

Team Coverage

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Recommendation:	BUY
Current Price:	RM 0.71
Previous Target Price:	RM 0.75
Target Price:	↔ RM 0.75
Capital Upside/Downside:	5.6%
Dividend Yield (%):	4.3%
Total Upside/Downside:	10.0%

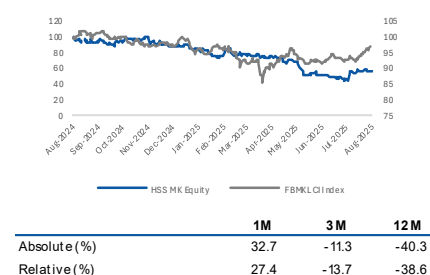
Stock information

Board	MAIN
Sector	Industrial Products & Services
Bursa / Bloomberg Code	0185/HSS MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	508.5
Market Cap (RM' m)	361.0
52-Week Price Range (RM)	124-0.5
Beta (x)	1.2
Free float (%)	66.8
3M Average Volume (m)	1.7
3M Average Value (RM' m)	1.0

Top 3 Shareholders

	(%)
Victech Solutions Sdn Bhd	21.3
Flamingo	15.1
Teo Chok Boo	6.6

Share Price Performance



Earnings summary

FYE Dec (RM m)	FY24	FY25F	FY26F
Revenue (RM'm)	201.2	208.7	398.9
PATAMI (RM'm)	24.7	23.6	52.2
CNP (RM'm)	24.7	23.6	52.2
EPS - core (sen)	4.9	4.6	10.3
P/E(x)	13.2	13.8	6.2

HSS Engineers Bhd

Key Takeaways Post Results Briefing

- **HSSEB's outstanding order book remains robust at RM2.1b.** Management is guiding for an additional RM80m-120m in new awards over the remainder of the year. Meanwhile, tender book currently stands at RM510m, with management aiming for RM300m-500m in order book replenishment in FY26.
- **Phase 1 of the Baghdad Metro project has achieved 45% physical progress, with the Completion Certificate for the initial 10% milestone officially endorsed by the Mayor of Baghdad on 16th July 2025.** The Group is currently awaiting formal acknowledgement from the Ministry of Planning, subsequent to which HSSEB anticipates receipt of c.RM10m.
- **We anticipate cash flow to strengthen over the coming quarters, underpinned by: (i) the receipt of 10% advance payment (c.RM2m) from the Davao BRT project in the Philippines in September; (ii) the first milestone payment (c.RM10m) from Baghdad Metro project expected in October; and (iii) progressive collections from other ongoing projects.** Sustained positive operating cash flow remains critical, given the Group's current reliance on bank overdraft facilities.
- **We maintain our BUY call with an unchanged target price of RM0.75 based on 7.2x P/E multiple applied to FY26F EPS of 10.3 sen and supported by a three-star ESG rating.**

We left HSSEB's 2QFY25 results briefing with the following key takeaways:

Healthy Unbilled Order Book. HSSEB's order book remains robust at RM2.1b as at end-June 2025, equivalent to 10.3x FY24 revenue. Recent contract wins including two new data centre projects in Malaysia, a bus network project in the Philippines and package 2 of the Container Terminal project in India. The momentum is expected to carry over to 2HFY25 as management is guiding for an additional RM80m-120m in new awards over the remainder of the year, likely driven by water treatment, data centre and rail projects in Malaysia. Meanwhile, tender book currently stands at RM510m, with management aiming for RM300m-500m in order book replenishment in FY26. In comparison, we are projecting a more conservative RM250m in FY26F replenishment.

Update on Baghdad Metro. Phase 1 of the Baghdad Metro project has achieved 45% physical progress, with the Completion Certificate for the initial 10% milestone officially endorsed by the Mayor of Baghdad on 16th July 2025. The Group is currently awaiting formal acknowledgement from the Ministry of Planning, subsequent to which HSSEB anticipates receipt of c.RM10m. However, a key overhang remains as the local government has yet to appoint a main contractor for the project. While management anticipates Phase 2 to begin sometime in 2HFY2026, it will first require a main contractor to be appointed.

Cash Flow to Improve. We anticipate cash flow to strengthen over the coming quarters, underpinned by: (i) the receipt of 10% advance payment (c.RM2m) from the Davao BRT project in the Philippines in September; (ii) the first milestone payment (c.RM10m) from Baghdad Metro project expected in October; and (iii) progressive collections from other ongoing projects. Notably, operating cash flow improved to -RM0.9m in 2QFY25 from -RM12.6m in 1QFY25, reflecting improving collections and better working capital discipline. That said, sustained positive operating cash flow remains critical, given the Group's current reliance on bank overdraft.

Earnings Revision. No change to our earnings forecasts.

Valuation. We maintain our **BUY** call with an unchanged target price of **RM0.75** based on 7.2x P/E multiple applied to FY26F EPS of 10.3 sen and supported by a three-star ESG rating. We believe that greater clarity on the Baghdad project, coupled with improvements in operating cash flow, would provide catalysts for a further rerating.

Risk. Delays in project execution & delivery, foreign project exposure leading to potential geopolitical risk and lower-than-expected order book replenishment.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	187.3	201.2	208.7	398.9	355.9
Gross Profit	62.1	70.4	70.1	137.6	122.8
EBITDA	35.2	41.0	38.8	79.8	71.2
Depreciation & Amortisation	4.1	4.1	3.1	6.0	5.3
EBIT	31.1	36.9	35.7	73.8	65.9
Net Finance Income/ (Cost)	-2.5	-2.8	-2.5	-2.5	-3.8
Associates & JV	0.2	0.1	0.0	0.0	0.0
Other Income/ (Cost)	0.0	-0.3	0.0	0.0	0.0
Pre-tax Profit	28.7	33.9	33.2	71.3	62.1
Tax	-8.3	-9.0	-9.5	-19.0	-15.9
Profit After Tax	20.4	24.9	23.7	52.3	46.2
Minority Interest	0.0	-0.2	-0.1	-0.2	-0.1
Net Profit	20.4	24.7	23.6	52.2	46.1
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	20.4	24.7	23.6	52.2	46.1

Key Ratios

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	4.0	4.9	4.6	10.3	9.1
P/E(x)	16.0	13.2	13.8	6.2	7.1
P/B(x)	1.3	1.1	1.0	0.9	0.8
EV/EBITDA(x)	9.8	8.4	8.6	4.4	3.8
DPS (sen)	1.2	1.5	1.4	3.1	2.7
Dividend Yield (%)	1.9%	2.3%	2.2%	4.8%	4.2%
EBITDA margin (%)	18.8%	20.4%	18.6%	20.0%	20.0%
EBIT margin (%)	16.6%	18.3%	17.1%	18.5%	18.5%
PBT margin (%)	15.3%	16.8%	15.9%	17.9%	17.4%
PAT margin (%)	10.9%	12.4%	11.4%	13.1%	13.0%
NP margin (%)	10.9%	12.3%	11.3%	13.1%	12.9%
CNP margin (%)	10.9%	12.3%	11.3%	13.1%	12.9%
ROE (%)	7.9%	8.5%	7.5%	14.2%	11.2%
ROA (%)	5.4%	5.9%	5.3%	8.8%	7.6%
Gearing (%)	15.2%	12.2%	11.2%	14.6%	11.0%
Net gearing (%)	7.5%	7.1%	2.6%	7.8%	Net Cash

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Expected order book replenishment			200.0	250.0	250.0

Valuations FY26F

Core EPS (sen)	10.3
P/E multiple (x)	7.2
Fair Value (RM)	0.75
ESG premium/ discount	0.0%
Implied Fair Value (RM)	0.75

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	20.0	14.9	27.2	25.0	102.0
Receivables	171.3	216.1	229.5	378.9	320.4
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	8.2	11.6	11.4	11.2	11.0
Total Current Assets	199.4	242.6	268.2	415.1	433.3
Fixed Assets	9.8	9.9	10.0	10.1	10.2
Intangibles	163.8	163.7	163.6	163.5	163.4
Other non-current assets	3.1	2.0	2.2	2.4	2.6
Total Non-Current Assets	176.8	175.6	175.8	176.0	176.2
Short-term debt	39.2	35.4	35.0	53.3	44.8
Payables	67.9	80.9	83.1	156.8	139.9
Other current liabilities	5.6	6.6	4.0	7.6	6.7
Total Current Liabilities	112.7	122.9	122.2	217.6	191.4
Long-term debt	0.2	0.2	0.4	0.4	0.3
Other non-current liabilities	4.2	3.2	6.1	6.1	6.1
Total Non-Current Liabilities	4.4	3.5	6.5	6.5	6.4
Shareholder's equity	259.1	291.9	315.5	367.4	412.1
Minority interest	0.0	-0.2	-0.3	-0.4	-0.5
Total Equity	259.1	291.7	315.3	366.9	411.6

Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	28.7	33.9	33.2	71.3	62.1
Depreciation & amortisation	4.1	4.1	3.1	6.0	5.3
Changes in working capital	-10.3	-37.1	-10.9	-72.2	40.9
Others	-4.0	-4.5	-1.5	-2.8	-2.5
Operating cash flow	18.5	-3.6	23.9	2.3	105.8
Net capex	-1.0	-1.1	-3.1	-6.0	-5.3
Others	0.0	1.1	-1.0	-1.0	-1.0
Investing cash flow	-1.0	0.1	-4.1	-7.0	-6.3
Dividends paid	-4.5	-6.0	-7.1	-15.7	-13.8
Others	-26.9	3.3	-0.3	18.2	-8.7
Financing cash flow	-31.4	-2.7	-7.4	2.5	-22.5
Net cash flow	-14.0	-6.2	12.4	-2.2	77.0
Forex	0.0	-0.1	0.0	0.0	0.0
Others	3.5	1.2	0.0	0.0	0.0
Beginning cash	30.4	20.0	14.9	27.2	25.0
Ending cash	20.0	14.9	27.2	25.0	102.0

ESG Matrix Framework:
Environment

Parameters	Rating	Comments
Climate	★★★★	Scope 1 and Scope 2 GHG emissions totalled 820.2m tCO ₂ eE in 2024, marking a 8.2% YoY decreased from 2023.
Waste & Effluent	★★★	Waste management aligns with industry standards and regulatory requirements as well as minimise environmental impact.
Energy	★★★★	Energy consumption decreased by 1.0% in FY24.
Water	★★★	Monitors water consumption regularly to ensure pertinent water management.

Social

Diversity	★★★	Female representation at 36% in the workforce.
Quality and Compliance	★★★	In FY2024, the Group achieved zero non-conformance report during SIRIM audits.
Occupational Safety and Health	★★	55 employees were trained in FY2024 on health and safety. No fatalities were recorded.
Labour Practices	★★★	Adheres to all relevant labour laws.

Governance

Regulatory Compliance	★★★	Committed to upholding the highest standards of regulatory compliance across all areas of its business. No cases of non-compliance with relevant laws and regulations in FY2024.
Management	★★	Among the board members, 22% (2 out of 9) were female, while 33% (3 out of 9) were independent directors
Anti-Corruption and Bribery	★★	Regularly organizes anti-corruption training for employees. In FY2024, 32.5% of employees have undergone anti-corruption training.

Overall ESG Scoring: ★★★

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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(a) nil.