

28 February 2018 | 12MFY17 Results Review

Hock Seng Lee Berhad

Better Numbers But Slower Progress Billings

Maintain BUY
Target Price (TP): RM2.00


INVESTMENT HIGHLIGHTS

- **Mixed 12MFY17 results**
- **Earnings dragged by slower progress billings and**
- **Midst of revising earnings assumptions.**
- **Altogether, we reaffirm our BUY stance with a TP of RM2.00**

Weak 12MFY17 Earnings. HSL's 12MFY17 earnings of RM46.5m (-18%YoY) registered an insipid result accounting for a dismal 59.2% and 102.7% of ours and Street's estimates. Its 12MFY17 earnings reveals stasis of revenue from slower progress billings from RM498.5m in 12MFY16 to RM505.9m in 12MFY17 (-1%YoY). Our earnings estimate departed from Street's on the account of higher forecast of progress billings from Miri Centralised Treatment Plant.

Earnings dragged by lower progress billings. HSL total unbilled is estimated to be c.RM2.7bn. (3.46x FYE18 revenue cover) hence we are expecting revenue revival in this quarter. But due to Miri's plant progress which still in its infancy the impact is not meaningful yet.

Earnings forecasts maintained. Although, Miri Centralised Sewage Treatment Plant (Package B) progress rate will be crystallized in the earnings in upcoming quarters we believe that the impact will still be dovish. But to balance out the gradual process of the wastewater treatment plants construction (Miri and Kuching 2) we are expecting Pan Borneo Highway, Precint Luxe Phases 2 & 4 and Vista Industrial park to support earnings in upcoming quarters. Hence, we make no changes in our forecast for FYE18/FYE19 due to HSL's multiple projects.

Recommendation. Altogether, we maintain our target price of RM2.00 per share based on DCF (WACC: 8.0%) implying a +28.0% upside. 

RETURN STATS

Price (27 Feb 2018)	RM1.64
Target Price	RM2.00
Expected Share Price Return	+21.9%
Expected Dividend Yield	+1.5%
Expected Total Return	+23.4%

STOCK INFO

KLCI	1,871.46
Bursa / Bloomberg	6238 / HSL MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	549.5
Market cap. (RM'm)	901.21
Price over NA	1.24x
52-wk price Range	RM1.39 – RM1.77
Beta (against KLCI)	0.92x
3-mth Avg Daily Vol	0.15m
3-mth Avg Daily Value	RM0.23m
Major Shareholders (%)	
HSL Enterprise	58.46
ASB	9.64
EPF	4.30
ASM	2.99

INVESTMENT STATISTICS

FYE Dec	2014	2015	2017	2018F	2019F
Revenue (RM'm)	604.7	654.7	505.9	767.0	710.0
EBIT (RM'm)	99.3	98.2	60.7	107.4	99.4
Pre-tax profit (RM'm)	103.2	101.2	62.6	122.7	106.5
Net profit (RM'm)	76.9	76.1	46.5	84.4	81.7
EPS (sen)	14.0	13.9	14.2	15.3	14.8
EPS Growth (%)	-0.09	-0.01	0.02	0.08	-0.03
PER (x)	11.7	11.8	11.5	10.7	11.1
Dividend (sen)	2.8	3.0	2.5	2.6	2.5
Dividend yield (%)	1.6	1.5	1.5	1.6	1.6

Source: Bursa Malaysia, MIDFR

12MFY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4Q17	3Q17	4Q16	YoY	QoQ	12M17	12M16	YoY
Revenue	168.0	126.3	113.2	33%	48%	505.9	498.5	1%
Gross profit	24.7	18.4	21.0	34%	18%	428.7	88.9	382%
Other income	0.09	0.1	0.0	-36%	800%	0.4	0.3	33%
Admin expenses	-5.4	-3.9	-5.9	38%	-8%	-16.8	-17.3	-3%
EBIT	19.4	14.6	15.1	33%	28%	60.7	71.9	-16%
Finance income	0.4	0.5	0.6	-28%	-37%	2.2	3.6	-39%
Finance costs	-0.1	-0.75	-0.1	0%	0%	-0.3	-0.40	-25%
Pre-tax profit	19.6	15.1	15.6	30%	26%	62.6	75.1	-17%
Taxation	-5.0	-4.0	-3.9	25%	28%	16.0	-18.7	-186%
Net profit	14.6	11.0	11.7	33%	25%	46.5	56.4	-18%
EPS (sen)	2.7	2.0	2.1	33%	25%	8.5	10.3	-18%
	4Q17	3Q17	4Q16	+/- ppts	+/- ppts	12M17	12M16	+/- ppts
EBIT margin	11.5%	11.6%	13.3%	0.0	-1.8	12.0%	14.4%	-2.4
Pre-tax margin	11.7%	12.0%	13.8%	-0.3	-2.1	12.4%	15.1%	-2.7
Net profit margin	8.7%	8.7%	10.3%	0.0	-1.6	9.2%	11.3%	-2.1
Effective tax rate	25.5%	26.5%	25.0%	-1.0	0.5	-25.6%	24.9%	-50.5

Source: MIDFR

DAILY PRICE CHART



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.