BRC Asia Holdings Ltd

18 May 2021

HOLD

BBG	BRC SP
Market cap	S$367.4m
Price (14 May 2021)	S$1.51
52-week range	S$1.09 – S$1.67
Target Price	S$1.64
Shares Outstanding	243.3m
Free Float	31%
Major Shareholder	Esteel Enterprise 69%

P/BV (03/21)	1.3x
Net Debt to EBITDA (09/20)	3.0x

Source: Company data, Bloomberg, SAC Capital

Analyst

Peggy Mak
pmak@saccapital.com.sg

Virus resurgence clouds 2H

BRC had a strong 2Q21 (Mar). Revenue rose 30.9% qoq, and 20.5% yoy, benefitted from ramp up in order deliveries and higher steel prices. However, net profit was flat qoq and yoy due to non-cash provisions of S$21m to take in the impact of higher steel price on its orders on hand. This provision will be reversed over-time as BRC hedges all its steel prices. Order deliveries picked up post the lockdown in 3Q20 (Jun) with greater easing of mobility that enabled more construction activities to resume.

Recent spike in virus community cases had clouded the outlook. New entry restrictions on foreign workers from India, Bangladesh, Sri Lanka and Nepal have tightened the supply of labour in the construction sector, derailed construction work and pushed out demand for BRC's steel products to future quarters. This would set back 2H21 earnings. We expect 2H21 net profit to be about 65% of 1H's.

Still good 3Q21 yoy growth due to weak 3Q20. 3Q20 (Jun) was an exceptionally weak quarter due to 2-1/2 month of lockdown, when BRC incurred net loss of S$2.5m. Assuming no complete lockdown imposed for the rest of this FY, 3Q21 (Jun) will look comparatively stronger yoy, with higher volume deliveries and stronger steel price.

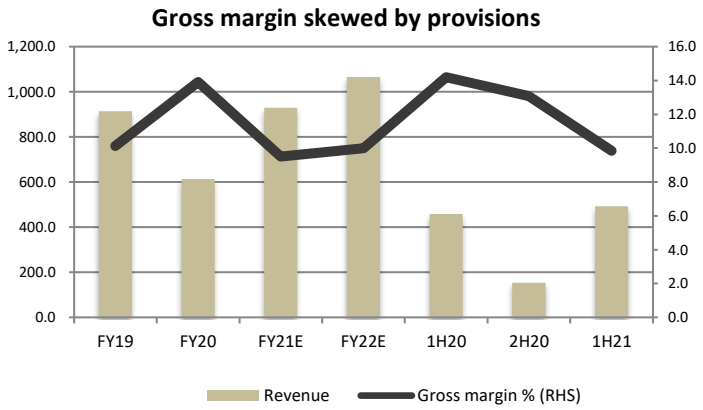
Steel rebar prices are 5.8% higher YTD and +51.4% yoy. Rising steel prices have a slight positive impact (with 2 to 3 month lag) for contracts priced at market rates. BRC enters into forward contracts for those contracts priced at fixed rates. Its exposure to fluctuations in steel price is minimal.

We are lowering FY21E net earnings estimates by 17%, with order fulfillments pushed out to the following year. Downgrade to HOLD with unchanged target price. Orderbook has grown to S$1.1bn, from S$1bn at end Sep 2020.

YE 30 Sep (S$m)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	567.0	913.3	612.4	929.1	1,066.1
EBIT	20.9	48.0	33.8	45.1	58.2
Net profit	11.8	31.6	20.4	30.2	40.9
EPS (S cents)	5.0	13.5	8.7	12.4	16.8
DPS (S cents)	1.0	8.0	6.0	6.0	6.0
Net cash / (debt)	(297.0)	(263.8)	(201.4)	(245.0)	(251.7)
Valuation					
EBIT margin (%)	3.7	5.3	5.5	4.9	5.5
ROIC (%)	5.1	14.6	8.7	9.2	10.8
EV/EBITDA (x)	20.0	9.1	8.3	9.8	8.3
P/E (x)	30.0	11.2	17.3	12.2	9.0
Dividend yield (%)	0.7	5.3	4.0	4.0	4.0

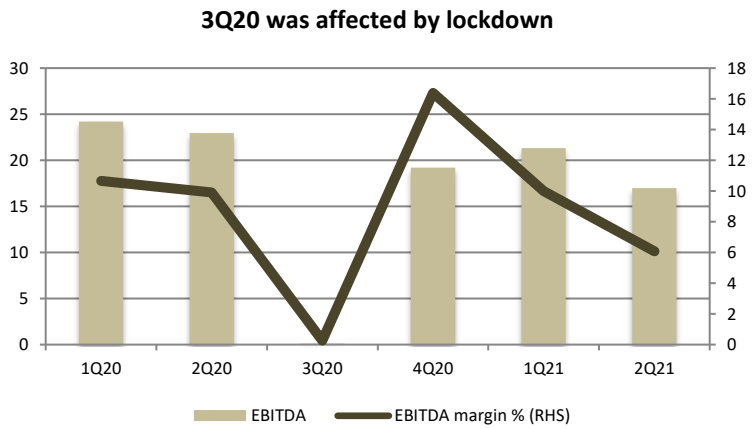
Investment Summary

Pent up demand after a lockdown in 3Q20 and slow re-opening in 4Q20 helped to drive 1H21 revenue 7.4% higher yoy. Gross margin, however, was skewed by provision for onerous contracts, which are non-cash provisions for the higher current market price for steel viz-a-viz BRC's contracted selling prices. These provisions are reversed out when the contracts are delivered, and hence do not have an overall impact on profitability.



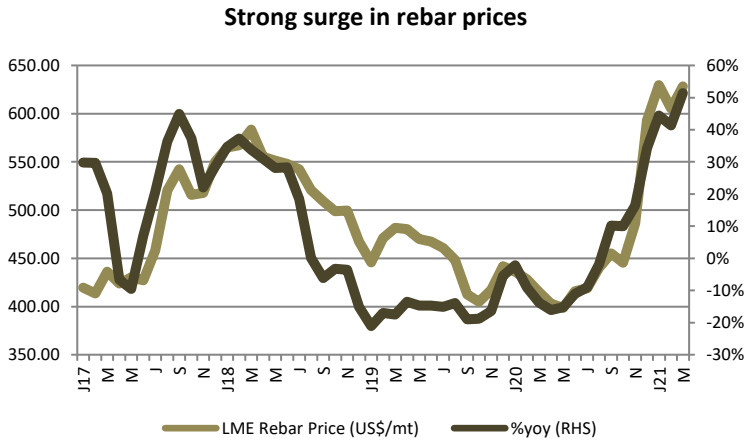
The recent spike in virus community cases had raised concerns. Tightened mobility restrictions have been imposed for one month from mid-May. This would cut back substantially on construction work progress. New entry restrictions on foreign workers from India, Bangladesh, Sri Lanka and Nepal also worsened the supply constraints for workers in the construction sector and disrupt workflow. This is a setback for 2H21 earnings. We estimate 2H21 to come in at about 65% of 1H's.

3Q20 (Jun) was an exceptionally weak quarter due to 2-1/2 month of lockdown, when BRC incurred net loss of S$2.5m. Assuming no complete lockdown imposed for the rest of this FY, 3Q21 (Jun) will look comparatively stronger yoy, with higher volume deliveries and stronger steel price.



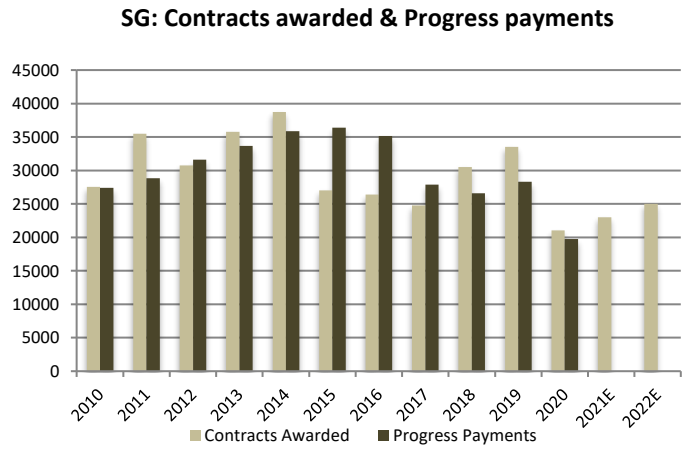
Investment Summary

Steel price began to climb in Sep 2020. Steel rebar prices are 5.8% higher YTD and +51.4% yoy. A rising steel price has a positive impact (2 to 3 month lag) for contracts priced at market rates. BRC enters into forward contracts for those contracts priced at fixed rates. This minimises its exposure to the volatility in steel prices.



The pipeline of construction contracts to be awarded is good, underpinned by the public projects. After a lull from 2015 to 2017, contracts awarded have picked up from 2018. Progress payments, which represent contract completions lag awards by 12 to 24 months. If not for COVID, 2020 could possibly be a bumper year for the construction sector.

BCA estimated total contract awards would improve from $21bn in 2020 to S$23-S$28bn in 2021, and average S$25–32bn per year from 2022 to 2025. The longer term outlook for steel demand stays healthy. COVID still remains the biggest risk.



We have lowered our FY21E net earnings estimates by 17%, as orders fulfillments are pushed out to the following years. We have also introduced FY22E net earnings estimates. Downgrading our call to HOLD on unchanged target price, to reflect BRC's dominant position in the Singapore market (we estimate 70% market share for rebars) and strong order book of S$1.1bn.

Income Statement

FYE 30 Sep (S$m)	FY19A	FY20A	FY21E	FY22E
Revenue	**913.3**	**612.4**	**929.1**	**1,066.1**
Cost of sales	(820.8)	(527.2)	(840.8)	(959.5)
Gross profit	**92.6**	**85.2**	**88.3**	**106.6**
Other income	1.9	10.0	4.2	2.0
Operating expenses	(27.1)	(28.8)	(29.8)	(34.1)
EBITDA	**67.4**	**66.4**	**62.7**	**74.5**
Depreciation	(16.0)	(19.0)	(15.6)	(14.3)
Associates & JV	(0.8)	(14.0)	(2.0)	(2.0)
Exceptional items	(2.5)	0.5	-	-
EBIT	**48.0**	**33.8**	**45.1**	**58.3**
Finance costs	(9.6)	(6.8)	(7.8)	(7.8)
Pretax profit	38.4	27.0	37.3	50.5
Tax expense	(6.9)	(6.6)	(7.1)	(9.6)
Minority interests	-	-	-	-
Net profit	**31.6**	**20.4**	**30.2**	**40.9**

Balance Sheet

FYE 30 Sep (S$m)	FY19A	FY20A	FY21E	FY22E
Assets				
Fixed assets	134.1	154.8	140.8	128.3
Associates & JV	26.2	12.3	10.3	8.3
Investment properties	2.4	2.3	2.3	2.3
Others	0.1	4.5	4.5	4.5
Non-current assets	**162.8**	**173.8**	**157.9**	**143.3**
Inventories	231.9	237.2	299.5	341.7
Trade receivables	195.3	89.8	140.0	160.6
Prepayments & deposits	8.1	7.3	7.3	7.3
Cash	65.8	77.9	14.3	7.6
Others	30.7	33.9	33.9	33.9
Current assets	**531.8**	**446.1**	**495.0**	**551.2**
Total assets	**694.6**	**619.9**	**652.9**	**694.5**
Liabilities				
Bank loans	245.8	160.0	140.0	140.0
Contract liabilities	4.0	21.4	21.4	21.4
Trade payables	67.2	27.9	46.1	52.6
Loan from holdco	23.1	20.0	20.0	20.0
Provisions	8.7	3.0	3.0	3.0
Tax provisions	9.1	10.3	7.1	9.6
Others	-	0.2	0.2	0.2
Current liabilities	**357.9**	**242.9**	**237.8**	**246.8**
Bank loans	60.7	99.3	99.3	99.3
Provisions	1.0	1.4	1.4	1.4
Deferred tax	12.1	11.9	11.9	11.9
Non-current liabilities	**73.8**	**112.5**	**112.5**	**112.5**
Net assets	**262.9**	**264.5**	**302.6**	**335.3**
Equity				
Share capital	125.0	125.0	138.8	138.8
Other reserves	(3.3)	(3.4)	(3.3)	(3.3)
Retained earnings	141.2	142.9	167.0	199.7
	262.9	**264.5**	**302.5**	**335.2**
Minority interests	-	-	-	-
Total equity	**262.9**	**264.5**	**302.5**	**335.2**

Cash Flow

FYE 30 Sep (S$m)	FY19A	FY20A	FY21E	FY22E
Pretax profit	38.4	27.0	37.3	50.5
Depreciation & amortisation	16.0	19.0	15.6	14.3
Associates & JV	0.8	14.1	2.0	2.0
Net finance expense	8.5	5.4	7.8	7.8
Non-fund items	(6.9)	1.0	-	-
Working capital changes	25.1	61.2	(94.3)	(56.4)
Interest paid	(9.2)	(5.7)	(7.8)	(7.8)
Dividend from associates	1.1	-	-	-
Tax paid	(2.7)	(5.6)	(10.3)	(7.1)
Operating cash flow	**71.1**	**116.4**	**(49.7)**	**3.2**
Capex	(2.3)	(2.5)	(2.5)	(2.5)
Net investments	-	-	-	-
Fixed assets disposall	0.2	0.8	0.8	0.8
Others	(10.4)	-	-	-
Investing cash flow	**(7.9)**	**(1.7)**	**(1.7)**	**(1.7)**
Free cash flow	**58.6**	**114.6**	**(51.4)**	**1.5**
Dividend paid	(2.3)	(18.7)	(6.0)	(8.2)
Borrowings	(31.6)	(87.1)	(20.0)	-
Equity	-	-	13.8	-
Financing cash flow	**(33.9)**	**(105.8)**	**(12.2)**	**(8.2)**
Net change	**24.6**	**8.9**	**(63.6)**	**(6.7)**

Ratios

FYE 30 Sep (S$m)	FY19A	FY20A	FY21E	FY22E
Profitability (%)				
Gross margin	10.1	13.9	9.5	10.0
EBIT margin	5.3	5.5	4.9	5.5
Liquidity (x)				
Current ratio	1.5	1.8	2.1	2.2
Net Debt/EBITDA	3.9	3.0	3.9	3.4
Interest coverage ratio	7.0	9.8	8.1	9.6
Net Debt to Equity (%)	100.3	76.1	81.0	75.1
Valuation (x)				
P/E	11.2	17.3	12.2	9.0
P/B	1.3	1.3	1.2	1.1
EV/EBITDA	9.1	8.3	9.8	8.3
Cash Conversion Cycle				
Trade receivable days	78	53	55	55
Inventory days	101	162	130	130
Trade payable days	29	19	20	20

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited ("**SAC Capital**") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report ("**Other Services**"). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	**Quantum of position**
Nil	Nil

As at the date of this report, SAC Capital, has had business relations with the subject company within the past 12 months, as disclosed hereunder:

Nature of Business Relation	**Date of Business Relation**
Nil	Nil

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

Analyst name	Quantum of position
Nil	Nil

ANALYST CERTIFICATION/REGULATION AC

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

(i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);

(ii) The report was produced independently by him/her;

(iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and

(iv) He/she has not received and will not receive any compensation directly or indirectly related 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. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.