

# BRC Asia

## Proposed entry of a solid substantial shareholder

### SINGAPORE | INDUSTRIAL | UPDATE

30 August 2021

- BRC Asia has proposed to issue 31,015,000 new shares (12.7% of outstanding) to Hong Leong Asia Investments at S\$1.48 a share in a private placement to raise S\$45.9mn.
- Concurrently, Hong Leong Asia Investments will purchase from several vendors an additional 15mn shares at the same price. This is conditional on the placement's success.
- The proposed placement will strengthen the group's balance sheet as it navigates out of the current crisis, in our view. Net gearing would have improved from 112% to 83% had the transaction been completed last quarter.
- Maintain BUY and target price of S\$1.79.** No change to our forecasts pending regulatory and shareholder approval, which we expect to be completed in about six weeks. Our TP remains based on 11x FY22e P/E, a 15% discount to its 10-year average on account of the uncertain environment. Catalysts expected from higher foreign-worker inflows to Singapore.

#### The news

BRC Asia has entered into a subscription agreement with Hong Leong Asia Investments to raise S\$45.9mn through a placement by way of an exempt offering, which exempts small placement offers from the need to issue prospectuses, amongst others. The company will issue 31,015,000 new shares to Hong Leong Asia Investments at S\$1.48 a share. This represents a 2.06% discount to BRC Asia's volume-weighted average price of S\$1.5111 on 27 August 2021. Net proceeds are estimated at S\$45.8mn, which BRC Asia will use to repay bank borrowings.

Concurrently, Hong Leong Asia Investments has entered into a conditional sale and purchase agreement with Xinsteel Singapore Pte. Ltd., NuoCheng International Trading & Investments Pte. Ltd., Toe Teow Heng, Wu Ai Ping and Shi Yong (collectively, the Vendors) to buy 15mn shares from them at S\$1.48 apiece. The agreement is conditional on the proposed placement taking place. The subscription and vendor shares will represent approximately 16.77% of BRC Asia's enlarged share capital. Following completion, Hong Leong Asia Investments will hold about 20.00% of this enlarged share capital.

**Figure 1: Pro-forma effects based on FY20 numbers**

FYE Sept (S\$'000)	Before proposed placement	After proposed placement
EPS (cents)	8.36	7.42
NTA attributable to owners of the company	264,547	310,299
NTA per share (cents)	108.72	113.10
Net gearing (x)	76.1%	50.1%

Source: Company, PSR

#### The Positives

**+ Balance sheet boost.** The proposed placement is expected to strengthen the group's balance sheet and help it navigate out of the current crisis. Pro forma net gearing would be 50.1% instead of 76.1%, assuming completion of the placement in FY20. Net gearing would also have improved from 112% to 83% should the transaction have been completed in its latest quarter, 3Q21.

### BUY (Maintained)

LAST CLOSE PRICE	SGD 1.520
FORECAST DIV	SGD 0.080
TARGET PRICE	SGD 1.790
TOTAL RETURN	23.0%

#### COMPANY DATA

BLOOMBERG CODE:	BRC SP
O/S SHARES (MN) :	243
MARKET CAP (USD mn / SGD mn) :	275 / 370
52 - WK HI/LO (SGD) :	1.63 / 1.09
3M Average Daily T/O (mn) :	0.20

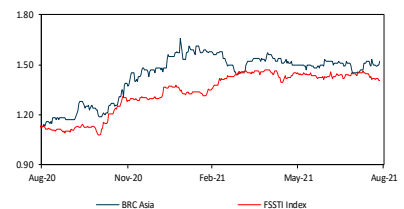
#### MAJOR SHAREHOLDERS (%)

ESTEEL ENTERPRISE	68.9%
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#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	4.1	4.1	44.8
STI RETURN	(0.7)	(1.5)	26.4

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Sept (S\$, '000)	FY19	FY20	FY21e	FY22e
Revenue	913,287	612,378	832,456	899,458
NPAT	31,562	20,352	37,853	39,831
DPS	0.08	0.06	0.08	0.10
Dividend yield	5.2%	3.9%	5.2%	6.5%
P/NAV (x)	1.4	1.4	1.2	1.2
P/E (x)	11.4	18.5	10.0	9.5
ROE (%)	4.5%	3.1%	5.1%	4.4%

Source: Company, PSR

#### VALUATION METHOD

11x FY22e P/E

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**+ New substantial shareholder to enhance overseas expansion.** With 20.00% ownership after the transaction, Hong Leong Asia Investments will become a substantial shareholder of the group, assuming all goes to plan. Parent Hong Leong Asia is a household name in Singapore, particularly in the industrial space. The group owns leading brands in ready-mix and precast for the construction sector. We believe Hong Leong Asia Investments' entry will speed up BRC Asia's international expansion in the sustainable and innovative building solutions space. Singapore accounted for 84.5% of BRC Asia's revenue in FY20.

**Outlook**

**Resurgence of Covid-19 in Malaysia and Singapore.** Record daily Covid-19 cases in Malaysia (Figure 2) triggered a full lockdown on 1 June for 14 days. This has since been extended twice, with no end date in sight. As many building materials come from Malaysia, the lockdowns have affected construction progress in Singapore. This, in turn, has slowed down the drawdown of reinforcing steel. In Singapore, a resurgence of Covid-19 in April (Figure 3) also led to a re-tightening of foreign-labour supply, exacerbating construction delays and delaying the industry's recovery.

**Construction demand to improve to S\$23-28bn in 2021.** The Building and Construction Authority has finalised 2020 construction demand at S\$21bn. It expects construction demand to improve to S\$23-28bn in 2021. The public sector is expected to contribute 65% of the new contracts or S\$15-18bn, to meet stronger demand for public housing and infrastructure.

BCA also forecasts that average construction demand in 2022-2025 will be S\$25-32bn per year, excluding the development of Changi Airport Terminal 5 and expansion of the two integrated resorts. The public sector is expected to contribute 56% to the demand.

As our forecasts have not included these projects, there is upside if they become live. In the near term, pipeline projects that will likely support the group's growth are the Singapore Science Centre's relocation, Toa Payoh integrated development, Alexandra Hospital redevelopment, Bedok's new integrated hospital, Phases 2-3 of the Cross Island MRT Line and Downtown Line's extension to Sungei Kadut.

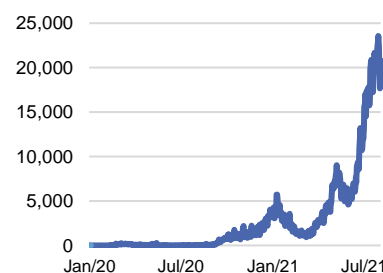
**Maintain BUY with unchanged TP of S\$1.79**

We maintain our BUY with an unchanged target price of S\$1.79. Our valuations is based on 11x FY22e P/E, a 15% discount to its 10-year historical average P/E on account of the uncertain environment.

**Information on the subscriber:**

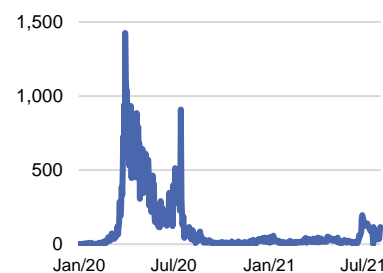
Hong Leong Asia Investments Pte. Ltd. is a wholly-owned subsidiary of Hong Leong Asia (HLA SP, Not Rated). Listed on the Mainboard of the Singapore Exchange, Hong Leong Asia is part of the Singapore-based Asian conglomerate, Hong Leong Group. Over the years Hong Leong Asia has developed from a building-material supplier into a diversified Asian multinational working with customers to create urban solutions, particularly in construction and transport.

**Figure 2: Malaysia's daily Covid-19 cases**



Source: Bloomberg, PSR

**Figure 3: Singapore's daily Covid-19 cases**



Source: Bloomberg, PSR

## Financials

### Income Statement

Y/E Sept, (\$'000)	FY18	FY19	FY20	FY21e	FY22e
<b>Revenue</b>	<b>567,009</b>	<b>913,287</b>	<b>612,378</b>	<b>832,456</b>	<b>899,458</b>
less: Cost of sales	(521,938)	(836,717)	(546,227)	(747,043)	(808,412)
<b>Gross profit</b>	<b>45,071</b>	<b>76,570</b>	<b>66,151</b>	<b>85,413</b>	<b>91,046</b>
Distribution expenses	(5,129)	(5,934)	(5,545)	(6,660)	(7,196)
Administrative expenses	(13,346)	(12,967)	(10,075)	(12,154)	(12,592)
Finance costs	(5,202)	(9,575)	(6,768)	(12,535)	(13,932)
Others	(4,916)	(8,810)	(2,681)	(5,427)	(8,404)
<b>Operating profit</b>	<b>16,478</b>	<b>39,284</b>	<b>41,082</b>	<b>48,637</b>	<b>48,922</b>
Share of results of associates and	(828)	(849)	(14,092)	(1,320)	866
<b>Profit before tax</b>	<b>15,650</b>	<b>38,435</b>	<b>26,990</b>	<b>47,317</b>	<b>49,788</b>
Taxation	(3,607)	(6,873)	(6,638)	(9,463)	(9,958)
<b>Net Profit</b>	<b>12,043</b>	<b>31,562</b>	<b>20,352</b>	<b>37,853</b>	<b>39,831</b>

<b>Profit attributable to owners</b>	<b>12,043</b>	<b>31,562</b>	<b>20,352</b>	<b>37,853</b>	<b>39,831</b>
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### Per share data (\$)

Y/E Sept	FY18	FY19	FY20	FY21e	FY22e
BVPS	0.97	1.07	1.08	1.23	1.32
DPS	0.01	0.08	0.06	0.08	0.10
EPS	0.06	0.14	0.08	0.15	0.16

### Cash Flow

Y/E Sept, (\$'000)	FY18	FY19	FY20	FY21e	FY22e
<b>CFO</b>					
<b>Profit before tax</b>	<b>15,650</b>	<b>38,435</b>	<b>26,990</b>	<b>47,317</b>	<b>49,788</b>
Adjustments	7,134	18,489	39,537	24,922	25,468
WC changes	(30,440)	25,073	61,196	(203,811)	(87,531)
<b>Cash generated from ops</b>	<b>(7,656)</b>	<b>81,997</b>	<b>127,723</b>	<b>(131,572)</b>	<b>(12,275)</b>
Others	(3,261)	(2,704)	(5,620)	(9,463)	(9,958)
<b>Cashflow from ops</b>	<b>(10,917)</b>	<b>79,293</b>	<b>122,103</b>	<b>(141,035)</b>	<b>(22,232)</b>

### CFI

CAPEX, net	(26,865)	(2,298)	(2,541)	(6,695)	(7,605)
Others	(140,104)	(9,015)	1,135	37,792	2
<b>Cashflow from investments</b>	<b>(166,969)</b>	<b>(11,313)</b>	<b>(1,406)</b>	<b>31,097</b>	<b>(7,603)</b>

### CFF

Dividends paid to owners	-	-	(18,667)	(14,698)	(19,597)
Proceeds from borrowings, net	99,907	(31,606)	(87,107)	175,157	49,402
Proceeds from equity issuance, net	46,990	-	-	13,700	-
Others	48,062	(9,410)	(6,054)	(77,030)	(12,541)
<b>Cashflow from financing</b>	<b>194,959</b>	<b>(41,016)</b>	<b>(111,828)</b>	<b>97,129</b>	<b>17,264</b>

<b>Net change in cash</b>	<b>17,073</b>	<b>26,964</b>	<b>8,869</b>	<b>(12,809)</b>	<b>(12,571)</b>
Cash at the start of the period	23,989	41,080	68,111	76,771	63,962
Currency translation	18	67	(209)	-	1
Others	-	-	-	-	-
<b>Ending cash</b>	<b>41,080</b>	<b>68,111</b>	<b>76,771</b>	<b>63,962</b>	<b>51,392</b>

\*nm - not meaningful

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Sept, (\$'000)	FY18	FY19	FY20	FY21e	FY22e
<b>ASSETS</b>					
PPE & Investment Properties	151,449	136,512	157,088	150,330	144,146
Others	23,702	26,255	16,739	18,434	89,344
<b>Total non-current assets</b>	<b>175,151</b>	<b>162,767</b>	<b>173,827</b>	<b>168,764</b>	<b>233,490</b>
Inventories	270,249	231,891	237,185	376,316	394,283
Trade and other receivables	180,725	195,315	89,824	184,044	193,250
Cash and cash equivalents	41,080	65,778	77,892	63,962	51,392
Others	31,537	38,835	41,220	73,213	73,214
<b>Total current assets</b>	<b>523,591</b>	<b>531,819</b>	<b>446,121</b>	<b>697,535</b>	<b>712,139</b>
<b>Total Assets</b>	<b>698,742</b>	<b>694,586</b>	<b>619,948</b>	<b>866,298</b>	<b>945,629</b>

### LIABILITIES

Trade and other payables	58,959	67,164	27,918	60,358	68,655
ST borrowings	255,838	268,939	180,039	356,594	407,394
Others	28,684	21,755	34,947	34,947	34,947
<b>Total current liabilities</b>	<b>343,481</b>	<b>357,858</b>	<b>242,904</b>	<b>451,899</b>	<b>510,996</b>
LT borrowings	105,365	60,658	99,225	99,225	99,225
Others	12,860	13,142	13,272	13,272	13,272
<b>Total non-current liabilities</b>	<b>118,225</b>	<b>73,800</b>	<b>112,497</b>	<b>112,497</b>	<b>112,497</b>
<b>Total liabilities</b>	<b>461,706</b>	<b>431,658</b>	<b>355,401</b>	<b>564,396</b>	<b>623,493</b>

### EQUITY

Share Capital	125,001	125,001	125,001	139,201	139,201
Retained profits	115,358	141,186	142,871	166,027	186,260
Others	(3,323)	(3,259)	(3,325)	(3,325)	(3,325)
<b>Total equity</b>	<b>237,036</b>	<b>262,928</b>	<b>264,547</b>	<b>301,903</b>	<b>322,136</b>
<b>Total equity and liabilities</b>	<b>698,742</b>	<b>694,586</b>	<b>619,948</b>	<b>866,298</b>	<b>945,629</b>

### Valuation Ratios

Y/E Sept	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	27.6	11.4	18.5	10.0	9.5
P/B (x)	1.6	1.4	1.4	1.2	1.2
EV/EBITDA (x)	NA	NA	NA	NA	NA
Dividend yield (%)	0.6%	5.2%	3.9%	5.2%	6.5%

### Growth & Margins (%)

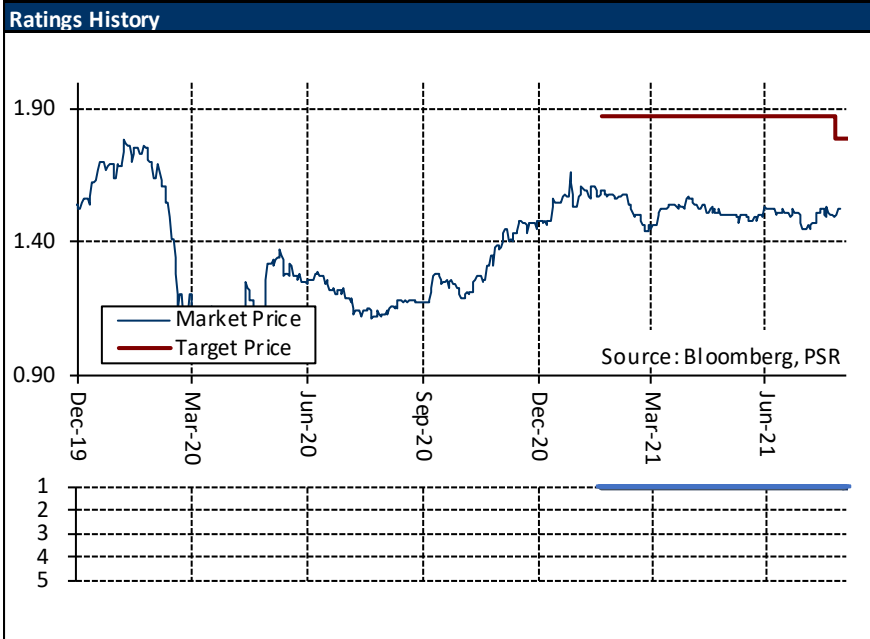
<b>Growth</b>					
Revenue	82.8%	61.1%	-32.9%	35.9%	8.0%
EBITDA	NA	NA	NA	NA	NA
EBIT	NA	NA	NA	NA	NA
PBT	417.5%	145.6%	-29.8%	75.3%	5.2%

### Margins

EBITDA margin	NA	NA	NA	NA	NA
EBIT margin	NA	NA	NA	NA	NA
Net profit margin	2.1%	3.5%	3.3%	4.5%	4.4%

### Key Ratios

ROE	2.8%	4.5%	3.1%	5.1%	4.4%
ROA	2.4%	4.5%	3.1%	5.1%	4.4%
Net Gearing (%)	135.1%	100.3%	76.1%	129.8%	141.3%



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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