

Record RM3B order book for HSL

Margins to improve as mega projects progress

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KUCHING (Tuesday): The order book for Sarawak-based marine engineering and infrastructure specialist Hock Seng Lee Berhad (HSL) is at an historical high of RM3 billion it announced when releasing its annual financial results today.

With 90 percent, or RM2.7 billion of orders, outstanding as at 31 December 2017, the Group is looking at robust revenue streams as it focuses on executing three mega projects and over a dozen other infrastructure projects throughout Sarawak.

"In 2016, we had an exceptional year with procurement, while 2017 has been about getting the major contracts up and running. Nonetheless, we did still bid selectively and added RM575 million in new works during 2017," said Dato Paul Yu Chee Hoe, HSL's Managing Director.

For the 12 months ended 31 December 2017, revenue stood at RM505.91 million with profit before tax at RM62.63 million.

For the year ended 31 December 2016, HSL Group revenue reached RM498.55 million with profit before tax at RM75.17 million.

"The implementation of the mega projects was affected by issues beyond our control, but they are now progressing with manpower, materials and equipment mobilized. As such, revenue and margins should improve accordingly," said Dato Paul Yu.

"On our Package 7 of the Pan-Borneo Highway, we have worked hard with the party responsible to address delays to the relocation of utilities which had hampered our execution," he added.

HSL's section covers the Julau and Sibul interchanges, the 1.7km Btg Rajang (Durin) bridge and 17 other bridges – a total of some 76 km.

Some 3 million tonnes of aggregates will be required and HSL is fortunate to have in-house supply from one of the state's largest quarries as well as convenient river access points for efficient marine transportation.

"With regards to the second package of Kuching's Centralised Waste Water Management System project, the contract was signed in the third quarter of 2017 following protracted negotiations with the client and physical work only commenced in the fourth quarter of 2017," said Dato Paul Yu.

Package 2 will add another 100,000 PE (Population Equivalent) to the current system and duplicate the existing sewage treatment plant, further reducing pollution to Kuching's waterways.

The third of the ongoing mega-projects was won during 2017 and is for the centralised wastewater management system for Miri, package 1 worth RM333 million.

"Procuring this tunnelling project independently in an open tender exercise is testimony to the skills acquired in successfully completing similar works in Kuching," said Dato Paul Yu, adding that three additional Tunnel Boring Machines have recently been purchased for the Miri Wastewater project at a cost of RM15 million.

Other new projects acquired in 2017 include a collector road in Samalaju, a training institution in Mukah, a school in Miri, a couple of drainage works contracts in Sibul and Kuching and an administrative building in Kuching for X-fab, the world's leading foundry group for analog/mixed-signal semiconductor applications.

The latter, worth RM57 million, was procured in open tender, largely based on HSL's technical capability in vibration control management, which is critical to safeguarding the on-going precision manufacturing activities of X-fab.

While much focus has been on the mega projects during 2017, HSL still completed a commendable RM343 million of works, many of which were in the Sarawak Corridor of Renewable Energy (SCORE) region of central Sarawak such as a government office, an admin building for the port and infrastructure works for the Industrial Park – all in Samalaju; road works and water supply to Tanjung Manis Halal Hub and a water treatment plant and transmission main in Mukah.

Meanwhile, the Group's property sector made a significant contribution in 2017 with some 15 percent input to Group revenue and strong margins. RM113 million worth of property development projects were completed in 2017 comprising Phase 4 of Samariang Aman 2 and La Promenade Precinct Premiere – Phase 1.

"We currently have RM266 million worth of property development projects ongoing and anticipate launching approximately RM150 million worth of new projects in 2018; close to double what was launched in 2017," said Dato Paul Yu.

In 2017, HSL launched sales of Phases 3 and 6 of its popular Samariang Aman 2 in Kuching's north where it has built well over 1000 new houses.

It also launched a further 30 units of light industrial factory units at Block 2 of Vista Industrial Park (VIP) at Muara Tabuan, near Kuching with Blocks 3 and 6 scheduled for launch in 2018. VIP will see a total of 195 factory units built at a GDV of some RM200 million.

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At the flagship, 200-acre La Promenade mixed development near Kuching, the first of the high end guarded and gated homes, Phase 1 of Precinct Premiere, were handed over in October 2017, while Phase 2 is selling well and in an advanced stage of construction.

The follow-up Precinct Luxe is now underway with Phases 2 and 4 expected to be launched in 2018 and the dedicated Clubhouse to be opened in March this year.

In view of the sound annual results and uptick in revenue flows as the year progressed, the Board has recommended a final single-tier tax exempt dividend of 1.4 sen per ordinary share pending approval at the upcoming Annual General Meeting (AGM).

Added to the interim single-tier tax exempt dividend of 1 sen per ordinary share paid on 10 October 2017, the cash dividend for 2017 would total 2.4 sen per ordinary share.

Looking ahead, Dato Paul Yu commented that earnings visibility would be strong as the substantial project start-up costs have been met and the mega-projects would reach more billable stages.

"We are expecting a return to double digit margins and improvements across all financial measures through 2018," he added.

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Based in Sarawak, East Malaysia, Hock Seng Lee Group is involved in marine engineering, civil engineering, building construction and property development.

HSL is listed on Bursa Malaysia's Construction Counter (stock code 6238, Bloomberg code HSL MK).

For further information see: www.hsl.com.my