

# HIL Industries

## Bright Spot in Automotive Segment

By Jack Lai Yuan Khai | [jacklai@kenanga.com.my](mailto:jacklai@kenanga.com.my)

HIL's 1QFY23 results disappointed, mainly dragged by its weak property segment, while the manufacturing segment continued to ride on recurring orders. We cut our FY23-24F earnings forecasts by 10% and 12%, respectively, reduce our TP by 3% to RM0.78 (from RM0.81) and maintain our UNDERPERFORM call.

**Below expectations.** 1QFY23 results disappointed, accounting for only 21% each of both our and consensus full-year estimates. We believe the variance against our forecast stemmed largely from weaker-than-expected property segment's profit.

**YoY.** 1QFY23 revenue grew 8%, fuelled by the sustained growth in the manufacturing segment. Revenue from the plastics moulding division grew 22% largely from rising demand for new automobiles following both the fulfilment of orders made during the SST exemptions as well as Hari Raya promotional campaigns. The group commented that its backlog of orders currently ranges from two to six months depending on the customers. Conversely, revenue from its property segment fell 23% as limited launches coupled with rising interest rates resulted in more cautious sentiment with earnings falling 21%. Group's core net profit rose 10% as the growth in plastics moulding offset the weaker property earnings.

**QoQ.** 1QFY23 revenue contracted 5.1% following a 40% drop in property revenue. Plastics moulding revenue grew 14% with earnings jumping 81% as the segment benefited from better economies of scale. Additionally, despite the drop in revenue, property earnings increased 52%. We believe this could be due to costs associated with the launch of the group's townhouse project incurred in 4QFY22. Its net profit more than doubled as the group saw operating costs normalise significantly following the spike in the previous quarter.

**Outlook.** The outlook for the group continues to be mixed as global macroeconomic headwinds are signalling challenging times ahead. The group's property segment continues to struggle as rising interest rates and construction cost resulted in slower sales of its developments. We believe sentiment surrounding the property market could be softer in the near-term as fears of recession may dampen consumer commitment to big ticket purchases such as properties. On a brighter note, the group's manufacturing division continues to perform well as the automotive order backlog from FY22 has extended into FY23. However, looking beyond 2HFY23, earnings visibility is slightly cloudier. While the segment has been able to perform thus far, historical performance has shown that margins for the segment are thin when production volumes are low. Hence, should automotive orders fail to sustain into FY24, the group could see pressure on its margins.

**Forecasts.** We reduce our FY23-24F earnings forecasts by 10-12% to reflect weaker property earnings following the limited activity during 3QFY23.

We reduce our TP by 3% to RM0.78 (from RM0.81) as we roll over our SoP valuation to FY24F (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 5).

We are cautious on HIL given: (i) its limited earnings visibility for the manufacturing segment beyond 2023, and (ii) expected weak performance of its property launches this year given the soft market condition. Reiterate our **UNDERPERFORM** call.

# UNDERPERFORM ↔

**Price:** RM1.01  
**Target Price:** RM0.78 ↓

**Expected Capital Gain:** -RM0.23 -22.8%  
**Expected Divd. Yield:** RM0.02 +2.0%  
**Expected Total Gain:** RM0.21 -20.8%

**KLCI Index** 1,404.93

## Stock Information

Bloomberg Ticker	HIL MK Equity
Bursa Code	8443
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	331.9
Market Cap (RM m)	335.3
Par value per share (RM)	#N/A N/A
52-week range (H)	1.15
52-week range (L)	0.82
Free Float	10%
Beta	0.8
3-mth avg daily vol	10,245

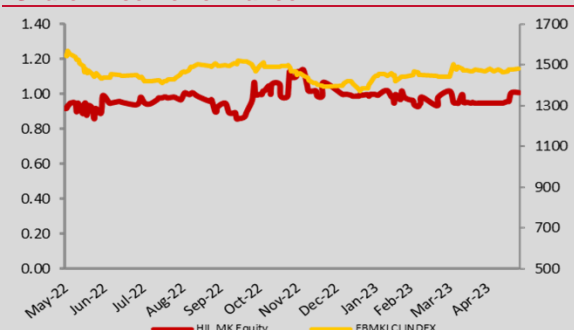
## Major Shareholders

Dalta Industries Sdn. Bhd.	50.3%
Fame Alliance Sdn Bhd	10.1%
Ng Boon Thong	4.5%

## Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	169.7	177.9	179.9
EBIT	29.1	37.3	40.5
PBT	31.1	39.0	42.6
<b>Net Profit</b>	<b>23.9</b>	<b>30.6</b>	<b>33.5</b>
<b>Core Net Profit</b>	<b>23.9</b>	<b>30.6</b>	<b>33.5</b>
Consensus (NP)	-	33.7	39.1
Earnings Revision	-	-10%	-12%
Core EPS (sen)	7.2	9.2	10.1
Core EPS growth (%)	-20.1	28.3	9.2
NDPS (sen)	2.0	2.0	2.0
BVPS (RM)	1.2	1.3	1.4
PER (x)	14.0	10.9	10.0
PBV (x)	0.8	0.8	0.7
Net Gearing (x)	(0.1)	(0.1)	(0.2)
Net Div. Yield (%)	2.0	2.0	2.0

## Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	6.3%	2.5%	9.8%
Relative (%)	7.2%	5.8%	19.0%

30 May 2023

**Risks to our call include:** (i) stronger-than-expected recovery in the demand for auto parts as supply-chain constraints ease, (ii) easing in input costs, and (iii) a strong recovery in the property market.

## Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	12M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY21	Chg
<b>Turnover</b>	<b>42.8</b>	<b>45.2</b>	<b>-5.1%</b>	<b>39.6</b>	<b>8.3%</b>	<b>42.8</b>	<b>39.6</b>	<b>8.3%</b>
EBIT	8.8	10.9	-18.9%	7.4	18.6%	8.8	7.4	18.6%
PBT/(LBT)	9.6	5.8	65.6%	7.8	22.8%	9.6	7.8	22.8%
Taxation	-2.5	-3.1	21.2%	-1.3	-89.0%	-2.5	-1.3	-89.0%
<b>Net Profit</b>	<b>7.2</b>	<b>2.7</b>	<b>166.1%</b>	<b>6.5</b>	<b>9.7%</b>	<b>7.2</b>	<b>6.5</b>	<b>9.7%</b>
EPS (sen)	2.2	0.8	166.1%	2.0	9.7%	2.2	2.0	9.7%
DPS (sen)	2.0	0.0		0.0		2.0	2.0	
EBIT margin	20.5%	24.0%		18.8%		20.5%	18.8%	
PBT margin	22.4%	12.9%		19.8%		22.4%	19.8%	
NP margin	16.7%	6.0%		16.5%		16.7%	16.5%	
Effective tax rate	25.5%	53.6%		-16.6%		25.5%	16.6%	

Source: Company, Kenanga Research

## Segmental Revenue

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
Revenue (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Manufacturing	33.4	29.4	13.7%	27.5	21.8%	33.4	27.5	21.8%
Property development	9.4	15.7	-39.9%	12.2	-22.8%	9.4	12.2	-22.8%
Others	0.2	0.5		-0.1		0.2	-0.1	
<b>Total</b>	<b>43.1</b>	<b>45.6</b>	<b>-5.5%</b>	<b>39.6</b>	<b>8.9%</b>	<b>43.1</b>	<b>39.6</b>	<b>8.9%</b>
<b>Operating Profit (RM m)</b>								
Manufacturing	6.5	3.6	80.5%	4.6	42.7%	6.5	4.6	42.7%
Property development	2.3	1.5	52.0%	2.9	-21.1%	2.3	2.9	-21.1%
Others	0.0	0.00		0.0		0.0	0.0	
<b>Total</b>	<b>8.8</b>	<b>5.1</b>	<b>71.9%</b>	<b>7.5</b>	<b>18.0%</b>	<b>8.8</b>	<b>7.5</b>	<b>18.0%</b>
<b>Operating Margin</b>								
Manufacturing	19.5%	12.3%		16.7%		19.5%	16.7%	
Property Development	24.2%	9.6%		23.7%		24.2%	23.7%	
<b>Total</b>	<b>20.4%</b>	<b>11.2%</b>		<b>18.9%</b>		<b>20.4%</b>	<b>18.9%</b>	

Source: Company, Kenanga Research

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HIL's Sum-of-Parts Valuation		
Segment	Value (RM m)	Basis
Manufacturing	160.11	10x FY23F PER, in-line with the average historical forward PER of the manufacturing sector.
Property Development	99.50	70% discount to RNAV
<b>Sum of parts</b>	<b>259.61</b>	
Total number of shares	331.94	
<b>TP (RM)</b>	<b>0.78</b>	

Source: Company, Kenanga Research

## Existing Launches

JV partner	Unik Sejati Sdn Bhd	Pembinaan Kesentosaan Sdn Bhd	Amverton Carey Golf & Island Resort Sdn Bhd	Amverton Carey Golf & Island Resort Sdn Bhd
<b>Number of units</b>	154	78	141	428
<b>Type</b>	Stratified double-storey terrace houses	Double-storey terrace houses	Stratified bungalows	Town houses
<b>Location</b>	Sungai Buloh, Selangor	Klang, Selangor	Amverton Cove, Pulau Carey, Selangor	Amverton Cove, Pulau Carey, Selangor
<b>Land area (acre)</b>	14.19	6.22	45.55	35.06
<b>Estimated GDV (RM mil)</b>	92.4	45.2	183.3	150.2
<b>Estimated GDC (RM mil)</b>	47.3	24.3	113.5	84.9
<b>JV partner's entitlement (%)</b>	23.0%	27.0%	21.0%	22.0%
<b>Estimated GDP (RM mil)</b>	23.8	8.7	31.3	32.3
<b>Target commencement date</b>	4Q2022	4Q2023	4Q2022	2Q2023

Source: Company

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RNAV of Property Division				
JV Partner	Ownership	Land Area (acres)	GDV (RM m)	NPV of Profits (RM m)
Unik Sejati Sdn Bhd	77%	14.2	92.4	14.75
Pembinaan Kesentosaan Sdn Bhd	73%	6.2	45.2	5.39
Amverton Carey Golf & Island Resort Sdn Bhd (1)	79%	45.6	183.3	19.39
Amverton Carey Golf & Island Resort Sdn Bhd (2)	78%	35.1	150.2	20.01
		101.1	471.1	59.54
Property Shareholders Fund				272.1
Total RNAV				<b>331.7</b>
Discount to RNAV (%)				70.0
Discounted RNAV				<b>99.5</b>

Source: Company, Kenanga Research

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### Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
MANUFACTURING																	
ANCOM NYLEX BHD	OP	1.00	1.80	80.00%	935.0	Y	05/2023	8.0	12.0	38.5%	50.1%	12.5	8.3	1.8	15.8%	0.0	0.0%
BOILERMECH HOLDINGS BHD	MP	0.710	0.720	1.41%	366.4	Y	03/2024	4.5	4.4	65.2%	-2.6%	15.7	16.1	1.4	9.0%	1.8	2.5%
BP PLASTICS HOLDINGS BHD	OP	1.21	1.63	34.71%	340.6	Y	12/2023	11.8	13.7	7.1%	16.3%	10.3	8.8	1.3	13.6%	5.5	4.5%
HIL INDUSTRIES BHD	UP	1.01	0.780	-22.77%	335.3	Y	12/2023	9.2	10.1	28.0%	9.5%	11.0	10.0	0.8	6.9%	2.0	2.0%
HPP HOLDINGS BHD	OP	0.285	0.440	54.39%	110.7	Y	05/2023	2.3	3.5	8.3%	47.3%	12.2	8.3	0.9	7.4%	2.0	7.0%
KUMPULAN PERANGSANG SELANGOR BHD	UP	0.720	0.600	-16.67%	386.9	Y	12/2023	4.5	6.0	-11.7%	34.4%	16.1	11.9	0.3	2.2%	1.8	2.5%
SCIENTEX BHD	UP	3.36	2.99	-11.01%	5,211.6	Y	07/2023	30.6	35.5	15.0%	16.0%	11.0	9.5	1.6	15.5%	7.4	2.2%
SLP RESOURCES BHD	MP	0.885	1.09	23.16%	280.5	Y	12/2023	5.8	7.0	13.6%	20.7%	15.2	12.6	1.5	9.8%	5.5	6.2%
TECHBOND GROUP BHD	OP	0.380	0.450	18.42%	201.2	Y	06/2023	1.9	3.8	-9.8%	98.0%	19.9	10.1	1.2	6.2%	1.0	2.6%
THONG GUAN INDUSTRIES BHD	OP	2.23	3.22	44.39%	873.2	Y	12/2023	26.1	29.3	-8.2%	12.2%	8.5	7.6	1.0	12.6%	5.5	2.5%
SECTOR AGGREGATE					9,041.3							11.3	9.4	1.3	11.2%		3.2%

Source: Bloomberg, Kenanga Research

### Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	☆		
	Workers Safety & Wellbeing	★	★	☆		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	★		
SPECIFIC	Product Quality & Safety	★	★	★		
	Effluent/Waste Management	★	★	★		
	Digitalisation & Innovation	★	★	☆		
	Material/Resource Management	★	★	★		
	Supply Chain Management	★	★	★		
	Energy Efficiency	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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%

**\*\* The Expected Total Return might contain rounding discrepancy**

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

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**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

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