

24 November 2017 | 9MFY17 Results Review

## Hock Seng Lee Berhad

### *Inspid Results from Lower Progress Billings*

**Maintain BUY**  
Target Price (TP): RM2.00


#### INVESTMENT HIGHLIGHTS

- **Weak 9MFY17 results**
- **Earnings dragged by lower progress billings.**
- **Midst of revising earnings assumptions.**
- **Altogether, we reaffirm our BUY stance with a TP of RM2.00**

**Weak 9MFY17 Earnings.** HSL's 9MFY17 earnings of RM31.8m (-29%YoY) registered an inspid result accounting for a dismal 40.5% and 73.1% of ours and Street's estimates. Its 9MFY17 earnings revealing dwindling revenue from lower progress billings from RM385.3m in 9MFY16 to RM337.8m in 9MFY17 (-12%YoY).

**Earnings dragged by lower progress billings.** HSL total orderbook of RM2.1bn. (2.7x FYE17 revenue cover). We have expected that current quarter would see revenue revival, but currently the progress of Miri and Kuching projects is unmeaningful. We are in the midst of revising our earnings estimates for FYE18/FYE19 to as our estimates have outpaced HSL's progress billings. We are expecting earnings to remain suppressed in the upcoming quarters as the rate of progress for big ticket projects i.e Miri and Kuching Waste Water Treatment Plants are still in early stages of development.

**Midst of revising earnings assumptions.** Hence, we expect that in FYE18/FYE19 HSL's revenue will be better. We are in the midst of revising our earnings estimates for FYE18/FYE19 to as our estimates have outpaced HSL's progress billings. Although, Miri Centralised Sewage Treatment Plant (Package B) progress rate will be reflected in the earnings but we believe that the progress will be sluggish.

**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 (23 Nov 2017)	RM1.47
Target Price	RM2.00
Expected Share Price Return	+26.5 %
Expected Dividend Yield	+28.0%
<b>Expected Total Return</b>	<b>+28.0%</b>

#### STOCK INFO

KLCI	1,721.27
Bursa / Bloomberg	6238 / HSL MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	549.5
Market cap. (RM'm)	807.79
Price over NA	1.11x
52-wk price Range	RM1.43 – RM1.77
Beta (against KLCI)	0.67x
3-mth Avg Daily Vol	0.14m
3-mth Avg Daily Value	RM0.21m
Major Shareholders (%)	
HSL Enterprise	58.46
ASB	9.64
EPF	4.30
ASM	2.99

## INVESTMENT STATISTICS

FYE Dec	2014	2015	2017F	2018F	2019F
Revenue (RM'm)	604.7	654.7	778.0	767.0	710.0
EBIT (RM'm)	99.3	98.2	115.7	107.4	99.4
Pre-tax profit (RM'm)	103.2	101.2	124.5	122.7	106.5
Net profit (RM'm)	76.9	76.1	78.5	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)	10.5	10.6	10.4	9.6	9.9
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

## 9MFY17 RESULTS SUMMARY

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3Q17	2Q17	3Q16	YoY	QoQ	9M17	9M16	YoY
<b>Revenue</b>	<b>126.3</b>	<b>106.3</b>	<b>136.0</b>	<b>19%</b>	<b>-7%</b>	<b>337.8</b>	<b>385.3</b>	<b>-12%</b>
<b>Gross profit</b>	<b>18.4</b>	<b>15.8</b>	<b>24.8</b>	<b>16%</b>	<b>-26%</b>	<b>52.4</b>	<b>67.8</b>	<b>-23%</b>
Other income	0.14	0.2	0.1	-13%	80%	0.3	0.3	14%
Admin expenses	-3.9	-3.6	-3.8	8%	3%	-11.4	-11.3	1%
<b>EBIT</b>	<b>14.6</b>	<b>12.2</b>	<b>21.1</b>	<b>20%</b>	<b>-31%</b>	<b>41.3</b>	<b>56.7</b>	<b>-27%</b>
Finance income	0.5	0.6	0.9	-12%	-41%	1.9	2.9	-35%
Finance costs	-0.75	-0.01	-0.1	n.m.	738%	-0.3	-0.28	0%
<b>Pre-tax profit</b>	<b>15.1</b>	<b>12.7</b>	<b>21.8</b>	<b>19%</b>	<b>-31%</b>	<b>42.9</b>	<b>59.4</b>	<b>-28%</b>
Taxation	-4.0	-3.2	-5.4	25%	-26%	11.0	-14.7	-75%
<b>Net profit</b>	<b>11.0</b>	<b>9.5</b>	<b>16.3</b>	<b>16%</b>	<b>-33%</b>	<b>31.8</b>	<b>44.6</b>	<b>-29%</b>
EPS (sen)	2.0	1.7	3.0	16%	-33%	5.8	8.1	-29%
	<b>3Q17</b>	<b>2Q17</b>	<b>3Q16</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>9M17</b>	<b>9M16</b>	<b>+/- ppts</b>
EBIT margin	11.6%	11.5%	15.5%	0.1	-4.0	12.2%	14.7%	-2.5
Pre-tax margin	12.0%	11.9%	16.0%	0.0	-4.1	12.7%	15.4%	-2.7
Net profit margin	8.7%	8.9%	12.0%	-0.2	-3.3	9.4%	11.6%	-2.2
Effective tax rate	26.5%	25.2%	24.8%	1.3	1.8	- 25.6%	24.7%	-50.4

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.