

29 November 2021

Hock Seng Lee Bhd

Above Expectations

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9MFY21 CNP of RM28.4m surpassed expectations on higher-than-expected revenue recognised under its construction and property division despite being under FMCO in the months of July till mid-August. YTD, HSL has replenished RM280m worth of jobs, in line with our RM400m target. Upgrade FY21E earnings by 19% but keep FY22E earnings unchanged. Maintain MP and TP of RM0.95 anchored to 10x FY22 PER.

Above expectations. 3QFY21 CNP of RM10.5m led 9MFY21 CNP to RM28.4m – surpassing our/consensus expectation at 84%/80% of full-year estimate. The positive deviation stemmed from higher-than-expected revenue recognised under its construction and property division during the quarter despite being under FMCO in the months of July till mid-August 2021.

No dividends as expected as the group continued to preserve cash in light of the ongoing pandemic. That said, as of 3QFY21, the group sits on a comfortable net cash pile of RM292m (RM0.53/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, 3QFY21 CNP of RM10.5m improved 20% on: (i) higher revenue (+6%) from its construction (+4%) and property (+49%) segments coupled with (ii) lower effective tax rate (-3ppt). **YoY,** 9MFY21 CNP of RM28.4m improved 27% on higher revenue (+27%) as it rebounded from a low base in 9MFY20 which was affected by the more stringent initial Covid-19 lockdowns.

Outlook. YTD, HSL has replenished RM280m worth of projects; in line with our replenishment target of RM400m. Current **outstanding order-book of RM1.3b** provides visibility for the next three years.

We expect 4QFY21 earnings to come in stronger QoQ on higher construction productivity given the easier restrictions amidst high vaccination rates. That said, key issues such as labour shortage and tight material supply conditions will still keep a lid over earnings as revenue and margins will not be as good as those achieved during the FY18-FY19 period.

Upgrade FY21E earnings by 19% to factor in higher revenue at construction and property division post 3QFY21 results. Keep FY22E earnings unchanged.

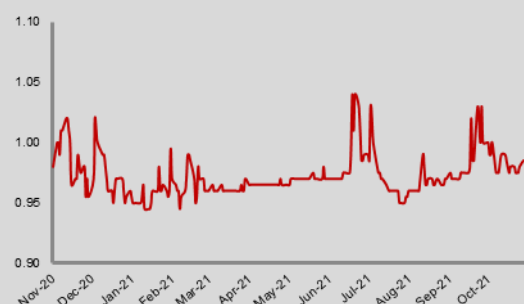
Maintain MARKET PERFORM with an unchanged TP of RM0.95 pegged to 10x FY22E PER. Our ascribed valuations are in line with our small-to-mid cap coverage range of 9-11x.

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

MARKET PERFORM ↔

Price : **RM0.975**
Target Price : **RM0.950** ↔

Share Price Performance



KLCI 1,512.22
YTD KLCI chg -7.1%
YTD stock price chg -2.5%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HSL MK EQUITY
Market Cap (RM m)	535.8
Shares Outstanding	549.5
52-week range (H)	1.18
52-week range (L)	0.95
3-mth avg daily vol:	105,305
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	615.3	744.6
EBIT	39.0	50.8	67.8
PBT	43.5	53.6	70.8
Net Profit	32.0	40.1	53.0
Core PATAMI	32.0	40.1	53.0
Consensus (NP)	n.a.	35.7	51.0
Earnings Revision	n.a.	19%	0%
Core EPS (sen)	5.8	7.3	9.6
Core EPS growth (%)	-42	25	32
NDPS (sen)	0.0	1.7	2.3
NTA per share (RM)	1.5	1.6	1.7
PER (x)	16.7	13.4	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	3.3	4.0
Return on Equity (%)	3.8	4.6	5.8
Net Div. Yield (%)	0.0	1.8	2.4

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Result Highlight								
FYE Dec (RM m)	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Turnover	150.9	142.8	6%	161.2	-6%	453.2	356.6	27%
EBITDA	16.1	14.5	11%	15.5	4%	45.7	35.0	31%
Depreciation	-3.9	-3.8	0%	-3.4	14%	-11.5	-10.1	14%
EBIT	12.3	10.7	15%	12.2	1%	34.1	24.8	38%
Interest inc/(exp)	1.5	1.2	18%	0.9	71%	3.7	3.7	0%
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	13.8	11.9	16%	13.0	6%	37.9	28.6	33%
Taxation	-3.2	-3.1	3%	-2.1	50%	-9.5	-6.1	54%
Deferred tax	0.0	0.0	n.a.	0.0	n.a.	0.0	0.0	n.a.
Profit after tax	10.5	8.8	20%	10.9	-3%	28.4	22.4	27%
Minority interest	0.0	0.0	8%	0.0	-13%	0.0	0.1	-31%
PATAMI	10.5	8.8	20%	10.9	-3%	28.4	22.4	27%
Core PATAMI	10.5	8.8	20%	10.9	-3%	28.4	22.4	27%
DPS (sen)	0.0	0.0		0.0		0.0	0.0	
EBIT margin	8%	7%		8%		8%	7%	
Pretax margin	9%	8%		8%		8%	8%	
NP margin	7%	6%		7%		6%	6%	
CNP margin	7%	6%		7%		6%	6%	
EPS (sen)	1.9	1.6		2.0		5.2	4.1	
Core EPS(sen)	1.9	1.6		2.0		5.2	4.1	
BV/share (RM)	1.6	1.6		1.5		1.6	1.5	
Net gearing (x)	-0.3	-0.3		-0.2		-0.3	-0.2	
Effective tax	23%	26%		16%		25%	21%	

Source: Company, Kenanga Research

Segmental Breakdown								
External Revenue	3Q21	2Q21	QoQ	3Q20	YoY	9M21	9M20	YoY
Construction	111.3	107.0	4%	147.4	-24%	360.3	322.7	12%
Property Development	29.1	19.5	49%	13.6	114%	65.9	33.8	95%
General Trading	10.1	16.0	-37%	0.0	n.a.	26.1	0.0	n.a.
Others	0.3	0.3	-10%	-0.1	451%	0.9	0.0	n.a.
Total	150.9	142.8	6%	161.0	-6%	453.2	356.4	27%
Pre-tax Segmentation								
Construction	7.5	7.2	5%	9.5	-21%	23.9	19.2	25%
Property Development	6.4	4.2	53%	4.2	52%	14.1	10.0	40%
General Trading	0.6	1.0	-39%	0.0	n.a.	1.7	0.0	n.a.
Others	-0.8	-0.5	58%	-0.7	26%	-1.8	-0.7	179%
Total	13.8	11.9	16%	13.0	6%	37.9	28.6	33%
Pre-tax margins								
Construction	7%	7%		6%		7%	6%	
Property Development	22%	22%		31%		21%	30%	
Total	9%	8%		8%		8%	8%	

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	2.84	7,138.4	Y	07/2022	11.9	11.8	12.9	0.8	0.8	6.8%	2.1%	2.80	MP	
HOCK SENG LEE BERHAD	0.975	535.8	Y	12/2021	16.8	13.4	10.2	0.7	0.6	4.8%	1.5%	0.950	MP	
IJM CORP BHD	1.75	6,246.1	Y	03/2022	17.3	27.8	21.6	0.6	0.6	10.5%	12.0%	2.00	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	0.805	284.5	Y	12/2021	18.0	9.9	5.8	0.4	0.4	4.1%	2.1%	1.25	OP	
MUHIBBAH ENGINEERING (M) BHD	0.850	410.9	Y	12/2021	N.A.	N.A.	17.0	0.4	0.3	-1.7%	1.2%	1.25	OP	
SUNWAY CONSTRUCTION GROUP BHD	1.55	1,998.5	Y	12/2021	24.2	22.8	15.7	3.2	3.0	13.3%	2.6%	1.52	MP	
WCT HOLDINGS BHD	0.565	800.7	Y	12/2021	N.A.	34.0	9.0	0.3	0.2	2.3%	0.0%	0.620	MP	
Simple Average					17.4	19.4	12.7	1.0	0.9	6.2%	3.0%			

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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