

# Hock Seng Lee Berhad

(6238 | HSL MK) Main | Construction

## Earnings lagged expectation

### KEY INVESTMENT HIGHLIGHTS

- **Earnings lagged our and consensus expectations**
- **1QFY20 revenue mainly contributed by civil engineering and construction division at RM101.2m**
- **Property development segment revenue halved to RM11.1m (-47.0%yoy) from RM21.0m**
- **Outstanding order book at RM2.2b**
- **1.4sen/share dividend approved**
- **Reaffirm BUY call with revised TP of RM1.21 (from RM1.54)**

**Earnings lagged our and consensus expectations.** HSL's 1QFY20 earnings declined -46.1%yoy to RM7.6m which lagged our and consensus expectations at 11.4% and 12.5% of full year FY20 forecasts respectively.

**1QFY20 revenue mainly contributed by civil engineering and construction division at RM101.2m (-19.5%yoy) or approximately 90.0% of the total revenue.** The on-year decline was attributable to the MCO implementation from 18 March 2020. Moreover, the lockdowns in China since February also adversely impacted the material supply chain. These factors led to more non-productive days on top of festive public holidays in the first quarter and downtimes due to the monsoon season.

**Property development segment revenue halved to RM11.1m (-47.0%yoy) from RM21.0m.** Moreover, the segmental profit before tax (PBT) dropped to RM3.4m (-50.1%yoy) from RM6.7m. Consequently, it was also shown that margin at pre-tax level slipped -1.9ppts(yoy) in the reporting quarter. The declines were on the back of MCO implementation as well as the recognition of sales with lower profit margin due to discounts/promotions and increase in construction costs. In the near-term, the company's only major launch will be Samariang Aman 3. It will start with 126 units, single-and double-storey, terrace and semi-detached homes. The company expects homebuyers to react positively to these landed properties.

**Outstanding order book at RM2.2b.** It is worth noting that the Group's order book currently stands at RM3.4b with an outstanding balance of RM2.2b.

## Maintain Buy

**Revised Target Price: RM1.21**  
(from RM1.54)

### RETURN STATISTICS

Price @ 18 <sup>th</sup> June 2020 (RM)	RM1.08
Expected share price return (%)	+12.26
Expected dividend yield (%)	+1.30
<b>Expected total return (%)</b>	<b>+13.56</b>

### SHARE PRICE CHART




Share price performance (%)	Absolute	Relative
1 month	-0.9	-6.2
3 months	9.1	-12.5
12 months	-21.2	-12.7

### KEY STATISTICS

FBM KLCI	1,504.91
Syariah compliant	Yes
Issue shares (m)	549.52
Estimated free float (%)	10.47
Market Capitalisation (RM'm)	593.48
52-wk price range	RM0.96 - RM1.41
Beta vs FBM KLCI (x)	0.68
Monthly velocity (%)	4.38
Monthly volatility (%)	12.13
3-mth average daily volume (m)	0.15
3-mth average daily value (RM'm)	0.16
Top Shareholders (%)	
Hock Seng Lee Enterprise Sdn Bhd	58.46
Amanah Saham Nasional Bhd	10.65
Employees Provident Fund Board	4.53

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**1.4sen/share dividend approved.** HSL's shareholders have approved the final single-tier tax exempt dividend of 1.4 sen per ordinary share for the financial year ended 31 December 2019. The entitlement date for the dividend shall be 10 July 2020 and the dividend shall be paid on 24 July 2020. However, there was no dividend paid during the current quarter ended 31 March 2020.

**Reaffirm BUY call with revised TP of RM1.21 (from RM1.54).** We revised down our earnings forecasts for FY20F and FY21F by -35.1% and -20.0% respectively and introduce earnings forecast for FY22. On that account, we maintain **BUY** call but with a lower **TP** of **RM1.21** (from RM1.54). Our TP implies a +13.6% upside. 

## INVESTMENT STATISTICS

FYE Dec	FY17	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	505.9	610.4	683.6	696.6	723.3	824.2
Net profit (RM'm)	46.5	53.8	55.2	43.3	55.5	72.3
EPS (sen)	8.0	9.8	10.0	7.9	10.1	13.2
EPS Growth (%)	-22.1	22.5	2.5	-21.6	28.3	30.2
PER (x)	16.4	13.4	10.8	13.7	10.7	8.2
Dividend (sen)	2.5	2.4	1.4	1.4	1.4	2.4
Dividend yield (%)	1.9	1.8	1.3	1.3	1.3	2.2

Source: Company, MIDFR

## 1QFY20 RESULTS REVIEW

FYE Dec (RM'm)	Quarterly Results					Cumulative		
	1QFY20	1QFY19	4QFY19	YoY	QoQ	3MFY20	3MFY19	YoY
<b>Revenue</b>	<b>112.4</b>	<b>146.7</b>	<b>187.6</b>	<b>-23.4%</b>	<b>-40.1%</b>	<b>112.4</b>	<b>146.7</b>	<b>-23.4%</b>
Cost of sales	-99.6	-124.9	-169.2	-20.3%	-41.1%	-99.6	-124.9	-20.3%
<b>Gross profit</b>	<b>12.8</b>	<b>21.8</b>	<b>18.5</b>	<b>-41.0%</b>	<b>-30.5%</b>	<b>12.8</b>	<b>21.8</b>	<b>-41.0%</b>
Other income	0.10	0.09	0.00	NA	NA	0.10	0.09	7.9%
Admin expenses	-4.2	-4.0	-4.9	4.1%	-14.7%	-4.2	-4.0	4.1%
<b>EBIT</b>	<b>8.7</b>	<b>17.8</b>	<b>13.6</b>	<b>-51.0%</b>	<b>-35.5%</b>	<b>8.7</b>	<b>17.8</b>	<b>-51.0%</b>
Finance income	1.4	0.9	1.3	50.3%	2.2%	1.4	0.9	50.3%
Finance costs	0	0	-1.212	#DIV/0!	NA	0	0	#DIV/0!
<b>Pre-tax profit</b>	<b>10.1</b>	<b>18.8</b>	<b>13.7</b>	<b>-46.0%</b>	<b>-26.1%</b>	<b>10.1</b>	<b>18.8</b>	<b>-46.0%</b>
Taxation	-2.6	-4.6	-3.6	-45.0%	-28.2%	-2.6	-4.6	-45.0%
NCI	0.0	0.0	0.0	-16.0%	10.5%	0.0	0.0	-16.0%
<b>PATAMI</b>	<b>7.6</b>	<b>14.1</b>	<b>10.1</b>	<b>-46.1%</b>	<b>-24.9%</b>	<b>7.6</b>	<b>14.1</b>	<b>-46.1%</b>
EPS (sen)	1.4	2.6	1.9	-46.5%	-25.9%	1.4	2.6	-46.5%
	<b>1QFY20</b>	<b>1QFY19</b>	<b>4QFY19</b>	<b>+/- ppts</b>	<b>+/- ppts</b>	<b>3MFY20</b>	<b>3MFY19</b>	<b>+/- ppts</b>
EBIT margin	7.8%	12.2%	7.2%	-4.4	0.6	7.8%	12.2%	-4.4
Pre-tax margin	9.0%	12.8%	7.3%	-3.8	1.7	9.0%	12.8%	-3.8
Net profit margin	6.8%	9.6%	5.4%	-2.8	1.4	6.8%	9.6%	-2.8
Effective tax rate	25.2%	24.8%	26.0%	0.5	-0.7	25.2%	24.8%	0.5

Segmental Breakdown								
Revenue	1QFY20	1QFY19	4QFY19	YoY	QoQ	3MFY20	3MFY19	YoY
Civil eng. & construction	101.2	125.7	164.7	-19.5%	-38.5%	101.2	125.7	-19.5%
Property development	11.1	21.0	22.8	-47.0%	-51.1%	11.1	21.0	-47.0%
<b>Total Revenue</b>	<b>112.4</b>	<b>146.7</b>	<b>187.5</b>	<b>-23.4%</b>	<b>-40.1%</b>	<b>112.4</b>	<b>146.7</b>	<b>-23.4%</b>
Pre-tax profit	1QFY20	1QFY19	4QFY19	YoY	QoQ	3MFY20	3MFY19	YoY
Civil eng. & construction	6.7	12.1	7.8	-44.5%	-13.4%	6.7	12.1	-44.5%
Property development	3.4	6.7	6.0	-50.1%	-44.3%	3.4	6.7	-50.1%
<b>Total PBT</b>	<b>10.1</b>	<b>18.8</b>	<b>13.8</b>	<b>-46.2%</b>	<b>-26.8%</b>	<b>10.1</b>	<b>18.8</b>	<b>-46.2%</b>
Pre-tax margin	1QFY20	1QFY19	4QFY19	+/- ppts	+/- ppts	3MFY20	3MFY19	+/- ppts
Civil eng. & construction	6.7%	9.7%	4.7%	-3.0	1.9	6.7%	9.7%	-3.0
Property development	30.1%	32.0%	26.4%	-1.9	3.7	30.1%	32.0%	-1.9

Source: Company, MIDF

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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.