

# Stock Digest

## HIL Industries Bhd – Results Note

Friday, 30 Aug, 2019

**M<sup>+</sup>Online**  
Equipping Traders For The Win

Malacca Securities Sdn Bhd  
(A Participating Organisation of Bursa Malaysia Securities Berhad)  
Hotline: 1300 22 1233  
Email: support@mplusonline.com.my  
Website: www.mplusonline.com.my

## Playing Catch Up in 2H2019

### Results Review

- HIL Industries Bhd's (HIL) 2Q2019 net profit jumped 23.7% Y.o.Y to RM4.7 mln, in comparison to RM3.8 mln in the previous corresponding period, in-line with stronger revenue of RM35.9 mln, from RM28.5 mln earlier.
- Cumulative 1H2018 net profit, however, plunged 32.6% Y.o.Y to RM6.2 mln, from RM9.2 mln previously, owing to a one-off gain from the acquisition of a subsidiary in the previous corresponding period. Excluding the non-recurring gain, normalised net profit was 60.7% Y.o.Y higher. Nevertheless, revenue was 45.6% Y.o.Y higher at RM71.5 mln, from RM49.1 mln a year ago.
- The reported net profit was within expectations, accounting for about 34.2% of our full year estimated earnings of RM18.1 mln. This is typical as the group usually post stronger performances in the second half of the year amid year-end sales and promotions. Revenue also met our forecast revenue of RM128.1 mln (or 55.8% of 2019 forecast). Consequently, we keep our FY19-FY20 estimates unchanged for now.
- Segmentally, 1H2019 manufacturing EBIT was at RM58,000, from a EBIT loss of RM1.3 mln last year, driven by higher revenue (+17.8% Y.o.Y) despite weaker contribution from China. Although the topline improved slightly more than two-fold, the property segment's EBIT fell 24.4% Y.o.Y to RM7.3 mln vs. RM9.8 mln last year, on the back of the one-off gain from the acquisition of A&M Concrete and Show Piece last year.

Financial Highlights					
FYE Dec (MYR mln)	2016A	2017A	2018A	2019F	2020F
Revenue	97.3	102.2	106.5	128.1	142.7
EBITDA	28.0	18.1	23.2	24.2	26.0
Net Profit	16.4	13.5	17.1	18.1	20.6
Revenue Growth (%)	-19.0	5.0	4.2	20.3	11.4
EBITDA Growth (%)	-8.1	-35.1	27.6	4.5	7.6
Net Profit Growth (%)	-4.7	-17.7	26.6	5.8	14.0
EPS (sen)	4.9	4.0	5.1	5.4	6.2
Diluted EPS (sen)*	N/A	N/A	N/A	4.7	5.3
P/E(x)	10.2	12.4	9.8	9.2	8.1
Diluted P/E (x)*	N/A	N/A	N/A	10.7	9.4
DPS (sen)	1.5	1.8	1.8	1.8	1.8
Dividend Yield (%)	3.0	3.5	3.5	3.5	3.5
P/BV (x)	0.6	0.6	0.6	0.6	0.6
ROE (%)	5.1	4.1	5.1	5.3	5.9

\* Based on enlarged share capital of 387.3 outstanding shares (After adjusting for full warrant conversion)

Source: Company Data & MSSB Research

**Recommendation: HOLD**

**Share Price: RM0.50**

**Target Price: RM0.70**

**Expected Return: +40.4%**

**Expected Dividend Return: +3.5%**

**Expected Total Return: +43.9%**

**FBM KLCI: 1,595.2**

### Key Statistics

**Bursa Code: 8443**

**Bloomberg Ticker: HIL MK Equity**

**Stock Information:** Principally involved in the manufacturing, assembling and sale of electronic and electrical products, and plastic moulded components and parts, as well as property development

**Listing Market:** Main Market

**Share Issued (mln):** 334.0

**Market Capital (RM mln):** 167.0

**Par Value (RM):** N/A

**52 week high/low:** RM0.68/RM0.465

**Estimated free float:** 16.9%

**Beta (x):** 0.8

**3-month average volume ('000):** 65.5

**Major Shareholders:**

Dalta Industries Sdn Bhd	53.9%
Beh Hang Kong	4.5%
A&M Holdings Bhd	4.2%

**Analyst**

Diana Cheok

[dianacheok@msec.com.my](mailto:dianacheok@msec.com.my)

+603 5636 1533

**BURSA**



[www.bursamids.com](http://www.bursamids.com)

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## Prospects

Despite weakening consumer sentiment (Appendix 1), we think that HIL is set for strong topline growth, backed by steady components orders from its key OEM customers, improved utilisation and slightly lower operating expenses due to firmer economies of scale from having higher orders. Bottomline growth, however, is expected to be slower, in-line with the still the weak property market and conservative consumer spending trend that could affect margins. Meanwhile, ongoing government initiatives like the National Home Ownership Campaign 2019 (HOC 2019) could potentially improve the property overhang issue in Malaysia, although significant improvements is yet to be seen due to tight lending policies, supply-demand imbalance and affordability issues. The Malaysian Institute of Economic Research (MIER) also expects household demand to remain dampened in the following quarters, especially sensitive and big-ticket items like property and cars.

Perodua has forecast another record year after increasing its full-year sales target to 235,000 units (compared to 227,232 units in 2018). That said, the group is cautious of its sales growth in 2H2019 due to the end of tax holiday period last year and the re-introduction of the sales and services tax (SST). Based on our estimates, Perodua accounts for more than half of the manufacturing division's turnover.

Revenue from the domestic manufacturing segment has been improving, albeit marginally weighed down by the weak performance overseas, which is likely to persevere over the foreseeable term, in our view. Meanwhile, progress billings from property sales are expected to provide some support for revenue and earnings growth as the group continue to unveil new projects like Phase 2 of Amverton Links, which is slated to launch by end-2019.

## Valuation and Recommendation

We maintain our **HOLD** recommendation on HIL Industries Bhd with an unchanged target price of RM0.70 as the group lacks near-term re-rating catalysts, coupled with unending weakness in the property market and still low utilisation levels from the manufacturing division. With few re-rating catalysts, we also think that its stock price will remain largely rangebound over the near-to-medium term, despite its low valuations.

Our target price is based on sum-of-parts (SOP) approach with an unchanged target PER of 9.0x to its 2019 manufacturing business and a discount of 50% (unchanged) to the revalued net asset value (RNAV) estimate of HIL's property unit.

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Quarterly Performance					
FYE Dec (MYR mln)	2Q2019	2Q2018	% Change		% Change
			Y.o.Y	1Q2019	Q.o.Q
Revenue	35.9	28.5	26.2%	35.6	1.1%
EBITDA	7.3	5.6	29.6%	3.3	122.6%
Depreciation & Amortisation	-1.5	-1.7	-11.8%	-1.7	-11.8%
Net Interest Income/ (Expense)	1.0	1.2	-18.3%	1.0	6.8%
Profit before Tax	6.8	5.2	31.6%	2.5	169.6%
Net Profit/ Loss	4.7	3.8	23.7%	1.5	205.8%
Basic EPS (sen)	1.2	1.0	23.7%	0.4	205.8%

Source: Company Data & MSSB Research

Income Statement					
FYE Dec (MYR mln)	2016A	2017A	2018A	2019F	2020F
Revenue	97.3	102.2	106.5	128.1	142.7
EBITDA	28.0	18.1	23.2	24.2	26.0
Depreciation & Amortisation	-9.4	-8.3	-6.9	-6.4	-6.7
Net Interest Income/(Expense)	3.7	5.5	4.4	5.0	6.0
Pre-tax Profit	22.3	15.4	20.7	22.7	25.3
Effective Tax Rate	28.7%	34.4%	12.2%	18.2%	20.0%
Net Profit	15.9	13.5	17.1	18.1	20.6
EBITDA Margin	28.7%	17.8%	21.7%	18.9%	18.2%
Pre-tax Margin	22.9%	15.1%	19.4%	17.7%	17.7%
Net Margin	16.8%	13.2%	16.0%	14.1%	14.4%

Source: Company Data & MSSB Research

Balance Sheet					
FYE Dec (MYR mln)	2016A	2017A	2018A	2019F	2020F
Total Assets	366.5	374.5	464.7	401.9	441.3
Fixed Assets	60.3	56.2	52.2	49.6	47.2
Current Assets	277.5	287.3	370.9	307.8	346.6
Other LT Assets	28.7	31.0	41.6	44.5	47.4
Current Liabilities	22.8	27.9	94.0	42.2	40.9
LT Liabilities	22.0	16.4	36.4	17.8	49.0
Share Capital	139.4	167.0	167.0	167.0	167.0
Total Equity	321.7	330.1	334.4	341.9	351.4
Minority Interests	0.9	0.9	0.8	1.0	1.0

Source: Company Data & MSSB Research

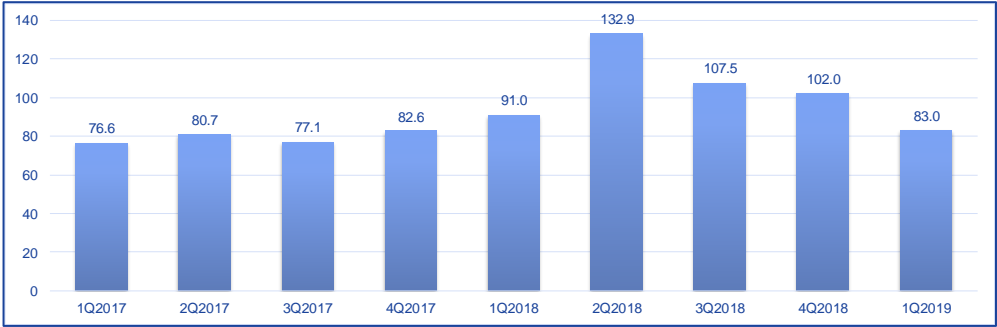
Per Share Data					
FYE Dec (MYR mln)	2016A	2017A	2018A	2019F	2020F
Book Value (sen)	81.8	84.0	84.8	86.8	89.2
Cash Flow (sen)	5.6	3.1	-2.7	-2.3	8.0
Net Earnings (sen)	4.9	4.0	5.1	5.4	6.2
Dividend (sen)	1.5	1.8	1.8	1.8	1.8
Payout Ratio (%)	30.4	43.1	34.0	32.1	28.2
Dividend Yield (%)	3.0	3.5	3.5	3.5	3.5
PER (x)	10.2	12.4	9.8	9.2	8.1
P/Cash Flow (x)	9.0	15.9	-18.4	-21.7	6.3
P/Book Value (x)	0.6	0.6	0.6	0.6	0.6
ROA(%)	4.5	3.6	3.7	4.5	4.7
ROE (%)	5.1	4.1	5.1	5.3	5.9
Gearing (%)	N/A	N/A	N/A	N/A	N/A
Net Gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company Data & MSSB Research

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Appendix 1: Malaysian Consumer Confidence



Source: Trading Economics

## Stock Price Performance vs KLCI



Source: Bloomberg

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