

SMALL/MID CAP HIGHLIGHTS

BRC Asia (BRC SP)

2QFY21: In Line With Expectations; Sturdy As Steel

BRC's 2QFY21 net profit of S\$9.5m was flat qoq, making up 23% of our full-year estimate and in line with expectations. The group has declared an interim dividend of 4 S cents, as outlook for public sector construction projects continues to show a steadfast demand, though the risks of project delays remain. Maintain BUY with an unchanged target price of S\$2.00.

2QFY21 RESULTS

Year to 30 Sep (S\$m)	2QFY21	qoq % chg	yoy % chg	1HFY21	yoy % chg
Revenue	279.3	30.9	20.5	492.7	7.5
Gross Profit	16.2	(30.7)	(36.1)	39.6	(28.2)
Distribution Expense	1.4	(1.6)	(3.1)	2.8	(6.6)
Administrative Expense	4.2	(0.3)	13.3	8.4	8.1
Finance Costs	0.9	(36.8)	(54.4)	2.2	(43.6)
Net Profit	9.5	(0.6)	(4.1)	19.2	(15.5)
Gross Margin (%)	5.8	(5.2ppt)	(2.1ppt)	8.0	(4.0ppt)
Net Margin (%)	3.4	(1.1ppt)	(1.2ppt)	3.9	(1.0ppt)

Source: BRC, UOB Kay Hian

RESULTS

- Results in line with expectations.** BRC Asia's (BRC) reported 2QFY21 net profit of S\$9.5m (-4% yoy) forms 23% of our full-year estimates, in line with expectations. The group's net profit was steady on a qoq basis (-1% qoq). There was a provision for onerous contracts amidst a sharp increase in global steel prices, amounting to about S\$29m in 1HFY21. An interim dividend of 4 S cents was declared.
- Recovery still in progress...** 2QFY21 revenue improved to S\$279m (+21% yoy, +31% qoq) with higher contract values from rising steel prices. The group's orderbook remains at a high of S\$1.1b. Gross margin of 5.8% in 2QFY21 dipped mainly due to the provisions, which can be reversed when sales contracts deliveries are executed. The group's financial position has improved, with net gearing levels at 21% in 1HFY21 (vs 76% in FY20).
- ...though delays may be expected.** The recent outbreaks of COVID-19 cases could threaten the progress of construction activities. This includes positive cases of foreign workers at dormitories as well as the tightening of border measures. Management noted that construction activities (currently at 75-80% of pre-COVID-19 levels) could be slowed temporarily.
- However, authorities have continued to provide support for the construction sector. Recent support measures include flexibility on recruitment of foreign workers from China to deal with the manpower crunch, extension of time to complete public sector construction projects, as well as provision of 0.1% of public sector contract sum for every month of construction delay to facilitate quicker disbursement of cost sharing in non-manpower related expenses.

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)	11.4	17.7	8.8	8.0	7.9
P/B (x)	1.4	1.4	1.2	1.1	1.0
EV/EBITDA (x)	10.3	12.2	8.9	8.2	8.2
Dividend yield (%)	5.2	3.9	5.8	6.5	7.1
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	-	-	41	46	47
UOBKH/Consensus (x)	-	-	1.03	1.03	1.01

Source: BRC, Bloomberg UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.54
Target Price	S\$2.00
Upside	+29.7%

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):	374.7
Market cap (US\$m):	282.2
3-mth avg daily t'over (US\$m):	0.2

Price Performance (%)

52-week high/low	S\$1.65/S\$1.11				
1mth	3mth	6mth	1yr	YTD	
1.3	1.3	25.4	43.7	6.8	

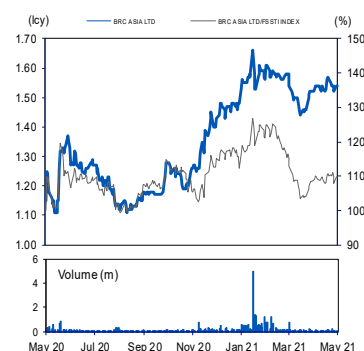
Major Shareholders

Estee Enterprise	71.7
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FY21 NAV/Share (S\$) 1.28

FY21 Net Debt/Share (S\$) 0.84

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Credit control to mitigate risks.** The group highlighted that some customers could be more adversely impacted by the lower efficiency and work productivity as well as heightened costs, due to in-place measures against COVID-19, though credit control measures remain in place to mitigate its effects.
- **Riding on the wave of stronger public sector project demand.** The Building and Construction Authority (BCA) projects the total construction demand in 2021 to range from S\$23b-28b, with public sector projects contributing 65% of new projects amid an anticipated stronger demand for public housing and infrastructure projects.
- **BTO projects delayed but volume of flats still going strong.** Manpower shortages and supply chain disruptions have affected the Build To Order (BTO) projects. About 85% of current BTO projects are around 6-9 months behind schedule, according to the Ministry of National Development (MND). Public housing projects usually require steel meshes and other steel components which are offered by BRC.
- The Housing and Development Board (HDB) launched 3,740 flats on 4 Feb 21, and is planning to launch 3,800 flats in May 21 and another 4,900 units in Aug 21, bringing the total units launched for the year to more than 12,000 units, at approximately 80% of 2019 levels.

EARNINGS REVISION/RISK

- None.

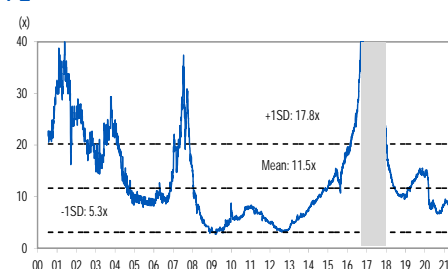
VALUATION/RECOMMENDATION

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

SHARE PRICE CATALYST

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

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)
Pre-tax profit	27.0	50.1	55.3	56.4
Tax	(6.6)	(7.7)	(8.5)	(8.7)
Minorities	0.0	0.0	0.0	0.0
Net profit	20.4	42.5	46.8	47.7
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
Total assets	619.9	664.7	686.2	705.0
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
Total liabilities & equity	619.9	664.7	686.2	705.0

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
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)	(18.8)	(38.7)	(38.9)
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)
Net cash inflow (outflow)	8.9	(17.8)	(15.8)	14.5
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
Growth				
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
Profitability				
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
Leverage				
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

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