

28 December 2018 | Corporate Update

Hock Seng Lee Berhad

Award of contract by Sarawak Energy Berhad

INVESTMENT HIGHLIGHTS

- HSL, under a consortium, bagged RM91m job in Kuching from Sarawak Energy
- The scope of job covers earth works, piling, civil infrastructure work, building and its related mechanical and electrical works
- No changes to estimates as the job value came within our replenishment assumption
- **Maintain BUY with unchanged TP of RM1.54**

Bags RM91m Sarawak Energy Job. Hock Seng Lee, under the Consortium with Larsen & Toubro Limited and Larsen & Toubro (East Asia) Sdn Bhd, has received an RM91m contract award by Sarawak Energy Berhad for the Matang 275/132/33/kV Substation Project in Kuching, Sarawak. The contract is expected to provide RM41m revenue contribution to Hock Seng Lee (based on its 45% equity in the Consortium).

The scope of job covers earth works, piling, civil infrastructure work, building and its related mechanical and electrical works. We believe the job awarded fell under HSL's expertise and labour capacity, which will likely mute the risk of unbudgeted capex during the contract period. The project is expected to be completed in 32 months, from January 2019 to August 2021.

Job wins this year. Year-to-date, HSL has been awarded two contracts (based on Bursa's announcement) worth RM192.2m, i.e. the Sarawak Energy and Maktab Rendah Sains Mara (MRSM) projects.

Earnings impact from the Sarawak Energy contract. Notably, HSL's 45% equity in the consortium will fetch approximately RM1.2m-RM1.5m of yearly profit contribution, arrived after imputing 8%-10% net margin of the total project value. The quantum has already been captured in our job wins assumption; hence we make no changes to our earnings forecast. On consolidated base, HSL's current outstanding order book is estimated at circa RM2.3b.


Maintain BUY
Unchanged Target Price (TP): RM1.54

RETURN STATS

Price (27 Dec 2018)	RM1.35
Target Price	RM1.54
Expected Share Price Return	+14.1 %
Expected Dividend Yield	+1.9%
Expected Total Return	+16.0%

STOCK INFO

KLCI	1,683.82
Bursa / Bloomberg	6238 / HSL MK
Board / Sector	MM/Construction
Syariah Compliant	Yes
Issued shares (mil)	549.52
Market cap. (RM'm)	741.85
Price over NA	0.96x
52-wk price Range	RM1.29 – RM1.65
Beta (against KLCI)	0.49x
3-mth Avg Daily Vol	0.07m
3-mth Avg Daily Value	RM0.09m
Major Shareholders (%)	
HSL Enterprise	58.46
ASB	9.55
EPF	4.30
ASM	2.99

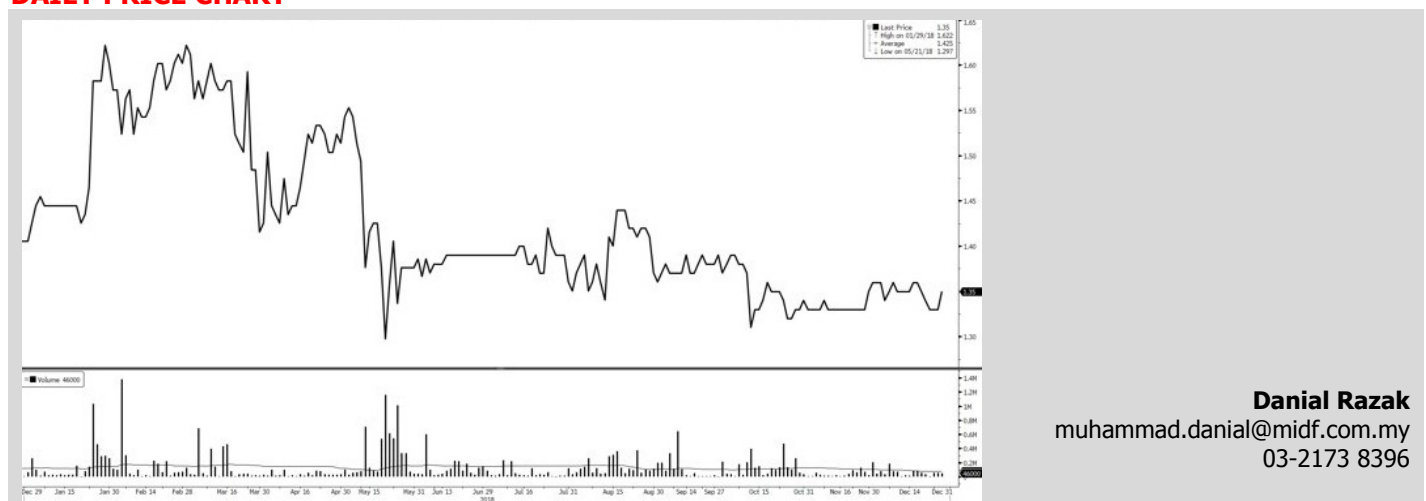
Recommendation. Moving forward, we consider the prospect of HSL business to be exciting, fuelled by the potential roll out of Sarawak infrastructure packages. These include The Coastal Road, the Second Trunk Road and the state's water grid projects. In the near term, we are expecting property segment to lend support in 4Q18 as it completes several phases of residential development at Samariang Aman 2 and La Promenade. We recommend a **BUY** on the stock with **TP** of **RM1.54**. 

INVESTMENT STATISTICS

FYE Dec	2014	2015	2016	2017	2018F	2019F
Revenue (RM'm)	604.7	654.7	498.5	505.9	575.3	639.0
Net profit (RM'm)	76.9	76.1	56.5	46.5	57.5	60.7
EPS (sen)	14.0	13.9	10.3	8.0	10.5	11.0
EPS Growth (%)	-0.09	-0.86	-25.92	-22.14	30.86	5.52
PER (x)	9.6	9.7	13.1	16.9	12.9	12.2
Dividend (sen)	2.8	2.4	2.4	2.5	2.6	2.5
Dividend yield (%)	2.1	1.8	1.8	1.9	1.9	1.9

Source: Bursa Malaysia, MIDF

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.