BRC Asia Limited

Forex losses push BRC into the red in 2Q2016

- **Realised and mark-to-market forex losses totaled S$4.9 million in 1H2016**
- **Gross profit margins for 2Q2016 and 1H2016 fell to 6.6% and 6.4% from 9.1% and 9.3% respectively in the same periods last year**
- **Net loss of S$1.5 million and S$0.5 million incurred for 2Q2016 and 1H2016 respectively**

Singapore, 12 May 2016 – SGX-Mainboard listed BRC Asia Limited ("BRC" or "The Group"), one of the largest prefabricated steel reinforcement providers in Singapore, reported net losses of S$0.5 million and S$1.5 million respectively for the half and quarter ended 31 March 2016 (1H2016 and 2Q2016) due to foreign exchange ("forex") losses totaling S$4.9 million on currency forward contracts entered into by the Group to hedge purchase commitments for raw materials which are denominated in US dollars. As the Group does not adopt hedge accounting, changes to the fair values of foreign currency forward contracts are recognised in profit or loss.

In 1H2016, the Group delivered more steel to its customers compared to the corresponding half in the last financial year (1H2015). In spite of this, revenue for 1H2016 fell 20% year-on-year to S$168.6 million as end-user steel prices continued to decline at a faster rate than steel costs, simply because there is overcapacity in the reinforcing steel industry as demand continues to moderate in tandem with the weakening of the property and construction markets. It was unsurprising, therefore, that gross profit margins fell to just over 6% in 2Q2016 and 1H2016 compared to gross profit margins of more than 9% in 2Q2015 and 1H2015.

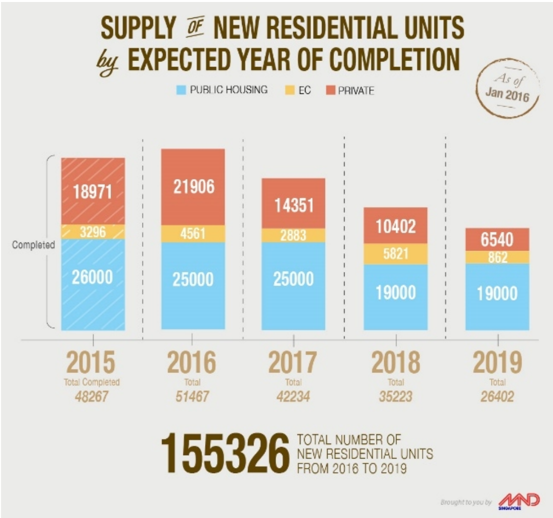
Financial Highlights (S$'000)

	2Q2016	2Q2015	Change (%)	1H2016	1H2015	Change (%)
Revenue	79,427	107,897	(26)	168,608	209,877	(20)
Gross Profit	5,273	9,790	(46)	10,749	19,565	(45)
Gross Profit Margin	6.6%	9.1%	-	6.4%	9.3%	-
Net (Loss) /Profit	(1,470)	5,712	n.m.	(452)	10,468	n.m.
Net Profit excluding forex gain/loss	2,615	3,902	(33)	4,421	6,624	(33)

Industry Outlook

With the exception of public infrastructure and industrial segments, the other construction supply pipelines have weakened considerably. This is most clearly seen in the private residential property supply pipeline, which had contracted by 27,000 units in the one year leading up to January 2016, as the following charts from the Ministry of National Development (MND) show.

As at Jan 2016



As at 20 Feb 2015

The bumper years of public housing are also over. Although the Housing & Development Board (HDB) had announced that it planned to launch 18,000 Build-to-Order ("BTO") flats in 2016[1] (2015: 15,000[2]), this is still a figure that is significantly lower than the average of 22,976 BTO flats launched each year over the last five years[3].

Further, based on real estate statistics published by the Urban & Redevelopment Authority (URA), although there is a marginally better supply pipeline for office space in the one year to end first quarter 2016, supply pipelines for retail space and hotel rooms have weakened in that period.

On the supply side, excess capacity in the reinforcing steel industry amid a soft and weakening property and construction market continues to drive tough market competition which is undermining margins and profits. This has also been complicated by recent volatility in the global steel markets not seen for quite a while. The volatility has been driven by a mix of government intervention and speculators in China which is by far the world's largest steel producer.

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[1] https://mndsingapore.wordpress.com/2015/12/30/another-successful-year-of-housing-a-nation/
[2] http://www.hdb.gov.sg/cs/infoweb/press-releases/hdb-launches-bumper-crop-of-12411-flats?resolvetemplatefordevice=true
[3] In 2011, 2012, 2013, 2014 and 2015 according to data obtained from HDB's website, HDB launched 25,200, 27,084, 25,139, 22,455 and 15,000 BTO flats respectively.

In the near term, however, operating margins are expected to improve due to the arrival of cheaper steel booked prior to the recent hike in prices and the improvement in selling prices for spot orders and BCA index contracts. Be that as it may, this improvement may be short-lived, as steel booked after the said spike in steel prices will arrive several months later and may then compress margins again.

BRC's Group Managing Director, Mr Lim Siak Meng, commented, "*We have to manage our inventory and order book with extra care in order to mitigate this current volatility in steel prices. More importantly, we are focusing on cost control, value engineering, productivity and efficiency to bring BRC to the next level of business excellence. To that end, we have also strengthened our management team by bringing in several senior specialists to BRC. I believe that a strong foundation, coupled with continual change in search of excellence, will serve BRC well not only in good times, but in more challenging times too!*"

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About BRC Asia Limited

BRC Asia Limited is one of the largest reinforcing steel fabricators in Singapore. The Group's core business is in providing a complete range of reinforcing solutions - steel welded mesh, prefabricated reinforcing steel cages, cut & bent reinforcement bars - for the construction industry.

The Company was incorporated in Singapore in 1938 as the Malayan Wire Mesh & Fencing Co Ltd and was listed on the SGX-ST Mainboard in July 2000.

For more information, please visit the Group's website at www.brc.com.sg

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