



**ENGINEERS**

**HSS ENGINEERS BERHAD**

Registration No. 201501003232 (1128564-U)

## **2Q 2022 ANALYSTS BRIEFING**

**18<sup>th</sup> August 2022 @ 10.00 a.m.**





ENGINEERS

# HSS ENGINEERS BERHAD

Registration No. 201501003232 (1128564-U)



## 1. KEY HIGHLIGHTS

## 2. FINANCIAL HIGHLIGHTS

## 3. FUTURE PROSPECTS

## 4. OVERALL GROWTH & FUTURE STRATEGY

## 5. CORPORATE EXERCISE

## 6. CONCLUSION

# 1. KEY HIGHLIGHTS



## SURPASSED 2022 TARGETS AND IMPROVING FUNDAMENTALS FOR THE LONG TERM

1. 2Q2022 Revenue at RM 37.9 million (2Q2021: RM 38.9 million)
2. 2Q22 Net Profit soared 147.9% to RM 3.89 million (2Q2021: RM 1.57 million)
3. Net gearing at favourable level on decreased term loan.
4. Secured a total of RM 82.5 million of new contract wins as of 30<sup>th</sup> June 2022 .
5. Order book of RM 529.4 million as of 30<sup>th</sup> June 2022 provides visibility for the next 2 to 5 years. This excludes MRT 3 PMC award.
6. Secured single-largest undertaking of MRT3 Project Management Consultant for RM 998 million on 4<sup>th</sup> August 2022.
7. Highest-ever current orderbook of RM1.5 bil provides visibility next 5-8 years
8. Surpassed our targeted contract wins for 2022 (RM 500 million)



## WE ARE SETTING OUR STAGE TO ACCELERATE OUR GROWTH

- **Healthy Tender book currently at RM 400 million (50% success rate), with expected more tender Roll-Outs in 4Q2022 onwards.**
- **Direct Negotiation :- Various Privatization Proposals (Highways/Water) (More than RM 300 Million in Fees)**
- **New Service Development (Digital Transformation) – BGV**
- **Our Revenue Diversification Strategy targeting the Digital Tech space covering Telco sector in preparation of 5G Rollout and Data Centres is bearing fruit.**
- **First Malaysian-based engineering consultancy firm to become a Preferred Partner to a leading Japanese engineering consultancy firm Oriental Consultants Global Co. Ltd.**
- **Collaboration along with other potential partnerships (Japanese) in ASEAN and India Region will expand our international footprint and earnings over the next few year**
- **Malaysia's flag-bearer as the first and sole representative in Engineering News-Record (ENR)'s Top 225 International Designs Firms 2022 list.**

- ENR is regarded as one of the construction industry's most authoritative publications and considered by many to be the "Bible" of the industry.
- HSS Engineers Berhad has been ranked as **Engineering News-Record (ENR)'s Top 225 International Designs Firms 2022**.
- Malaysia's First and Sole Representative.



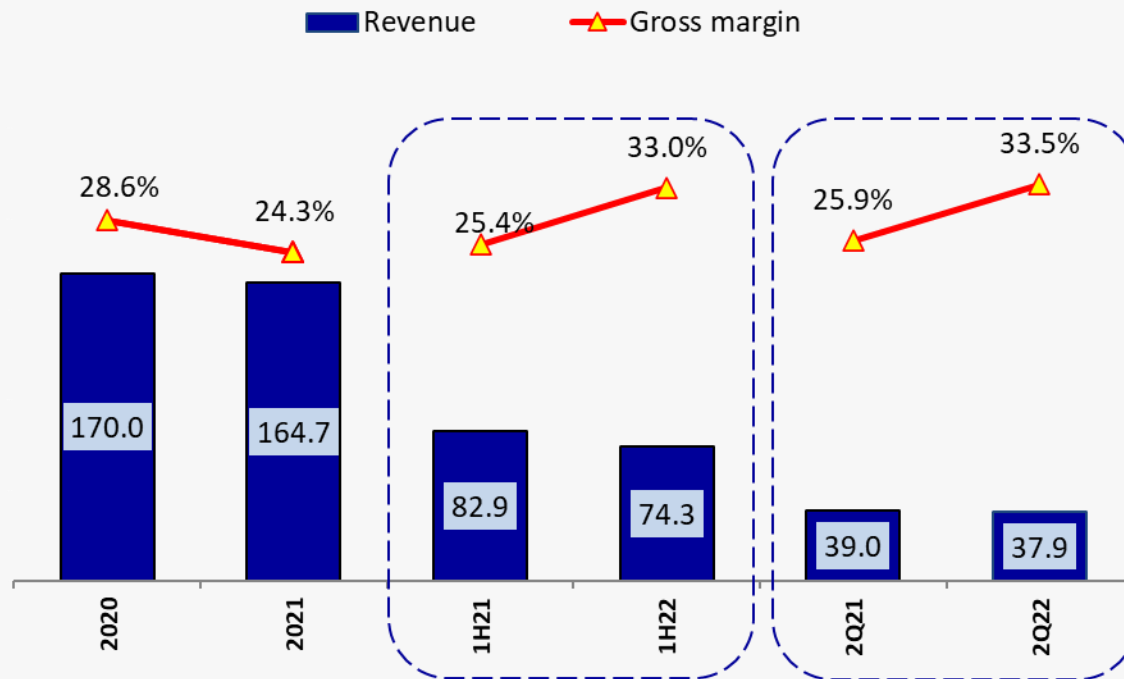
## 2 . FINANCIAL HIGHLIGHTS



## Q2 2022 REVENUE AND GROSS MARGIN REFLECTING FAVOURABLE MIX

**ENGINEERS**
**Malaysia's Engineering DNA**

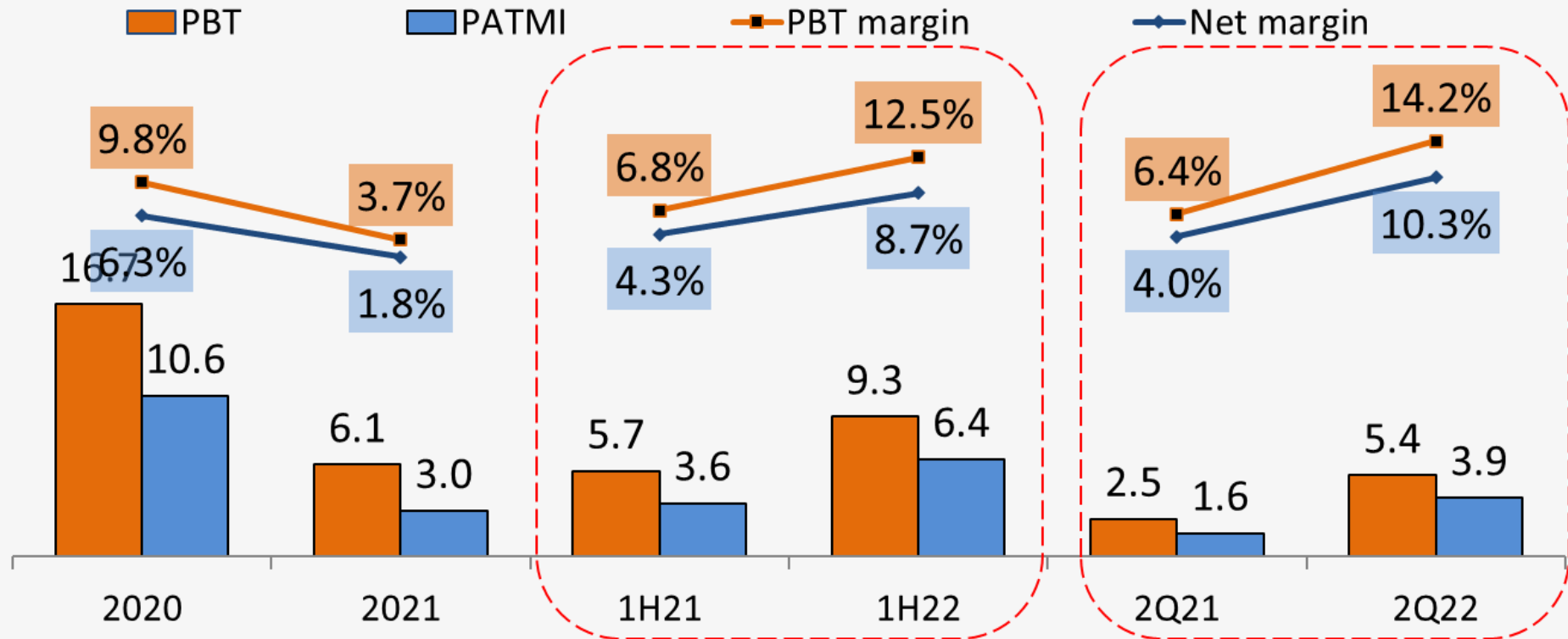
### REVENUE (RM 'MIL) & GROSS MARGIN (%)



- **2Q22 topline largely maintained:**
  - Engineering Services segment noted revenue in line with major projects progress
  - This was mitigated by higher contribution from Project Management segment on Pan Borneo Highway Sabah
- **2Q22 gross margin continued uptrend on favourable project mix**

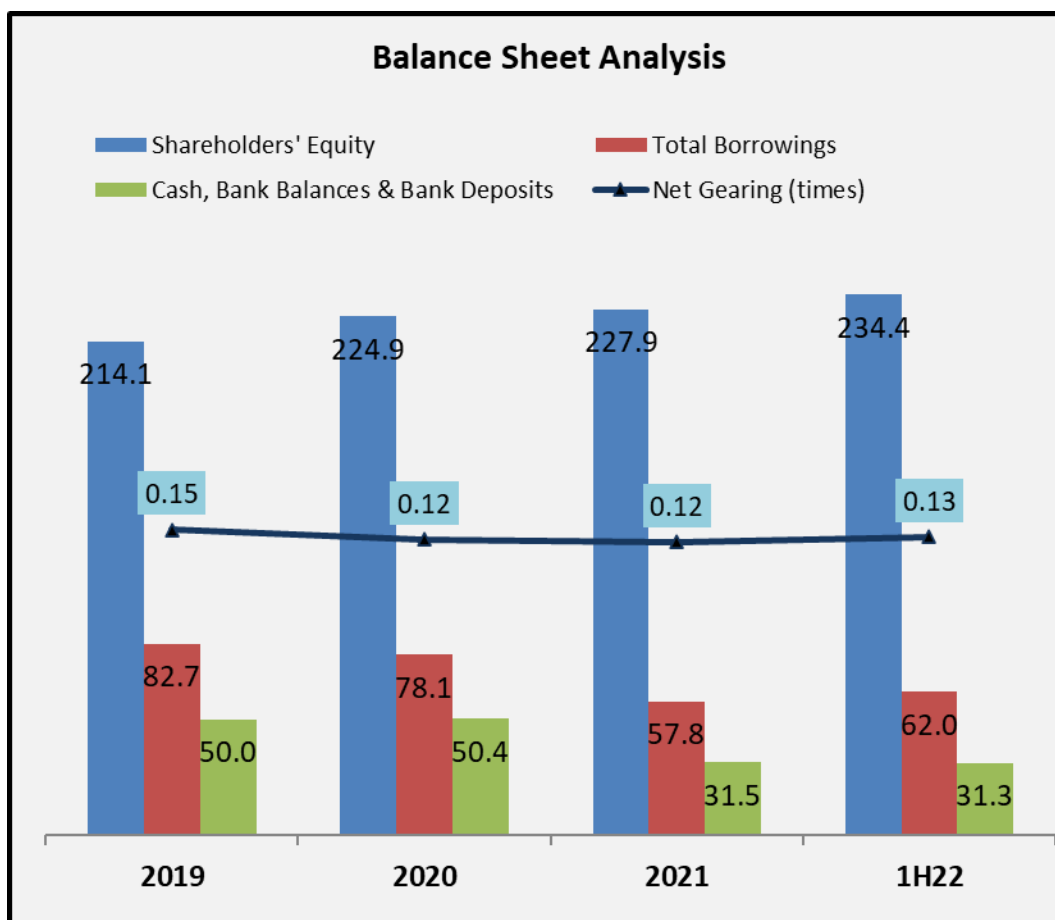


## PBT, PATMI (RM'MIL) &amp; MARGINS (%)



# BALANCE SHEET SHOWS A PRUDENT FINANCIAL MANAGEMENT

*Prudent net gearing despite higher borrowings...*



Balance Sheet (RM'mil)	FY2021 (Audited)	1H22 (Unaudited)	Remarks
Non-Current Assets	179.1	177.2	Lower on decrease in right-of-use assets and intangible assets
Current Assets	188.8	194.9	Higher on increase in trade and other receivables
Current Liabilities	96.3	102.3	Higher on increase in loans and borrowings
Non-Current Liabilities	43.7	35.4	Lower from reduced long-term loan
Shareholders' Equity	227.9	234.4	Improved on reduced accumulated losses
Net Gearing Ratio	0.12	0.13	Increased marginally on higher borrowings

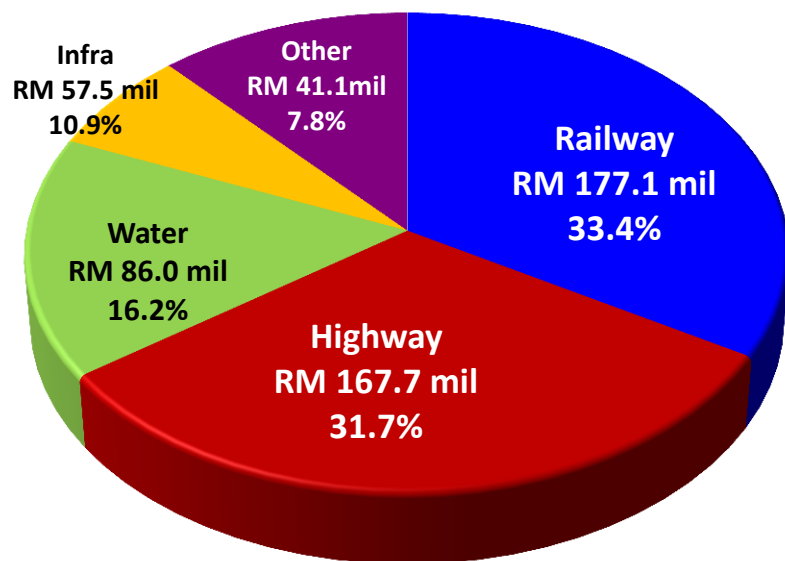
# COMBINED ORDER BOOK AS OF 30 JUNE 2022

## EARNINGS VISIBILITY FOR NEXT 5-8 YEARS

### Combined Orderbook of Enlarged Group

**RM 529.4 million**

As at 30 June 2022

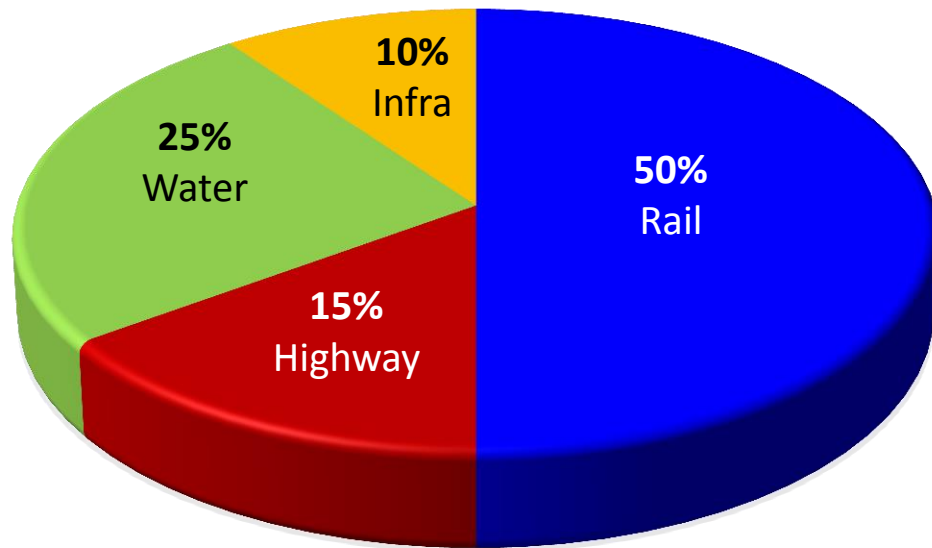


Vertical	Core Services	Amount (RM 'mil)	(%)
1	Engineering Services		
	• Design	184.3	34.8%
	• Supervision	193.1	36.5%
2	Project Management	146.1	27.6%
3	BIM Services	5.96	1.1%
	Total	529.4	100%

- **New orders secured in 1H 2022: RM 82.5 million (Excluding MRT 3 of RM 998 million, which was recently secured)**
- **Current Order book is around RM 1.5 billion**
- **We have surpassed our target contract wins set for 2022 (RM 500 million).**
- **We are still targeting contract wins for 2H 2022:- RM 150 - 250 Million**

## Tender book value is RM 400 million

- 50% Success Rate based on track record for Engineering Design, Supervision and Project Management
- 20% Success Rate based for Building Information Modeling (BIM)



■ Rail
 ■ Highway
 ■ Water
 ■ Infra

Vertical	Core Services		Amount (RM 'mil)	(%)
1	<b>Engineering Services</b>			
	• Engineering Design		166	41.50
	• Construction Supervision		66	16.50
2	<b>Project Management</b>		160	40.00
3	<b>BIM Services</b>	<b>Contractors</b>	3	0.75
		<b>Direct Client</b>	5	1.25
	<b>Total</b>		400	100.00

***"Expected More Tender Roll-Outs in 4Q2022"***



# 3. FUTURE PROSPECTS-

## All Systems Go!

*Implementation of major infrastructure projects and award of contracts will be accelerated in 2022 to pump-prime the economy as Covid-19 pandemic eases*



## **Pan Borneo Highway Sabah**

- HSS is currently the PMC for Pan Borneo Phase 1A – 15 packages
- GOM intends to urgently move forward with the balance packages

## **PJD Link Highway (34.3 km Fully Elevated Expressway)**

- Connecting PLUS' NKVE Damansara Toll Plaza to Bukit Jalil Highway

## **KL – Karak Widening (ANIH)**

- Widening of the KL-Karak Highway from Toll Plaza Gombak to Toll Plaza Bentong in both directions.  
(From 2 & 3 lane – 2 way to 3 & 4 lane – 2 way)

## **Various Other Privatisation Proposals (Urban Highways)**

- As a driver of infrastructure projects to reduce the financial strain on the government's national coffers

## Johor LRT

- Approx. 10km in length RTS CIQ, JB Sentral to Taman Tasek via Coronation Square with 7 stations and a depot/transport hub

## Bayan Lepas LRT

- The Bayan Lepas project is expected to start in the fourth quarter 2022
- We are the incumbent Preliminary Design Consultant for Bayan Lepas LRT

## Other Opportunities (Rail)

- Pasir Gudang KTMB Line
- Seremban Bypass

## Other Opportunities (Airport)

- Kuching and Kuantan Airport



## WESTPORT PHASE 2

- HEB has concluded the detailed design for the land reclamation from CT 10 to CT 13
- Westport 2 will enhance Malaysia's current global position. It will make Port Klang a "Competitive Transshipment Hub" with Singapore in South East Asia
- The project will expand a further eight Container Terminals, hence increasing the current port handling capacity from 15 million TEU's to 28 million TEU's





## **Dam Safety Review of Hydroelectric Dams**

- We are joint-consultant for the Hydro Life Extension Program for Sg Perak Hydroelectric Stations for Review Study and Tender Documentation and next stage of work would be the Project Implementation Stage from 2022 to 2028.

## **Integrated River Basin Management Plan (IRBM)**

- We are presently bidding for IRBM studies under JPS involving multi-disciplinary professional services in the field of hydrology, hydrogeology, stormwater, drainage, flood mitigation, water quality, water resources, bio-diversity, socio-economic, urban and town planning, costing, GIS, public outreach and legal disciplines.

## **Pelan Induk Saliran Mesra Alam**

- We have submitted proposals for several drainage master plan studies that emphasise on sustainable solutions that incorporate both structural and non-structural measures for flood mitigation alongside best management of water quality, aesthetic, aquatic lives, terrestrial flora/fauna and other ecological services.

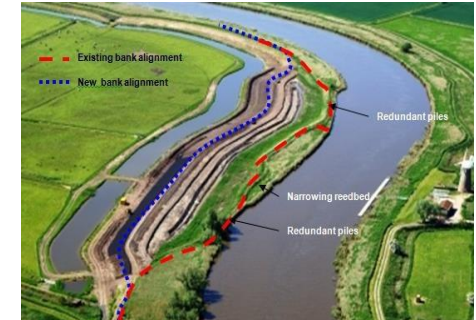
## **Off-River Storages**

- We are preparing bids for several proposed barrages and off-river storages for water resources development in Selangor and Kedah.

## **Submarine Pipelines**

- Many submarine pipelines installed in the past to provide water supply to island settlements such as Pulau Pinang, Langkawi and Redang are old (some over 50 years) and incur losses due to leakages in the undersea pipes. We are preparing proposals for new and rehabilitation of these submarine pipelines.

- **Focusing on comprehensive long-term solutions to the flood problem to reduce risks and the number of affected locations in future.**
  - Flood mitigation projects
  - Deepening rivers and other waterways
  - Building tunnels such as Kuala Lumpur's SMART Tunnel for flood management in high-risk urban areas such as Shah Alam.
- **Over RM 9.0 b allocation (part of 12 MP)**
- **More than RM300 billion will be needed for long-term solutions to the country's flood problems over the next 50 years**



## 4. OVERALL GROWTH & FUTURE STRATEGY



V1



### Engineering Services

- Engineering Design
- Construction Supervision

V2



### Project Management

V3



### Building Information Modeling ("BIM")

V4



### Recurring & Long Term Income Based Contracts

A

### New Service Development (Digital Transformation) - BGV

B

### New Service development

- Digital Tech (Data Centre & Telco services) - Locally & Regionally

C

### Expansion to Sarawak

D

### Strategic Partnership

- Initiatives with Japanese consultants & Government authorities to participate in JICA & Non-JICA projects globally

E

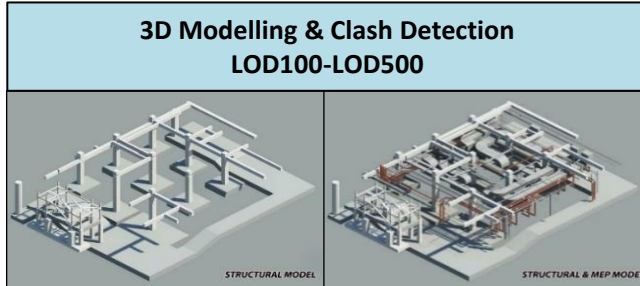
### Expansion into ASEAN region (Indonesia, Philippines & India) through smart partnership & acquisition

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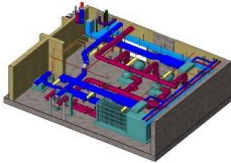
### Strategic Smart Partnership



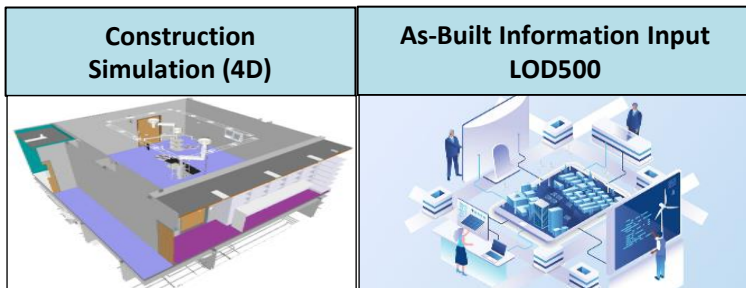
### CURRENT SCOPE OF SERVICES



**Quantity Take-off (5D)**



Pipe Accessory Schedule		
Description	Size	Total
Isolating Valve	40 mm-40 mm	5
Isolating Valve	50 mm-50 mm	1
Isolating Valve	150 mm-150 mm	6
Isolating Valve	200 mm-200 mm	5
Isolating Valve	250 mm-250 mm	4
Isolating Valve-1	40 mm-40 mm	3
Non-Return Valve	201 mm-201 mm	3
Pressure Gauge	15 mm	10
Strainer	150 mm-150 mm	2
Strainer-1	250 mm-250 mm	3
Temperature Gauge	15 mm	6



Collaboration with technology partners

\*explore Digital Engineering Solutions

### FUTURE OFFERED SERVICES



Digital Engineering Field App



Customised Facilities Management Solutions



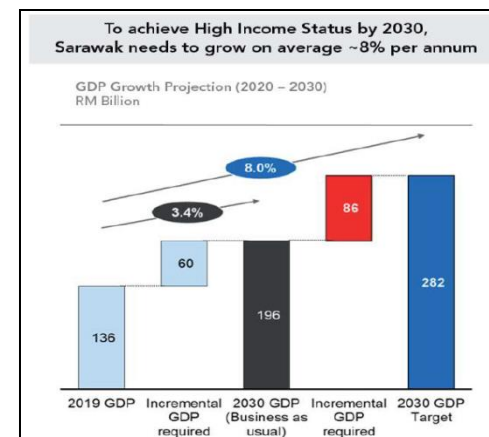
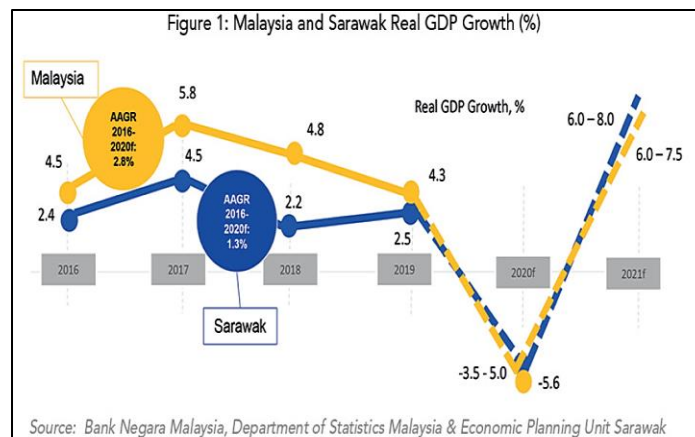
AR VR Integration and Application

- **Collaborative approach with leading data centre specialists (RED Engineering) to pursue engineering and project management opportunities in this arena in Malaysia, as well as in the SEA region. Shortlisted for PMC Bids.**
- **Potential Upcoming Data Centers :-**
  - Yondr (200 MW Hypercsale in JCorp's Sedenak Tech Park)
  - Strateq Data Centres
  - Equinix Data Center SG3
  - NTT Data Malaysia
  - Regal Orion

- Embarked on a collaborative approach with leading NFP/Telco specialists.
- Commenced works on three (3) mandates by DNB encompassing Site Management, Commercial Contract Management and RFx Negotiation.
- Upcoming Opportunities :-
  - Phase 2A - DNB
  - In Building Solution (IBS) – DNB & Others
  - Celcom/Digi
  - Panel Consultant for Edotco & Edgepoint



- By 2030, Sarawak will be a thriving society driven by data and innovation where everyone enjoys economic prosperity, social inclusivity and sustainable environment and has stable outlook rating with a current GDP of RM 127,116 million.
- Sarawak is poised to be a developed and industrialised State by 2030
- Sarawak intends to capitalise on the relocation of Indonesia's capital to Kalimantan with foreign investment especially into the logistic sector / SME's
- Stable Economy with RM 32 billion in reserves



**"HSS INTENDS TO SET-UP SHOP IN SARAWAK"**



## “JAPAN INVESTING US\$367 BILLION IN SOUTHEAST ASIA INFRASTRUCTURE”

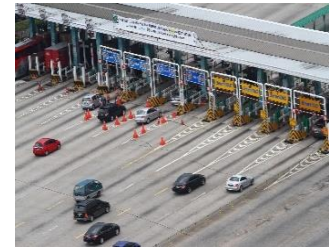
1. Strategic Partnership with the three (3) Main Japanese INVESTMENT AGENCIES FOR INFRASTRUCTURE PROJECTS IN ASEAN REGION :- *Japan Bank for International Corporation (JBIC)/ Japan International Agency Corporation (JICA) & Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN)*
2. Strategic Preferred Partner with Four (4) Japanese Consultants for Infrastructure Projects in Asean, MENA and India Region.
  - *OC GLOBAL (MOU Concluded on 19<sup>th</sup> July 2022)*
  - *NIPPON KOEI*
  - *YACHIYO ENGINEERING*
  - *PADECO*
3. The objective of the Memorandum of Understanding (MOU) is to form a strategic preferred partnership in the following sectors:-
  - Transportation Sector (Rails and Mass Transit)
  - Water Resources and Supply Management
  - Flood Mitigation
  - Roads, Highways and Bridges
4. Target Projects :- JICA/NON JICA/ADB/WORLD BANK PROJECTS
5. Target Regions :- ASEAN/MENA & INDIA

### MAINTAIN NUMBER 1 POSITION IN MALAYSIA & GROW IN STEADY STEP GEOGRAPHICALLY (PHILIPPINES / INDONESIA & INDIA )

- **Two (2) Prong Approach**
  - JICA Projects :- Participate with Japanese Consultants
  - Other Projects :- Collaborate with Local /Japanese and & Other International Consultants (Short Term)
- **Long Term :- Local Set-Up/Partial Acquisition**



- Important part of our on-going strategy to provide a longer- term sight on revenue that is recurring
- 
- Long-Term Sight on Revenue Focusing on:
    1. Sustainable Renewable Energy  
(Solar / WTE / Hydro / Biomass, Rooftop Solar)
    2. Water Concessions
    3. Tolled Highways



***“STRATEGIC PARTNERSHIP WITH JAPANESE COMPANIES FOR COLLABORATION OF RENEWABLE ENERGY PROJECTS IN ASEAN REGION”***



# 5 . CORPORATE EXERCISE





# OVERALL GROWTH & FUTURE STRATEGY

## CORPORATE EXERCISES TO HELP CURRENT WORKS AND FUTURE PLANS

### I. Free Bonus Issue of Warrants on the basis of one warrant B for every 3 existing shares held by shareholders on an entitlement date

- Exercise price of Warrant B: **RM 0.43 a piece** (representing a discount of approx. 14% based on the 5-day volume weighted average market price of HEB Shares up to and including 16 August 2022 of [RM 0.50] per HEB share.)
- Tenure: Three (3) years
- Assuming the full conversion of 47.9 existing Warrants A, the **proposed bonus issue of warrants will entail the issuance of up to 181.2 million Warrants B** on the basis of 1 Warrant B for every 3 HEB Shares, held by the entitled warrant holders.
- Full exercise of warrants may raise up to **RM 77.9 million** in proceeds within the three-year tenure for **working capital** purposes.

### II. Private placement of up to 20% of the total number of issued shares

Minimum Scenario	<ul style="list-style-type: none"> <li>• Assuming none of the 47,862,136 Warrants A are converted to HEB Shares prior to the implementation of the Proposed Private Placement</li> <li>• No. of Placement Shares <ul style="list-style-type: none"> <li>➤ 99,172,403 Placement Shares may be issued, representing approximately 20%</li> </ul> </li> </ul>
Maximum Scenario	<ul style="list-style-type: none"> <li>• Assuming all of the 47,862,136 Warrants A are converted to HEB Shares prior to the implementation of the Proposed Private Placement</li> <li>• No. of Placement Shares <ul style="list-style-type: none"> <li>➤ 108,744,830 Placement Shares may be issued, representing approximately 20%</li> </ul> </li> </ul>

- The issue price(s) of the Placement Shares will be determined and fixed by the Board at a later date after receipt of all relevant approvals for the Proposed Private Placement.
- The Placement Shares will be issued at issue price(s) of not more than 20% discount to the 5-day VWAP of HEB Shares immediately preceding the price-fixing date(s).

## 6. CONCLUSION





- Outlook remains healthy
- “Add” rating with a target price of 85 sen per share and it is pegged to a 2022 forecast target price to earnings ratio (PER) of 24.0 times.
- Positives from the MRT3 PMC award
- Healthy order visibility are not fully reflected in the share price

*CGS – CIMB Research*  
*The Star - Aug, 17<sup>th</sup> 2022*

## HSS Engineers order book at RM1.5bil

**PETALING JAYA:** HSS Engineers Bhd's job flow outlook remains healthy, following the group's recent Mass Rapid Transit 3 (MRT 3) project management consultant award that has doubled its order book to an all-time high of RM1.5bil.

Last week, HSS Engineers announced that a joint-venture between HSS Integrated Sdn Bhd and HSS Engineering Sdn Bhd had been appointed as the management consultancy services provider for the MRT3 Circle Line project valued at RM997.9mil.

With HSS Engineers' order book hitting an all-time high, CGS-CIMB Research has raised its earnings per share (EPS) for the company by 24% to 26% for the financial years ending Dec 31, 2023 (FY23) and FY24, based on conservative MRT 3 assumptions.

“We prudently assume 10% of total contract value would flow through in FY23 and FY24.”

The research house emphasised that this is due to the likely gradual deployment of engineers over the next one to two years, to accommodate for the time required to fully award all civil works packages before works commence.

“Hence, we raise our FY23-FY24 forecast EPS by 24% to 26% to account for the MRT 3 job's contribution,” it said.

Based on CGS-CIMB Research's industry checks, it sees new sizeable engineering and project management services opportunities emerging for the group, with focus on new highways in the Klang Valley, rail projects in Johor and water and rail projects in Sarawak.

“For HSS, key projects to look out for in the next six-to-nine months include Pan Borneo Highway Sabah phase 2, the PJD Link Highway, KL Northern Dispersal Highway and Johor LRT,” it said.

CGS-CIMB Research has raised HSS Engineers target price by 24% to RM0.85 for 2022, based on a 24-times price-to-earnings (PE) ratio in line with average PE of global peers.

CGS-CIMB Research is keeping an “add” call on HSS Engineers as the group remains a small-cap laggard and one of the main beneficiaries of the MRT 3.

“In our view, positives from the MRT 3 project management consultant award and healthy order visibility are not fully reflected in the share price,” it said.

## INCREASING MARKET LEADERSHIP AND REGIONAL EXPANSION PROPELS HEB FORWARD

1. **Undisputed leader** in Engineering Services and Project Management Consultancy
2. Key enabler in and first beneficiary of **nation-building and skillset development**
3. Malaysia's flag-bearer as the sole representative in **Engineering News-Record (ENR)'s Top 225 International Designs Firms 2022**
4. **Highest-ever current orderbook of RM1.5 bil** provides visibility next 5-8 years
5. **Improving fundamentals** with double-digit growth and pared-down net gearing; corporate exercises to raise proceeds for working capital and future expansion
6. **Regional expansion into ASEAN, India and MENA to catapult** with Preferred Partner status with OC Global and other international players
7. **Potential revenue stream** that is recurring to undergird **longer-term prospects**





**ENGINEERS**

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# **THANK YOU**

IR Adviser



**AUGUST 2022**