

# Hock Seng Lee Berhad

(6238 | HSL MK) Main | Construction

**Maintain Buy**

## Property segment underperformed

**Unchanged Target Price: RM1.54**

### KEY INVESTMENT HIGHLIGHTS

- **HSL posted revenue of RM683.6m (+12%yoy) in FY19**
- **The Group's revenue largely contributed by civil engineering and construction income at 88%**
- **In 4QFY19, HSL's property development segment underperformed**
- **1.4sen/share dividend proposed**
- **Reaffirm BUY call with unchanged TP at RM1.54**

**Hock Seng Lee (HSL) posted revenue of RM683.6m in FY19.** The revenue growth moderated at +12%yoy from RM610.4m in FY18. Meanwhile, earnings came in at RM55.2m, higher by +2.7%yoy in comparison to the same period last year. The core earnings accounted for 90.9% and 90.4% of our and consensus full year forecasts respectively, falling short of both expectations.

**The Group's revenue largely contributed by civil engineering and construction income, at 88%.** In 4QFY19, HSL recorded RM164.7m revenue, grew strongly by +33.7%yoy compared to RM123.20m in 4QFY18. The group recorded a strong order book with RM2.2b unbilled. We note that in light of the rolling out of several major projects by the Government of Sarawak - namely Coastal Road, Trunk Road Projects and Water Works Projects - HSL are recently waiting for outcomes of the tender of some of the packages submitted.

**In 4QFY19, HSL's property development segment underperformed** as its revenue was lower by -18.2%yoy at RM22.8m. The notable reduction was on the back of the timing of recognition of sales. At profit before tax (PBT) level, the decline was larger at -34.7%yoy as it earned RM6.0m from RM9.1m in 4QFY18. The contraction of profit margin was attributed to discounts and increase in construction costs. Nonetheless, it is worth noting that its future revenue stream may be secured by the highly successful initial Samariang Aman development with almost 1,000 homes built is almost sold out and has now moved into the next phases of planning and development of Samariang Aman 3. On a separate note, other new launches in FY20 include HSL's high end residential property development at La Promenade's Precinct Luxe Phase 4 and Precinct Grande Phase 2.

**1.4sen/share dividend proposed.** HSL proposed a final single-tier tax exempt dividend of 1.4sen per ordinary share for year ended 31 December 2019. The final dividend is subject to the approval of the shareholders at the forthcoming Annual General Meeting.

### RETURN STATISTICS

Price @ 27 <sup>th</sup> Feb 2020 (RM)	RM 1.28
Expected share price return (%)	+18.34
Expected dividend yield (%)	+1.09
<b>Expected total return (%)</b>	<b>+19.43</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-3.03	1.30
3 months	-3.76	1.46
12 months	-17.95	-6.62

### KEY STATISTICS

FBM KLCI	1505.6
Syariah compliant	Yes
Issue shares (m)	549.5
Estimated free float (%)	11.5
Market Capitalisation (RM'm)	703.38
52-wk price range	RM1.27 - RM1.59
Beta vs FBM KLCI (x)	0.4
Monthly velocity (%)	11.0
Monthly volatility (%)	12.8
3-mth average daily volume (m)	0.15
3-mth average daily value (RM'm)	0.20
Top Shareholders (%)	
Mac Ngan Boon	58.46
FIL Ltd	9.55
Lembaga Tabung Haji	4.53

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**Earnings impact.** We make no changes to our FY20 estimate as the FY19 earnings came in only slightly below our expectation. Moreover, we introduce new forecast for FY21.

**Reaffirm BUY call with unchanged TP at RM1.54.** We opine that the prospect of construction and engineering jobs in Sarawak remains bright as the Sarawak state government continues to emphasize on the infrastructure expansion especially in the rural areas. Moving forward, we anticipated HSL will secure more mega sized projects from the Government of Sarawak. Given the unchanged FY20 earnings estimate, we maintain our TP at RM1.54 as well as our BUY recommendation on the stock. Our TP implies a +19.43% upside. 

## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	498.5	505.9	610.4	683.6	739.9	803.8
Net profit (RM'm)	56.5	46.5	53.8	55.2	66.6	69.4
EPS (sen)	10.3	8.0	9.8	10.0	12.1	12.6
EPS Growth (%)	-25.9	-22.1	22.5	2.5	20.6	4.2
PER (x)	12.8	16.4	13.4	12.7	10.6	10.1
Dividend (sen)	2.4	2.5	2.4	1.4	1.4	1.4
Dividend yield (%)	1.8	1.9	1.8	1.1	1.1	1.1

Source: Company, MIDFR

## 4QFY19 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	4QFY19	4QFY18	3QFY19	YoY	QoQ	12MFY19	12MFY18	YoY
<b>Revenue</b>	<b>187.6</b>	<b>151.1</b>	<b>173.8</b>	<b>24.2%</b>	<b>7.9%</b>	<b>683.6</b>	<b>610.4</b>	<b>12.0%</b>
Cost of sales	-169.2	-128.7	-151.2	31.4%	11.9%	-595.9	-520.4	14.5%
<b>Gross profit</b>	<b>18.5</b>	<b>22.3</b>	<b>22.7</b>	<b>-17.3%</b>	<b>-18.6%</b>	<b>87.7</b>	<b>89.9</b>	<b>-2.5%</b>
Other income	0.00	0.11	0.42	NA	NA	0.5	0.3	50.3%
Admin expenses	-4.9	-7.5	-4.4	-34.6%	12.0%	-17.4	-20.4	-14.9%
<b>EBIT</b>	<b>13.6</b>	<b>14.9</b>	<b>18.7</b>	<b>-9.3%</b>	<b>-27.5%</b>	<b>70.8</b>	<b>69.9</b>	<b>1.4%</b>
Finance income	1.3	0.6	1.1	125.4%	22.0%	4.5	3.2	38.9%
Finance costs	-1.212	-0.28	-	332.9%	NA	-1.2	-0.9	29.8%
<b>Pre-tax profit</b>	<b>13.7</b>	<b>15.3</b>	<b>19.8</b>	<b>-10.3%</b>	<b>-30.9%</b>	<b>74.1</b>	<b>72.2</b>	<b>2.7%</b>
Taxation	-3.6	-3.7	-5.3	-3.8%	-32.3%	-18.8	-18.3	2.8%
NCI	0.0	0.0	0.0	-13.6%	46.2%	0.1	0.1	-11.5%
<b>PATAMI</b>	<b>10.1</b>	<b>11.5</b>	<b>14.6</b>	<b>-12.3%</b>	<b>-30.5%</b>	<b>55.2</b>	<b>53.8</b>	<b>2.7%</b>
EPS (sen)	1.9	2.1	2.7	-11.9%	-30.2%	10.1	9.8	2.8%
	<b>4QFY19</b>	<b>4QFY18</b>	<b>3QFY19</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>12MFY19</b>	<b>12MFY18</b>	<b>+/- ppts</b>
EBIT margin	7.2%	9.9%	10.8%	-2.7	-3.5	10.4%	11.4%	-1.1
Pre-tax margin	7.3%	10.1%	11.4%	-2.8	-4.1	10.8%	11.8%	-1.0
Net profit margin	5.4%	7.6%	8.4%	-2.2	-3.0	8.1%	8.8%	-0.7
Effective tax rate	26.0%	24.2%	26.5%	1.7	-0.5	25.4%	25.4%	0.0

Segmental Breakdown								
Revenue	4QFY19	4QFY18	3QFY19	YoY	QoQ	12MFY19	12MFY18	YoY
Civil eng. & construction	164.7	123.2	149.4	33.7%	10.2%	591.1	526.4	12.3%
Property development	22.8	27.9	24.5	-18.2%	-6.8%	92.32	83.99	9.9%
<b>Total Revenue</b>	<b>187.5</b>	<b>151.1</b>	<b>173.8</b>	<b>24.1%</b>	<b>7.8%</b>	<b>683.6</b>	<b>610.4</b>	<b>12.0%</b>
Pre-tax profit	4QFY19	4QFY18	3QFY19	YoY	QoQ	12MFY19	12MFY18	YoY
Civil eng. & construction	7.8	5.9	11.7	31.5%	-33.6%	46.6	43.6	6.7%
Property development	6.0	9.1	8.2	-34.7%	-26.4%	27.9	29.5	-5.3%
<b>Total PBT</b>	<b>13.8</b>	<b>16.2</b>	<b>19.9</b>	<b>-15.0%</b>	<b>-30.7%</b>	<b>74.1</b>	<b>72.2</b>	<b>2.7%</b>
Pre-tax margin	4QFY19	4QFY18	3QFY19	+/- ppts	+/- ppts	12MFY19	12MFY18	+/- ppts
Civil eng. & construction	4.7%	4.8%	7.8%	-0.1	-3.1	7.9%	8.3%	-0.4
Property development	26.4%	33.1%	33.5%	-6.7	-7.1	30.3%	35.1%	-4.8

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#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.