

SMALL/MID CAP HIGHLIGHTS

BRC Asia (BRC SP)

FY20: Building Up For A Strong Rebound. Upgrade To BUY With 38% Upside

BRC's FY20 net profit of S\$20.4m was in line with expectations, although full-year dividends of 6 S cents came in ahead of expectations. Core operations in construction saw a sequential recovery, with impressive gross margins. Gross margins will likely remain solid, given the group's bulk purchasing abilities since its acquisition of Lee Metal. Upgrade to BUY with target price of S\$1.88 as we raise our FY21-22F earnings forecasts by 60%, on the back of solid margins and recovery of construction activities.

FY20 RESULTS

Year to 30 Sep (\$m)	4QFY20	qoq % chg	yoy % chg	FY20	FY19	yoy % chg
Revenue	123.2	237.0	(47.4)	612.4	913.3	(32.9)
Gross Profit	15.1	n.m.	(27.8)	66.2	76.6	(13.6)
Distribution Expense	1.4	18.0	(19.7)	5.6	5.9	(6.6)
Administrative Expense	(0.2)	n.m.	n.m.	10.1	13.0	(22.3)
Finance Costs	1.4	(7.6)	(27.1)	6.8	9.6	(29.3)
Net Profit	0.2	n.m.	(98.1)	20.4	31.6	(35.5)
Gross Margin (%)	12.2	n.m.	3.3ppt	10.8	8.4	2.4ppt
Net Margin (%)	0.2	n.m.	(4.4ppt)	3.3	3.5	(0.2ppt)

Source: BRC, UOB Kay Hian

RESULTS

- Results in line with expectations, but positive dividend surprise.** BRC Asia's (BRC) reported FY20 profit of S\$20.4m, forming 97% of our full-year estimates, is in line with expectations. BRC was affected by losses from its associate, Pristine Islands Investment, a 17% stake in a Maldives hotel and resort business. The group's share of losses amounted to S\$14.4m, with an impairment of S\$6.8m. The group declared a full-year dividend of 6 S cents (vs FY19: 8 S Cents). Payout ratio increased to almost 70%. The group has a dividend payout policy of 30% of core earnings for FY20.
- Sequential recovery, gross margins up.** Revenue recovered by 237.0% qoq in 4QFY20, compared to 3QFY20 with minimal construction activities. Overall revenue was down 47.4% yoy in 4QFY20, similar to the industry's revenue which was down by 46.6% in the quarter. BRC reversed into a small profit-making position in 4QFY20 compared to a loss in 3QFY20. Gross margin of 12.2% in 4QFY20 was impressively held up (+3.3 ppt yoy) as the group continues to benefit from lower costs for bulk raw material purchases.
- Building back up in 2021.** According to the Building Construction Authority (BCA), construction demand is expected to recover to some extent from 2021, supported by public residential developments and upgrading works, developments at the Jurong Lake District, construction of new healthcare facilities and various infrastructure projects such as the construction of the Cross Island MRT Line. BRC's orderbook remains solid at S\$1b.

KEY FINANCIALS

Year to 30 Sep (\$m)	2019	2020	2021F	2022F	2023F
Net turnover	913	612	848	939	957
EBITDA	56	47	60	65	66
Operating profit	46	38	51	57	59
Net profit (rep./act.)	32	20	38	43	44
Net profit (adj.)	32	20	38	43	44
EPS (S\$ cent)	13.5	8.7	16.4	18.2	18.8
PE (x)	10.1	15.7	8.4	7.5	7.3
P/B (x)	1.2	1.2	1.1	1.0	0.9
EV/EBITDA (x)	9.3	11.0	8.7	8.0	7.9
Dividend yield (%)	5.8	4.4	6.6	7.3	8.0
Net margin (%)	3.5	3.3	4.5	4.5	4.6
Net debt/(cash) to equity (%)	100.3	76.1	68.9	61.1	46.6
Interest cover (x)	5.9	7.0	7.9	7.7	7.7
ROE (%)	12.6	7.7	13.7	13.7	12.7
Consensus net profit	-	-	30	35	-
UOBKH/Consensus (x)	-	-	1.28	1.23	-

Source: BRC, Bloomberg UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$1.37
Target Price	S\$1.88
Upside	+37.5%
(Previous TP)	S\$1.18)

COMPANY DESCRIPTION

BRC Asia designs, manufactures and markets steel meshes under the BRC brand name. The company's products include non-standard and customised meshes, a wide range of prefabricated products including beams and column cages, complete prefabricated beam and column reinforcement, staggered meshes, twin wire meshes, and pile cap cages.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	BRC SP
Shares issued (m):	233.9
Market cap (S\$m):	320.5
Market cap (US\$m):	243.0
3-mth avg daily t'over (US\$m):	0.1

Price Performance (%)

52-week high/low	S\$1.78/S\$1.02			
1mth	3mth	6mth	1yr	YTD
15.1	21.2	3.8	(5.2)	(7.7)

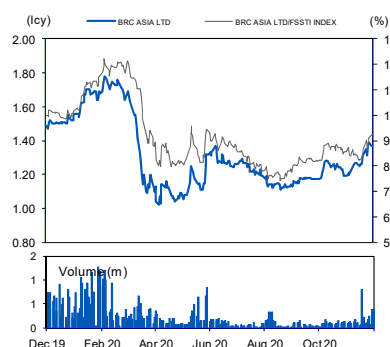
Major Shareholders

Esteele Enterprise	71.7
--------------------	------

FY21 NAV/Share (S\$) 1.26

FY21 Net Debt/Share (S\$) 0.87

PRICE CHART



Source: Bloomberg

ANALYST(S)

Lucas Teng
+65 6590 6624
lucasteng@uobkayhian.com

Llalleythan Tan
+65 6590 6615
lalleythant@uobkayhian.com

STOCK IMPACT

- Margins remain solid.** We note the robust gross margins in 4QFY20, which are at pre-COVID-19 levels. The group appears to be affected by a lesser extent by the new normal working conditions of COVID-19 safe management measures at construction sites. BRC noted that activities have reached economically-viable levels from the second half of Aug 20 onwards, while procurement of bulk raw materials continue to see cost savings since the acquisition of Lee Metal in 2017. Assuming the level of construction activities remains at current levels, we opine that margins will likely be sustained, given favourable raw material bulk purchases. Gross margin have improved by almost 4.3ppt since 2017 (6.5% in 2017). Overall, the group remains cautious of credit risks in the industry.
- New construction projects picking up from a low.** Build-to-Order (BTO) projects continue to be favourable for BRC, with the recent new project launches in Tengah, Bishan and Toa Payoh being oversubscribed. 2020 BTO flats launches were slightly higher than that in 2019 and we opine that new construction contracts awarded will likely recover off the low seen in Aug 20, seeing that new contracts awarded in Sep 20 were up (+102% mom). We are optimistic of BRC's recovery, given its strong orderbook as well as its sizeable market share.
- Divestment of non-core property.** BRC also recently received a purchaser's exercise option regarding the proposal disposal of a residential property under development, for an indicated consideration of S\$38.4m. This provides additional capital to the group.

EARNINGS REVISION/RISK

- Raise earnings forecasts by 60% for FY21-22F.** We see margins being well supported for BRC, as construction activities normalise. We have revised our gross margins assumption to 10.5% (vs 9.0% previously) given the better-than-expected margins seen in 4QFY20. This should be well supported even at current construction activity levels, given the group's track record of margins since its acquisition of Lee Metal in 2017. We see earnings rebounding strongly in FY21, up 88% yoy, with the gradual normalisation of construction activities and sustained margins.

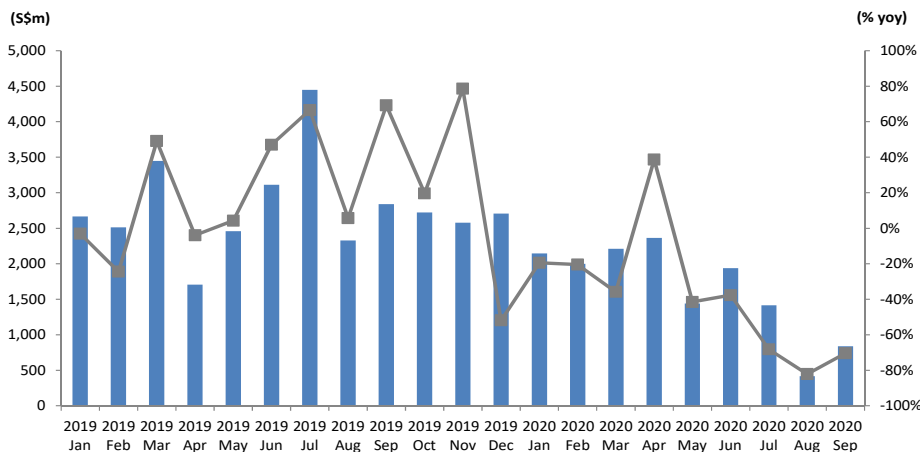
VALUATION/RECOMMENDATION

- Upgrade to BUY with higher target price of S\$1.88,** based on 11.5x FY21F PE. This is pegged to its long-term average (excluding outliers of >2SD at 25x). The exclusion is primarily from the high base in FY17-18.
- Key risks:** Credit risk from smaller construction players.

SHARE PRICE CATALYST

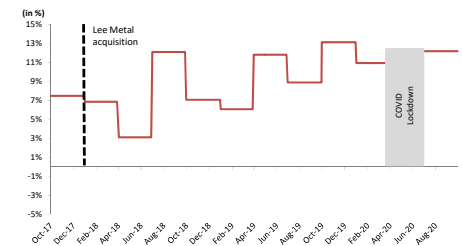
- Faster-than-expected recovery in construction activities.
- More public housing projects.

VALUE OF CONSTRUCTION CONTRACTS AWARDED AND YOY GROWTH (%)



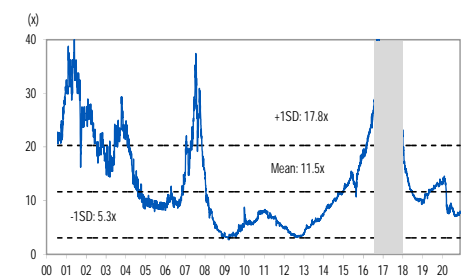
Source: BCA, UOB Kay Hian

BRC'S GROSS MARGINS (%)



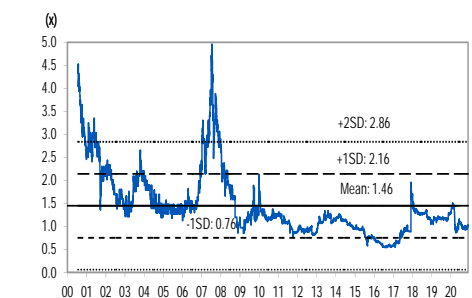
Source: BRC, UOB Kay Hian

PE



Source: Bloomberg, UOB Kay Hian

P/B



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 30 Sep (\$m)	2020	2021F	2022F	2023F
Net turnover	612.4	848.5	938.8	956.9
EBITDA	47.3	60.0	65.2	66.0
Deprec. & amort.	9.5	8.7	7.9	7.1
EBIT	37.8	51.3	57.3	58.9
Total other non-operating income	10.0	2.5	2.5	2.5
Associate contributions	(14.1)	(0.8)	(0.8)	(0.8)
Net interest income/(expense)	(6.8)	(7.6)	(8.4)	(8.6)
Pre-tax profit	27.0	45.3	50.4	51.9
Tax	(6.6)	(7.1)	(7.9)	(8.1)
Minorities	0.0	0.0	0.0	0.0
Net profit	20.4	38.2	42.6	43.8
Net profit (adj.)	20.4	38.2	42.6	43.8

BALANCE SHEET

Year to 30 Sep (\$m)	2020	2021F	2022F	2023F
Fixed assets	154.8	149.0	144.1	140.0
Other LT assets	19.1	19.1	19.1	19.1
Cash/ST investment	77.9	72.1	54.6	66.0
Other current assets	368.2	414.5	454.3	462.3
Total assets	619.9	654.8	672.1	687.4
ST debt	180.0	180.0	180.0	180.0
Other current liabilities	62.9	73.8	77.9	78.7
LT debt	99.2	94.2	74.2	54.2
Other LT liabilities	13.3	13.3	13.3	13.3
Shareholders' equity	264.5	293.4	326.7	361.1
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	619.9	654.8	672.1	687.4

CASH FLOW

Year to 30 Sep (\$m)	2020	2021F	2022F	2023F
Operating	122.1	19.2	23.3	52.4
Pre-tax profit	27.0	45.3	50.4	51.9
Tax	(5.6)	(7.1)	(7.9)	(8.1)
Deprec. & amort.	19.0	8.7	7.9	7.1
Associates	14.1	0.0	0.0	0.0
Working capital changes	61.2	(35.4)	(35.6)	(7.2)
Non-cash items	7.2	0.0	0.0	0.0
Other operating cashflows	(0.8)	7.6	8.4	8.6
Investing	(1.4)	(3.0)	(3.0)	(3.0)
Capex (growth)	(2.5)	(3.0)	(3.0)	(3.0)
Proceeds from sale of assets	0.8	0.0	0.0	0.0
Others	0.3	0.0	0.0	0.0
Financing	(111.8)	(22.0)	(37.8)	(37.9)
Dividend payments	(18.7)	(9.3)	(9.3)	(9.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	58.8	0.0	0.0	0.0
Loan repayment	(12.7)	(5.0)	(20.0)	(20.0)
Others/interest paid	(139.3)	(7.6)	(8.4)	(8.6)
Net cash inflow (outflow)	8.9	(5.8)	(17.5)	11.4
Beginning cash & cash equivalent	65.8	77.9	72.1	54.6
Changes due to forex impact	3.2	0.0	0.0	0.0
Ending cash & cash equivalent	77.9	72.1	54.6	66.0

KEY METRICS

Year to 30 Sep (%)	2020	2021F	2022F	2023F
Growth				
Turnover	(32.9)	38.6	10.6	1.9
EBITDA	(15.9)	26.8	8.6	1.2
Pre-tax profit	(29.8)	67.9	11.3	2.8
Net profit	(35.5)	87.9	11.3	2.9
Net profit (adj.)	(35.5)	87.9	11.3	2.9
EPS	(35.5)	87.9	11.3	2.9
Profitability				
EBITDA margin	7.7	7.1	6.9	6.9
Pre-tax margin	4.4	5.3	5.4	5.4
Net margin	3.3	4.5	4.5	4.6
ROA	3.1	6.0	6.4	6.4
ROE	7.7	13.7	13.7	12.7
Leverage				
Debt to total capital	51.4	48.3	43.8	39.3
Debt to equity	105.6	93.5	77.8	64.9
Net debt/(cash) to equity	76.1	68.9	61.1	46.6
Interest cover (x)	7.0	7.9	7.7	7.7

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2020, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W

Research Talent Development Grant Scheme

UOB Kay Hian Pte Ltd is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies.