

24 September 2021

Hock Seng Lee Bhd

Within Ours but Below Street

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1HFY21 CNP of RM17.9m (+55% YoY) came within our expectation but below consensus which may have underestimated the FMCO impact. Furthermore, the rebound in 2HFY21 will not be strong but gradual as the group still faces ongoing supply disruptions of raw materials and foreign labour. YTD, HSL has replenished RM200m worth of jobs, in line with our RM400m target. Maintain MP with an unchanged TP of RM0.95 anchored to 10x Fwd. PER.

Within our but below consensus expectations. 2QFY21 CNP of RM8.8m led 1HFY21 CNP to RM17.9m – within our expectation at 50% but below consensus' at 41% as they may have underestimated the FMCO impact starting June 2021. Furthermore, 2HFY21 is unlikely to see a strong rebound despite the higher vaccinations as raw material and foreign labour supply disruptions which is more acute in East Malaysia will impede the group from achieving optimal productivity.

No dividends as expected as the group continue to preserve cash in light of the ongoing pandemic. That said, as of 2QFY21, the group sits on a comfortable net cash pile of RM270m (RM0.46/share; all time high). For FY21, we expect dividends to be dished out once in 4QFY21, instead of the typical bi-annual dividend distributions in 2Q and 4Q which were practiced prior to Covid-19.

Results' highlights. QoQ, 2QFY21 CNP of RM8.8m came off 4% mainly due to lower revenue in its construction segment (-25%) due to a full lockdown in June (FMCO). **YoY**, 1HFY21 CNP of RM17.9m improved 55% as it rebounded from a low base in 1HFY20 which was affected by the initial phases of Covid-19 lockdowns which were more stringent.

Outlook. YTD, HSL has replenished RM200m worth of projects; inline against our replenishment target of RM400m. Current **outstanding order-book of RM1.7b** provides visibility for the next three years.

Keep earnings forecasts unchanged post 2QFY21 results.

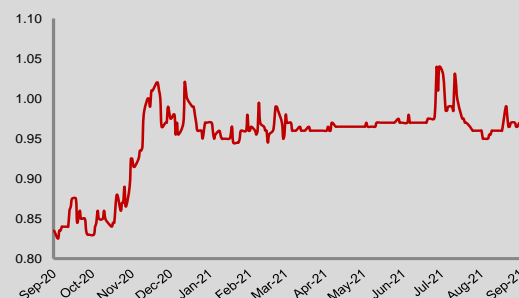
Maintain MARKET PERFORM with an unchanged TP of RM0.95 pegged to 10x FY22E PER. Our ascribed valuations are in line with our small-to-mid cap coverage range of 9-11x.

Risks to our call include: continued resurgence of Covid-19 cases leading to fresh lockdowns.

MARKET PERFORM ↔

Price : **RM0.97**
Target Price : **RM0.95** ↔

Share Price Performance



KLCI	1,539.34
YTD KLCI chg	-5.4%
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)	1.18
52-week range (L)	0.82
3-mth avg daily vol:	410,371
Free Float	10%
Beta	0.6

Major Shareholders

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

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	538.3	512.7	704.6
EBIT	39.0	42.3	67.8
PBT	43.5	45.0	70.8
Net Profit	32.0	33.7	53.0
Core PATAMI	32.0	33.7	53.0
Consensus (NP)	n.a.	43.4	51.9
Earnings Revision	n.a.	0%	0%
Core EPS (sen)	5.8	6.1	9.6
Core EPS growth (%)	-42	5	57
NDPS (sen)	0.0	1.5	2.3
NTA per share (RM)	1.5	1.6	1.7
PER (x)	16.6	15.8	10.1
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	2.9	4.0
Return on Equity (%)	3.8	3.9	5.8
Net Div. Yield (%)	0.0	1.5	2.4

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Result Highlight								
FYE Dec (RM m)	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Turnover	142.8	159.5	-10%	83.1	72%	302.3	195.4	55%
EBITDA	14.5	15.0	-3%	7.3	100%	29.5	19.4	52%
Depreciation	-3.8	-3.8	0%	-3.4	14%	-7.7	-6.8	14%
EBIT	10.7	11.2	-5%	3.9	174%	21.8	12.6	73%
Interest inc/(exp)	1.2	1.0	18%	1.5	-18%	2.3	2.9	-21%
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	11.9	12.2	-3%	5.4	120%	24.1	15.5	55%
Taxation	-3.1	-3.1	0%	-1.4	119%	-6.2	-4.0	57%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	8.8	9.1	-4%	4.0	121%	17.9	11.5	55%
Minority interest	0.0	0.0	0%	0.0	-33%	0.0	0.0	-38%
PATAMI	8.8	9.1	-4%	4.0	122%	17.9	11.5	55%
Core PATAMI	8.8	9.1	-4%	4.0	122%	17.9	11.5	55%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	7%	7%		5%		7%	6%	
Pretax margin	8%	8%		7%		8%	8%	
NP margin	6%	6%		5%		6%	6%	
CNP margin	6%	6%		5%		6%	6%	
EPS (sen)	1.6	1.7		0.7		3.2	2.1	
Core EPS(sen)	1.6	1.7		0.7		3.2	2.1	
BV/share (RM)	1.6	1.5		1.5		1.6	1.5	
Net gearing (x)	-0.3	-0.3		-0.2		-0.3	-0.2	
Effective tax	26%	26%		26%		26%	26%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue (RM m)	2Q21	1Q21	QoQ	2Q20	YoY	1H21	1H20	YoY
Construction	107.0	141.9	-25%	74.0	45%	248.9	175.2	42%
Property Development	19.5	17.3	13%	9.0	117%	36.8	20.1	83%
Pre-tax Segmentation (RM m)								
Construction	4.9	11.5	-57%	3.0	66%	16.4	9.7	69%
Property Development	4.5	3.1	45%	2.4	85%	7.6	5.8	32%
Pre-tax margins								
Construction	5%	8%		4%		7%	6%	
Property Development	23%	18%		27%		21%	29%	

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	3.07	7,716.5	Y	07/2021	14.5	16.3	12.8	0.9	0.9	5.4%	0.0%	3.75	OP	
HOCK SENG LEE BERHAD	0.970	533.0	Y	12/2021	16.7	15.9	10.1	0.7	0.6	4.0%	1.5%	0.950	MP	
IJM CORP BHD	1.86	6,664.1	Y	03/2022	18.4	29.5	23.0	0.7	0.7	10.5%	11.3%	2.05	OP	
KERJAYA PROSPEK GROUP BHD	1.20	1,484.8	Y	12/2021	16.4	15.8	9.4	1.5	1.4	9.1%	2.3%	1.50	OP	
KIMLUN CORP BHD	0.800	282.7	Y	12/2021	17.9	9.9	6.2	0.4	0.4	4.1%	2.1%	1.15	OP	
MUHIBBAH ENGINEERING (M) BHD	0.910	439.9	Y	12/2021	N.A.	N.A.	18.2	0.4	0.4	-1.7%	1.1%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.64	2,114.5	Y	12/2021	25.6	36.4	16.6	3.3	3.1	8.9%	2.4%	1.52	MP	
WCT HOLDINGS BHD	0.580	822.0	Y	12/2021	N.A.	12.6	6.3	0.3	0.3	3.6%	0.0%	0.640	OP	
Simple Average					18.3	19.5	12.8	1.0	1.0	5.5%	2.6%			

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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