

Tan Wai Wern

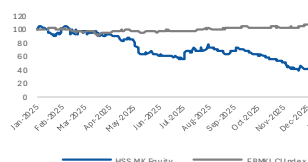
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Recommendation:	HOLD
Current Price:	RM 0.36
Previous Target Price:	RM 0.75
Target Price:	RM 0.35
Capital Upside/Downside:	-2.8%
Dividend Yield (%):	4.1%
Total Upside/Downside:	1.3 %

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)	180.5
52-Week Price Range (RM)	0.35-1.01
Beta (x)	1.0
Free float (%)	66.7
3M Average Volume (m)	1.1
3M Average Value (RM' m)	0.5

Top 3 Shareholders	(%)
Victech Solutions Sdn Bhd	21.3
Flamingo	15.1
Teo Chok Boo	6.6

Share Price Performance

	1M	3M	12M
Absolute (%)	-7.8	-37.7	-63.0
Relative (%)	-10.0	-41.7	-66.0

Earnings summary			
FYE Dec (RM m)	FY24	FY25F	FY26F
Revenue (RM'm)	201.2	218.7	238.9
PATAMI (RM'm)	24.7	24.9	24.4
CNP (RM'm)	24.7	24.9	24.4
EPS - core (sen)	4.9	4.9	4.8
P/E(x)	7.3	7.2	7.4

HSS Engineers Bhd

Strong Order Book, but Cash Flow Concern Remains

- HEB has secured a PMC contract worth RM22.0m for the EPCC of a data centre in Bagan Datuk, Perak. Assuming a GP margin of 40%, the contract is expected to contribute c.RM8.8m (or 10.7% of FY26F gross profit) over FY26F-FY27F.
- This represents the Group's first announced win for FY26, bringing its outstanding order book to RM2.3bn, representing a book-to-bill ratio of 9.6x. Meanwhile, tender book currently stands at RM480m, with management aiming for RM300m-RM350m in order book replenishment in FY26.
- We downgrade our call to HOLD (from BUY) with lower target price of RM0.35 (from RM0.75) based on SOP valuation supported by a three-star ESG rating.

Secures Project Management Consultant Contract Worth RM22.0m. HEB clinched a RM22.0m project management consultant (PMC) contract for the engineering, procurement, construction and commissioning (EPCC) of a 10.06MW data centre in Bagan Datuk, Perak. Work is expected to begin on Dec-25 and is slated for completion on June 2027. With this award, the Group's total contract secured for FY26 rise to RM29.5m.

Our View. We view this contract win positively as it provides the group stronger earnings visibility through FY27. At an estimated 40% gross margin, the project is expected to contribute RM8.8m in gross profit over its 19-month timeline, representing c.10.7% of our FY26F gross profit. While the award demonstrates HEB's ability to secure projects early in the fiscal year, we remain cautious on the Group's broader growth prospects given limited scale and project pipeline visibility.

Update on Baghdad Metro. Although Phase 1 of the Baghdad Metro has reached 50% completion, the Group has recognised just 37% to be prudent. Following previous engagements with the Ministry of Planning, management was informed that the first payment of USD10.5m will be disbursed in tranches, with an initial USD1.5m expected to be received shortly, pending approval from the Ministry of Finance. The Group has also submitted an invoice of USD3.0m for the second tranche. That said, a key overhang remains. The local government has yet to appoint the main contractor for the project, a prerequisite for full-scale execution. This has resulted in the anticipated commencement date for phase 2 of the project being pushed back from 2HFY26 to 1HFY27, causing further timing uncertainty to the project's revenue recognition.

Deterioration in Cash Flow. The Group recorded a net operating cash outflow of RM3.5m in 3QFY25, largely due to an increase of RM9.2m in contract assets. The rise in contract assets was driven by the Baghdad project, where revenue has been recognised but billing to the JV entity can only proceed once funds are received from the Baghdad authorities. Separately, the Group continued to prioritise collections from its Pan Borneo and ECRL projects, achieving monthly inflows of roughly RM4.6m. Post-3Q25, HEB has successfully collected an estimated RM12m from these projects, which strengthens its cash position into the coming quarter.

Healthy Unbilled Orderbook. Previous contract wins, including the Klang River Flood Mitigation project (RM32m), Bayan Lepas LRT Packages 3, 4 and 5 (RM30m), the Port Dickson Water Treatment Plant & Distribution System (RM17m), the Tuna Tekra Container Terminal development in India (RM10m), and the extension for KKR Pan Borneo 1A (RM37m), have lifted the Group's FY25 contract awards to RM300m, surpassing our earlier full-year estimate of RM200m. Alongside its latest award, the Group's outstanding order book has been lifted to RM2.3bn, equivalent to a healthy book-to-bill ratio of 9.6x. The Group's tender pipeline remains sturdy at RM480m, with management targeting RM300m-RM350m in new order replenishment for FY26, underpinned by steady prospects in Malaysia's water treatment and flood mitigation sectors.

Outlook. The Group's near-term outlook remains challenging as cash flow concerns persist due to swelling contract assets, particularly from the Baghdad projects where billing continues to lag revenue recognition. Although receivables from Pan Borneo and ECRL have started to improve,

recent collections may not be adequate to ease liquidity constraints. Given the inconsistent project pipeline and uncertain timing of cash inflows, operational visibility remains limited.

Earnings Revision. We take the opportunity to impute the valuations of the Group's 40% stake in the 95MW Hilir Perak solar project by applying a DCF valuation (WACC: 6.3%, tariff: 16sen/kWh) with an estimated IRR of 7.1%. We project losses from associates and joint venture of c.RM8.1m over the next two FY, mainly attributable to financing costs arising from the project's 80:20 debt-to-equity structure. Earnings contributions are expected to turn positive from FY28 onward, with an estimated profit of c.RM2.5m. We have also increased our FY25F order book win assumption from RM200m to RM300m to incorporate FY25's contract wins, while keeping FY26F/FY27F assumptions unchanged. We have excluded projected revenue from Phase 2 of the Baghdad Metro project for FY26F and extended the development timeline for Phase 1 to account for ongoing execution delays. Consequently, our CNP estimates for FY25F/FY26F/FY27F have been adjusted to +5.2%/-53.2%/-31.8%, respectively.

Valuation. We cut the applied P/E multiple for the Services segment to 5.1x (from 7.2x), reflecting slower-than-anticipated execution across its key projects. This revision lowers our SOP-derived target price to **RM0.35** (from RM0.75), supported by a three-star ESG rating. We downgrade our call to **HOLD** (from BUY). A re-rating is contingent on improved execution visibility on the Baghdad project and a sustained recovery in operating cash flow.

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

Company Update

Friday, 23 Jan, 2026

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Supported by Capital Market Development Fund



Financial Highlights

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	187.3	201.2	218.7	238.9	285.3
Gross Profit	62.1	70.4	73.5	82.4	98.4
EBITDA	35.2	41.0	40.7	47.8	57.1
Depreciation & Amortisation	4.1	4.1	3.3	3.6	4.3
EBIT	31.1	36.9	37.4	44.2	52.8
Net Finance Income/ (Cost)	-2.5	-2.8	-2.5	-2.7	-2.4
Associates & JV	0.2	0.1	0.0	-8.1	-8.1
Other Income/ (Cost)	0.0	-0.3	0.0	0.0	0.0
Pre-tax Profit	28.7	33.9	34.9	33.3	42.2
Tax	-8.3	-9.0	-9.9	-8.8	-10.8
Profit After Tax	20.4	24.9	25.0	24.5	31.5
Minority Interest	0.0	-0.2	-0.1	-0.1	-0.1
Net Profit	20.4	24.7	24.9	24.4	31.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Core Net Profit	20.4	24.7	24.9	24.4	31.4

Key Ratios

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	4.0	4.9	4.9	4.8	6.2
P/E(x)	8.9	7.3	7.2	7.4	5.8
P/B (x)	0.7	0.6	0.6	0.5	0.5
EV/EBITDA (x)	5.7	4.9	4.8	3.1	2.3
DPS (sen)	1.2	1.5	1.5	1.4	1.9
Dividend Yield (%)	3.4%	4.1%	4.1%	4.1%	5.2%
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%	16.0%	14.0%	14.8%
PAT margin (%)	10.9%	12.4%	11.4%	10.3%	11.0%
NP margin (%)	10.9%	12.3%	11.4%	10.2%	11.0%
CNP margin (%)	10.9%	12.3%	11.4%	10.2%	11.0%
ROE (%)	7.9%	8.5%	7.9%	7.2%	8.5%
ROA (%)	5.4%	5.9%	5.5%	5.1%	6.0%
Gearing (%)	15.2%	12.2%	12.3%	10.1%	7.8%
Net gearing (%)	7.5%	7.1%	4.4%	Net Cash	Net Cash

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Expected order book replenishment			300.0	250.0	250.0

Valuations	Valuation Method	Equity Value (RM' m)
Services	5.1x FY26F PER	124.4
Solar Asset	DCF@6.3%	54.8
SOP Value		179.2
Number of shares		508.5
Fair Value (RM)		0.35
ESG premium/ discount		0.0%
Implied Fair Value (RM)		0.35

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	20.0	14.9	25.0	64.4	77.4
Receivables	171.3	216.1	240.5	226.9	256.8
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	276.9	302.5	345.2
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	87.1	93.9	112.1
Other current liabilities	5.6	6.6	4.2	4.5	5.4
Total Current Liabilities	112.7	122.9	126.3	151.7	162.4
Long-term debt	0.2	0.2	3.8	-18.9	-16.2
Other non-current liabilities	4.2	3.2	6.1	6.1	6.1
Total Non-Current Liabilities	4.4	3.5	9.9	-12.7	-10.1
Shareholder's equity	259.1	291.9	316.7	339.8	369.5
Minority interest	0.0	-0.2	-0.3	-0.3	-0.4
Total Equity	259.1	291.7	316.4	339.5	369.0

Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	28.7	33.9	34.9	33.3	42.2
Depreciation & amortisation	4.1	4.1	3.3	3.6	4.3
Changes in working capital	-10.3	-37.1	-17.8	20.7	-10.7
Others	-4.0	-4.5	-1.7	-1.8	-2.2
Operating cash flow	18.5	-3.6	18.8	55.8	33.6
Net capex	-1.0	-1.1	-3.3	-3.6	-4.3
Others	0.0	1.1	-1.0	-1.0	-1.0
Investing cash flow	-1.0	0.1	-4.3	-4.6	-5.3
Dividends paid	-4.5	-6.0	-7.5	-7.3	-9.4
Others	-26.9	3.3	3.1	-4.5	-5.9
Financing cash flow	-31.4	-2.7	-4.3	-11.8	-15.3
Net cash flow	-14.0	-6.2	10.2	39.4	13.0
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	25.0	64.4
Ending cash	20.0	14.9	25.0	64.4	77.4

Company Update

Friday, 23 Jan, 2026

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ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★★	Scope 1 and Scope 2 GHG emissions totalled 820.2m tCO ₂ e 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.