

# Equity Beat

01 March 2010

## 4Q09 Results Review

## Hock Seng Lee

*Stronger results in FY09*

**Reiterate BUY**

**Increased Target Price to RM1.40 from RM1.34**

- HSL FY09 net profit came in within our expectation. Overall, FY09 results were impressive as compared to the preceding year.
- We raise our FY10 net profit forecast by 4% as HSL will benefit from increased infrastructure spending and the development of SCORE. The group remained in a net cash position.
- We reiterate our BUY call with an increase in target price of RM1.40 from RM1.34 based on 12x FY10 PER. The stock offers a 12-month potential return of 12% (including dividend yield of 1.7%).

### STOCK INFO


Price ( 25 Feb 09)	RM1.27	KLCI	1,270.78
Issued shares (mil)	582.68	Bursa / Bloomberg	6238/HSL MK
Par Value (RM)	0.20	Board / Sector	Main / construction
Market cap. (RM'm)	740.0	Syariah Compliant	Yes
Price over NTA	2.40		
52-wk price Range	RM0.45–1.24	Major Shareholders	
Beta (against KLCI)	1.00	Hock Seng Lee Enterprise	53.0%
3-mth Avg Daily Vol	0.8m	PNB – Skim ASB	10.4%
3-mth Avg Daily Value	RM0.9m	EPF	7.1%

**Profit within estimate.** HSL FY09 net profit of RM56.3m came in within our expectation while full year turnover of RM375m was 12% below our expectation. However, year-on-year, HSL recorded an increase in turnover and net profit of 21% and 34% respectively as more jobs were rolled out as compared to the preceding year. Meanwhile, its net cash increased to RM76.4m, an upside of 34.3%yoy.

**Full year gross dividend of 2.4 sen per share.** HSL announced final dividend of 1 sen per share and a special dividend of 0.4 sen per share in 4QFY09, translating into total dividend of 2.4 sen for FY09 (FY08: 2.2 sen).

**Construction vs property.** As expected, revenue contribution from its construction sector grew by 25%yoy, in view of productive 2H09 with wastewater project in Kuching in full swing and more road works took place. However, its property development fell by 8% yoy due to the sluggish property market.

**RM1.73b outstanding orderbook.** HSL has an outstanding orderbook of RM1.73b after securing the state road works in Sri Aman, Sarawak early this year. HSL is targeting at least RM400m worth of jobs this year and we expect the group would be able to meet their expectations as the government is looking to enhance rural infrastructure in Sarawak. Also, we expect further opportunities that would draw on their infrastructure expertise with the economic stimulus packages and the development of SCORE project.

**Maintain BUY.** We reiterate our BUY call with an increase in our target price to RM1.40 from RM1.34 based on 12x FY10 earnings as the near term outlook for job wins remain positive. Also, HSL remained in a net cash position on strong assets growth and improving earnings that would provide the support in taking on major construction projects. 

FYE 31 Dec	FY08A	FY09A	FY10F	FY11F
Revenue (RM'm)	309.1	375.0	526.1	628.3
EBIT (RM'm)	55.2	73.2	90.1	118.1
Pretax Profit (RM'm)	56.5	73.4	91.9	106.8
Net Profit (RM'm)	41.8	56.3	67.5	75.4
EPS (sen)	7.6	9.7	11.6	12.9
EPS growth (%)	7.5	27.2	19.9	11.7
PER(x)	9.7	12.3	14.7	16.4
Net Dividend (sen)	1.7	1.8	2.1	2.1
Net Dividend Yield (%)	1.3	1.4	1.7	1.7

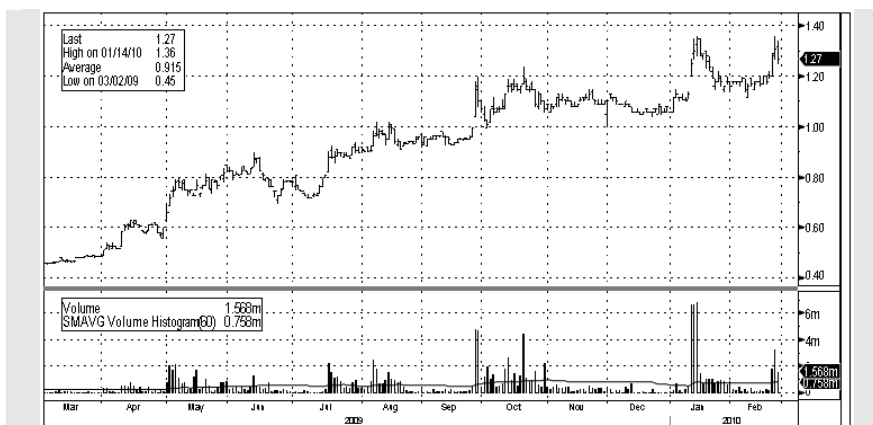
Source: Company, Forecasts by MIDFR

## HOCK SENG LEE: 4Q09 RESULTS SUMMARY

	Quarterly Results			Cumulative		Comments
	4Q09	%YoY	%QoQ	FY09	%YoY	
<b>FYE Dec (RM'm)</b>						
Revenue	113.3	29.6%	11.4%	375.0	21.3%	Jobs accelerate in 4QFY09
Operating costs	-90.5	23.8%	11.0%	-301.8	18.9%	
EBIT	22.8	59.4%	12.7%	73.20	32.6%	
Interest cost	0.0	<i>n.m</i>	<i>n.m</i>	0.0	<i>nm</i>	Debt free
Invt income	0.95	61.0%	115.9%	2.31	68.6%	
Associate profit	0.0	<i>n.m</i>	<i>n.m</i>	0.0	<i>n.m</i>	
Pretax profit	23.75	59.5%	14.9%	75.51	33.6%	
Tax	-6.2	63.2%	19.2%	-19.2	31.5%	
Minority Int	0.0	<i>n.m</i>	<i>n.m</i>	0.0	<i>n.m</i>	
Net profit	17.6	58.3%	13.4%	56.31	34.3%	Stronger construction division contribution yoy
		<i>+/- ppts</i>	<i>+/- ppts</i>		<i>+/- ppts</i>	
Pretax margin (%)	21.0%	0.2	0.0	20.1%	0.1	
Tax margin (%)	26.1%	<i>n.m</i>	<i>n.m</i>	25.4%	<i>n.m</i>	Reasonably stable tax rate

Source: Bursa Website, MIDFR

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.