

04 June 2024

HIL Industries

Rides on Strong Perodua Sales

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HIL's 1QFY24 results met expectations. Its 1QFY24 net profit rose 52% YoY driven largely by strong auto parts sales to Perodua and higher property profits. Its manufacturing business will be buoyed by the all-new Perodua D66b in early-2025. We maintain our FY24 net profit forecast, but raise our FY25 number by 10% and lift our TP by 17% to RM1.10 (from RM0.94). Maintain MARKET PERFORM.

HIL's 1QFY24 net profit met our expectation at 24% of our full-year forecast. Consensus estimate is unavailable. It declared a first and final NDPS of 3 sen, which is within our forecast.

YoY, HIL's 1QFY24 revenue grew 47% underpinned by: (i) a 22% top-line growth at its manufacturing segment on strong sales of auto parts to its major customer, Perodua (unit sales rose 9% to 85,896 units), and (ii) a 135% top-line growth at its property segment on the back of strong take-up for its Amverton Townhouses (80% sold as at March 2024) and Amverton Links Phase 3 (soft launch, below 10% sold as at March 2024)

Its core net profit rose by a steeper 52% thanks to better margins from auto parts supplied to new car models, i.e. Perodua Axia, and Alza, and maiden profit from the sales of Amverton Links Phase 3.

QoQ, HIL's 1QFY24 revenue rose 3% driven by a stronger manufacturing top-line (+7%) on full utilisation of production capacity to cope with strong orders from its major customer, Perodua (of which unit sales fell 12% in 1QFY24 due to extended holidays but HIL's auto parts supply to Perodua was not materially affected), partially negated by weaker property revenue (-5%) as its terrace houses in Sg Buloh was already fully sold in 4QFY23. However, its core net profit fell 3% largely due to a higher effective tax rate.

Forecasts. We maintain our FY24F net profit forecast but raise our FY25F number by 10% to account for stronger manufacturing business driven by the expected new launch of all-new Perodua D66b in early-2025 (which was delayed from the initial launch of April-2024 due to more stringent safety checks).

Valuations. Correspondingly, we raise our SoP-derived TP by 17% to RM1.10 from RM0.94, as we also roll forward our valuation base year to FY25F (from FY24F). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see page 5).

Investment case. We like HIL for: (i) robust demand in by its manufacturing division underpinned by strong orders for auto parts especially for new car models, i.e. Perodua Axia and Alza, upcoming models i.e. Perodua D66b with auto part order backlogs currently ranging from two to six months, depending on which customers, and (ii) its healthy pipeline of property projects. However, we are mindful of HIL inherently having little bargaining power against its customers, i.e. large auto makers. This puts it in a precarious situation on a rising cost environment. Maintain **MARKET PERFORM**.

Risks to our call include: (i) weaker-than-expected demand and prices for auto parts, (ii) higher input costs, and (iii) sustainability of recovery in the property sector.

MARKET PERFORM ↔

Price: RM1.13
Target Price: RM1.10 ↑

Expected Capital Gain: -RM0.03 -2.7%
Expected Divd. Yield: RM0.03 3.0%
Expected Total Gain: RM0.00 0.3%

KLCI Index 1,596.68

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)	375.1
Par value per share (RM)	N/A
52-week range (H)	1.26
52-week range (L)	0.89
Free Float	8%
Beta	1.0
3-mth avg daily vol	165,012

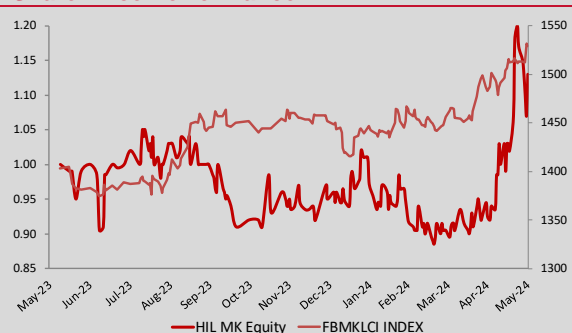
Major Shareholders

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

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	212.2	226.4	265.1
EBIT	49.2	56.5	65.7
PBT	52.7	59.4	67.7
Net Profit	40.4	45.4	51.8
Core Net Profit	40.4	45.4	51.8
Consensus (NP)	-	-	-
Earnings Revision	-	-	+10%
Core EPS (sen)	12.2	13.7	15.6
Core EPS growth (%)	81.1%	12.6%	14.1%
NDPS (sen)	2.0	3.0	3.0
BVPS (RM)	1.3	1.5	1.6
PER (x)	8.2	7.3	6.4
PBV (x)	0.7	0.7	0.6
Net Gearing (x)	N.cash	N.cash	N.cash
Net Div. Yield (%)	2.0	3.0	3.0

Share Price Performance



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Results Highlights								
FYE Dec (RM m)	1Q	4Q	QoQ	1Q	YoY	1Q	1Q	YoY
	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Turnover	63.1	61.5	2.6%	42.8	47.3%	63.1	42.8	47.3%
EBIT	14.8	21.2	-30.5%	12.9	14.2%	14.8	12.9	14.2%
Interest Income	0.9	0.9		0.8		0.9	0.8	
Interest Expenses	0.0	0.0		0.0		0.0	0.0	
PBT/(LBT)	15.7	14.5	8.3%	9.6	63.0%	15.7	9.6	63.0%
Taxation	-4.8	-3.2	-49.6%	-2.5	-94.9%	-4.8	-2.5	-94.9%
Net Profit	10.9	11.3	-3.4%	7.2	52.1%	10.9	7.2	52.1%
EPS (sen)	3.3	3.4	-3.4%	2.2	52.1%	3.3	2.2	52.1%
DPS (sen)	3.0	0.0		0.0		3.0	0.0	
EBIT margin	23.4%	34.5%		30.2%		23.4%	30.2%	
PBT margin	24.8%	23.5%		22.4%		24.8%	22.4%	
NP margin	17.3%	18.3%		16.7%		17.3%	16.7%	
Effective tax rate	30.5%	22.1%		-25.5%		30.5%	25.5%	

Source: Company, Kenanga Research

Segmental Revenue								
Revenue (RM m)	1Q	4Q	Q-o-Q	1Q	Y-o-Y	1Q	1Q	Y-o-Y
	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Manufacturing	40.9	38.2	7.1%	33.4	22.2%	40.9	33.4	22.2%
Property development	22.1	23.3	-4.9%	9.4	135.3%	22.1	9.4	135.3%
Others	0.1	0.0		0.2		0.1	0.2	
Total	63.1	61.5	2.6%	43.1	46.5%	63.1	43.1	46.5%
Operating Profit (RM m)								
Manufacturing	9.4	5.3	77.5%	6.5	44.0%	9.4	6.5	44.0%
Property development	5.4	8.9	-39.1%	2.3	137.1%	5.4	2.3	137.1%
Others	0.0	7.1		0.0		0.0	0.0	
Total	14.8	21.2	-30.5%	8.8	67.7%	14.8	8.8	67.7%
Operating Margin								
Manufacturing	23.0%	13.9%		19.5%		23.0%	19.5%	
Property Development	24.4%	38.1%		24.2%		24.4%	24.2%	
Total	23.4%	34.5%		20.4%		23.4%	20.4%	

Source: Company, Kenanga Research

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HIL's Sum-of-Parts Valuation		
Segment	Value (RM m)	Basis
Manufacturing	230.2	10x FY25F PER, in-line with the average historical forward PER of the manufacturing sector.
Property Development	131.1	70% discount to RNAV
Sum of parts	361.4	
Total number of shares (m)	331.9	
TP (RM)	1.10	

Source: Company, Kenanga Research

RNAV of Property Division				
Property Projects	Ownership	Land Area (acres)	GDV (RM m)	NPV of Profit (RM m)
Unik Sejati Sdn Bhd	77%	14.2	92.4	14.8
Pembinaan Kesentosaan Sdn Bhd	73%	6.2	45.2	5.4
Amverton Carey Golf & Island Resort Sdn Bhd (1)	79%	45.6	183.3	19.4
Amverton Carey Golf & Island Resort Sdn Bhd (2)	78%	35.1	150.2	20.0
Residensi Rimbun Amverton 2	100%	7.4	416.4	105.4
		108.5	887.5	164.9
Property Shareholders Fund				272.1
Total RNAV				437.1
Discount to RNAV (%)				70.0
Discounted RNAV				131.1

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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BERMAZ AUTO BHD	MP	2.43	2.30	-5.3%	2,821.2	Y	04/2024	26.1	22.7	-0.3%	-13.0%	9.3	10.7	3.4	37.9%	20.1	8.3%
DRB-HICOM BHD	MP	1.34	1.40	4.5%	2,590.2	Y	12/2024	15.9	18.6	14.2%	17.0%	8.4	7.2	0.2	3.1%	2.0	1.5%
HIL INDUSTRIES BHD	MP	1.13	1.10	-2.7%	375.0	Y	12/2024	13.7	15.6	12.4%	14.1%	8.3	7.2	0.8	9.8%	3.0	2.7%
HONG LEONG INDUSTRIES BHD	OP	12.06	12.60	4.5%	3,954.5	Y	06/2024	98.3	105.3	10.9%	7.2%	12.3	11.4	2.0	16.0%	107.0	8.9%
MBM RESOURCES BHD	OP	5.04	5.80	15.1%	1,970.1	Y	12/2024	72.5	73.3	-7.2%	1.1%	7.0	6.9	0.9	12.9%	40.0	7.9%
SIME DARBY BHD	MP	2.78	2.80	0.7%	18,906.8	Y	06/2024	17.7	19.3	4.4%	9.1%	15.7	14.4	1.2	7.4%	12.0	4.3%
TAN CHONG MOTOR HOLDINGS BHD	UP	0.855	0.740	-13.5%	574.6	Y	12/2024	(11.7)	(9.8)	-160.9%	-183.9%	N.A.	N.A.	0.2	-2.9%	1.0	1.2%
SECTOR AGGREGATE					31,192.4					6.9%	7.1%	13.1	12.2	0.9	6.7%		5.0%

Source: 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	★	★	★
	OVERALL		★	★

☆ 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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