

25 May 2018 | 3MFY18 Results Review

Hock Seng Lee Berhad

Forecasts Trimmed from Expected Headwinds

Maintain BUY

Adjusted Target Price (TP): RM1.67
(From RM2.00)


INVESTMENT HIGHLIGHTS

- Results came in mixed
- Earnings imbued by lower than expected progress billings
- FYE18/FYE19 earnings trimmed to absorb 'hard landing'
- Nonetheless, we reiterate our BUY stance with a TP of RM1.67 per share

3MFY18 Earnings mixed results. HSL's 3MFY18 earnings of RM13.7m (+22.3%YoY) registered a mixed result accounting for a 16.2% and 22.0% of ours and Street's estimates. Its 3MFY18 earnings reveal increased revenue from higher progress billings from RM94.9m in 3MFY17 to RM131.7m in 3MFY18 (+39%YoY). The deviation in expectation occurred as we've predicted that HSL would register higher progress billings rate.

Earnings imbued by lower than expected progress billings. HSL's total current orderbook amounts to RM2.9bn. (3.7x FYE18 revenue cover) as such we expect that upcoming quarters would see revenue revived. On the contrary, the progress of Miri and Kuching waste water projects are rather sluggish currently. This is coupled with Pan Borneo's total project review by the federal government. As a result, HSL's orderbook replenishment target for FYE18 would be potentially reduced.

FYE18/FY19 earnings forecasts cut to absorb 'hard landing'. However, this scenario prompts an adjustment to HSL's earnings assumption for FYE18/FYE19. We reduced our assumptions by 20% (from RM767.0m to RM613.6m) for revenue and 25% (from RM84.4m to RM63.3m) for earnings in FYE18. Meanwhile, for FYE19 we reduce our target by 20% (from RM710m to RM568m) and earnings by 21% (from RM81.7 to RM65.6m). Our adjustment is to comfort any 'hard landings' from lower progress billings and any adverse announcements material to its orderbook or billings progress.

Recommendation. Therefore we maintain our **BUY** recommendation with an adjusted target price of **RM1.66** per share rolling over FYE19's EPS of 11.9sen to our mid-range PER of construction sector target of 14x. 

RETURN STATS	
Price (24 May 2018)	RM1.36
Target Price	RM1.67
Expected Share Price Return	+18.5 %
Expected Dividend Yield	+1.6%
Expected Total Return	+20.1%

STOCK INFO	
KLCI	1,775.66
Bursa / Bloomberg	6238 / HSL MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	549.5
Market cap. (RM'm)	747.34
Price over NA	1.00x
52-wk price Range	RM1.30 – RM1.70
Beta (against KLCI)	0.78x
3-mth Avg Daily Vol	0.14m
3-mth Avg Daily Value	RM0.21m
Major Shareholders (%)	
HSL Enterprise	58.46
ASB	9.55
EPF	4.30
ASM	2.99

INVESTMENT STATISTICS

FYE Dec	2014	2015	2017	2018F	2019F
Revenue (RM'm)	604.7	654.7	505.9	613.6	568
Net profit (RM'm)	76.9	76.1	46.5	63.3	65.6
EPS (sen)	14.0	13.9	8.0	11.5	11.9
EPS Growth (%)	-0.09	-0.01	-42.4	0.08	-0.03
PER (x)	9.7	9.8	9.6	11.8	11.4
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

3MFY18 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1Q18	4Q17	1Q17	YoY	QoQ	3M18	3M17	YoY
Revenue	131.7	168.0	94.9	-22%	39%	131.7	94.9	39%
Gross profit	22.5	24.7	22.5	-9%	0%	22.5	22.5	0%
Other income	0.1	0.1	0.0	-	-	0.1	0.0	-
Admin expenses	-4.6	-5.4	-3.8	-15%	21%	-4.6	-3.8	21%
EBIT	17.9	19.4	0.8	-8%	2138%	17.9	0.8	2138%
Finance income	0.8	0.3	0.9	167%	-11%	0.8	0.9	-11%
Finance costs	-0.2	-0.10	-0.10	100%	100%	-0.2	-0.10	100%
Pre-tax profit	18.3	19.6	18.5	-7%	-1%	18.3	18.5	-1%
Taxation	-4.7	-5.0	-4.7	-6%	0%	-4.7	-4.7	0%
PATAMI	13.7	14.6	11.2	-6%	22.3%	13.7	11.2	22.3%
EPS (sen)	2.5	2.7	2.0	-6%	24%	2.5	2.0	24%
	1Q18	4Q17	1Q17	+/- ppts	+/- ppts	3M18	3M17	+/- ppts
EBIT margin	13.6%	11.5%	0.8%	2.0	12.7	13.6%	0.8%	12.7
Pre-tax margin	13.9%	11.7%	19.5%	2.2	-5.6	13.9%	19.5%	-5.6
Net profit margin	10.4%	8.7%	14.4%	1.7	-4.0	10.4%	14.4%	-4.0
Effective tax rate	25.7%	25.5%	25.4%	0.2	0.3	25.7%	25.4%	0.3
Segmental Breakdown								
Revenue	1Q18	4Q17	1Q17	YoY	QoQ	3M18	3M17	YoY
Civil eng. & construction	114.3	150.4	80.8	-24%	41%	114.3	80.8	41%
Property development	17.45	17.6	14.1	-1%	24%	17.45	14.1	24%
Total Revenue	131.8	168.0	94.9	-21.6%	38.8%	131.8	94.9	38.8%
Pre-tax profit	1Q18	4Q17	1Q17	YoY	QoQ	3M18	3M17	YoY
Civil eng. & construction	13.2	12.9	10.8	3%	23%	13.2	10.8	23%
Property development	5.3	6.7	4.1	-21%	29%	5.3	4.1	29%
Total PBT	18.54	19.6	14.9	-5%	24%	18.54	14.9	24%
Pre-tax margin	1Q18	4Q17	1Q17	+/- ppts	+/- ppts	3M18	3M17	+/- ppts
Civil eng. & construction	11.6%	8.6%	13.4%	3.0	-1.8	11.6%	13.4%	-1.8
Property development	30.4%	38.1%	29.1%	-7.7	1.3	30.4%	29.1%	1.3

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.