

23 August 2019

Hock Seng Lee Bhd

Below Our, Within Consensus

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1H19 CNP of RM30.5m which came in at 43%/47% of our/consensus full-year estimates, is below our expectation but within consensus. 1.0 sen dividend declared, as expected. Maintain MARKET PERFORM with unchanged Target Price of RM1.40 based on FY20E PER of 10.0x.

Below our, within consensus. 1H19 CNP of RM30.5m which came in at 43%/47% of our/consensus full-year estimates, is below our expectation but within consensus. We believe the deviation is due to our slightly optimistic assumptions for its construction margins, as we had anticipated for it to be improving as billings pick up pace. A 1.0 sen dividend was declared, as expected.

Results highlight. 1H19 CNP grew 9%, YoY driven by decent revenue growth of 13%. The growth in revenue was driven by both its construction and property divisions, which grew by 10% and 37%, respectively. Its property division decent revenue growth was driven by higher progressive billings and sales achieved for its on-going development projects, i.e. Vista Industrial Park and La Promenade. QoQ, 2Q19 CNP grew by 17% due to similar reasons above.

Outlook. We believe that the overall construction works for its existing projects like Pan Borneo (c.50%), Miri (c.60%) and Kuching Waste Water (c.20%) are progressing smoothly. As such, we anticipate higher construction billings in 2H19 as its major on-going projects move into more mature stages. Its current outstanding order-book stands at c.RM2.5b providing 3-year visibility.

Earnings review. Post results, we adjusted our FY19E earnings lower by 7% as we fine-tuned our margin assumptions for its construction jobs, but make no changes to our FY20E earnings.

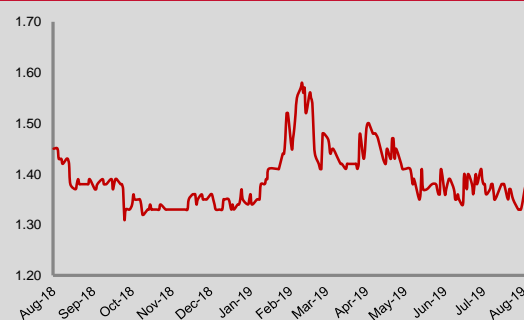
Maintain MARKET PERFORM with an unchanged Target Price of RM1.40 based on FY20E PER of 10x. We base our TP on FY20E PER of 10.0x which is close to its 5-year -1.5SD level, at the higher end of the ascribed 6-11x PER valuation range of small-mid cap contractors.

Risks to our call include higher/lower-than-expected job wins, accelerated/delayed construction billings progress and higher/lower-than-expected construction margins.

MARKET PERFORM ↔

Price : RM1.38
Target Price : RM1.40 ↔

Share Price Performance



KLCI 1,602.47
YTD KLCI chg -5.2%
YTD stock price chg 2.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	HSL MK EQUITY
Market Cap (RM m)	758.3
Shares Outstanding	549.5
52-week range (H)	1.61
52-week range (L)	1.29
3-mth avg daily vol:	115,115
Free Float	27%
Beta	0.5

Major Shareholders

Hock Seng Lee Enterprise Sdn Bhd	58.5%
Skim Amanah Saham Bumiputera	9.6%
Employees Provident Fund Board	4.5%

Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	610.4	724.6	837.6
EBIT	69.9	87.1	102.0
PBT	72.2	88.3	104.2
Net Profit	53.8	66.1	78.0
Core PATAMI	53.8	66.1	78.0
Consensus (NP)	N.A.	64.7	73.2
Earnings Revision	N.A.	-7%	0%
Core EPS (sen)	9.8	12.0	14.2
Core EPS growth (%)	0.2	0.2	0.2
NDPS (sen)	2.4	2.4	2.8
NTA per Share (RM)	1.4	1.5	1.6
PER (x)	14.1	11.5	9.7
Price to NTA (x)	1.0	0.9	0.9
Debt-to-Equity ratio (x)	0.1	0.1	0.0
Return on Asset (%)	4.6%	5.3%	5.7%
Return on Equity (%)	6.9%	8.0%	8.8%
Net Div. Yield (%)	1.7%	1.7%	2.1%

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Result Highlight								
	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
FYE Dec (RM'm)								
Turnover	175.4	146.7	20%	154.2	14%	322.1	286.0	13%
EBITDA	24.7	21.8	14%	22.3	11%	46.5	43.0	8%
Depreciation	-4.0	-3.9	3%	-3.5	15%	-7.9	-6.8	18%
EBIT	20.7	17.8	16%	18.8	10%	38.5	36.2	6%
Interest inc/(exp)	1.1	0.9	22%	0.6	84%	2.0	1.2	74%
Associates/JV	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Exceptional items	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Forex gain/(loss)	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Pretax profit	21.8	18.8	16%	19.4	12%	40.6	37.4	9%
Taxation	-5.4	-4.6	15%	-4.7	14%	-10.0	-9.5	6%
Deferred tax	0.0	0.0	n.m.	0.0	n.m.	0.0	0.0	n.m.
Profit after tax	16.5	14.1	17%	14.7	12%	30.6	27.9	9%
Minority interest	0.0	0.0	-20%	0.0	-5%	0.0	0.0	2%
PATAMI	16.4	14.1	17%	14.7	12%	30.5	27.9	9%
Core PATAMI	16.4	14.1	17%	14.7	12%	30.5	27.9	9%
DPS (sen)	1.0	0.0		1.0		1.0	1.0	
EBIT margin	12%	12%		12%		12%	13%	
Pretax margin	12%	13%		13%		13%	13%	
NP margin	9%	10%		10%		9%	10%	
CNP margin	9%	10%		10%		9%	10%	
EPS (sen)	3.0	2.6		2.7		5.6	5.1	
Core EPS(sen)	3.0	2.6		2.7		5.6	5.1	
BV/share (RM)	1.5	1.4		1.4		1.5	1.4	
Net gearing (x)	0.0	-0.1		-0.1		0.0	-0.1	
Effective tax	25%	25%		24%		25%	25%	

Source: Company, Kenanga Research

Segmental Breakdown								
	2Q19	1Q19	QoQ	2Q18	YoY	1H19	1H18	YoY
External Revenue								
Construction	151.4	125.7	20%	138.7	9%	277.1	253.0	10%
Property Development	24.0	21.0	14%	15.6	54%	45.1	33.0	37%
Pre-tax Segmentation								
Construction	15.0	12.1	23%	13.5	11%	27.1	26.8	1%
Property Development	6.9	6.7	3%	5.6	24%	13.7	11.0	24%
Pre-tax margins								
Construction	10%	10%		10%		10%	11%	
Property Development	29%	32%		36%		30%	33%	

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.			
STOCKS UNDER COVERAGE																	
GAMUDA BHD	3.70	9,147.6	Y	07/2019	-20.8%	0.3%	-17.1%	-13.9%	11.2	13.5	15.6	1.2	1.1	8.7%	3.2%	3.75	MP
GEORGE KENT (MALAYSIA) BHD	1.07	576.3	Y	01/2020	14.4%	-0.2%	-23.1%	38.3%	7.6	9.9	7.2	1.2	1.1	11.9%	3.4%	1.15	MP
HOCK SENG LEE BERHAD	1.38	758.3	Y	12/2019	18.7%	15.6%	23.0%	18.0%	14.1	11.5	9.7	1.0	0.9	8.0%	1.7%	1.40	MP
IJM CORP BHD	2.26	8,202.6	Y	03/2020	22.8%	2.0%	11.0%	2.2%	19.6	17.7	17.3	0.8	0.8	4.7%	2.2%	1.80	UP
KERJAYA PROSPEK GROUP BHD	1.44	1,775.3	Y	12/2019	28.3%	-4.4%	11.5%	1.9%	12.9	11.6	11.4	1.8	1.6	14.9%	2.1%	1.20	UP
KIMLUN CORP BHD	1.24	421.4	Y	12/2019	6.0%	-5.2%	-1.2%	2.5%	6.6	6.7	6.5	0.6	0.6	9.0%	3.5%	1.35	MP
MITRAJAYA HOLDINGS BHD	0.290	258.0	Y	12/2019	-4.7%	-7.3%	-40.7%	-11.7%	5.8	9.8	11.1	0.3	0.3	3.3%	5.2%	0.200	UP
MUHIBBAH ENGINEERING (M) BHD	2.61	1,261.5	Y	12/2019	-5.8%	3.8%	-2.5%	4.7%	7.8	8.0	7.6	1.1	1.0	13.4%	2.7%	3.20	OP
SUNWAY CONSTRUCTION GROUP BHD	2.05	2,643.2	Y	12/2019	-6.1%	27.1%	-12.2%	27.7%	19.0	21.6	17.0	4.4	4.0	19.4%	2.7%	1.45	UP
WCT HOLDINGS BHD	1.01	1,424.0	Y	12/2019	6.4%	14.1%	-13.8%	19.3%	11.1	12.9	10.8	0.4	0.4	3.4%	0.0%	0.815	UP
Simple Average					5.9%	4.6%	-6.5%	8.9%	11.6	12.3	11.4	1.3	1.2	9.7%	2.7%		
CONSENSUS ESTIMATES																	
AHMAD ZAKI RESOURCES BERHAD	0.400	239.2	Y	12/2019	N.A.	N.A.	N.A.	N.A.	16.3	N.A.	N.A.	0.5	N.A.	N.A.	N.A.	N.A.	SELL
BINA PURI HOLDINGS BHD	0.130	49.6	Y	06/2019	N.A.	N.A.	N.A.	N.A.	95.3	N.A.	N.A.	0.2	N.A.	N.A.	N.A.	N.A.	SELL
GABUNGAN AQRS BHD	1.22	602.0	Y	12/2019	23.3%	38.2%	22.9%	33.6%	9.8	8.0	0.0	1.2	1.2	15.4%	4.8%	1.86	BUY
GADANG HOLDINGS BHD	0.720	524.2	Y	05/2020	7.4%	11.6%	45.5%	12.3%	12.1	8.3	0.0	0.7	N.A.	9.5%	2.1%	0.783	SELL
JAKS RESOURCES BHD	0.815	524.1	Y	12/2019	74.4%	-48.7%	655.6%	-21.2%	34.6	4.6	0.0	0.6	0.5	13.6%	0.0%	0.875	BUY
MUDAJAYA GROUP BHD	0.270	159.3	Y	12/2019	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.9	N.A.	N.A.	N.A.	N.A.	SELL
PINTARAS JAYA BHD	2.90	481.0	Y	06/2019	223.5%	-1.7%	135.7%	-6.4%	31.0	13.2	0.1	1.5	1.5	11.4%	5.6%	2.56	NEUTRAL
PESONA METRO HOLDINGS	0.220	152.9	Y	12/2019	12.1%	9.5%	166.6%	13.6%	18.5	6.9	0.0	0.9	N.A.	11.7%	4.5%	0.310	BUY
PROTASCO BHD	0.260	126.6	Y	12/2019	-1.4%	7.9%	365.8%	31.2%	N.A.	9.6	0.0	0.4	0.4	3.6%	5.4%	0.240	SELL
TRC SYNERGY BHD	0.555	266.7	Y	12/2019	15.8%	23.6%	70.8%	29.9%	12.8	7.5	0.0	0.6	0.6	8.5%	5.8%	0.750	BUY

Source: Bloomberg, 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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