) Net profit grew 94% yoy due to higher gross margin of 22.6% (FY21: 21.6%) and share of profits from associates (S\$3.6m, +168% yoy). Associate' profits are derived from the sale of coal from PT Lanna Harita Indonesia. Profits have jumped as a result of higher ASP as the mine is already producing at its optimal capacity. Coal price of US\$393.50/tonne is up 164% yoy and is expected to sustain at this high level given that coal is used as an alternative to natural gas to address global energy supply crunch issue. Thus, we expect contribution from its associate to maintain and even increase when coal prices continues to climb.

The pace of recovery in construction activities in 1H has lagged as the sector is negatively impacted by stop work orders due to safety issues, covid and dengue cases at construction sites. These problems are likely to abate as contractors take on preventive measures to ensure that they can carry on with their construction activities. The industry is also held back by lower worker productivity. Although new workers are brought in continuously, they are unskilled and are unable to immediately replace those skilled workers that left. New workers take at least ~1 year to train. Thus, this issue is likely to persist going into 2H and gradually improves as the new workers gain skills. Return of skilled workers will help to raise overall productivity as well.

We remain positive about the sector prospect as construction demand remains robust. Changi Airport T5 project has resumed and contracts for the infrastructure are waiting to be announced. HDB plans to launch 23,000 BTO flats each in 2022 and 2023, a 35% increase from 2021's units.

**Maintain BUY at unchanged target price of \$0.53**, still pegged to pre-pandemic FY19 PE ratio of 12.3x. Our forecasts remains unchanged. The Group continues to maintain a net cash position of S\$5.7m as at 30 Jun 22.

### Analyst:

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FY ended 31 Dec (\$m)	FY2019	FY2020	FY2021A	FY2022E	FY2023E
Revenue	768.3	405.0	586.9	734.1	765.0
EBIT	30.4	4.9	20.1	34.7	36.1
Net profit	20.5	1.0	18.7	30.8	30.5
EPS (\$ cents)	2.9	0.1	2.7	4.4	4.4
Dividend per share (\$ cents)	1.6	0.8	1.6	2.2	2.1
Net cash / (debt)	(57.2)	(19.8)	17.5	23.2	45.0
<b>Valuation</b>					
EBIT margin (%)	4.0	1.2	3.4	4.7	4.7
ROIC (%)	10.7	0.2	8.7	16.2	16.5
EV/EBITDA (x)	7.0	11.9	7.0	5.1	4.5
P/E (x)	15.7	n.m.	17.2	10.4	10.5
Dividend yield (%)	3.5	1.7	3.5	4.7	4.6

## Income Statement

YE 31 Dec					
S\$m	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>768.3</b>	<b>405.0</b>	<b>586.9</b>	<b>734.1</b>	<b>765.0</b>
Cost of sales	(635.4)	(320.2)	(459.8)	(586.7)	(611.4)
<b>Gross profit</b>	<b>133</b>	<b>85</b>	<b>127</b>	<b>147</b>	<b>154</b>
Other income	3.5	7.3	5.7	3.3	3.3
Other expenses	(106.0)	(87.2)	(112.6)	(116.0)	(120.9)
<b>Operating profits</b>	<b>30.4</b>	<b>4.9</b>	<b>20.1</b>	<b>34.7</b>	<b>36.1</b>
Interest expense	(5.3)	(3.5)	(2.3)	(2.3)	(2.3)
Share of results of associates	1.1	0.3	5.3	6.6	4.9
<b>Profit before tax</b>	<b>26.2</b>	<b>1.7</b>	<b>23.1</b>	<b>39.0</b>	<b>38.7</b>
Tax expense	(5.3)	(0.2)	(4.2)	(6.6)	(6.6)
Minority interests	0.4	0.5	0.2	1.6	1.6
<b>PATMI</b>	<b>20.5</b>	<b>1.0</b>	<b>18.7</b>	<b>30.8</b>	<b>30.5</b>

## Balance Sheet

YE 31 Dec					
S\$m	FY19A	FY20A	FY21A	FY22E	FY23E
Intangible assets	5.7	6.5	6.7	9.6	13.0
Investment in associate	3.4	3.7	4.3	10.9	15.9
Other investments	0.2	0.0	0.0	0.0	0.0
PPE	189.6	174.3	166.2	149.2	133.1
Other receivables	0.2	0.1	0.2	0.2	0.2
Deferred tax assets	0.9	1.0	1.2	1.2	1.2
<b>Total non-current assets</b>	<b>199.8</b>	<b>185.6</b>	<b>178.6</b>	<b>171.2</b>	<b>163.3</b>
Inventories	22.4	23.9	23.7	30.4	31.6
Trade and other receivables	159.7	116.8	125.5	151.5	157.9
Derivatives	-	-	0.3	0.3	0.3
Other assets	8.6	6.9	2.9	2.9	2.9
Prepayments	2.0	1.6	1.6	1.6	1.6
Cash and cash equivalents	49.6	67.6	64.1	69.8	91.7
<b>Current assets</b>	<b>242.3</b>	<b>216.8</b>	<b>218.1</b>	<b>256.5</b>	<b>286.0</b>
<b>Total assets</b>	<b>442.1</b>	<b>402.3</b>	<b>396.7</b>	<b>427.8</b>	<b>449.4</b>
Finance lease payables	6.6	4.8	6.1	6.1	6.1
Provisions	1.4	1.1	1.3	1.3	1.3
Trade and other payables	83.7	77.9	98.4	112.4	117.2
Deferred income	0.3	1.6	-	-	-
Derivatives	0.4	1.1	0.0	0.0	0.0
Bank borrowings	57.8	44.9	21.4	21.4	21.4
Income tax payable	6.1	0.6	5.2	5.2	5.2
<b>Total current liabilities</b>	<b>156.4</b>	<b>131.9</b>	<b>132.5</b>	<b>146.5</b>	<b>151.3</b>
Deferred tax liabilities	6.9	7.3	6.3	6.3	6.3
Finance lease payables	15.6	11.4	13.2	13.2	13.2
Other liability	-	1.7	1.6	1.6	1.6
Provisions	3.6	4.4	4.4	4.4	4.4
Bank borrowings	49.1	42.5	25.2	25.2	25.2
<b>Total non-current liabilities</b>	<b>75.1</b>	<b>67.4</b>	<b>50.8</b>	<b>50.8</b>	<b>50.8</b>
<b>Total liabilities</b>	<b>231.5</b>	<b>199.3</b>	<b>183.2</b>	<b>197.3</b>	<b>202.0</b>
Share capital	12.6	12.6	12.6	12.6	12.6
Treasury shares	(1.0)	(0.3)	(0.8)	(0.8)	(0.8)
Retained earnings	190.6	182.3	193.2	209.0	224.6
Minority interests	8.3	8.3	8.4	9.6	10.9
<b>Total equity</b>	<b>210.6</b>	<b>203.0</b>	<b>213.5</b>	<b>230.5</b>	<b>247.3</b>

## Ratios

YE 31 Dec					
	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitability (%)</b>					
Gross margin	17.3	20.9	21.6	20.1	20.1
Pretax margin	3.4	0.4	3.9	5.3	5.1
<b>Liquidity (x)</b>					
Current ratio	1.5	1.6	1.6	1.8	1.9
Quick ratio	1.4	1.5	1.5	1.5	1.7
Interest coverage ratio	5.8	1.4	8.6	14.8	15.4
Net Debt to Equity	0.3	0.1	Net cash	Net cash	Net cash
<b>Valuation (x)</b>					
P/E	15.7	n.m.	17.2	10.4	10.5
P/B	1.6	1.7	1.6	1.5	1.4
EV/EBITDA	7.0	11.9	7.0	5.1	4.5
<b>Cash Conversion Cycle</b>					
Trade receivable days	73	125	75	75	75
Inventory days	13	26	19	19	19
Trade payable days	46	92	70	70	70
CCC days	40	59	24	24	24

## Cash Flow Statement

YE 31 Dec					
S\$m	FY19A	FY20A	FY21A	FY22E	FY23E
PBT	26.2	1.7	23.1	39.0	38.7
Depreciation & amortization	24.0	23.8	23.3	24.0	24.8
Other adjustments	6.3	3.3	(0.9)	(4.4)	(2.7)
<b>Working capital</b>					
Receivables	(11.3)	43.2	(8.4)	(26.1)	(6.4)
Inventories	(0.1)	(1.5)	0.2	(6.7)	(1.3)
Payables	7.6	(5.9)	20.6	14.1	4.7
Other WC changes	(3.4)	3.0	2.4	-	-
<b>Operating cashflow</b>	<b>49.4</b>	<b>67.6</b>	<b>60.3</b>	<b>39.9</b>	<b>57.8</b>
Others	(6.7)	(8.0)	(2.8)	(8.8)	(8.8)
<b>Cash flow from operations</b>	<b>42.6</b>	<b>59.6</b>	<b>57.5</b>	<b>31.1</b>	<b>49.1</b>
CAPEX	(6.0)	(7.9)	(8.8)	(10.0)	(12.0)
Other adjustments	0.8	0.2	4.8	-	-
<b>Cash flow from investments</b>	<b>(5.1)</b>	<b>(7.8)</b>	<b>(4.0)</b>	<b>(10.0)</b>	<b>(12.0)</b>
<b>Free cashflow</b>	<b>37.5</b>	<b>51.9</b>	<b>53.5</b>	<b>21.1</b>	<b>37.1</b>
Dividends paid to SH	(9.1)	(7.7)	(9.1)	(15.0)	(14.9)
Proceeds from borrowings	77.0	71.7	68.9	-	-
Other adjustments	(103.4)	(97.6)	(117.1)	(0.3)	(0.3)
<b>Cash flow from financing</b>	<b>(35.5)</b>	<b>(33.6)</b>	<b>(57.3)</b>	<b>(15.4)</b>	<b>(15.2)</b>
<b>Net cash flow</b>	<b>2.0</b>	<b>18.2</b>	<b>(3.8)</b>	<b>5.7</b>	<b>21.8</b>
Exch diff on consolidation	(0.2)	(0.3)	(0.4)	-	-
<b>Opening cash balance</b>	<b>47.9</b>	<b>49.6</b>	<b>67.6</b>	<b>64.1</b>	<b>69.8</b>
<b>Ending cash balance</b>	<b>49.6</b>	<b>67.6</b>	<b>64.1</b>	<b>69.8</b>	<b>91.7</b>

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