

### SMALL/MID CAP HIGHLIGHTS

#### BRC Asia (BRC SP)

1QFY21: Building Back With Strength

**BRC's 1QFY21 net profit of S\$9.6m has recovered substantially compared to 4QFY20 breakeven levels, despite a provision for onerous contracts in light of the higher steel prices. The outlook for the construction sector remains steadfast in the medium term, boosted by public sector projects, and we still see room for BRC to continue its recovery in sales volume. Maintain BUY with a higher target price of S\$2.00.**

#### 1QFY21 RESULTS

Year to 30 Sep (S\$m)	1QFY21	qoq % chg	yoy % chg
Revenue	213.4	73.2	(5.9)
Gross Profit	23.4	55.6	(21.5)
Distribution Expense	1.4	3.3	(9.8)
Administrative Expense	4.2	n.m.	3.4
Finance Costs	1.4	1.9	(33.8)
Net Profit	9.6	n.m.	(24.1)
Gross Margin (%)	11.0	(1.2ppt)	(2.1ppt)
Net Margin (%)	4.5	4.3ppt	(1.2ppt)

Source: BRC, UOB Kay Hian

#### RESULTS

- Results in line with expectations.** BRC Asia (BRC) reported a net profit of S\$9.6m for 1QFY21 (-24% yoy), accounting for 25% of our full-year estimates, in line with expectations. In spite of significant provision for onerous contracts, the group's profit levels improved substantially compared to 4QFY20 breakeven levels. The provision of onerous contracts comes amidst a sharp increase in global steel prices during the quarter, leading to impairment amounting to S\$7.9m.
- Still room for growth in construction activities.** 1QFY21 revenue recovered to S\$213.4m (-6% yoy, +73% qoq) as construction activities continue to pick up. There was still a reduction in sales volume as COVID-19 safe working and management measures resulted in a slower pace of work. The group's orderbook remains at a high of S\$1.09b while public sector construction projects are projected to grow in 2021. Gross margin of 11% in 1QFY21 dipped slightly but was still at a healthy level (-2.1 ppt yoy, -1.2% ppt qoq).
- Placement oversubscribed.** BRC recently conducted a placement of 10m shares to investors at S\$1.42, representing about 4.1% of enlarged number issued shares. According to the group, the placement was received with strong demand and was oversubscribed. Investors who received placement shares include established financial institutions and market leaders in the local insurance and asset management space. The funds received from the placement will be used for repayment of the group's outstanding bank borrowings.

#### KEY FINANCIALS

Year to 30 Sep (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	913	612	898	994	1,013
EBITDA	56	47	65	71	71
Operating profit	46	38	57	63	64
Net profit (rep./act.)	32	20	42	47	48
Net profit (adj.)	32	20	42	47	48
EPS (S\$ cent)	13.5	8.7	17.4	19.2	19.6
PE (x)	11.8	18.3	9.2	8.3	8.2
P/B (x)	1.4	1.4	1.3	1.1	1.0
EV/EBITDA (x)	10.6	12.6	9.1	8.4	8.4
Dividend yield (%)	5.0	3.8	5.6	6.3	6.9
Net margin (%)	3.5	3.3	4.7	4.7	4.7
Net debt/(cash) to equity (%)	100.3	76.1	65.6	57.4	42.8
Interest cover (x)	5.9	7.0	8.1	7.9	7.8
ROE (%)	12.6	7.7	14.7	14.2	13.0
Consensus net profit	-	-	39	44	45
UOBKH/Consensus (x)	-	-	1.09	1.07	1.06

Source: BRC, Bloomberg UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.60
Target Price	S\$2.00
Upside	+24.8%
(Previous TP:	S\$1.88)

#### 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):	243.9
Market cap (S\$m):	390.3
Market cap (US\$m):	292.2
3-mth avg daily t'over (US\$m):	0.4

#### Price Performance (%)

52-week high/low	S\$1.77/S\$1.02			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
8.8	32.2	34.5	(5.9)	8.1

#### Major Shareholders

Estee Enterprise	71.7%
------------------	-------

FY21 NAV/Share (S\$) 1.28

FY21 Net Debt/Share (S\$) 0.84

#### PRICE CHART



Source: Bloomberg

#### ANALYST(S)

**Lucas Teng**  
+65 6590 6624  
lucasteng@uobkayhian.com

### STOCK IMPACT

- Medium-term outlook for the construction sector remains solid.** The Building and Construction Authority (BCA) projects total construction demand in 2021 to range from S\$23b-28b, while 2022-25 construction demand is expected to reach S\$25b-32b. 2021 construction demand is an improvement from the S\$21.3b (preliminary estimate) in 2020. The public sector is expected to drive construction demand in 2021, projected at S\$15b-18b with an anticipated stronger demand for public housing and infrastructure projects. BCA notes that the construction demand projection excludes any potential awards of construction contracts for the development of Changi Airport Terminal 5 as well as the expansion of Integrated Resorts. Potential upside can come from the continuation of such mega projects, in our view. We note that the value of construction contracts awarded continues to be on the recovery trend.

- Accounting provisions for onerous contracts.** Given the rising steel prices, management had assessed and estimated that the costs to meet the obligations of certain sales contracts based on the value of inventory on hand plus estimated costs of inventory purchases and conversion costs incurred could be expected to exceed the economic benefits to be received. However, the relevant provisions for onerous contracts are reversed and credited to the profit and loss statement when deliveries under such sales contracts are executed.

### EARNINGS REVISION/RISK

- Raise earnings forecasts by 9-11% for FY21-23F,** on the back of stronger demand for construction activities in the medium term, supported by public sector projects.

### VALUATION/RECOMMENDATION

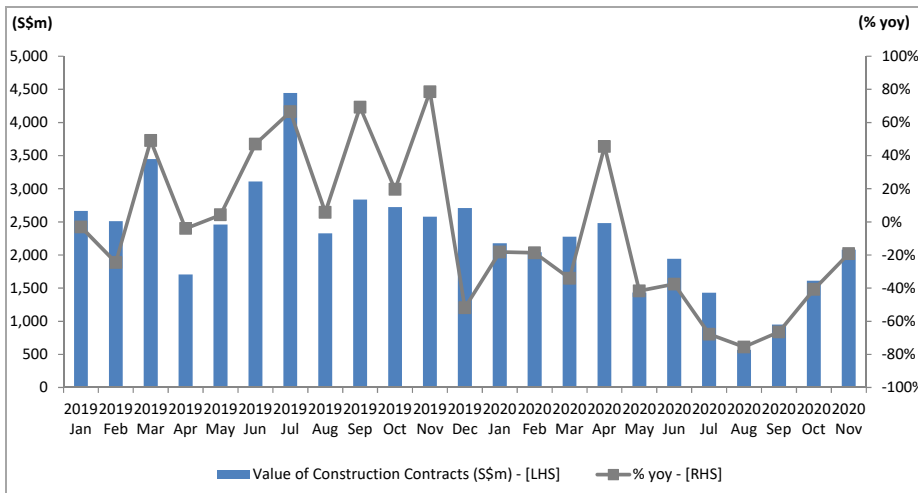
- Maintain BUY with a target price of S\$2.00,** based on 11.5x FY21F PE. This is pegged to its long-term average (excluding outliers of >2SD at 25x). The exclusion is primarily from the high base in FY17-18. We also account for the larger share base following the group's recent placement.

- Key risks:** Credit risk from smaller construction players.

### SHARE PRICE CATALYST

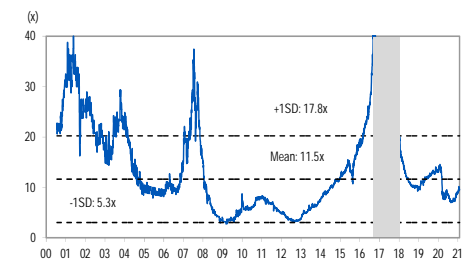
- Faster-than-expected recovery in construction activities.
- More public housing projects.

### VALUE OF CONSTRUCTION CONTRACTS AWARDED AND YOY GROWTH (%)



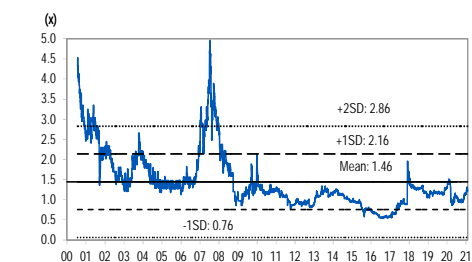
Source: BCA, UOB Kay Hian

### 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	898.3	994.2	1,013.5
EBITDA	47.3	65.3	70.6	71.0
Deprec. & amort.	9.5	8.7	7.9	7.1
EBIT	37.8	56.6	62.6	63.8
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)	(8.1)	(8.9)	(9.1)
<b>Pre-tax profit</b>	<b>27.0</b>	<b>50.1</b>	<b>55.3</b>	<b>56.4</b>
Tax	(6.6)	(7.7)	(8.5)	(8.7)
Minorities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>20.4</b>	<b>42.5</b>	<b>46.8</b>	<b>47.7</b>
Net profit (adj.)	20.4	42.5	46.8	47.7

### 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	60.1	44.3	58.8
Other current assets	368.2	436.5	478.7	487.1
<b>Total assets</b>	<b>619.9</b>	<b>664.7</b>	<b>686.2</b>	<b>705.0</b>
ST debt	180.0	180.0	180.0	180.0
Other current liabilities	62.9	75.9	80.3	81.2
LT debt	99.2	84.2	64.2	44.2
Other LT liabilities	13.3	13.3	13.3	13.3
Shareholders' equity	264.5	311.3	348.3	386.3
Minority interest	0.0	0.0	0.0	0.0
<b>Total liabilities &amp; equity</b>	<b>619.9</b>	<b>664.7</b>	<b>686.2</b>	<b>705.0</b>

### CASH FLOW

Year to 30 Sep (\$m)	2020	2021F	2022F	2023F
Operating	122.1	4.1	25.9	56.3
Pre-tax profit	27.0	50.1	55.3	56.4
Tax	(5.6)	(7.7)	(8.5)	(8.7)
Deprec. & amort.	19.0	8.7	7.9	7.1
Associates	14.1	0.0	0.0	0.0
Working capital changes	61.2	(55.2)	(37.8)	(7.6)
Non-cash items	7.2	0.0	0.0	0.0
Other operating cashflows	(0.8)	8.1	8.9	9.1
<b>Investing</b>	<b>(1.4)</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(3.0)</b>
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
<b>Financing</b>	<b>(111.8)</b>	<b>(18.8)</b>	<b>(38.7)</b>	<b>(38.9)</b>
Dividend payments	(18.7)	(9.7)	(9.7)	(9.7)
Issue of shares	0.0	14.0	0.0	0.0
Proceeds from borrowings	58.8	0.0	0.0	0.0
Loan repayment	(12.7)	(15.0)	(20.0)	(20.0)
Others/interest paid	(139.3)	(8.1)	(8.9)	(9.1)
<b>Net cash inflow (outflow)</b>	<b>8.9</b>	<b>(17.8)</b>	<b>(15.8)</b>	<b>14.5</b>
Beginning cash & cash equivalent	65.8	77.9	60.1	44.3
Changes due to forex impact	3.2	0.0	0.0	0.0
Ending cash & cash equivalent	77.9	60.1	44.3	58.8

### KEY METRICS

Year to 30 Sep (%)	2020	2021F	2022F	2023F
<b>Growth</b>				
Turnover	(32.9)	46.7	10.7	1.9
EBITDA	(15.9)	37.9	8.0	0.6
Pre-tax profit	(29.8)	85.8	10.3	1.9
Net profit	(35.5)	108.6	10.3	1.9
Net profit (adj.)	(35.5)	108.6	10.3	1.9
EPS	(35.5)	100.0	10.3	1.9
<b>Profitability</b>				
EBITDA margin	7.7	7.3	7.1	7.0
Pre-tax margin	4.4	5.6	5.6	5.6
Net margin	3.3	4.7	4.7	4.7
ROA	3.1	6.6	6.9	6.9
ROE	7.7	14.7	14.2	13.0
<b>Leverage</b>				
Debt to total capital	51.4	45.9	41.2	36.7
Debt to equity	105.6	84.9	70.1	58.1
Net debt/(cash) to equity	76.1	65.6	57.4	42.8
Interest cover (x)	7.0	8.1	7.9	7.8

## 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 such 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 2021, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W