

Tan Wai Wern

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Recommendation:	BUY
Current Price:	RM 0.42
Previous Target Price:	RM 0.50
Target Price:	RM 0.48
Capital Upside/Downside:	14.3%
Dividend Yield (%):	2.9%
Total Upside/Downside:	17.2%

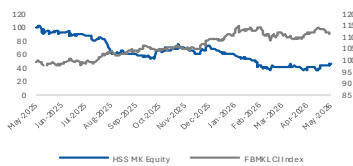
Stock information

Board	MAIN
Sector	Industrial Products & Services
Bursa / Bloomberg Code	0185/HSS M K
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	508.5
Market Cap (RM' m)	213.6
52-Week Price Range (RM)	0.285-0.805
Beta (x)	1.1
Free float (%)	45.3
3M Average Volume (m)	0.9
3M Average Value (RM' m)	0.3

Top 3 Shareholders

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

Share Price Performance



	1M	3M	12M
Absolute (%)	5.0	0.0	-47.5
Relative (%)	4.9	2.0	-52.8

Earnings summary

FYE Dec (RM m)	FY25	FY26F	FY27F
Revenue (RM'm)	220.7	201.4	247.8
PATAMI (RM'm)	13.4	20.5	27.4
CNP (RM'm)	25.7	20.5	27.4
EPS - core (sen)	5.1	4.0	5.4
P/E(x)	8.3	10.4	7.8

HSS Engineers Bhd

Below Expectations

- HEB reported a 1QFY26 Core Net Profit (CNP) of RM3.7m, declining -29.0% YoY and -60.2% QoQ. We deem the results below expectations, accounting for only 13.0% of our full-year forecast and 13.5% of consensus estimates.
- Excluding certain projects with limited progress, the Group's effective unbilled order book declines to an estimated RM550m, equivalent to only 2.3x our FY26 forecasted revenue, suggesting weaker earnings visibility moving forward.
- Consequently, we lower our FY26F/FY27F CNP estimates by -28.5% and -24.0%, respectively, reflecting lower revenue recognition from its Baghdad Metro project and weaker operational leverage.
- Maintain BUY recommendation with a lower TP of RM0.48 (from RM0.50), based on SOP valuation, supported by a three-star ESG rating.

Results below expectations. HEB reported a 1QFY26 Core Net Profit (CNP) of RM3.7m, declining -29.0% YoY and -60.2% QoQ. We deem the results below expectations, accounting for only 13.0% of our full-year forecast and 13.5% of consensus estimates. The weaker-than-expected performance was mainly attributable to slower project progress and higher-than-anticipated tax expenses, which led to a notable compression in CNP margins (-210bps YoY; -613bps QoQ).

YoY. HEB's CNP declined -29.0% YoY, mainly due to a 210bps contraction in CNP margin to 8.1%. The weaker profitability was primarily attributable to the +94.9% increase in income tax expense, arising from losses incurred by subsidiaries and recurring non-deductible expenses. Earnings were further impacted by lower revenue contributions across all operating segments, with the Engineering Design division recording the steepest decline, as revenue fell RM2.5m to RM11.7m following the completion of a data centre project in Cyberjaya.

QoQ. All business segments recorded weaker revenue recognition during the quarter, led by the Project Management division, which registered a -34.6% QoQ decline due to the absence of revenue contribution from the Baghdad Metro project. Consequently, the Group's revenue fell -30.2% QoQ to RM46.0m, while CNP declined at a steeper pace of 60.2%, reflecting the negative operating leverage arising from lower project activity.

Figure 1: Movement of Cash and Cash Equivalent Components in 4QFY25 and 1QFY26

Cash and Cash Equivalent Components (RM'000)	4QFY25	1QFY26	Difference
Cash and bank balances	2,734	2,291	-443
Short term deposits with licensed banks	23,375	25,329	1,954
Bank overdrafts (secured)	-37,374	-42,095	-4,721
	-11,265	-14,475	
Short term deposits and bank balances pledged with licensed banks	-23,375	-25,329	-1,954
	-34,640	-39,804	

Weakening Cash Position. We note that the Group has increased its reliance on short-term financing to support working capital requirements during the quarter, as reflected by the higher utilisation of secured bank overdrafts. Meanwhile, the increase in pledged deposits suggests additional collateral was placed to support these banking facilities. While this points to a more leveraged working capital position, continued reliance on short-term financing could place pressure on liquidity if operating cash flow and receivables collection do not improve accordingly.

Outlook. While the Group's headline order book of RM2.1bn remains sizeable, we remain cautious on its near-term outlook given the limited progress of the Baghdad Metro and MRT3 projects, which collectively account for an estimated RM1.6bn in unbilled orders. Excluding these projects, the Group's effective unbilled order book declines to approximately RM550m, equivalent to only 2.3x our FY26 forecasted revenue, suggesting weaker earnings visibility moving forward.

In addition, cash flow concerns continue to persist as trade and other receivables rose RM31.2m QoQ to RM95.5m during the quarter, resulting in the Group recording a net operating cash outflow of RM0.25m compared to a net operating cash inflow of RM10.2m previously. Coupled with an inconsistent project replenishment trend and uncertain timing of receivables collection, we believe operational and cash flow visibility remains limited over the near term.

Earnings Revision. We take this opportunity to revise downward our revenue estimates, premised on slower-than-expected progress of the Group's Baghdad Metro project, while also imputing lower margin assumptions due to weaker operational leverage. Consequently, our FY26F/FY27F CNP estimates are reduced by -28.5% and -24.0%, respectively.

Valuation and Recommendation. We maintain our **BUY** recommendation on HEB with a reduced TP of **RM0.48** (from RM0.50), based on our SOP valuation, supported by a three-star ESG rating. On its Services segment, we apply an unchanged 6.9x PE to rolled forward FY27F EPS of 5.4 sen. A re-rating is contingent on improved execution visibility on its major projects and a sustained recovery in operating cash flow.

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

Results Note

Thursday, 21 May, 2026

BURSA RISE+

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Results Comparison

FYE Dec (RM m)	1QFY26	1QFY25	yoy (%)	4QFY25	qoq (%)	3MFY26	3MFY25	yoy (%)
Revenue	46.0	51.6	(10.7)	65.9	(30.2)	46.0	51.6	(10.7)
EBITDA	7.7	3.8	102.1	9.3	(17.3)	7.7	3.8	102.1
Pre-tax profit	5.6	2.4	127.4	6.6	(15.8)	5.6	2.4	127.4
Net profit	3.7	1.6	137.7	0.2	1,828.9	3.7	1.6	137.7
Core net profit	3.7	5.3	(29.0)	9.4	(60.2)	3.7	5.3	(29.0)
Core EPS (sen)	0.7	1.0	(29.0)	1.8	(60.2)	0.7	1.0	(29.0)
EBITDA margin (%)	16.6	7.4		14.1		16.6	7.4	
PBT margin (%)	12.1	4.7		10.0		12.1	4.7	
Core net profit margin (%)	8.1	10.2		14.3		8.1	10.2	

Source: Company, Apex Securities

Segmental Breakdown

FYE Dec (RM m)	1QFY26	1QFY25	yoy (%)	4QFY25	qoq (%)	3MFY26	3MFY25	yoy (%)
Revenue								
Engineering Design	11.7	14.2	(17.6)	14.6	(19.9)	11.7	14.2	(17.6)
Construction Supervision	10.6	11.7	(9.6)	12.8	(17.0)	10.6	11.7	(9.6)
Project Management	21.3	22.7	(6.1)	32.5	(34.6)	21.3	22.7	(6.1)
Others	2.4	3.0	(18.4)	6.0	(59.5)	2.4	3.0	(18.4)
Total	46.0	51.6	(10.7)	65.9	(30.2)	46.0	51.6	(10.7)

Source: Company, Apex Securities

Results Note

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Financial Highlights

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25	FY26F	FY27F
Revenue	187.3	201.2	220.7	201.4	247.8
Gross Profit	62.1	70.4	75.5	70.5	86.7
EBITDA	35.2	41.0	20.4	41.3	50.8
Depreciation & Amortisation	4.1	4.1	4.3	3.0	3.7
EBIT	31.1	36.9	16.2	38.3	47.1
Net Finance Income/(Cost)	-2.5	-2.8	-3.9	-2.7	-2.3
Associates & JV	0.2	0.1	0.3	-8.1	-8.1
Other Income/(Cost)	0.0	-0.3	0.0	0.0	0.0
Pre-tax Profit	28.7	33.9	19.8	27.4	36.7
Tax	-8.3	-9.0	-6.5	-6.8	-9.2
Profit After Tax	20.4	24.9	13.3	20.6	27.5
Minority Interest	0.0	-0.2	0.1	-0.1	-0.1
Net Profit	20.4	24.7	13.4	20.5	27.4
Exceptionals	0.0	0.0	12.3	0.0	0.0
Core Net Profit	20.4	24.7	25.7	20.5	27.4

Key Ratios

FYE Dec (RM m)	FY23	FY24	FY25	FY26F	FY27F
EPS (sen)	4.0	4.9	5.1	4.0	5.4
P/E (x)	10.5	8.6	8.3	10.4	7.8
P/B (x)	0.8	0.7	0.7	0.6	0.6
EV/EBITDA (x)	6.6	5.7	12.8	4.1	3.1
DPS (sen)	1.2	1.5	1.5	1.2	1.6
Dividend Yield (%)	2.9%	3.5%	3.5%	2.9%	3.9%
EBITDA margin (%)	18.8%	20.4%	9.3%	20.5%	20.5%
EBIT margin (%)	16.6%	18.3%	7.3%	19.0%	19.0%
PBT margin (%)	15.3%	16.8%	9.0%	13.6%	14.8%
PAT margin (%)	10.9%	12.4%	6.0%	10.2%	11.1%
NP margin (%)	10.9%	12.3%	6.1%	10.2%	11.1%
CNP margin (%)	10.9%	12.3%	11.7%	10.2%	11.1%
ROE (%)	7.9%	8.5%	8.7%	6.1%	7.6%
ROA (%)	5.4%	5.9%	5.5%	4.5%	5.5%
Gearing (%)	15.2%	12.2%	25.1%	9.8%	7.3%
Net gearing (%)	7.5%	7.1%	16.3%	Net Cash	Net Cash

FYE Dec (RM m)	FY23	FY24	FY25	FY26F	FY27F
Expected order book replenishment			300.0	250.0	250.0

Valuations	Valuation Method	Equity Value (RM' m)
Services	6.9x FY27F PER	190.9
Solar Asset	DCF @ 6.3%	54.8
SOP Value		245.7
Number of shares		508.5
Fair Value (RM)		0.48
ESG premium/discount		0.0%
Implied Fair Value (RM)		0.48

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25	FY26F	FY27F
Cash	20.0	14.9	26.1	78.0	84.1
Receivables	171.3	216.1	241.4	191.3	223.0
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	8.2	11.6	18.6	5.3	5.1
Total Current Assets	199.4	242.6	286.1	274.6	312.2
Fixed Assets	9.8	9.9	7.1	10.0	10.1
Intangibles	163.8	163.7	163.6	163.5	163.4
Other non-current assets	3.1	2.0	8.1	8.3	8.5
Total Non-Current Assets	176.8	175.6	178.8	181.9	182.1
Short-term debt	39.2	35.4	74.1	32.1	25.4
Payables	67.9	80.9	76.8	78.5	96.7
Other current liabilities	5.6	6.6	7.1	3.8	4.7
Total Current Liabilities	112.7	122.9	158.0	114.4	126.7
Long-term debt	0.2	0.2	0.6	0.8	1.0
Other non-current liabilities	4.2	3.2	8.8	6.1	6.1
Total Non-Current Liabilities	4.4	3.5	9.4	6.9	7.1
Shareholder's equity	259.1	291.9	297.8	335.4	360.9
Minority interest	0.0	-0.2	-0.2	-0.3	-0.4
Total Equity	259.1	291.7	297.5	335.1	360.5

Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25	FY26F	FY27F
Pre-tax profit	28.7	33.9	19.8	27.4	36.7
Depreciation & amortisation	4.1	4.1	4.3	3.0	3.7
Changes in working capital	-10.3	-37.1	-41.3	40.2	-12.8
Others	-4.0	-4.5	10.5	-1.5	-1.9
Operating cash flow	18.5	-3.6	-6.7	69.1	25.8
Net capex	-1.0	-1.1	-0.9	-3.0	-3.7
Others	0.0	1.1	-6.0	-1.0	-1.0
Investing cash flow	-1.0	0.1	-6.9	-4.0	-4.7
Dividends paid	-4.5	-6.0	-7.4	-6.2	-8.2
Others	-26.9	3.3	3.8	-5.9	-6.7
Financing cash flow	-31.4	-2.7	-3.7	-12.1	-14.9
Net cash flow	-14.0	-6.2	-17.2	53.0	6.2
Forex	0.0	-0.1	-0.1	0.0	0.0
Others	3.5	1.2	28.5	0.0	0.0
Beginning cash	30.4	20.0	14.9	25.0	78.0
Ending cash	20.0	14.9	26.1	78.0	84.1

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★★	Monitors Scope 1, 2 and 3 GHG emissions.
Waste & Effluent	★★★	Waste management aligns with industry standards and regulatory requirements as well as minimise environmental impact.
Energy	★★★★	Energy consumption decreased by 3% in FY25.
Water	★★★	Monitors water consumption regularly to ensure pertinent water management.

Social

Diversity	★★★	Female representation at 39% in the workforce.
Quality and Compliance	★★	In FY2025, the Group achieved two non-conformance report during SIRIM audits.
Occupational Safety and Health	★★★	189 employees were trained in FY2025 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 FY2025.
Management	★★	Among the board members, 29% (2 out of 8) were female, while 29% (2 out of 8) were independent directors
Anti-Corruption and Bribery	★★	Regularly organizes anti-corruption training for employees. In FY2025, 28% 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.