

## **PRESS RELEASE**

# **HSS Engineers to acquire SMHB Engineering Sdn Bhd for RM270 million**

- *Combined strengths in engineering consultancy for highway, railway and water sector places enlarged entity favourably for the country's next infrastructure build-up*
- *Exercise expected to increase HEB Group's net profit from RM14 million to RM39 million combined; acquisition at 7.7 times EV/EBITDA*

Kuala Lumpur, Malaysia, 29 September 2017 - Engineering and project management consultant **HSS Engineers Berhad (HEB Group)**; Bloomberg: HSS:MK; Reuters: HSSE.KL) today signed the Heads of Agreement (HOA) for the acquisition of the entire share capital of SMHB Engineering Sdn Bhd for RM270 million, paving the way for HEB Group to strengthen its engineering consulting space in the water infrastructure sector.

The purchase consideration of RM270 million entails RM162 million cash, and the balance RM108.0 million via the issuance of new HEB Group shares to the vendors. The cash consideration shall be raised from a combination of circa 50% via bank borrowings and circa 50% via placement and rights issue.

SMHB Engineering Sdn Bhd is the eventual holding company for SMHB Sdn Bhd (SMHB). Established in 1962, SMHB is an engineering consultancy firm, with deep expertise in the water sector across treatment works, distribution, dams, flood mitigation, irrigation and environmental services.

"The signing of the HOA unites two leading powerhouses of the engineering consultancies in the country. Our combined size, engineering skills and track record will expand our scope of services as well as enhance the value proposition to clients.

While HEB Group specializes in highways and railway infrastructure, SMHB has built an unparalleled reputation in the water sector for more than 50 years. Our consolidated expertise will accelerate our position to be a key contender to undertake projects not only in Malaysia but in the international market as well.

In essence, we will be stronger together, with vast expertise, substantial order book and combined strengths."

***Tan Sri Ir. Kuna Sittampalam***  
***Executive Director, HSS Engineers Berhad***

SMHB has taken the lead role in various pivotal water sector projects locally, including the development of Sungai Selangor Phases 1, 2 and 3, the Pahang-Selangor raw water transfer project, the strategic planning for water distribution within Selangor and Kuala

Lumpur, the design of water treatment works for Sungai Selangor Supply Scheme Phase 3, the Melaka River Rehabilitation and Beautification Project, and the design of numerous dams in Malaysia.

For its financial year ended 30 April 2016, SMHB reported profit after tax of approximately RM25 million, on revenue of RM93 million. As a combined entity, HEB Group's revenue would increase from RM139 million to RM232 million; EBITDA<sup>1</sup> from RM23 million to RM58 million, and profit after tax from RM14 million to RM39 million.

The purchase consideration of RM270 million is at an enterprise value over EBITDA (EV/EBITDA) of 7.7 times.

HEB Group's current order book totals approximately RM400 million. Together with SMHB's outstanding order book of RM338 million, the combined order book would increase to nearly RM740 million. The acquisition is also expected to accelerate HEB Group's ability to improve margins on a combined basis.

The enlarged entity would also create a formidable workforce exceeding 1,000-strong, with more than 600 personnel in HEB and 400 from SMHB. More than half of them comprise professional engineers.

Tan Sri Ir. Kuna Sittampalam elaborated further that the coming together of HEB Group and SMHB addressed evolving industry developments in Malaysia, where the Government's commitment to the implementation of General Agreement on Trade in Services (GATS) would likely see the increasing entry of international players in the domestic market.

"Not only does this indicate a keener competitive landscape in the future, but also accelerates the urgency for home-grown players to upscale and upskill core competencies to hone our competitive advantage," explained Tan Sri Ir. Kuna.

Tan Sri Ir. Kuna believed that the corporate exercise is part of a larger economic impetus for the nation's pursuit towards achieving the status of a high income economy.

Studies have shown that one of the catalysts for the success for any economic transformation programme is an increase in the share of services sector in a country's Gross Domestic Product (GDP). In middle income economies, the services sector typically contributes about 50% of GDP, and this percentage contribution jumps to more than 70% in high income economies. The gap of approximately 20% represents a strong growth opportunity for services companies - including engineering consultancies - to play a role in spurring a nation's economic growth.

Furthermore, the pursuit towards becoming a high income nation must be supported by the development of quality infrastructure. Access to basic infrastructure - such as networked electricity, improved water resources, sanitation and mobile phone penetration - is strongly correlated with the increase in the country's per capita income.

<sup>1</sup> Earnings before interest, tax, depreciation and amortisation



“Indeed, the advancement of the engineering services sector is parallel to the escalating scale of infrastructure jobs in Malaysia, from millions of Ringgit in the past, to multiple billions of Ringgit today. This reflects not only the breadth but also the technical complexities of contemporary infrastructure, in line with the larger population and incessant demands on constrained resources,” concluded Tan Sri Ir. Kuna.

This corporate exercise is subject to approvals from the relevant authorities and shareholders of HEB Group at the upcoming Extraordinary General Meeting. The acquisition is expected to be completed in the first quarter of 2018.

Maybank Investment Bank is the principal adviser to the corporate exercise.

#### **About HSS Engineers Berhad ([www.hssgroup.com.my](http://www.hssgroup.com.my))**

HSS Engineers Berhad together with its subsidiaries (“HEB Group” or the “Group”) and associates are principally involved in the provision of engineering and project management services encompassing engineering design, project management, construction supervision and building information modelling (“BIM”) services. To date, the Group’s total workforce consists of more than 600 employees, of which more than half are engineers. The Group operates from 3 main offices based in Kuala Lumpur, and Penang in Malaysia as well as Chennai, India.

The HEB Group has extensive experience and an established reputation in a wide array of sectors including urban infrastructure, roads and highways, railways and metro systems, building and structures, transportation planning, power generation, and water resources management and supply. The Group provides its services to clientele in the domestic and international arenas such as India and the Middle East.

HSS Engineers is listed on the Main Market of Bursa Malaysia Securities Berhad.

**Issued for and on behalf of HSS Engineers Berhad by Aquilas Advisory (Malaysia) Sdn Bhd. For media enquiries, please contact:**

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