

30 November 2018 | 9MFY18 Results Review

Hock Seng Lee Berhad

Tangible catalyst in the cards

INVESTMENT HIGHLIGHTS

- Results came in slightly above our expectation at 83.4%
- Construction revenue grew +66.5%yoy, on the back of higher construction activities in 3QFY18
- Property segment recorded -16.2%yoy lower revenue in the quarter, due to timing difference of unit sales recognized
- During the year, HSL clinched RM157.0m worth of job contracts, resulting to RM2.4b outstanding order book
- Our earnings estimates were tweaked upwards, taking into account the improvement in earnings growth
- We upgrade our call to BUY on the stock due to recent price weakness and tangible earnings catalyst in the near term

Slightly above our expectation. HSL's 3QFY18 revenue grew significantly to RM173.3m (+65.1%yoy) which is encouraging as it represents 37.7% of 9MFY18 top-line contribution. Cumulatively, it recorded higher revenue in 9MFY18 at RM459.3m (+66.55%yoy). Given this progress, HSL recorded stronger PATAMI in 9MFY18 at RM42.2m, which was +32.8%yoy higher compared to the same period last year. In reference to expectations, the 9MFY18 PATAMI accounted for 83.4% and 67.2% of ours and consensus' estimates respectively.

Higher construction activities in the quarter steered revenue upwards. The +66.5%yoy jump in HSL revenue was propelled by the prime segment, i.e. construction. Its income grew strongly by +94.0%yoy (post restatement) to RM150.2m on the back of higher work progress completed in 3QFY18. The segment's positive contribution led to cumulative 9MFY18 construction income of RM403.2m (+38.2%yoy). Consequently, HSL benefited from higher construction PBT of RM37.7m (+56.6%yoy) in the period.

Property segment recorded lower revenue. Whilst construction revenue posted growth in 3QFY18, the property segment contracted by -16.2%yoy. The negative deviation was a result of timing difference of unit sales recognized. Encouragingly, segment's PBT remained resilient, posting a +5.3%yoy growth to RM9.2m during the quarter under review. Cumulatively, the segment posted a +6.4%yoy increase in PBT, contributing RM20.2m to 9MFY18 earnings.

Upgrade to BUY
Adjusted Target Price (TP): RM1.54
(from RM1.50)

RETURN STATS


Price (29 Nov 2018)	RM1.33
Target Price	RM1.54
Expected Share Price Return	+12.8 %
Expected Dividend Yield	+1.9%
Expected Total Return	+14.7%

STOCK INFO

KLCI	1,696.34
Bursa / Bloomberg	6238 / HSL MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	549.52
Market cap. (RM'm)	730.86
Price over NA	0.95x
52-wk price Range	RM1.29 – RM1.65
Beta (against KLCI)	0.51x
3-mth Avg Daily Vol	0.08m
3-mth Avg Daily Value	RM0.12m
Major Shareholders (%)	
HSL Enterprise	58.46
ASB	9.55
EPF	4.30
ASM	2.99

Moving forward, we believe that the prime segment of HSL will continue to buoy earnings underpinned by sizeable job orders worth RM2.4b. Recall that the outstanding amount was arrived, subsequent to RM157.0m worth of job wins this year. Notable mention of new contract win includes the building works of Petronas’s training institute.

Revising earnings upwards. We revised our bottom-line estimates by +13.6% and +2.9% for FY18 and FY19 respectively, taking into account the improvement in margin conversion, against the construction revenue. Accordingly, HSL is expected to continue the momentum towards year end of FY18. Going ahead, we consider the prospect of HSL business to be exciting, fuelled by the potential roll out of Sarawak infrastructure packages. These include The Coastal Road, the Second Trunk Road and the state’s water grid projects. In the meantime, we are expecting property segment to lend support in 4Q18 as it completes several phases of residential development at Samariang Aman 2 and La Promenade.

Recommendation. As a Sarawak-based marine engineering and infrastructure specialist, the stock’s potential seems exciting on the account of pending implementation of Sarawak infrastructure projects. Given this context, we are sanguine on its fundamental prospect moving forward. Moreover, taking advantage of the recent price weakness, we upgrade our call to BUY with a **TP of RM1.54**, pegging its **FYE19 EPS to PER of 14.0x**. 

INVESTMENT STATISTICS

FYE Dec	2014	2015	2017	2018F	2019F
Revenue (RM’m)	604.7	654.7	505.9	575.3	639.0
Net profit (RM’m)	76.9	76.1	46.5	57.5	60.7
EPS (sen)	14.0	13.9	8.0	10.5	11.0
EPS Growth (%)	-0.09	-0.86	-42.32	30.86	5.52
PER (x)	9.5	9.6	16.6	12.7	12.0
Dividend (sen)	2.8	3.0	2.5	2.6	2.5
Dividend yield (%)	2.1	2.3	1.9	2.0	1.9

Source: Bursa Malaysia, MIDFR

DAILY PRICE CHART



Source: Bloomberg

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FYE Dec (RM'm)	Quarterly Results					Cumulative		
	3QFY18	3QFY17	2QFY18	YoY	QoQ	9MFY18	9MFY17	YoY
Revenue	173.3	105.0	154.2	65.1%	12.3%	459.3	275.8	66.5%
Cost of sales	-150.0	-86.7	-132.5	73.0%	13.2%	-391.7	-223.6	75.2%
Gross profit	23.3	18.3	21.7	27.6%	7.4%	67.6	52.2	29.6%
Other income	0.07	0.1	0.0	-52.8%	NA	0.2	0.3	-40.2%
Admin expenses	-4.7	-4.0	-3.5	19.2%	35.7%	-12.9	-11.4	12.6%
EBIT	18.7	14.5	18.2	29.1%	2.4%	54.9	41.1	33.8%
Finance income	1.0	0.7	0.8	46.1%	19.3%	2.6	2.3	12.9%
Finance costs	-0.173	-0.33	-0.2	-46.8%	-20.6%	-0.7	-0.54	21.8%
Pre-tax profit	19.5	14.8	18.9	31.5%	3.4%	56.9	42.8	32.8%
Taxation	-5.2	-3.9	-4.7	30.8%	9.5%	-14.6	-11.0	33.0%
NCI	0.0	0.0	0.0	-32.3%	0.0%	-0.1	-0.1	4.8%
PATAMI	14.3	10.8	14.1	32.0%	1.4%	42.2	31.8	32.8%
EPS (sen)	2.6	2.0	2.6	32.0%	1.2%	7.7	5.8	32.6%
	3QFY18	3QFY17	2QFY18	+/- ppts	+/- ppts	9MFY18	9MFY17	+/- ppts
EBIT margin	10.8%	13.8%	11.8%	-3.0	-1.0	12.0%	14.9%	-2.9
Pre-tax margin	11.3%	14.1%	12.2%	-2.9	-1.0	12.4%	15.5%	-3.1
Net profit margin	8.3%	10.3%	9.2%	-2.1	-0.9	9.2%	11.5%	-2.3
Effective tax rate	26.5%	26.6%	25.0%	-0.2	1.5	25.7%	25.7%	0.0

Segmental Breakdown								
Revenue	3QFY18	3QFY17	2QFY18	YoY	QoQ	9MFY18	9MFY17	YoY
Civil eng. & construction	150.2	151.9	138.7	-1.1%	8.3%	403.2	291.8	38.2%
Property development	23.12	27.6	15.6	-16.2%	48.6%	56.13	58.5	-4.0%
Total Revenue	173.3	105.0	154.2	65.1%	12.3%	459.3	275.8	66.5%
Pre-tax profit	3QFY18	3QFY17	2QFY18	YoY	QoQ	9MFY18	9MFY17	YoY
Civil eng. & construction	11.0	6.1	13.5	80.7%	-18.7%	37.7	24.1	56.6%
Property development	9.2	8.9	5.6	4.2%	64.6%	20.2	19.0	6.4%
Total PBT	19.5	14.8	18.9	31.5%	3.4%	56.9	42.8	32.8%
Pre-tax margin	3QFY18	3QFY17	2QFY18	+/- ppts	+/- ppts	9MFY18	9MFY17	+/- ppts
Civil eng. & construction	7.3%	4.0%	9.7%	3.3	-2.4	9.4%	8.3%	1.1
Property development	40.0%	32.2%	36.1%	7.8	3.9	36.1%	32.5%	3.5

Source: MIDFR

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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.