

Singapore

ADD (no change)

Consensus ratings*: Buy 4 Hold 1 Sell 0

Current price:	S\$1.82
Target price:	S\$2.50
Previous target:	S\$2.50
Up/downside:	37.4%
CGS-CIMB / Consensus:	25.0%
Reuters:	BRCA.SI
Bloomberg:	BRC SP
Market cap:	US\$365.4m
	S\$499.3m
Average daily turnover:	US\$0.06m
	S\$0.08m
Current shares o/s:	240.1m
Free float:	28.3%

*Source: Bloomberg

Key changes in this note

➤ FY23-24F EPS raised by 2.2-3.8%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.3	7.1	21.3
Relative (%)	4.7	5.5	13.1

Major shareholders	% held
Estee Enterprise	71.7

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BRC Asia Ltd

A record year in FY22

- FY9/22 was a record year: NP of S\$90m (+92% yoy) above our forecasts. Final and Special DPS of 12 Scts brings FY22 dividend yield to 10%.
- Despite a slower start, FY23F outlook remains positive, anchored on strong local construction demand and more supportive labour conditions.
- Valuation attractive at 6x CY23F P/E and 10% dividend yield. Reiterate Add.

FY9/22: A record year in revenue and profits; 10% dividend yield

Supported by recovery in Singapore's construction activity, BRC's 2HFY9/22 net profit rose to S\$50m (+81% yoy), above expectations with FY9/22 coming in at 120%/115% of our/Bloomberg consensus' forecasts. 2H revenue grew 34% yoy to S\$906m on the back of higher deliveries and steel prices. Gross margins expanded 3.1% pts yoy to 9.4%, due to a net reversal of S\$13m provision for onerous contracts during the period (1H21: provision of S\$45m). BRC declared final and special dividends amounting to 12 Scts bringing its FY22 total DPS to 18 Scts (54% dividend payout), implying a 10.2% dividend yield.

Fundamentals for FY23F remain healthy on strong orderbook

Based on advanced estimates released by Singapore Ministry of Trade and Industry (MTI), local construction sector growth accelerated to 7.8% yoy in 3QCY22, faster than the 4.8% yoy expansion in the preceding quarter, helped mainly by the easing of border restrictions on the inflow of migrant workers. That said, MTI pointed out the value-add of the sector remained 18% below pre-pandemic levels. Recovery remains constrained by 1) lower productivity given time needed to train the newly replenished workforce, and 2) numerous stop work orders at construction sites due to worksite incidents. While construction activities could be dampened near-term with the "Heightened Safety" period introduced by the Ministry of Manpower (Sep 2022 to Feb 2023), we remain positive on BRC's FY23F outlook anchored on strong construction demand and more supportive labour conditions.

Look out for construction demand trends amid macro slowdown

With current industry orderbooks at robust levels (mainly backed by longer duration public projects), BRC remains positive that construction activities can remain at healthy levels in the medium term. Nevertheless, in view of a potential macro slowdown, we will be closely monitoring the strength of construction demand trends in the coming quarters – based on our past studies, there is typically a 12-18-month lag correlation between the two.

Reiterate Add and TP of S\$2.50

Reiterate Add as we expect fundamentals to remain healthy in FY23F, supported by a solid industry orderbook, coupled with attractive valuation of 6x FY23F P/E and 10% dividend yield. We raise our FY23-24F EPS by 2.2-3.8% on the back of higher delivery assumptions; our TP is kept at S\$2.50, based on a lower 1.6x CY23F P/BV (GGM: ROE 18.1%, cost of equity 11.8%, terminal growth 0.5%) as we roll over our valuation base year. Re-rating catalysts include further improvements in Singapore construction activity levels. Downside risks include counterparty credit risks and weaker construction demand on the back of a macro slowdown, which could negatively impact volume growth of BRC.

Financial Summary

	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Revenue (S\$m)	1,169	1,699	1,791	1,727	1,665
Operating EBITDA (S\$m)	79.0	129.6	125.7	124.5	123.1
Net Profit (S\$m)	47.03	90.22	82.00	83.01	83.54
Core EPS (S\$)	0.20	0.33	0.30	0.30	0.30
Core EPS Growth	68.3%	67.9%	(9.1%)	1.2%	0.6%
FD Core P/E (x)	9.29	5.53	6.09	6.02	5.98
DPS (S\$)	0.12	0.18	0.18	0.19	0.19
Dividend Yield	6.6%	9.9%	9.9%	10.4%	10.4%
EV/EBITDA (x)	9.89	6.11	6.18	6.16	6.19
P/FCFE (x)	22.94	8.39	14.50	12.65	10.77
Net Gearing	117%	76%	67%	61%	57%
P/BV (x)	1.45	1.25	1.16	1.08	1.01
ROE	16.6%	25.8%	19.8%	18.6%	17.5%
% Change In Core EPS Estimates			3.82%	2.15%	
CGS-CIMB/Consensus EPS (x)			1.14	1.30	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

A record year in FY22

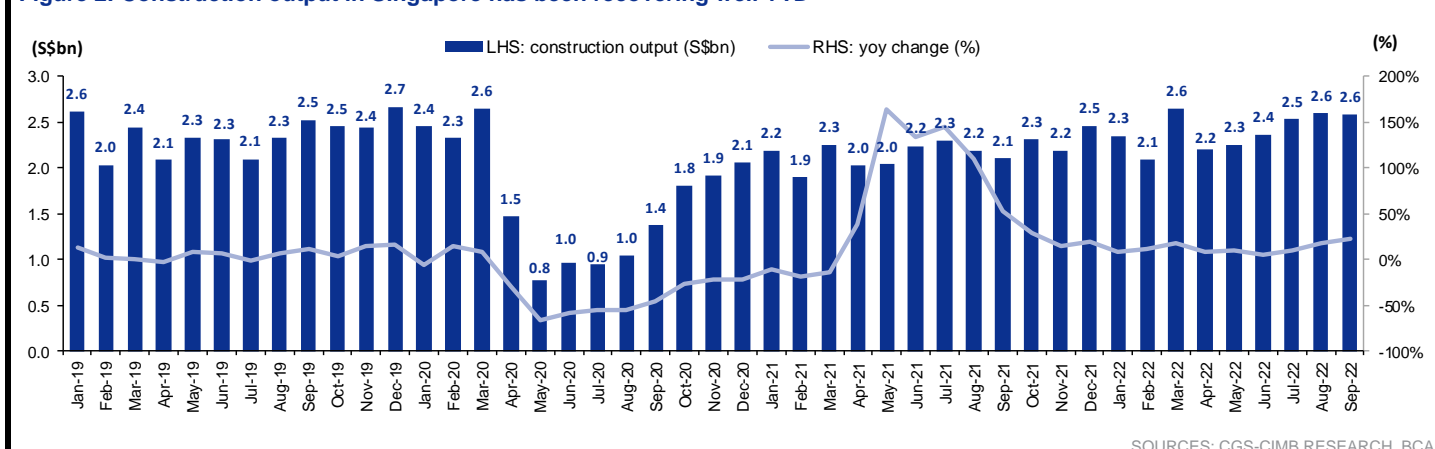
Our expectations of a 9.1% EPS decline in FY23F are mainly premised on the possibility of margin pressure from higher operating expenses, including electricity, manpower and financing costs. Nevertheless, we note that with international steel prices currently trending lower, there is room for BRC to carry out more net reversal of provisions for onerous contracts in FY23F should this trend continue – this has not been priced into our forecasts.

Figure 1: Results comparison

FYE Sep (\$\$ m)	2HFY22	2HFY21	yoy % chg	1HFY22	hoh % chg	FY22	FY21	yoy % chg	Prev FY22F	Comments
Revenue	905.9	675.9	34.0%	793.3	14.2%	1,699.3	1,168.6	45.4%	1,720.5	
Cost of goods sold	(821.0)	(633.4)	29.6%	(724.6)	13.3%	(1,545.5)	(1,086.5)	42.2%	(1,579.4)	
Gross profit	84.9	42.5	99.9%	68.8	23.5%	153.7	82.1	87.2%	141.1	
Gross margin (%)	9.4%	6.3%	3.1% pts	8.7%	0.7% pts	9.0%	7.0%	2.0% pts	8.2%	
OpEx	(22.3)	(8.3)	167.5%	(19.5)	14.2%	(41.8)	(21.0)	99.0%	(45.1)	
Operating profit	62.6	34.2	83.4%	49.3	27.2%	111.9	61.1	83.1%	96.0	
Operating margin (%)	6.9%	5.1%	1.9% pts	6.2%	0.7% pts	6.6%	5.2%	1.4% pts	5.6%	
Pretax profit	60.0	34.8	72.3%	47.4	26.5%	107.4	58.4	84.0%	91.5	
Tax	(9.6)	(6.9)	38.5%	(7.6)	26.7%	(17.2)	(11.3)	51.7%	(16.0)	
Tax rate (%)	16.0%	19.9%	-3.9% pts	16.0%	0.0% pts	16.0%	19.4%	-3.4% pts	17.5%	
Net profit	50.4	27.9	80.7%	39.8	26.4%	90.2	47.0	91.8%	75.4	
Core net profit	50.4	27.9	80.7%	39.8	26.4%	90.2	47.0	91.8%	75.4	Above, formed 120%/115% of our/Bloomberg consensus FY22F
EPS (\$\$)	0.18	0.11	60.2%	0.15	25.3%	0.33	0.20	67.9%	0.28	

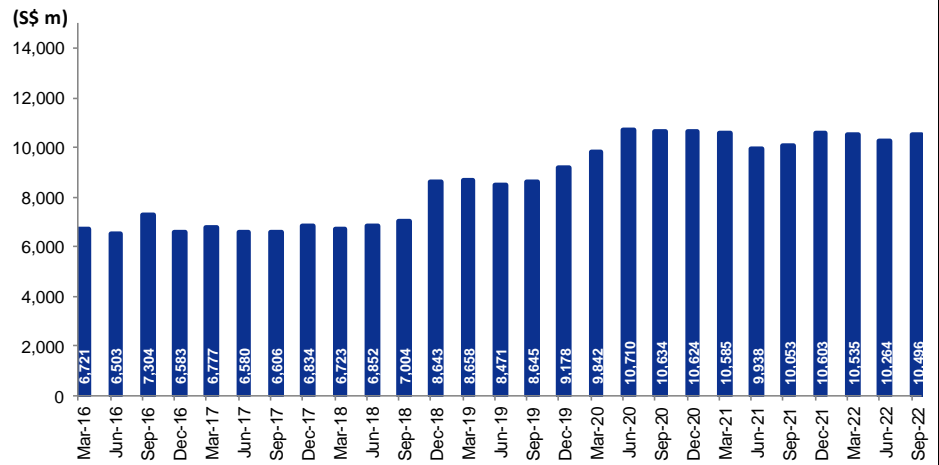
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Construction output in Singapore has been recovering well YTD



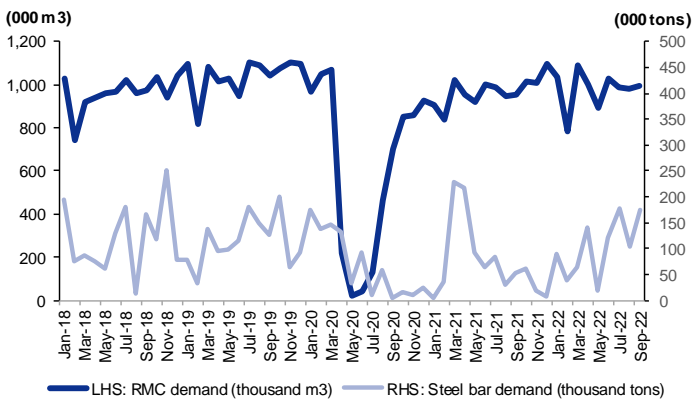
SOURCES: CGS-CIMB RESEARCH, BCA

Figure 3: Combined order book of 18 Singapore-listed construction firms currently remain elevated vs. historical average



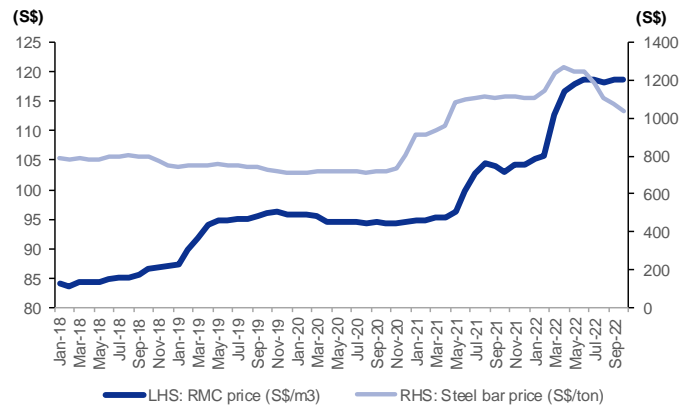
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Both RMC and steel bar demand recovering, but have yet to return to pre-Covid levels



SOURCES: CGS-CIMB RESEARCH, BCA

Figure 5: Stronger building material demand and rising costs have driven prices of RMC and steel bars to elevated levels



SOURCES: CGS-CIMB RESEARCH, BCA

Figure 6: Earnings revision

FYE Sep (\$m)	FY23F			FY24F		
	Old	New	% chg	Old	New	% chg
Revenue	1,841.9	1,790.5	-2.8%	1,872.6	1,726.6	-7.8%
Operating profit	99.7	107.4	7.7%	102.4	108.1	5.6%
Net profit	78.5	82.0	4.4%	80.8	83.0	2.8%
Core net profit	78.5	82.0	4.4%	80.8	83.0	2.8%
Basic EPS (Scts/share)	0.29	0.30	3.8%	0.30	0.30	2.2%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: P/BV-derived target price for BRC

Risk free rate	3.5%
Beta	0.73
Equity risk premium	10.0%
Liquidity premium	1.0%
Adjusted cost of equity (COE)	11.8%
Average ROE over FY22-24F (ROE)	18.6%
Terminal growth rate (g)	0.5%
ROE-g [a]	18.1%
COE-g [b]	11.3%
Theoretical P/B (x) [a]/[b]	1.60
CY23F BVPS (S\$)	1.57
Target price (S\$)	2.50
CY24F EPS (S\$)	0.30
Implied CY23F P/E (x)	8.3

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS



ESG in a nutshell

BRC supplies prefabricated reinforcing steel solutions, bringing benefits to the construction industry in the form of on-site manpower savings, shorter construction cycle, as well as better buildability and productivity for contractors, by transferring laborious and unproductive in-situ steel fixing work to factory fabrication. The company is focused on upholding strong product quality, while at the same time optimising production efficiencies to lower scrap production and improve workplace safety. In our view, the biggest near-term risk is BRC's heavy dependence on foreign workers. Given recent border restrictions in view of Covid-19, workforce recruitment could be disrupted, impacting productivity levels of both BRC Asia as well as general construction industry.

Keep your eye on

The majority of BRC's employees are foreign workers, who accounted for 81% of its workforce in FY20. It is important to keep track of regulatory changes on Dependency Ratio Ceiling (DRC), as the government looks to grow local workforce.

Implications

Currently, there are no announced changes to the construction industry's DRC threshold of 87.5% in the coming 3 years (2021-2023), although the government has mandated that sub-DRC thresholds for the construction industry be lowered from 20% in 2020 to 15% in 2023. Significant changes in DRC threshold could result in higher wage expenses for BRC. Border restrictions could also result in disruptions to workforce recruitment for BRC.

ESG highlights

BRC places much emphasis in ensuring product quality and material efficiency. Besides robust internal Quality Management System in compliance with ISO 9001:2015, BRC also sources from quality suppliers who comply with the British Standard for Reinforcing Steel BS4449:2005 or Singapore Standard for Reinforcing Steel SS560:2016. BRC is also focused on improving material efficiency – it has been consistently lowering the target ratio of material scrap generation across FY18-FY21F.

Implications

Maintaining high quality standards in products is critical to reducing the risks and costs of replacing faulty goods, especially to maintain BRC's market leadership position in the supply of prefabricated steel solutions in Singapore.

Trends

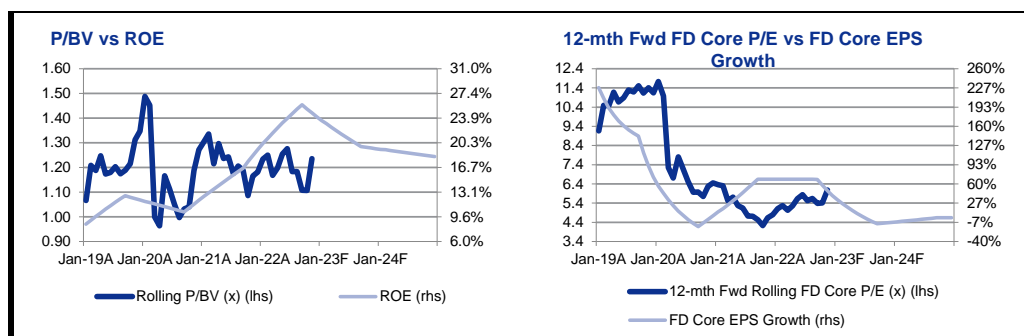
BRC's Accident Frequency Rate (AFR) lowered to 8.2 in FY20 (FY19: 12.8), while and Accident Severity Rate (ASR) fell to 246.7 in FY20 (FY19: 319.4). BRC has obtained bizSAFE Level Star standards for its manufacturing entities.

Implications

Workplace safety is key, as BRC's employees work in conditions that possess inherent accident risks. Fatal accidents could potentially result in severe reputation risk, hampering BRC's ability to secure future order wins.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Total Net Revenues	1,169	1,699	1,791	1,727	1,665
Gross Profit	82	154	152	151	150
Operating EBITDA	79	130	126	125	123
Depreciation And Amortisation	(18)	(18)	(18)	(16)	(15)
Operating EBIT	61	112	107	108	108
Financial Income/(Expense)	(5)	(7)	(10)	(10)	(10)
Pretax Income/(Loss) from Assoc.	2	3	2	3	3
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	58	107	99	101	101
Exceptional Items					
Pre-tax Profit	58	107	99	101	101
Taxation	(11)	(17)	(17)	(18)	(18)
Exceptional Income - post-tax					
Profit After Tax	47	90	82	83	84
Minority Interests	0	0	0	0	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	47	90	82	83	84
Recurring Net Profit	47	90	82	83	84
Fully Diluted Recurring Net Profit	47	90	82	83	84

Cash Flow

(\$m)	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
EBITDA	79.0	129.6	125.7	124.5	123.1
Cash Flow from Inv. & Assoc.					
Change In Working Capital	(245.3)	(54.4)	(29.5)	(31.0)	(32.5)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	51.0	(10.2)	0.0	0.0	0.0
Other Operating Cashflow	(1.4)	(1.8)	(0.7)	(0.7)	(0.6)
Net Interest (Paid)/Received	(4.7)	(7.2)	(10.0)	(10.0)	(10.0)
Tax Paid	(9.5)	(17.0)	(17.4)	(17.6)	(17.7)
Cashflow From Operations	(130.9)	38.9	68.0	65.3	62.2
Capex	(1.9)	(2.9)	(5.0)	(5.0)	(5.0)
Disposals Of FAs/subsidiaries	0.5	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	(1.5)	(1.5)	(1.5)
Other Investing Cashflow	0.3	1.5	0.7	0.7	0.6
Cash Flow From Investing	(1.1)	(1.4)	(5.8)	(5.8)	(5.9)
Debt Raised/(repaid)	151.0	22.0	(27.8)	(20.0)	(10.0)
Proceeds From Issue Of Shares	13.8	45.8	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	(24.3)	(38.4)	(49.4)	(52.1)	(52.1)
Preferred Dividends					
Other Financing Cashflow	(4.6)	(6.5)	(10.0)	(10.0)	(10.0)
Cash Flow From Financing	135.9	22.8	(87.2)	(82.1)	(72.1)
Total Cash Generated	3.9	60.3	(25.0)	(22.7)	(15.8)
Free Cashflow To Equity	19.1	59.5	34.4	39.5	46.4
Free Cashflow To Firm	(127.3)	44.7	72.3	69.5	66.4

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Total Cash And Equivalents	83.0	154.6	139.6	127.0	121.2
Total Debtors	165.6	213.6	223.0	232.9	243.2
Inventories	466.2	445.8	468.1	491.5	516.0
Total Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Current Assets	714.8	814.0	830.7	851.3	880.4
Fixed Assets	146.2	130.6	117.3	105.9	96.0
Total Investments	23.8	28.6	32.1	36.1	40.6
Intangible Assets	0.0	0.0	0.0	0.0	0.0
Total Other Non-Current Assets	0.0	0.0	0.0	0.0	0.0
Total Non-current Assets	170.0	159.1	149.4	141.9	136.6
Short-term Debt	358.1	410.1	400.1	390.1	380.1
Current Portion of Long-Term Debt					
Total Creditors	72.0	53.3	55.5	57.7	60.1
Other Current Liabilities	66.0	55.6	55.6	55.6	55.6
Total Current Liabilities	496.0	519.0	511.1	503.4	495.8
Total Long-term Debt	77.7	47.8	30.0	20.0	20.0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	10.1	7.5	7.5	7.5	7.5
Total Non-current Liabilities	87.7	55.4	37.5	27.5	27.5
Total Provisions	0.0	0.0	0.0	0.0	0.0
Total Liabilities	583.8	574.3	548.6	530.9	523.3
Shareholders' Equity	300.9	398.8	431.4	462.3	493.7
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Equity	300.9	398.8	431.4	462.3	493.7

Key Ratios

	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Revenue Growth	90.8%	45.4%	5.4%	(3.6%)	(3.6%)
Operating EBITDA Growth	18.3%	63.9%	(3.0%)	(0.9%)	(1.2%)
Operating EBITDA Margin	6.76%	7.62%	7.02%	7.21%	7.39%
Net Cash Per Share (S\$)	(1.47)	(1.11)	(1.06)	(1.03)	(1.02)
BVPS (S\$)	1.25	1.45	1.57	1.69	1.80
Gross Interest Cover	13.01	15.62	10.74	10.81	10.83
Effective Tax Rate	19.4%	16.0%	17.5%	17.5%	17.5%
Net Dividend Payout Ratio	61.3%	54.7%	60.2%	62.8%	62.4%
Accounts Receivables Days	38.34	36.87	39.21	42.81	46.49
Inventory Days	118.1	107.7	101.8	111.4	121.4
Accounts Payables Days	16.31	13.31	9.94	10.88	11.85
ROIC (%)	11.1%	14.7%	13.0%	12.8%	12.5%
ROCE (%)	9.7%	14.0%	12.5%	12.5%	12.3%
Return On Average Assets	6.8%	10.4%	9.2%	9.2%	9.1%

Key Drivers

	Sep-21A	Sep-22A	Sep-23F	Sep-24F	Sep-25F
Revenue	1,168.6	1,699.3	1,790.5	1,726.6	1,664.6
GPM (%)	7.0%	9.0%	8.5%	8.8%	9.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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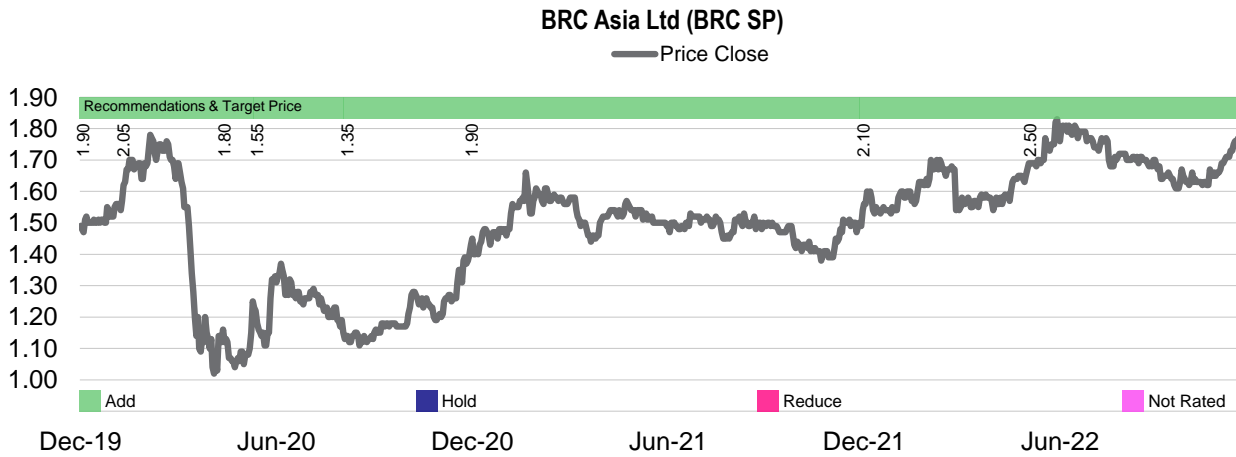
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646 companies under coverage for quarter ended on 30 September 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.6%
Hold	25.2%	0.2%
Reduce	8.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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Definition:

Add The stock's total return is expected to exceed 10% over the next 12 months.

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