

HLIB Research

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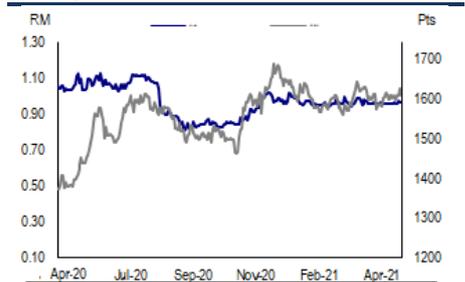
BUY (Maintain)

Target Price: RM1.08
Previously: RM1.16
Current Price: RM0.97

Capital upside	11.3%
Dividend yield	2.3%
Expected total return	13.6%

Sector coverage: Construction

Company description: HSL is primarily involved in construction within the state of Sarawak.

Share price


	1M	3M	12M
Absolute	1.6	1.6	-8.9
Relative	3.1	1.7	-21.2

Stock information

Bloomberg ticker	HSLMK
Bursa code	6238
Issued shares (m)	550
Market capitalisation (RM m)	565
3-mth average volume ('000)	162
SC Shariah compliant	Yes
F4GBM Index member	No
ESG rating	NA

Major shareholders

Hock Seng Lee Enterprise	58.5%
Amanah Saham	10.7%
EPF	4.5%

Earnings summary

FYE (Dec)	FY20	FY21f	FY22f
PATMI - core (RM m)	32.8	52.3	52.6
EPS - core (sen)	5.6	9.0	9.0
P/E (x)	17.2	10.8	10.8

Hock Seng Lee

Stumbling start

HSL's 1QFY21 earnings of RM9m (-13% QoQ, 20%YoY) were below our and consensus expectations due to lower than expected margins. Operational momentum was plagued by imposition of restrictions. Outstanding order book of RM1.8bn translates into a healthy 4.0x cover. Given an accommodating state infra allocation, we anticipate return of job flows when cases dissipates. Tweak FY21-22 forecasts by -8%. Maintain BUY with lower TP of RM1.08 pegged to an unchanged 12x P/E multiple. The stock trades at an FY21 ex-cash P/E multiple of 7.1x with a net cash per share of RM0.34

Below expectations. HSL reported 1QFY21 results with revenue of RM159.5m (-12% QoQ, +42% YoY) and core earnings of RM9.1m (-13% QoQ, +20% YoY). The core earnings were below both our and consensus expectations accounting for 16%/17% of full year forecast.

Deviations. Results miss was driven by margin shortfall resulting from various labour shortages and higher material costs and logistics constraints.

Dividends. No dividends were declared in 1QFY21 (1QFY20: nil).

QoQ. Core earnings declined by -13% in tandem with lower revenue (-12%) as productivity levels fell on the back of MCO2.0 imposition with the surging cases in Sarawak in 1QFY21. On the brighter side, work momentum did pick up prior to MCO2.0 and should recover once vaccination picks up steam.

YoY. 1QFY21 core earnings climbed by 20% aided by much stronger revenue (+42%). Both construction (+40%) and property (+55%) segments came back mainly due to low base effect having seen MCO1.0 imposed on 18 March 2020. Offsetting the topline recovery were lower PAT margins (-1ppts) emanating from labour shortages and higher material costs and logistics constraints. By our estimates, average rebar prices are roughly 30% higher in 1QFY21 (vs 1QFY20).

Orderbook. HSL's latest estimated outstanding orderbook stands at c.RM1.8bn, translating into healthy level of 4.0x cover on FY20 construction revenue. In FY21, HSL has secured a RM131 contract for the construction and completion of Leadership Training Institute for Sarawak Civil Service (Phase 1) in Kuching. While the company is on pace to meet our RM500m assumptions for this year, we expect positive cases resurgence could dampen the pace of job flows in the state despite the infra budget backlog.

Outlook. Job flows in Sarawak could face near term hiccup as cases continue to escalate. Nonetheless, we take comfort in state's infra backlog which should lead to more opportunities when mass vaccinations pick up. Among the various projects mentioned in the state budget include Coastal road, Trunk road, Lawas-Limbang road, water supply grid, agropark as well as numerous roads and bridges.

Forecast. We cut FY21-22 earnings by -8.0% and -8.6% as we slow down billings assumptions and tweak margins slightly downwards. Introduce FY23 earnings of RM49.2m.

Maintain BUY, TP: RM1.08. Maintain BUY with lower TP of RM1.08, pegged to an unchanged 12x PE multiple on FY21 EPS. The stock trades at an FY21 ex-cash P/E multiple of 7.1x with a net cash per share of RM0.34. Going forward, we expect recovering jobs flow given Sarawak's infrastructure friendly budget.

Figure #1 Quarterly results comparison

FYE Dec (RM m)	1Q FY20	4Q FY20	1Q FY21	QoQ (%)	YoY (%)	3MFY20	3MFY21	YoY (%)
Revenue	112.4	181.7	159.5	(12.2)	41.9	112.4	159.5	41.9
EBIT	10.1	15.4	12.5	(19.0)	23.6	10.1	12.5	23.6
Finance cost	-	(0.5)	(0.3)	nm	nm	-	(0.3)	nm
PBT	10.1	14.9	12.2	(18.1)	20.7	10.1	12.2	20.7
PAT	7.6	10.4	9.1	(12.6)	20.2	7.6	9.1	20.2
Core PATMI	7.6	10.4	9.1	(12.6)	20.4	7.6	9.1	20.4
Reported PATMI	7.6	10.4	9.1	(12.6)	20.4	7.6	9.1	20.4
Core EPS (sen)	1.3	1.8	1.6	(12.6)	20.4	1.3	1.6	20.4
EBIT margin (%)	7.9	8.3	8.5			11.0	8.2	
PBT margin (%)	7.3	8.1	8.2			10.8	8.1	
PATMI margin (%)	5.4	6.7	5.7			8.1	6.1	

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Financial Forecast

All items in (RM m) unless otherwise stated

Balance Sheet

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Cash	168.9	290.6	215.4	246.0	288.5
Receivables	336.1	287.3	375.3	378.5	347.1
Inventories	-	-	-	-	-
PPE	216.4	214.3	213.3	213.2	213.2
Others	402.4	397.0	393.6	401.3	409.3
Assets	1,123.8	1,189.2	1,197.6	1,238.9	1,258.1
Debts	59.7	47.0	94.2	94.2	94.2
Payables	223.2	271.8	202.7	204.5	186.9
Others	19.7	24.7	16.1	16.1	16.1
Liabilities	302.5	343.5	312.9	314.8	297.2
Shareholder's equity	818.0	842.3	881.5	921.0	957.8
Minority interest	3.3	3.3	3.1	3.1	3.1
Equity	821.2	845.6	884.7	924.1	961.0

Cash Flow Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Profit before taxation	74.1	43.5	69.8	70.1	65.6
Depreciation & amortisation	15.5	14.4	16.1	16.0	16.0
Changes in working capital	(5.4)	97.4	(157.1)	(1.3)	-
Taxation	(18.8)	(10.7)	(17.4)	(17.5)	(16.4)
Others	32.6	14.1	-	-	-
CFO	98.0	158.8	(88.8)	-	-
Net capex	(20.4)	(12.3)	(15.0)	(16.0)	-
Others	(32.5)	(15.3)	-	1.0	1.0
CFI	(53.0)	(27.6)	(15.0)	(15.0)	1.0
Changes in borrowings	(34.5)	(12.7)	47.2	-	(94.2)
Dividends paid	(13.8)	-	(13.1)	(13.1)	(12.3)
Others	0.7	(7.7)	-	1.0	1.0
CFF	(47.7)	(20.4)	34.1	(12.1)	(105.5)
Net cash flow	25.3	121.7	(75.1)	30.5	(246.0)
Others	-	-	-	1.0	1.0
Beginning cash	143.6	168.9	290.6	215.4	246.0
Ending cash	168.9	290.6	215.4	246.0	-

Income Statement

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Revenue	683.6	538.3	652.4	657.8	603.3
EBITDA	86.3	53.5	81.4	81.7	77.2
EBIT	70.8	39.0	65.3	65.6	61.1
Finance income	3.3	4.4	4.4	4.4	4.4
Associates & JV	-	-	-	-	-
Profit before tax	74.1	43.5	69.8	70.1	65.6
Tax	(18.8)	(10.7)	(17.4)	(17.5)	(16.4)
Net profit	55.3	32.8	52.3	52.6	49.2
Minority interest	0.1	(0.1)	-	-	-
PATMI (core)	55.4	32.8	52.3	52.6	49.2
Exceptionals	-	-	-	-	-
PATMI (reported)	55.4	32.8	52.3	52.6	49.2

Valuation & Ratios

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Core EPS (sen)	9.5	5.6	9.0	9.0	8.4
P/E (x)	10.2	17.2	10.8	10.8	11.5
EV/EBITDA (x)	4.8	7.8	5.1	5.1	5.4
DPS (sen)	2.4	-	2.2	2.3	2.1
Dividend yield	2.4%	0.0%	2.3%	2.3%	2.2%
BVPS (RM)	1.40	1.45	1.51	1.58	1.64
P/B (x)	0.7	0.7	0.6	0.6	0.6
EBITDA margin	12.6%	9.9%	12.5%	12.4%	12.8%
EBIT margin	10.4%	7.3%	10.0%	10.0%	10.1%
PBT margin	10.8%	8.1%	10.7%	10.7%	10.9%
Net margin	8.1%	6.1%	8.0%	8.0%	8.2%
ROE	6.9%	3.9%	6.1%	5.8%	5.2%
ROA	5.0%	2.8%	4.4%	4.3%	3.9%
Net gearing	CASH	CASH	CASH	CASH	CASH

Assumptions

FYE Dec (RM m)	FY19	FY20	FY21F	FY22F	FY23F
Contracts secured	663	101	500	500	500

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Stock rating guide

BUY	Expected absolute return of +10% or more over the next 12 months.
HOLD	Expected absolute return of -10% to +10% over the next 12 months.
SELL	Expected absolute return of -10% or less over the next 12 months.
UNDER REVIEW	Rating on the stock is temporarily under review which may or may not result in a change from the previous rating.
NOT RATED	Stock is not or no longer within regular coverage.

Sector rating guide

OVERWEIGHT	Sector expected to outperform the market over the next 12 months.
NEUTRAL	Sector expected to perform in-line with the market over the next 12 months.
UNDERWEIGHT	Sector expected to underperform the market over the next 12 months.

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