

16 August 2018 | Corporate Update

## Hock Seng Lee Berhad

*Good News But Mitigating Billings Gap is Pertinent*

### INVESTMENT HIGHLIGHTS

- **Awarded Petronas's project worth RM101.2m**
- **Change earnings assumption due to potential blip**
- **FYE18/19 revenue and earnings estimates snipped by 15%-10%**
- **Downgrade to NEUTRAL with an adjusted TP of RM1.50**

**Award from PETRONAS.** HSL has received the Letter of Acceptance from PETRONAS for the construction and completion of Maktab Rendah Sains Mara (MRSM) on Lot 129, Block 37, Kemena Land District, Bintulu, Sarawak amounting to RM101.2m. The project is located on a hilly terrain and involves mechanical, electrical piling, building, infrastructure and earth works for duration of 36-month. The project award from Petronas is much anticipated as HSL's last project award was in November 2017 for the X-Fab building in Kuching for RM56.5m.

**Earnings impact.** As a result, HSL's orderbook flitted to RM3.01bn (+3.5%). Although, the award is positive news, the amount is within our assumption of RM200m orderbook replenishment target for FYE18/FYE19.


**Earnings outlook.** In so far as HSL's earnings outlook, due to the slower-than-expected progress in Pan Borneo Highway construction which makes up 37% of its total order book (70% JV of RM1.6bn), we reckon it is timely for us to make adjustments to our earnings assumption as the billings recognition potentially may see blips in upcoming quarters.. We see a slower rate of revenue growth in Q1FY18 of RM131.8m (-17.6%) and operating income may slip to RM17.7m (-9.2%) on the back of a compressed operating margin. **(Figure 1)**

**Changes to estimates.** Hence, there is a need to revise our assumptions although the orderbook size increased as potential hiccups in billings recognition are risks that must be mitigated. Thus, we prefer to snip our revenue estimates for; a) FYE18 from RM767m to RM575.3m (-15%); and b) FYE19 from RM710m to RM639.0m (-10%). Consequently, our earnings forecasts are trimmed by; a) FYE18 from RM63.3m to RM50.6m (-10%); and b) FYE19 from RM65.6m to RM59.0 (-10%) to reflect the assumptions that we revised. Nonetheless, moving forward, we think that the prospect of HSL winning more infrastructure jobs is promising as water-related projects in Sarawak is still on-going.

**Downgrade to NEUTRAL**  
**Adjusted Target Price (TP): RM1.50**  
**(From RM1.67)**

RETURN STATS	
Price (15 Aug 2018)	RM1.41
Target Price	RM1.50
Expected Share Price Return	+6.0%
Expected Dividend Yield	+1.8%
<b>Expected Total Return</b>	<b>+7.8%</b>

STOCK INFO	
KLCI	1,785.94
Bursa / Bloomberg	6238/ HSL MK
Board / Sector	Main / Construction
Syariah Compliant	Yes
Issued shares (mil)	549.5
Par Value (RM)	1.00
Market cap. (RM'm)	774.8
Price over NA	1.03
52-wk price Range	RM1.30-RM1.65
Beta (against KLCI)	0.52
3-mth Avg Daily Vol	0.14m
3-mth Avg Daily Value	RM0.2m
Major Shareholders (%)	
Hock Seng Lee Ent S/B	58.46
ASB	9.55
EPF	4.30
ASM	2.99

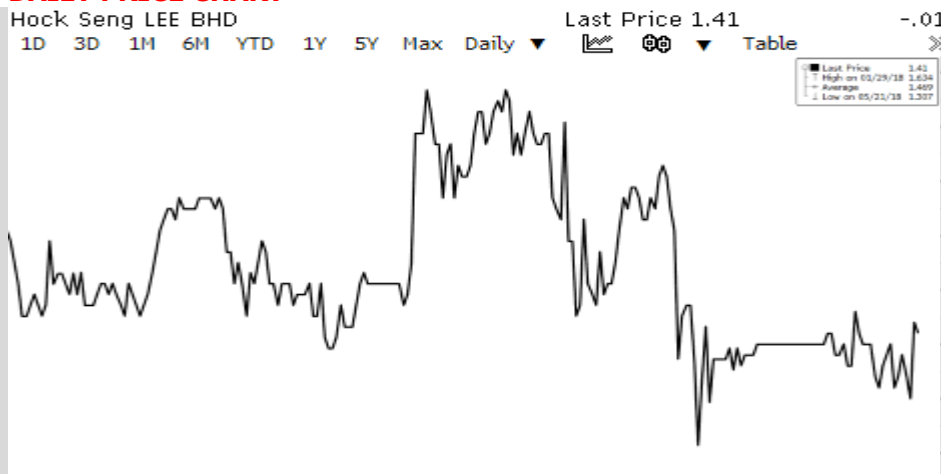
**Recommendation.** Altogether, we downgrade our recommendation to **NEUTRAL** with an adjusted TP of **RM1.50** per share based on rolling over FYE19's EPS to PER of 14.0x reflecting construction sector's mid-range PER. 

## 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	50.6	59.0
EPS (sen)	14.0	13.9	8.0	9.2	10.7
EPS Growth (%)	-0.09	-0.01	-0.42	0.15	0.16
PER (x)	10.1	10.2	17.6	15.3	13.2
Dividend (sen)	2.8	3.0	2.5	2.6	2.5
Dividend yield (%)	2.0	2.1	1.8	1.8	1.8

Source: MIDFR

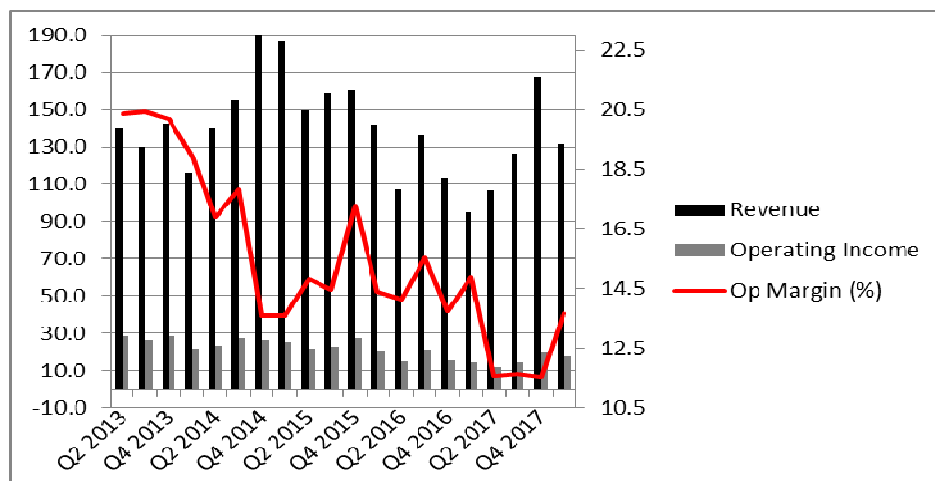
## DAILY PRICE CHART



Fadhli Dzulkifly  
 abdul.fadhli@midf.com.my  
 03-2772 8462

Source: Bloomberg, MIDFR

## FIGURE 1



Source: MIDFR, 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.