

07 August 2020

Hock Seng Lee Bhd

1HFY20 Broadly Within

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2QFY20 CNP of RM4m (-48% QoQ) brought 1HFY20 CNP to RM11.5m (-62% YoY), broadly within our/consensus (39%/32%) forecasts as we anticipate stronger work progress post MCO. Maintain OP and TP of RM1.25 as we anticipate market attention to gradually shift towards brighter catalysts such as: (i) earnings rebound in FY21, and (ii) potential goodies from the upcoming Sarawak elections, Budget 2021, and 12th Malaysian Plan.

Broadly within. 1HFY20 CNP of RM11.5m which accounted for 39%/32% of ours/consensus estimates is deemed broadly within as we anticipate 2HFY20 to come in stronger as construction activities pick up post MCO and CMCO (March 18th – June 9th 2020). No dividends declared as expected.

QoQ, 2QFY20 CNP of RM4m was lower by 48%, led by a 26% decline in revenue from slower works in both its construction and property segments stemming from the longer MCO period of 2 months' vs 2 weeks in the previous quarter. Accordingly, CNP margin was squeezed by 2ppt from fixed cost on the back of lower revenue. **YoY,** 1HFY20 CNP was lower by 62% mainly from the MCO lockdown nationwide.

Operating levels improved but still not normalised. HSL gradually started construction in late May albeit at very interrupted levels. Since then, construction operations have ramped up to 60% utilisation vs 30-40% during the MCO and CMCO periods. Management remains cautious on activities picking up towards pre-Covid levels in the near horizon due to labour shortage issues and the strict compliance of safety precaution at work sites.

Current order-book remains healthy at RM2.2b providing visibility for the next 3 years. YTD, HSL has yet to secure any contracts, against our replenishment expectation of RM500m. Nonetheless, we are keeping our target unchanged for now backed by tenders for the Sarawak coastal road, trunk roads and the water works projects which could be rolled out in 2HCY20. Management concurs with our view that more awards will be rolled out in 2H.

Earnings forecasts unchanged post 2QFY20 results.

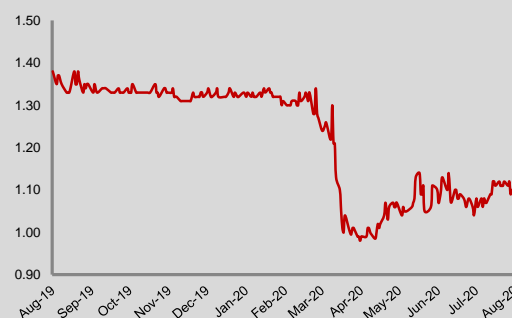
Maintain OUTPERFORM with an unchanged TP of RM1.25 based on 11x FY21E PER (-0.5 SD to 3-year mean). While we acknowledged that the MCO had hit contractors like HSL hard, we are of the view that once the worst of the results season passes over (in late August), market focus would then shift toward expectation of earnings rebound in FY21 and potential goodies from Budget 2021, upcoming Sarawak elections and the 12th Malaysian Plan, spurring a rally for contractors.

Risks to our call include: resurgence of Covid-19 cases, and snap elections at the federal level.

OUTPERFORM ↔

Price : RM1.07
Target Price : RM1.25 ↔

Share Price Performance



KLCI 1,588.57
YTD KLCI chg 0.0%
YTD stock price chg -19.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HSL MK EQUITY
Market Cap (RM m)	588.0
Shares Outstanding	549.5
52-week range (H)	1.40
52-week range (L)	0.96
3-mth avg daily vol:	126,785
Free Float	10%
Beta	0.7

Major Shareholders

Hock Seng Lee Enterprise Sdn Bhd	58.5%
Skim Amanah Saham Bumiputera	10.7%
Employees Provident Fund Board	4.5%

Summary Earnings Table

FYE Dec (RM m)	2019A	2020E	2021E
Turnover	683.6	429.9	756.9
EBIT	70.8	36.8	79.2
PBT	74.1	39.0	82.0
Net Profit	55.3	29.2	61.4
Core PATAMI	55.3	29.2	61.4
Consensus (NP)	n.a.	35.7	56.9
Earnings Revision	0%	0%	0%
Core EPS (sen)	10.1	5.3	11.2
Core EPS growth (%)	0.0	-0.5	1.1
NDPS (sen)	2.4	1.0	2.7
NTA per Share (RM)	1.5	1.5	1.6
PER (x)	10.6	20.1	9.6
Price to NTA (x)	0.7	0.7	0.7
Debt-to-Equity ratio (x)	0.1	0.0	0.0
Return on Asset (%)	4.5	2.5	4.8
Return on Equity (%)	6.8	3.5	6.9
Net Div. Yield (%)	2.2	0.9	2.5

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Result Highlight

	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
FYE Dec (RM m)								
Turnover	83.1	112.4	-26%	175.4	-53%	195.4	322.1	-39%
EBITDA	7.3	12.2	-40%	24.7	-71%	19.4	46.5	-58%
Depreciation	-3.4	-3.4	-1%	-4.0	-17%	-6.8	-7.9	-15%
EBIT	3.9	8.7	-55%	20.7	-81%	12.6	38.5	-67%
Interest inc/(exp)	1.5	1.4	9%	1.1	35%	2.9	2.0	42%
Associates/JV	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Exceptional items	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Forex gain/(loss)	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Pretax profit	5.4	10.1	-47%	21.8	-75%	15.5	40.6	-62%
Taxation	-1.4	-2.6	-44%	-5.4	-73%	-4.0	-10.0	-60%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	4.0	7.6	-48%	16.5	-76%	11.5	30.6	-62%
Minority interest	0.0	0.0	-14%	0.0	-10%	0.0	0.0	-13%
PATAMI	4.0	7.6	-48%	16.4	-76%	11.5	30.5	-62%
Core PATAMI	4.0	7.6	-48%	16.4	-76%	11.5	30.5	-62%
DPS (sen)	0.0	0.0		1.0		0.0	1.0	
EBIT margin	5%	8%		12%		6%	12%	
Pretax margin	7%	9%		12%		8%	13%	
NP margin	5%	7%		9%		6%	9%	
CNP margin	5%	7%		9%		6%	9%	
EPS (sen)	0.7	1.4		3.0		2.1	5.6	
Core EPS(sen)	0.7	1.4		3.0		2.1	5.6	
BV/share (RM)	1.5	1.5		1.5		1.5	1.5	
Net gearing (x)	-0.2	-0.1		0.0		-0.2	0.0	
Effective tax	26%	25%		25%		26%	25%	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q20	1Q20	QoQ	2Q19	YoY	1H20	1H19	YoY
External Revenue								
Construction	74.0	101.2	-27%	151.4	-51%	175.2	277.1	-37%
Property Development	9.0	11.1	-19%	24.0	-63%	20.1	45.1	-55%
Pre-tax Segmentation								
Construction	3.0	6.7	-56%	15.0	-80%	9.7	27.1	-64%
Property Development	2.4	3.4	-27%	6.9	-65%	5.8	13.7	-58%
Pre-tax margins								
Construction	4%	7%		10%		6%	10%	
Property Development	27%	30%		29%		29%	30%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price	Rating
					Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
STOCKS UNDER COVERAGE													
GAMUDA BHD	3.45	8,671.7	Y	07/2020	11.8	17.5	12.6	1.0	1.0	5.6%	1.7%	4.10	OP
GEORGE KENT (MALAYSIA) BHD	0.705	371.7	Y	01/2021	9.4	11.4	7.5	0.8	0.7	6.7%	2.3%	0.510	UP
HOCK SENG LEE BERHAD	1.07	588.0	Y	12/2020	10.6	20.2	9.6	0.7	0.7	3.5%	0.9%	1.25	OP
IJM CORP BHD	1.45	5,265.4	Y	03/2021	12.0	27.4	23.0	0.5	0.5	2.3%	2.1%	2.00	MP
KERJAYA PROSPEK GROUP BHD	1.05	1,288.8	Y	12/2020	8.7	12.4	8.5	1.3	1.2	10.2%	3.0%	1.45	OP
KIMLUN CORP BHD	0.740	251.5	Y	12/2020	4.1	9.5	5.2	0.4	0.3	3.8%	6.4%	1.00	OP
MITRAJAYA HOLDINGS BHD	0.195	162.7	Y	12/2020	N.A.	N.A.	N.A.	0.2	0.2	-3.9%	0.0%	0.200	MP
MUHIKBAH ENGINEERING (M) BHD	0.860	415.8	Y	12/2020	10.9	15.1	5.5	0.4	0.3	2.3%	1.2%	1.15	OP
SUNWAY CONSTRUCTION GROUP BHD	1.88	2,424.0	Y	12/2020	18.4	34.8	15.2	3.9	3.7	10.9%	1.3%	2.45	OP
WCT HOLDINGS BHD	0.415	579.3	Y	12/2020	3.8	N.A.	13.4	0.2	0.2	-0.2%	0.0%	0.460	UP
Simple Average					10.0	18.5	11.2	0.9	0.9	4.1%	1.9%		

Source: Company, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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