

01 March 2021

Hock Seng Lee Bhd

FY20 Above Our Target, Within Street

By Lum Joe Shen | lumjs@kenanga.com.my

4QFY20 CNP of RM9.7m (-11% QoQ, -5% YoY) brought FY20 CNP to RM32m – within consensus expectation but above ours due to higher-than-expected property sales and construction billings. That said we tone down our optimistic FY21E sales target of RM100m to RM60m due to the lack of launch visibility in FY21 coupled with low unbilled sales and inventory. Thus, lower FY21E earnings by 5% post revision. Keep OP on lowered TP of RM1.20 (from RM1.30).

Above our expectation but within consensus. 4QFY20 CNP of RM9.7m (-11% QoQ, -5% YoY) brought FY20 to RM32m (-42% YoY) – well within consensus but above ours at 112%. The positive deviation was due to: (i) higher-than-expected property sales, and (ii) our conservative construction billings assumptions as we had thought that the CMCO imposed in Kuching from the 9th to 27th of Nov would have impeded work progress.

Absence of a final quarter dividend is below our 1.0 sen estimate. Despite the massive growth in net cash pile (to RM252m in FY20 from RM169m in FY19), management has decided to conserve cash due to the uncertainties ahead.

QoQ, 4QFY20 CNP of RM9.7m is down 11% solely due to the higher effective tax rate of 30% (+14ppt). Dissecting segmentally, we noted that property segment contributions leapt 85% from higher sales of completed inventories which more than offset the lower construction contribution (-17%) arising from lower margins. **YoY**, FY20 CNP was lower by 42%, mainly from the MCO lockdowns nationwide.

4QFY20 property sales of RM27m lifted FY20 sales to RM60m; above our sales target of RM45m (at 133%) likely due to pent-up demand. That said, due to the lack of launches seen the past year, unbilled sales are currently low at RM15m while unsold completed inventories are also depleting with RM30m left. Coupled with the lack of launch visibility for FY21, we choose to dial down our earlier optimistic FY21E sales target of RM100m to RM60m.

FY20A replenishment of RM101m came in below our RM150m target. That said, we stick to our FY21E replenishment target of RM750m as we believe deferred tenders in FY20 arising from the Covid-19 pandemic would be dished out this year as Sarawak pivots towards a recovery. Amongst these tenders are the Sarawak coastal road, trunk roads and water works projects. **Current order-book remains healthy at RM1.8b** providing visibility for the next three years.

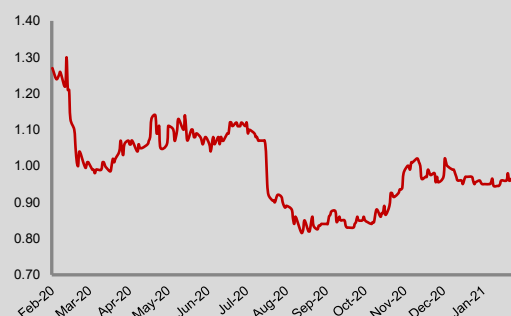
Earnings update. Post revising FY21 sales target lower to RM60m and updating for lower replenishment of RM101m secured in FY20A, our FY21E earnings is lowered by 5%. Introduce FY22E earnings backed by replenishment of RM750m and property sales of RM60m.

Maintain OUTPERFORM with a lower TP of RM1.20 (from RM1.30) based on unchanged 12x FY21E PER (-0.5 SD to 3-year mean). We believe the worst is behind us and focus will eventually pivot towards: (i) earnings rebound in FY21, and (ii) optimism arising from the upcoming Sarawak election and 12th Malaysian Plan.

OUTPERFORM ↔

Price : RM0.97
Target Price : RM1.20 ↓

Share Price Performance



KLCI	1,577.75
YTD KLCI chg	-3.0%
YTD stock price chg	-3.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HSL MK EQUITY
Market Cap (RM m)	533.0
Shares Outstanding	549.5
52-week range (H)	1.34
52-week range (L)	0.80
3-mth avg daily vol:	115,729
Free Float	11%
Beta	0.6

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)	2020A	2021E	2022E
Turnover	538.3	694.8	755.0
EBIT	39.0	71.6	75.3
PBT	43.5	74.3	78.3
Net Profit	32.0	55.7	58.6
Core PATAMI	32.0	55.7	58.6
Consensus (NP)	32.2	55.7	60.1
Earnings Revision	n.a.	-5%	NEW
Core EPS (sen)	5.8	10.1	10.7
Core EPS growth (%)	-42%	74%	5%
NDPS (sen)	0.0	2.4	2.5
NTA per Share (RM)	1.5	1.6	1.7
PER (x)	16.6	9.6	9.1
Price to NTA (x)	0.6	0.6	0.6
Debt-to-Equity ratio (x)	0.0	0.0	0.0
Return on Asset (%)	2.7	4.4	4.3
Return on Equity (%)	3.8	6.2	6.3
Net Div. Yield (%)	0.0	2.5	2.6

01 March 2021

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

Result Highlight								
	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
FYE Dec (RM m)								
Turnover	181.7	161.2	13%	187.6	-3%	538.3	683.6	-21%
EBITDA	18.5	15.5	19%	17.2	8%	53.5	86.3	-38%
Depreciation	-4.3	-3.4	27%	-3.6	18%	-14.4	-15.5	-7%
EBIT	14.2	12.2	17%	13.6	5%	39.0	70.8	-45%
Interest inc/(exp)	0.7	0.9	-18%	0.1	415%	4.4	3.3	36%
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	14.9	13.0	15%	13.7	9%	43.5	74.1	-41%
Taxation	-4.5	-2.1	111%	-3.6	27%	-10.7	-18.8	-43%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	10.4	10.9	-4%	10.1	3%	32.8	55.3	-41%
Minority interest	0.7	0.0	4867%	-0.1	1384%	0.8	0.0	n.a.
PATAMI	9.7	10.9	-11%	10.2	-5%	32.0	55.3	-42%
Core PATAMI	9.7	10.9	-11%	10.2	-5%	32.0	55.3	-42%
DPS (sen)	0.0	0.0		1.4		0.0	2.4	
EBIT margin	8%	8%		7%		7%	10%	
Pretax margin	8%	8%		7%		8%	11%	
NP margin	23%	7%		5%		6%	8%	
CNP margin	5%	7%		5%		6%	8%	
EPS (sen)	1.8	2.0		1.9		5.8	10.1	
Core EPS(sen)	1.8	2.0		1.9		5.8	10.1	
BV/share (RM)	1.5	1.5		1.5		1.5	1.5	
Net gearing (x)	-0.3	-0.2		-0.1		-0.3	-0.1	
Effective tax	30%	16%		26%		25%	25%	

Source: Company, Kenanga Research

Segmental Breakdown								
	4Q20	3Q20	QoQ	4Q19	YoY	FY20	FY19	YoY
External Revenue								
Construction	158.4	147.4	7%	164.7	-4%	481.0	591.1	-19%
Property Development	23.1	13.6	70%	22.8	1%	56.9	92.3	-38%
Pre-tax Segmentation								
Construction	7.9	9.5	-17%	7.7	2%	27.1	46.6	-42%
Property Development	7.9	4.2	85%	6.1	29%	17.9	27.9	-36%
Pre-tax margins								
Construction	5%	6%		5%		6%	8%	
Property Development	34%	31%		27%		31%	30%	

Source: Company, Kenanga Research

01 March 2021

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	3.33	8,370.0	Y	07/2021	15.8	15.3	13.9	1.0	0.9	6.2%	1.8%	4.17	OP	
GEORGE KENT (MALAYSIA) BHD	0.745	389.9	Y	03/2021	9.9	12.0	7.9	0.8	0.8	6.7%	2.1%	0.560	UP	
HOCK SENG LEE BERHAD	0.970	533.0	Y	12/2021	16.6	9.6	9.1	0.7	0.6	6.7%	2.5%	1.20	OP	
IJM CORP BHD	1.57	5,684.9	Y	03/2021	16.9	21.8	17.8	0.6	0.6	3.4%	1.9%	2.20	OP	
KERJAYA PROSPEK GROUP BHD	1.11	1,373.5	Y	12/2021	15.2	10.5	8.7	1.4	1.3	12.7%	3.3%	1.50	OP	
KIMLUN CORP BHD	0.765	270.3	Y	12/2020	4.4	31.9	5.9	0.4	0.4	1.2%	0.7%	1.30	OP	
MITRAJAYA HOLDINGS BHD	0.255	209.8	Y	12/2020	N.A.	21.3	13.0	0.3	0.3	1.3%	0.0%	0.215	UP	
MUHIBBAH ENGINEERING (M) BHD	0.925	447.2	Y	12/2020	11.7	N.A.	17.1	0.4	0.4	-6.1%	0.0%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.68	2,166.1	Y	12/2021	26.3	16.5	14.6	3.4	3.2	20.1%	4.2%	2.10	OP	
WCT HOLDINGS BHD	0.520	729.7	Y	12/2020	4.7	17.6	9.5	0.2	0.2	2.6%	0.0%	0.710	OP	
Simple Average					13.5	17.4	11.8	0.9	0.9	5.5%	1.6%			

Source: Company, Kenanga Research

01 March 2021

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

