Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Issuer: BRC Asia Limited

Stock code: BEC

Meeting details:
Date: 27 January 2022
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Q1. As noted in the chairman's statement, despite Covid-19 related disruptions, the group delivered a strong set of financial results. Revenue increased by 91% year-on-year to $1.2 billion although gross profit increased by a lower percentage of 24% to $82.1 million. Net earnings more than doubled from $20.4 million to $47.0 million in FY2021, a 131% yoy improvement. Earnings per share increased to 19.58 cents for FY2021, compared to 8.72 cents for FY2020. The group has an order book as at 30 September 2021 amounting to $1.2 billion, with the duration of the projects in the order book ranging up to 5 years.

The company also acted to strengthen its financial position. In January and October 2021, the company completed two placements of 41.015 million shares. The proceeds of approximately $60.1 million were used to pay down the group's outstanding bank borrowings. In addition, the company issued 31.015 new shares to an existing shareholder, Hong Leong Asia ("HLA"), which concurrently acquired 15 million vendors shares at $1.48 per share. As a result, HLA stake in the company increased from 3.6% to 20.0% while the controlling shareholder, Esteel Enterprise Pte. Ltd. ("Esteel"), reduced its stake from 71.912% (15 December 2020) to 61.16% (15 December 2021).

The company has stated that it will seek to partner HLA to leverage on the latter's regional network, explore international growth opportunities and to tap on the strong business synergies between both companies.

(i) The company has carried out three placements and the proceeds have been used to pay down the group's outstanding bank borrowings. At the end of the financial year, loans and borrowings amounted to $435.8 million and the group's net debt was $352.8 million. With $300.9 million in equity attributable to owners of the company, the net debt to equity ratio is 1.17 times. Gearing (defined by net debt divided by capital plus net debt) is at 54%, an increase from 43% a year ago (page 119). **Can the board/management confirm that it is comfortable with the current gearing of the group? Has the board set an internal limit on the group's gearing? Does the group have the appropriate capital structure to support its growth? Have the banks expressed concern over the group's leverage? Will the company be looking to deleverage further in the next 12-18 months?**

(ii) **In view of the constant fundraising and the deleveraging, is the company able to maintain/increase its dividends? Is it efficient to be carrying out both fundraising and declaring high dividends? Is management spending considerable time and attention in carrying out private placements which takes them away from focusing on the core business?**

(iii) **What are the potential areas of collaboration with HLA in the near term?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

(iv) It is noted that the outlook for the constructions sector remains to be supported by healthy pipelines of housing projects and strong demand for general construction. **Given the group's market positioning, how confident is management in tendering and building up the group's order book while at the same time maintaining a commensurate level of profit margin (see question 2)?**

(v) **With HLA as a new substantial shareholder with a 20% stake, has there been any engagement with HLA over the group's strategies and long-term growth plans?**

(vi) **Has the company received any director nomination from HLA (which was provided for in the subscription agreement)?**

(vii) **In addition, given that the majority shareholder, Esteel, has actively reduced its stake, what assurance do minority shareholders have over Esteel's long term commitment to the group?**

Q2. The "provision for onerous contracts" is a key audit matter (KAM) highlighted by the independent auditor in their report on the audit of the financial statements. Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As shown in the KAM (page 44), as at 30 September 2021, the group recognised provision for onerous contracts amounting to $46.1 million (2020: $0.8 million). The process of estimating provision for onerous contracts requires management's judgement on the estimated unavoidable costs of meeting its contractual obligations based on the inventory on hand, plus estimated costs of inventory purchases and conversion costs required.

The significant amount of provision for onerous contracts in FY2021 was attributed to escalating steel prices on fixed price contracts (page 3).

(i) **Can management help shareholders understand the extenuating circumstances that led the group to recognise $46.1 million in provision for onerous contracts?**

(ii) **What percentage of the group's contracts is on a fixed price basis? Is it the group's practice to hedge its exposure once contracts are signed?**

(iii) **Has the board identified steel price as a key material risk factor for the group? If so, can management elaborate further on the group's strategy in managing the volatility in steel price? What is management's view on the price of steel going forward?**

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Other items in the financial statements that are worth noting are:

	Group		Company	
	2021	2020	2021	2020
	$'000	$'000	$'000	$'000
Raw materials	**442,664**	236,311	**437,751**	234,505
Allowance for inventory obsolescence	**(3,979)**	(1,026)	**(3,979)**	(1,026)
Trade receivables, net:				
- Third parties	**152,757**	81,394	**126,050**	60,078
Trade receivables subject to provisional pricing	**52,097**	25,048	**35,389**	17,661

(Adapted from annual report)

(iv) **Given the increased scale of the group's operations, are there opportunities for management to further finetune its inventory stocking policy?**

(v) **What are the reasons for the disproportionally large increase in allowance for inventory obsolescence?**

(vi) **Can management also elaborate further on the provisional pricing contracts?**

Q3. The attendance of directors at board and board committee meetings are shown on page 18 and reproduced below:

The attendance of the Directors at the Board and Committee meetings for the financial year ended 30 September 2021 is as follows:

Name of Director	Board of Directors	Audit Committee	Remuneration Committee	Nominating Committee
Mr. Teo Ser Luck	5/5	5/5[1]	1/1	1/1
Mr. Seah Kiin Peng	5/5	5/5[1]	1/1[1]	1/1[1]
Mr. Xu Jiguo	5/5	5/5[1]	1/1[1]	1/1[1]
Mr. Zhang Xingwang	4/5	5/5[1]	1/1[1]	1/1[1]
Mr. Darrell Lim Chee Lek	5/5	5/5[1]	1/1[1]	1/1[1]
Ms. Chang Pui Yook	5/5	5/5	1/1	1/1[1]
Mr. He Jun	5/5	5/5	1/1	1/1
Mr. Joel Leong Kum Hoe	5/5	5/5	1/1	1/1

Note:
[1] The Director who is not a member of the committee has attended the meeting(s) by invitation.

(Source: company annual report)

As seen from the table above, the executive directors attended the board committee meetings by invitation. It would appear the board committee meetings are attended by all directors, making them the same as board meetings.

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

(i) **Can the board help shareholders understand if it is the usual practice for non-board committee members (i.e., the executive directors) to attend board committee meetings?**

(ii) **What is the group dynamics at the board committee meetings when the independent directors on the board committee may be reviewing and discussing matters that are related to or affect the executive directors?** Such board committee meetings would have included agenda items on interested party transactions, performance assessment, remuneration of the executive directors and on the audit/financial reporting/internal controls of the group.

(iii) **Do the executive directors also actively participate in the discussions during the board committee meetings? If so, how are board committee meetings different from board meetings?**

(iv) **Are the committees able to make decisions objectively and independently?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority ("ACRA"), the Monetary Authority of Singapore ("MAS") and Singapore Exchange Regulation ("SGX RegCo") published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so. On 9 April 2021, it was announced that the alternate arrangements for meetings ("Meetings Order") would be extend beyond 30 June 2021 until it is revoked or amended by the Ministry of Law. Accordingly, until such time, issuers may continue to utilise the Checklist issued by ACRA, MAS and SGX RegCo to guide entities on the conduct of their general meetings.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

^ Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation (https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation)

Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

Join our mailing list here to receive latest news and upcoming events.

CONNECT WITH US