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BRC Asia

Light at the end of the tunnel

SINGAPORE | INDUSTRIAL | INITIATION

- Record earnings of S$42mn and S$45mn expected for FY21e and FY22e respectively.
- Construction demand is expected to recover to S$23bn – S$28bn in 2021 recovering from the S$21.3bn in 2020. Their huge market share of 70% means BRC is well positioned to capitalise on the growth.
- Potential for dividend payout to recover from FY21e and FY22e.
- Initiate coverage with BUY recommendation and target price of S$1.87. Our TP is derived based on 11x FY21e P/E, a 15% discount to it's 10-year historical average P/E on account of the uncertain environment.

Company Background

Post the acquisition of Lee Metal in June 2018, BRC Asia is now the largest steel reinforcement supplier in Singapore with a dominating 70% market share.

Investment Merits

1. **Record earnings expected for FY21e and FY22e**. We project record profit for FY21e and FY22e at S$42mn and S$45mn respectively on the back of a general recovery in the construction sector. We estimate that construction activity has resumed to about 75% of pre-COVID 19 levels at the moment, and we expect this to go up to 80% by June 2021 as construction activities continue to resume island wide.
2. **Construction demand is expected to recover to S$23.0bn - S$28.0bn in 2021 recovering from the S$21.3bn for 2020**. We see BRC Asia's leadership position in the reinforced steel industry as best positioned for a construction sector recovery. According to the Building and Construction Authority ("**BCA**"), construction demand is expected to recover from 2021 as construction activities resume. This will be supported by public residential developments and various infrastructure projects such as the construction of the Cross Island MRT.
3. **Potential for dividend payout to recover from FY21e and FY22e.** We think the Group could potentially declare dividends of 10 and 11 Singapore cents for FY21e and FY22e respectively, translating into a dividend yield of 6.3% and 6.9% respectively for FY21e and FY22e. The Group's final dividend for FY20 fell 60% vs. FY19 as earnings declined 36% due to headwinds in the construction industry last year. Despite this, the Group still declared a special dividend of four (4) Singapore cents for FY20, translating to a payout ratio of about 68% (up from 59% for FY19). Using the mid-point of the dividend payout ratio declared by the Group for FY19 and FY20, we think they could potentially declare dividends of 10 and 11 Singapore cents for FY21e and FY22e as construction activity resume in Singapore.

Outlook

We are positive on the outlook of the construction industry post circuit-breaker. As construction activities resume, demand for construction materials is expected to increase, leading to a re-rating of BRC Asia's shares.

Initiating coverage with BUY rating and TP of S$1.87

We initiate coverage with a BUY recommendation and target price of S$1.87. Our TP is based on 11x FY21 P/E, a 15% discount to their historical average P/E on account of the uncertain environment. In our view, BRC Asia should trade at a higher premium to their historical P/E after the acquisition of Lee Metal in 2018 as this strengthened their market position considerably. Nonetheless, we remain cautious about the outlook for the industry as construction activity could remain subdued until a permanent solution for the pandemic is found.

22 February 2021

BUY (Initiation)

LAST CLOSE PRICE	SGD 1.590
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 1.870
TOTAL RETURN	21.4%

COMPANY DATA

BLOOMBERG CODE:	BRC SP
O/S SHARES (MN) :	244
MARKET CAP (USD mn / SGD mn) :	293 / 388
52 - WK HI/LO (SGD) :	1.72 / 1
3M Average Daily T/O (mn) :	0.39

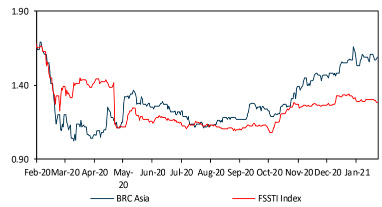
MAJOR SHAREHOLDERS (%)

ESTEEL ENTERPRISE	71.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.3	26.2	(2.3)
STI RETURN	1.9	(7.9)	1.5

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	41,697	44,665
DPS	0.08	0.06	0.06	0.06
Dividend yiel	5.1%	3.8%	3.8%	3.8%
P/NAV (x)	1.5	1.5	1.3	1.2
P/E (x)	11.7	19.0	9.3	8.7
ROE (%)	4.5%	3.1%	6.4%	6.2%

Source: Company, PSR

VALUATION METHOD

11x FY21e P/E

Terence Chua (+65 6212 1852)
Senior Research Analyst
terencechuatl@phillip.com.sg

Background

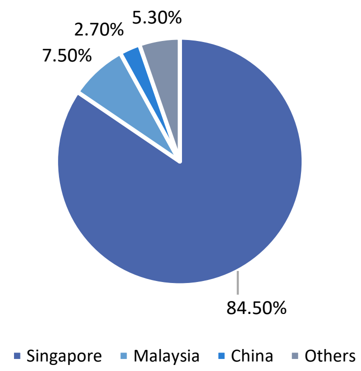
BRC Asia is an established pioneer in prefabricated steel reinforcement. Since their incorporation in 1938, they have developed their expertise to become a leading steel reinforcement solutions provider in Singapore. Today, they have operations in Singapore, Malaysia and China.

Post the acquisition of Lee Metal in June 2018, BRC Asia is now the largest steel reinforcement supplier in Singapore with an estimated 70% market share.

They have operations spanning Singapore (84.5% of FY20 revenue), Malaysia and China and a total workforce of more than 1,000, the Group has an annual processing capacity of 1.2 million metric tonnes.

By transferring labourious and unproductive in-situ steel fixing work to factory fabrication, substantial benefits in on-site manpower savings, shorter construction cycle, better buildability and productivity can be achieved for the builder, leading to a better outcome for all stakeholders.

Figure 1: FY20 sales breakdown



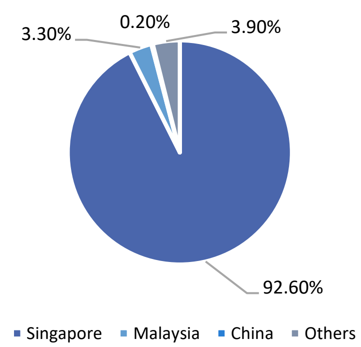
Source: Company, PSR

Business segments

BRC Asia is a market leader in providing pre-fabricated steel reinforcement solutions. They have the following main competitive advantages: (i) Just-in-time delivery, (ii) 24-hour express cut-and-bend services, and a (iii) full-suite of prefab reinforcing solutions.

BRC offers a full suite of reinforcing steel products and services that include standard length rebar, cut and bend services, prefabrication services as well as standard and customised welded wire mesh for the building and construction industry.

Figure 2: FY19 sales breakdown (Pre-COVID-19 pandemic)



Source: Company, PSR

Future plans

BRC Asia has plans to continue its expansion into overseas markets such as China, Australia, Indonesia and Vietnam. They plan to pursue their expansion in the second half of 2021 or early 2022. The Company has had a presence in China for about 17 years through a joint venture that supplies mesh products to high speed rail projects. But it has struggled to make significant inroads because it's mainly dominated by state-owned enterprises.

We think this may change however, because of their parent company Esteel Enterprise, which in September 2017 made an offer for the Group at S$0.925 per share. Esteel Enterprise, which currently has a stake of 71.9% in the Company, is 80.1% controlled by You Zhenhua. You Zhenhua is the chairman and executive director of iron ore trader Prosperity Steel United Singapore, which has a significant presence in China's steel industry.

Investment Merits

1. **Record earnings expected for FY21e and FY22e**. We expect record profit for FY21e and FY22e at S$42mn and S$45mn respectively on the back of a general recovery in the construction sector. We estimate that construction activity has resumed to about 75% of pre-COVID 19 levels at the moment, and we expect this to go up to 80% by June 2021 as construction activities continue to resume island wide.

2. **Construction demand is expected to recover to S$23.0bn to S$28.0bn in 2021 recovering from S$21.3bn for 2020**. We see BRC Asia's leadership position in the reinforced steel industry as best positioned for a construction sector recovery. According to BCA, construction demand is expected to recover from 2021. This will be supported by public residential developments and upgrading works, the developments at Jurong Lake District, the construction of new healthcare facilities and various infrastructure projects such as the construction of the Cross Island MRT. While construction of mega projects such as Changi Airport Terminal Five and the expansion of two Integrated Resorts has been delayed, we see the eventual resumption of construction for these projects as a future catalyst for the company.

3. **Potential for dividend payout to recover from FY21e and FY22e.** We think the Group could potentially declare dividends of 10 and 11 Singapore cents for FY21e and FY22e respectively for FY21e and FY22e. The Group's final dividend for FY20 fell 60% vs. FY19 as earnings declined 36% due to headwinds in the construction industry last year. Despite this, the Group still declared a special dividend of four (4) Singapore cents for FY20, translating to a payout ratio of about 68% (up from 59% for FY19). Using the mid-point of the dividend payout ratio declared by the Group for FY19 and FY20, we think they could potentially declare dividends of 10 and 11 Singapore cents for FY21e and FY22e as construction activity resume in Singapore.

Initiating coverage with BUY and target price of S$1.87

We initiate coverage with a BUY recommendation and target price of S$1.87. Our TP is based on 11x FY21 P/E, a 15% discount to it's 10-year historical average P/E on account of the uncertain environment. In our view, BRC Asia should trade at a higher premium to their historical P/E after the acquisition of Lee Metal in 2018 as this strengthened their market position considerably. Nonetheless, we remain cautious about the outlook for the industry as construction activity could remain subdued until a permanent solution for the pandemic is found.

Risks to our view include 1) Resurgence of COVID-19 cases in Singapore and in the foreign workers dormitories, and 2) Failure to bring in new foreign workers to alleviate the labour crunch.

Resumption of work at construction sites

While we have seen a slower resumption of construction activity post circuit-breaker due to various safe distancing measures, we estimate that construction activity has resumed to about 75% of pre-COVID levels. This is a marked improvement from during the circuit breaker period, when only 5% of the construction workforce (or about 20,000 workers) continued to work on a few critical projects and those that cannot be left idle for long for safety reasons.

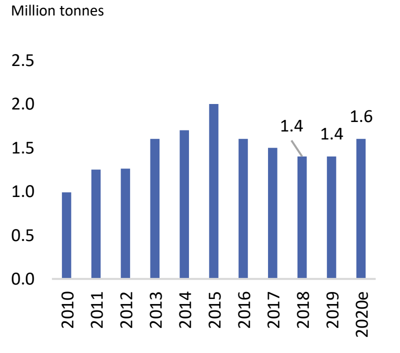
Given the labour constraints inherent in the industry now, we think that the industry will remain in a "new normal" of lower work site productivity, until a more permanent solution is available. We anticipate it could take between two to three years for construction activities to return to pre-COVID levels.

That said, we still expect record earnings from BRC Asia for FY21e and FY22e. We expect profit for FY21e and FY22e at S$42mn and S$45mn respectively on the back of a general recovery in the construction sector. According to BCA, construction demand is expected to recover to some extent from 2021, which will be supported by public residential developments and upgrading works, the developments at the Jurong Lake District, the construction of new healthcare facilities and various infrastructure projects such as the construction of the Cross Island MRT Line. The recent launch of BTO projects numbering approximately 7,800 new flats in eight estates will also bolster construction demand. In total, the public sector will contribute about 65% of the overall construction demand for 2021. This figure – which ranges from S$15bn to S$18bn – is higher than the S$13.2bn worth of public sector projects last year.

We see BRC's leadership position in the reinforced steel industry as best positioned for a construction sector recovery. Construction demand is expected to recover to S$23.0 – S$28.0bn in 2021 from S$21.3bn in 2020. BCA said it expects a steady improvement in construction demand, projecting it to reach between S$25bn and S$32bn per year from 2022 to 2025. The public sector is again expected to lead demand and contribute S$14 – S$18bn per year from 2022 to 2025. This will be supported by public sector developments such as public housing, transport and healthcare infrastructure.

While construction of mega projects such as Changi Airport Terminal Five and the expansion of two Intergrated resorts has been delayed, we see the eventual resumption of construction for these projects as a future catalyst for the company. We estimate the resumption of these projects to come in 2023 and 2024, which could lift construction demand forecasts from the current S$25.0bn – S$32.0bn.

Figure 3: Steel Rebars import into Singapore



Source: BCA, PSR

Strong manufacturing capability

Just-in-time total prefabricated reinforcing steel solutions. BRC Asia offers a comprehensive suite of prefabrication services to their customers. Specifically, their Just-in-time total prefabricated reinforcing steel solutions play an important role in enhancing productivity and safety, reduce wastages and pollution in construction activities.

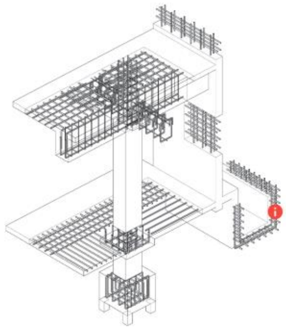
BRC Asia is now a market leader in providing pre-fabricated steel reinforcement solutions. They have the following main competitive advantages: (i) Just-in-time delivery, (ii) 24-hour express cut-and-bend services, and a (iii) full-suite of prefab reinforcing solutions.

We view the industry wide move toward pre-fabrication as an inevitable trend for the industry given the huge advantages involved. Firstly, there are cost and time savings as the use of steel fabrication as opposed to onsite fabrication generates less waste from material as production in a controlled environment allow them to use only the exact amount of materials required. Secondly, steel fabrication in a controlled environment also reduces the space requirement onsite as this is done in a factory space. This application has huge advantages in countries with scarce land space. Lastly, steel prefabrication is also more environmentally friendly as there is less noise generation and onsite pollution.

We believe BRC Asia's leading position in prefabricated components – which includes prebab bored piles, stumps, columns, beams and walls – will drive increased contract sales from their customers and boost their plans to expand overseas. We see the Group potentially expanding into overseas markets like Australia and Vietnam.

BRC Asia is also renowned in the production of steel mesh, which is customisable to a wide-range of applications in reinforced concrete structures. These steel mesh are manufactured according to internationally recognised standards and can help to significantly improve on the efficiency of building projects. Welded wire mesh also speed up construction time and is also a solution in markets that are facing a shortage of skilled workers.

Figure 4: BRC's rebars are manufactured according to global standards, which ensure strength and ductibility of their steel reinforcement bars



Source: Company, PSR

Figure 5: Their mesh products are certified to meet SS 561:2010 - Singapore standard for steel fabric

Source: Company, PSR

Welded wire mesh has received endorsement by Singapore's BCA as a productive technology that can greatly improve site productivity.

Revenue

The Group supplies steel products to its customers. The steel products supplied by the Group are (i) Mesh (Figure 7) and (ii) Cut and bend (Figure 9). A breakdown of the revenue mix is not available, though we believe a greater proportion of this is from Mesh. The Company continues to derive the bulk of their revenue from Singapore (84.5% in FY20) where it holds a dominant market position.

As at end-Dec 2020, their order book stood at approximately S$1.09bn, with a duration of up to five (5) years. This however, could be subject to further changes, as uncertainties loom over the construction sector. Nonetheless, it should be stated that while the order book gives a snapshot of the Group's projects, the projects in their order book are received and completed on a rolling basis, and may not be representative of their overall jobs for the year.

Figure 8: Geographical revenue breakdown (%)

Countries	FY19	FY20
China	0.2%	2.7%
Hong Kong	0.3%	2.2%
Malaysia	3.3%	7.5%
Singapore	92.6%	84.5%
Thailand	2.5%	1.3%
Others	1.2%	1.7%
Total	100%	100%

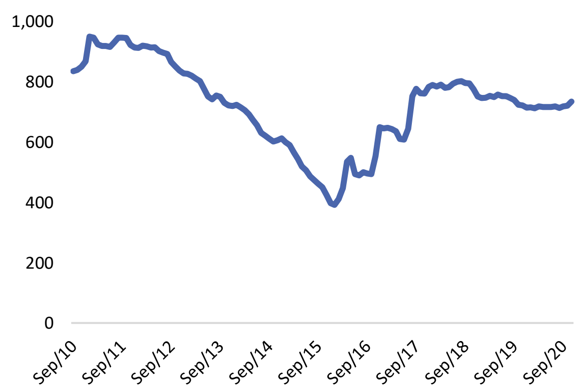
Source: Company, PSR

For FY21e, we expect BRC Asia to report revenue of S$832.5mn (+35.9% y-y) recovering from the drop in FY20 as activities in the construction sector resume.

Expenses

Steel rebars is the biggest cost component of the Group, accounting for an average 91% of total revenue in the last three years.

Figure 10: Steel price (S$/ton)



Source: BCA, PSR

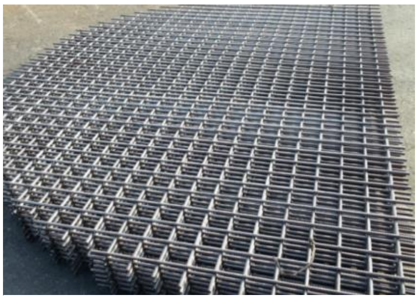
Despite its heavyweight on the P&L statement of the company, we think concerns over volatility of steel price on profitability is overblown. While steel price volatility will have an impact on the Group's short-term profitability due to accounting provisions, in the long-term, these provisions are reversed out as the Group meet their contractual obligations.

Figure 6: Order book remains healthy (%)

(S$bn)	FY19	FY20	FY21e
Order book	0.95	1.0	1.1

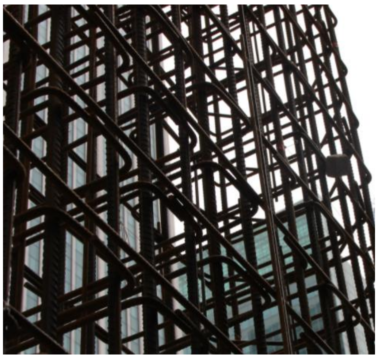
Source: Company, PSR

Figure 7: Mesh have a wide range of uses, such as slabs, walls, household shelters etc.



Source: Company, PSR

Figure 9: BRC's cut and bend services conform to strict standards for scheduling, dimensioning, bending and cutting of steel reinforcement for concrete



Source: Company, PSR

Expenses

The current accounting provision of onerous contracts require management to assess and estimate 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. An accounting provision of onerous contracts is made when the estimated costs to meet the obligations of certain sales contracts exceed the value of inventory on hand plus estimated costs of inventory purchases and conversion costs incurred. All things equal however, the relevant provisions for onerous contracts are reversed and credited back to the profit and loss statement when deliveries under such sales contracts are fulfilled. An illustration of this is summarised in Figure 11.

Figure 11: Illustration of accounting provision for onerous contracts (S$/ton)

	Impact on P&L (Short-term)	Impact on P&L (Contract fulfilment)
Value of sales contract obligation < [Value of inventory on hand + Estimated cost of inventory purchases to meet obligation]	Provision for onerous contract	Reversed provision for onerous contract, credited back to P&L
Value of sales contract obligation > [Value of inventory on hand + Estimated cost of inventory purchases to meet obligation]	No provision required	No impact

Source: BCA, PSR

In other words, accounting provision for onerous contracts only reflect a snapshot of the business at a point in time, and not the actual impact of the business when they fulfil a contract. Over time as the Company fulfill their contractual obligations, such provisions will be negated. This is because the Company ensures that in every sales contract they enter into, they are able to hedge prices (with forward contracts) and be profitable on them as they meet the obligations of the contract.

The Company generally hedge their requirements for inventory out for the next six to nine months, which means they do not bear any price risks during this period. Should the price of steel move up sharply during this period, this will be reflected in the average contract price of their new contracts. The main risk they face is for longer tenured projects since a complete hedging of the total inventory requirements is not possible. That said, given that the bulk of (we estimate this to be about two-thirds of their total order book) their order book will be fulfilled within 18-24 months, this in our view, mitigates the price risk of their contracts.

Other Income

The Group recorded S$5.3mn in government grants for FY20 relating mainly to COVID-19 relief measures and support. The COVID-19 relief measures and support comprise mainly of Jobs Support Scheme grants, Foreign Worker Levy and Property tax rebates introduced in the 2020 Budget. A detailed breakdown of the different support measures are provided for in the Appendix section.

For FY21e, we have penciled in S$2.6mn in government grants to be recognised by the Group as the grants taper off post-circuit breaker. We also recognised an S$1mn gain in FY21e from the sale of a property under LMG, a wholly-owned subsidiary of the Company held through Lee Metal Group Pte. Ltd.

The property, located at 32G Nassim Road, Singapore 258414, has a land size of approximately 1,235 square metres. It is currently under development for a 2-storey detached house. The property is expected to be sold for an aggregate consideration of S$38.4mn this financial year with BRC Asia set to recognise an S$1mn gain from the sale.

Balance sheet

Group net debt was S$186.5mn in 1QFY21, or a net gearing of about 49% vs. 76% in the previous quarter as the Group reduced their working capital requirements to reduce short-term debt due to the current COVID-19 crisis. For 1QFY21, the Group has short-term debt of about S$60.4mn, which are mainly trust receipts issued for inventory procurement to meet orders on hand, and a floating charge on trade receivables for orders fulfilled.

As the construction sector resumes work post circuit breaker, we expect the short-term debt to increase as the Group ramps up capacity to meet new orders. We expect the Group's net gearing to stabilise at 67% and 76% for FY21e and FY22e as they gear up on working capital requirements to meet rising orders from the construction sector.

Figure 12: BRC's leverage

	FY18	FY19	FY20	FY21e	FY22e
Gross gearing	143%	125%	105%	90%	85%
Net gearing	135%	100%	76%	67%	76%

Source: Company, PSR

We imputed a 3% default rate on BRC Asia's accounts receivables for FY21e and FY22e in consideration of the stress faced by construction firms in this environment. We arrived at the 3% default rate by computing the average historical default rates in the construction sector and impute this for our forecasts. We have baked in impairment loss on trade receivables of S$5.3mn and S$5.5mn for FY21e and FY22e respectively. In our view, the allowance provided for BRC Asia's accounts receivables represent a fairly aggressive allowance of their current accounts receivables since about 80-90% of their accounts are insured. Their market-leading position in the market (about 60-70% market share) also means that they are able to work with customers with a better credit profile, mitigating default risks.

Barring another outbreak, we think the Group remains well positioned to manage its accounts receivables exposure for FY21e and FY22e. Their recent placement of 10 million shares to a group of investors at S$1.42 a share saw the Group net S$13.7mn from the exercise, which should put it in good stead to ride out the crisis.

Cash flow

We expect the Group to see a negative cash outflow from operations of S$25.9mn and S$19.6mn for FY21e and FY22e as working capital requirements increase for FY21e and FY22e. We believe this is manageable for the Group as they have previously tightened liquidity requirements for FY20e in response to the shut-down in the construction sector, generating S$122mn in surplus cash from this. We also expect the Group to see a cash infusion of S$37.8mn from the disposal of the property from LMG.

Figure 13: Free cash flow (S$'000)

Date	FY18	FY19	FY20	FY21e	FY22e
Operating cash flow	(10,917)	79,293	122,103	(25,799)	(19,478)
Less: Net Capital expenditure	(26,865)	(2,298)	(2,541)	(6,695)	(7,605)
FCF	**(37,782)**	**76,995**	**119,562**	**(32,494)**	**(27,083)**

Source: Company, PSR

Cash flow

In 2019, BRC Asia announced a dividend policy of paying out 30% of net profit attributable to shareholders for FY2019 and FY2020. We note however, that the Company has paid out an average of about 60% of earnings since FY2019 with the Group declaring a special dividend in both years (See Figure 14).

We expect the formal dividend payout ratio to be unchanged for FY21e and FY22e. We note that the Group continued to pay out a special dividend for FY20 despite the challenging environment. We have conservatively maintained their payout at 6.0 Singapore cents for FY21e and FY22e, in-line with the absolute payout in FY20, which gives investor's a dividend yield of 3.8%.

Figure 14: Dividend payout (S$ cents)

	FY19	FY20	FY21e	FY22e
Final dividend	5.0	2.0	6.0	6.0
Special dividend	3.0	4.0	0.0	0.0
Total	**8.0**	**6.0**	**6.0**	**6.0**
Dividend payout ratio	**59.1%**	**69.3%**	**35.0%**	**32.5%**

Source: Company, PSR

The Group's final dividend for FY20 fell 60% vs. FY19 as earnings declined 36% due to the headwinds in the construction industry last year. Despite this, the Group still declared a special dividend of four (4) Singapore cents, bringing the total dividend paid out to six (6) Singapore cents for FY20, translating to a payout ratio of about 68% (up from 59% for FY19). For FY21e and FY22e, we believe there is potential for the dividend payout to recover as construction activity resume in Singapore. Using the mid-point of the dividend payout ratio declared by the Group for FY19 and FY20, we think they could potentially declare dividends of 10 and 11 Singapore cents for FY21e and FY22e respectively, translating into a dividend yield of 6.3% and 6.9% respectively for FY21e and FY22e.

Industry

Construction demand is expected to recover to some extent from 2021 and 2022 to S$23.0bn – 28.0bn. We expect 50% of public spending in 2021 to 2024 to come from building projects (Residential, Commercial, Industrial, Institutional and Others), while the other 50% is expected to come from Civil Engineering projects. This will be supported by public residential developments and upgrading works, developments at the Jurong Lake District, construction of new healthcare facilities and various infrastructure projects such as the construction of the Cross Island MRT Line.

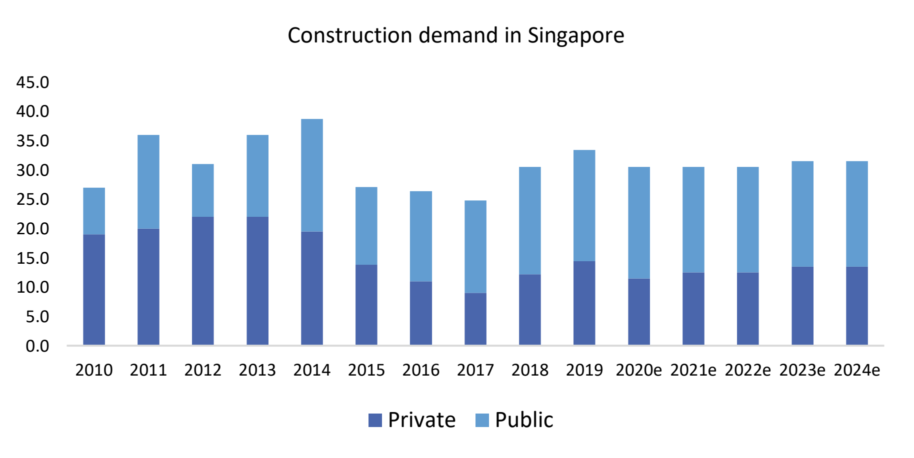
Figure 15: Construction demand (Value of contracts awarded, in S$billion)

Year	Public	Private	Total
2019	19.03	14.50	33.52
2020 (forecast)	11.0 – 14.0	7.0 – 9.0	18.0 – 23.0
2021 - 2022 (forecast)	15.0 – 18.0	8.0 – 10.0	23.0 – 28.0
2023 – 2024 (forecast)	16.0 – 20.0	12.0 – 15.0	28.0 – 35.0

Source: BCA, PSR

The drop in private sector construction demand, and postponements in the award of some public sector projects from 2020 to 2021 saw the BCA revise its projected construction demand (measured by the value of contracts awarded) for 2020 to S$18bn – S$23bn from the earlier forecast of S$28bn – S$33bn released in January 2020.

Figure 16: Construction demand (Actual value of contracts awarded, in S$billion)



Source: BCA, PSR
(1) Forecasts years for 2020e to 2024e based on midpoint of estimates

We expect construction demand for 2021e to 2024e to average at around S$30.5bn as work resumes at the construction sites. A recent move by the Ministry of Manpower to allow the return of existing work pass holders as well as entry into Singapore for new work pass holders will help support the construction sector. The move reverses an earlier decision to limit entry approvals for work pass holders to reduce the risk of imported COVID-19 cases. Existing work pass holders are now also being allowed to return. These measures will address the acute worker shortage that many projects are currently facing, and will be a positive for the sector in our view.

One downside of the latest move however, is the S$2,000 for each worker that employment firms have to pay for each worker to serve his stay-home notice (SHN) in a dedicated facility after he arrives here. They would also have to bear the cost of his medical treatment if a worker tests positive for COVID-19 during the SHN period.

Industry

BRC Asia's acquisition of Lee Metal Group, a recognised international trader of steel and steel related products in Southeast Asia, lifted their estimated market share capacity from about 20 – 30% previously to 40 – 50% in terms of capacity.

Figure 17: Market share by capacity

Company	Estimated market share by capacity in 2017 (%)
BRC Asia	40 – 50
NatSteel	20 – 30
Angkasa	10 – 20
Ribar	0 – 10
Super Bend	0 – 10
Lian Bee Metal	0 – 10

Source: Competition Commission of Singapore, PSR

We think the acquisition enabled the company to improve overall productivity and efficiency, which will then be translated into cost savings that can be passed on to their customers in terms of more competitive pricing when they bid for jobs. It will also allow them to offer their customers a full-suite of prefab reinforcing solutions, and become a one-stop shop for their customers.

Figure 18: Market share by volume output monthly

Company	Estimated market share by volume output in 2017 (%)
BRC Asia	50 – 70
NatSteel	10 – 20
Angkasa	0 – 10
Ribar	0 – 10
Super Bend	0 – 10
HG Metal	0 – 10
Lian Bee Metal	0 - 10

Source: Competition Commission of Singapore, PSR

Figure 19: Estimated market share by value and volume (%)

Company	Estimated Rebar market share (%)	Estimated Mesh market share (%)
BRC Asia	40 – 60	50 – 70
NatSteel	20 – 30	30 – 40
Angkasa	0 – 10	0 – 10
Ribar	0 – 10	0 – 10
Super Bend	0 – 10	0 – 10
Lian Bee Metal	0 – 10	0 – 10
HG Metal	0 - 10	0 – 10

Source: Competition Commission of Singapore, PSR

Industry

We believe BRC Asia's dominant position in the prefabricated steel market place them in a leading position to take advantage of the recovery in the construction sector.

The detailed breakdown of the cost efficiencies achieved by BRC Asia is summarised below:
1) Improved unit cost at various stages in the supply chain, including raw materials, logistics, sub-contractors, spare parts and scrap metal;
2) Lower wastage (i.e. scrap metal generated); and
3) Lower man hour per metric ton of steel processed.

The acquisition also allowed BRC Asia to enter into a new field they previously did not have any expertise on. Lee Metal had traditionally focused on infrastructure projects, which required a greater use of the cut and bend steel, while BRC Asia focused on HDB projects, which utilises more mesh.

BRC Asia has an annual processing volume of approximately 1 million tonnes. We think they will continue to build on their competitive advantage in the next few years as they realise the full synergies from their acquisition of Lee Metal. These competitive advantages include but are not limited to, (i) providing best-in-class products at sustainable pricing, (ii) institutionalised hedging capabilities and (iii) effective procurement and price certainty.

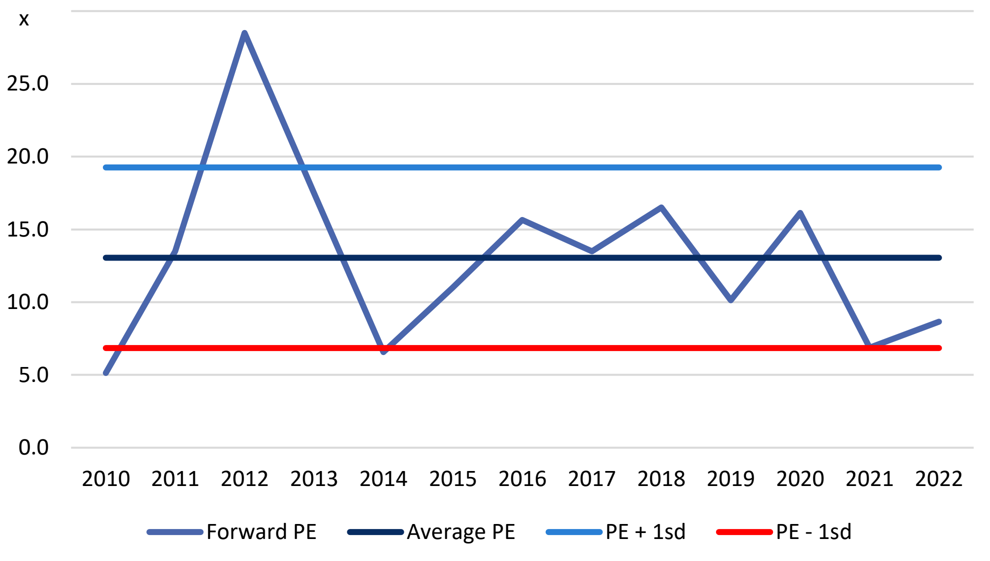
For 2021, we expect construction demand to recover to some extent, supported by public residential developments and upgrading works, the developments at the Jurong Lake District, the construction of new healthcare facilities and various infrastructure projects such as the construction of the Cross Island MRT Line. The recent launch of BTO projects numbering approximately 7,800 new flats in eight (8) estates is also expected to bolster construction demand.

While construction of mega projects such as Changi Airport Terminal Five, has been delayed, we see the eventual resumption of construction for these projects as a future catalyst for the company. We estimate the resumption of these projects to come in 2023 and 2024, which could see an upward revision of the annual current construction demand forecast of S$25.0bn – S$32.0bn.

Valuation

We initiate coverage of BRC Asia with a BUY recommendation and target price of $1.87. Our TP is based on 11x FY21 P/E, a 15% discount to their historical average P/E on account of the uncertain environment. In our view, BRC Asia should trade at a higher premium to their historical P/E after the acquisition of Lee Metal in 2018 as this strengthened their market position considerably. Nonetheless, we remain cautious about the outlook for the industry as construction activity could remain subdued until a permanent solution for the pandemic is found.

Figure 20: BRC Asia's P/E band



Source: PSR

Near term, we believe the national effort to vaccinate the Singapore population could see a recovery of general economic activity and improve the outlook on the construction sector, reducing the discount to their historical average P/E.

Risks

Resurgence of COVID-19 cases in Singapore and in the foreign workers dormitories. The prevention of a resurgence of COVID-19 cases will remain a primary concern in all economic activities. For the Singapore construction sector, regular swab tests for foreign workers residing in dormitories and worksite personnel help to ensure a safe working environment. However, a resurgence of COVID-19 cases in the dormitories could ground construction to a halt.

Failure to bring in new foreign workers to alleviate the labour crunch. Tighter border controls amid the coronavirus pandemic has seen a labour crunch in the construction sector. The Ministry of Manpower's recent move to allow the return of existing work pass holders as well as entry into Singapore for new work pass holders will help alleviate the labour crunch in the construction industry. However, the high cost of ensuring the workers' passage into Singapore could reduce the entry of foreign workers into Singapore, elevating the labour crunch.

APPENDIX 1 – Background

BRC Asia is an established pioneer in prefabricated steel reinforcement. Since incorporation in 1938, it has developed expertise in all types of steel reinforcement solutions to become a leading steel reinforcement solutions provider in Singapore. Today, they have operations in Singapore, Malaysia and China. Singapore is their main market and they currently operate 9 factories with a total manufacturing capacity of 1.2 million metric tons a year.

Figure 21: BRC Asia's factory at 350 Jalan Boon Lay

Source: Company

Government Grants

Government grant income relates mainly to COVID-19 relief measures and support, Special Employment Credit ("**SEC**") and Wage Credit Scheme ("**WCS**"). The COVID-19 relief measures and support comprise mainly of Jobs Support Scheme ("**JSS**") grants, Foreign Worker Levy ("**FWL**") and Property tax rebates introduced in the 2020 Budget.

JSS provides wage support to employers, to help retain local employees during this period of economic uncertainty. Under the JSS, the Government co-funds 25% to 75% of the first $4,600 of gross monthly wages paid to each local employee in a 10-month period (up to August 2020) and 10% to 50% of the same in the subsequent 7-month period (September 2020 to March 2021). The Group recognised the related grant receivables when there is reasonable assurance that the grant conditions are satisfied. Grant received in advance is recognised as government grant income in the profit or loss on a systematic basis over the months in which the related salary costs are recognised as expenses.

To ease labour costs of firms that employ foreign workers, FWL rebates of $750 monthly for April to June 2020 were granted for each work permit and S-Pass holder, and was subsequently stepped down to $375 monthly for July to September 2020. In the subsequent 15-month period (October 2020 to December 2021) the FWL rebate would be $90 monthly for each work permit holder. The Group recognised the related grant receivables when there is reasonable assurance that the grant conditions are satisfied with the corresponding recognition of government grant income in the profit or loss over the corresponding months.

SEC was introduced to support employers as well as to raise the employability of older low-wage Singaporeans. It was announced in the 2016 Budget that the SEC will be extended from 2017 to 2019, providing a wage offset to employers hiring Singaporean workers aged 55 and above, and earning up to $4,000 per month. In the 2019 Budget, the extension of SEC for one more year until the end of 2020 was announced. The WCS was introduced to help businesses with rising wage costs. It was announced in the 2018 Budget that the WCS would be extended for three more years to 2020 to support businesses embarking on transformation efforts and encourage sharing of productivity gains with workers. Government co-funding will be maintained at 20% in 2018, and will subsequently be stepped down to 15% in 2019 and 10% in 2020. However in the 2020 Budget, it was announced that the Government co-funding ratios for wage increases in 2019 and 2020 will be raised from 15% and 10%, to 20% and 15% respectively. The qualifying gross wage ceiling will also be raised to $5,000 per month for both years, up from $4,000 per month.

Income Statement

Y/E Sept, ($'000)	FY18	FY19	FY20	FY21e	FY22e
Revenue	**567,009**	**913,287**	**612,378**	**832,456**	**899,458**
less: Cost of sales	(521,938)	(836,717)	(546,227)	(747,043)	(808,412)
Gross profit	**45,071**	**76,570**	**66,151**	**85,413**	**91,046**
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)	(7,731)	(7,890)
Others	(4,916)	(8,810)	(2,681)	(5,427)	(8,404)
Operating profit	**16,478**	**39,284**	**41,082**	**53,441**	**54,965**
Share of results of associates and joint v	(828)	(849)	(14,092)	(1,320)	866
Profit before tax	**15,650**	**38,435**	**26,990**	**52,121**	**55,831**
Taxation	(3,607)	(6,873)	(6,638)	(10,424)	(11,166)
Net Profit	**12,043**	**31,562**	**20,352**	**41,697**	**44,665**
Profit attributable to owners	**12,043**	**31,562**	**20,352**	**41,697**	**44,665**

Per share data (S$)

Y/E Sept	FY18	FY19	FY20	FY21e	FY22e
BVPS	0.97	1.07	1.08	1.25	1.37
DPS	0.01	0.08	0.06	0.06	0.06
EPS	0.06	0.14	0.08	0.17	0.18

Cash Flow

Y/E Sept, ($'000)	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	**15,650**	**38,435**	**26,990**	**52,121**	**55,831**
Adjustments	7,134	18,489	39,537	22,280	21,603
WC changes	(30,440)	25,073	61,196	(89,776)	(85,746)
Cash generated from ops	**(7,656)**	**81,997**	**127,723**	**(15,375)**	**(8,312)**
Others	(3,261)	(2,704)	(5,620)	(10,424)	(11,166)
Cashflow from ops	**(10,917)**	**79,293**	**122,103**	**(25,799)**	**(19,478)**
CFI					
CAPEX, net	(26,865)	(2,298)	(2,541)	(6,695)	(7,605)
Others	(140,104)	(9,015)	1,135	37,792	2
Cashflow from investments	**(166,969)**	**(11,313)**	**(1,406)**	**31,097**	**(7,603)**
CFF					
Dividends paid to owners	-	-	(18,667)	(14,698)	(14,698)
Proceeds from borrowings, net	99,907	(31,606)	(87,107)	(4,568)	9,402
Proceeds from equity issuance, net	46,990	-	-	13,700	-
Others	48,062	(9,410)	(6,054)	(6,340)	(6,499)
Cashflow from financing	**194,959**	**(41,016)**	**(111,828)**	**(11,905)**	**(11,794)**
Net change in cash	17,073	26,964	8,869	(6,607)	(38,875)
Cash at the start of the period	23,989	41,080	68,111	76,771	70,164
Currency translation	18	67	(209)	-	1
Others	-	-	-	-	-
Ending cash	**41,080**	**68,111**	**76,771**	**70,164**	**31,290**

*nm - not meaningful

Balance Sheet

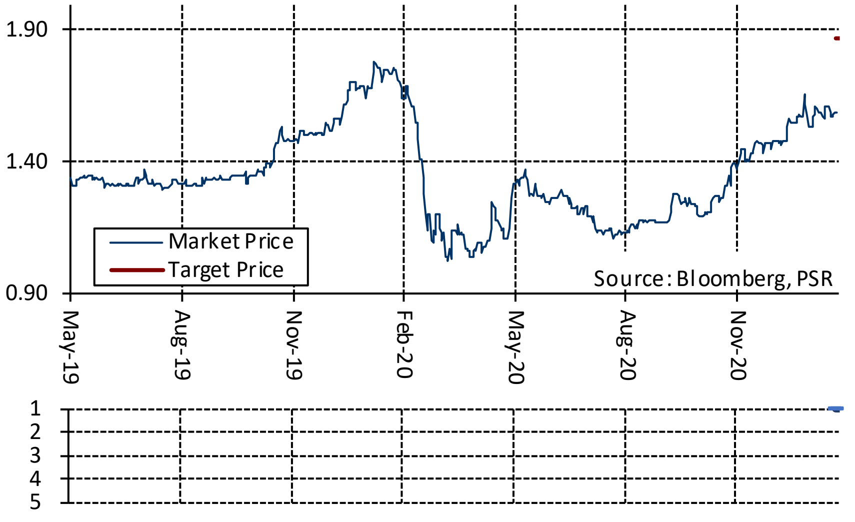
Y/E Sept, ($'000)	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
PPE & Investment Properties	151,449	136,512	157,088	148,168	139,807
Others	23,702	26,255	16,739	18,434	89,345
Total non-current assets	**175,151**	**162,767**	**173,827**	**166,602**	**229,152**
Inventories	270,249	231,891	237,185	262,281	278,462
Trade and other receivables	180,725	195,315	89,824	184,044	193,250
Cash and cash equivalents	41,080	65,778	77,892	70,164	31,290
Others	31,537	38,835	41,220	7,327	7,327
Total current assets	**523,591**	**531,819**	**446,121**	**523,815**	**510,329**
Total Assets	**698,742**	**694,586**	**619,948**	**690,417**	**739,481**
LIABILITIES					
Trade and other payables	58,959	67,164	27,918	60,358	68,655
ST borrowings	255,838	268,939	180,039	176,869	187,669
Others	28,684	21,755	34,947	34,947	34,947
Total current liabilities	**343,481**	**357,858**	**242,904**	**272,174**	**291,271**
LT borrowings	105,365	60,658	99,225	99,225	99,225
Others	12,860	13,142	13,272	13,272	13,272
Total non-current liabilities	**118,225**	**73,800**	**112,497**	**112,497**	**112,497**
Total liabilities	**461,706**	**431,658**	**355,401**	**384,671**	**403,768**
EQUITY					
Share Capital	125,001	125,001	125,001	139,201	139,201
Retained profits	115,358	141,186	142,871	169,870	199,837
Others	(3,323)	(3,259)	(3,325)	(3,325)	(3,325)
Total equity	**237,036**	**262,928**	**264,547**	**305,746**	**335,713**
Total equity and liabilities	**698,742**	**694,586**	**619,948**	**690,417**	**739,481**

Valuation Ratios

Y/E Sept	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	28.4	11.7	19.0	9.3	8.7
P/B (x)	1.6	1.5	1.5	1.3	1.2
EV/EBITDA (x)	NA	NA	NA	NA	NA
Dividend yield (%)	0.6%	5.1%	3.8%	3.8%	3.8%
Growth & Margins (%)					
Growth					
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%	93.1%	7.1%
Margins					
EBITDA margin	NA	NA	NA	NA	NA
EBIT margin	NA	NA	NA	NA	NA
Net profit margin	2.1%	3.5%	3.3%	5.0%	5.0%
Key Ratios					
ROE	2.8%	4.5%	3.1%	6.4%	6.2%
ROA	2.4%	4.5%	3.1%	6.4%	6.2%
Net Gearing (%)	135.1%	100.3%	76.1%	67.4%	76.1%

Source: Company, Phillip Securities Research (Singapore) Estimates

Ratings History



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

Contact Information (Singapore Research Team)

Head of Research
Paul Chew – paulchewkl@phillip.com.sg

Research Admin
Qystina Azli - qystina@phillip.com.sg

Consumer | Industrial | Conglomerates
Terence Chua - terencechuatl@phillip.com.sg

Property | REITs
Natalie Ong - natalieongpf@phillip.com.sg

Banking & Finance | Healthcare
Tay Wee Kuang – taywk@phillip.com.sg

Small-Mid Cap
Tan Jie Hui - tanjh@phillip.com.sg

Small-Mid Cap
Vivian Ye Qianwei - yeqw@phillip.com.sg

Credit Analyst (Bonds)
Timothy Ang – timothyang@phillip.com.sg

US Equity
Yeap Jun Rong – yeapjr@phillip.com.sg

Technical Analyst
Chua Wei Ren – chuawr@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE
Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA
Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

HONG KONG
Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN
Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA
PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA
Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND
Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE
King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM
King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES
Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA
Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA
Phillip Bank Plc
Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA
PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY
PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI
Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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