



**ENGINEERS**

**HSS ENGINEERS BERHAD**

Registration No. 201501003232 (1128564-U)

# **Q4 2022 ANALYSTS BRIEFING**

**23 FEBRUARY 2023 @ 10.30 A.M.**





ENGINEERS

# HSS ENGINEERS BERHAD

Registration No. 201501003232 (1128564-U)



## 1. KEY HIGHLIGHTS

## 2. FINANCIALS

## 3. OPERATIONAL HIGHLIGHTS

## 4. FUTURE PROSPECTS

## 5. OVERALL GROWTH & FUTURE STRATEGY

## 6. CONCLUSION

# 1. KEY HIGHLIGHTS



## OUR REVENUE &amp; NET PROFIT FOR 2022 HAS IMPROVED

- FY 2022 revenue at RM 185.9 million; (FY 2021: RM 164.7 million) Increase of 12.9%.
- FY 2022: Commendable net profit of RM 15.1 million – (After impairment of RM 5.5 million)
- 4Q2022 Net Profit RM 3.6 million (4Q2021 Net Loss: RM 0.7 million).
- Current Order Book stands at RM 1.44 billion provides visibility for the 8 years. Excluding MRT3 PMC, projects less than 20 million fees makes up around 75% - 80% of our Order Book.
- FY2022: Secured a total of RM 1.1 billion worth of new contract wins.
- Healthy Tender Book currently at RM 380 million (50% success rate)



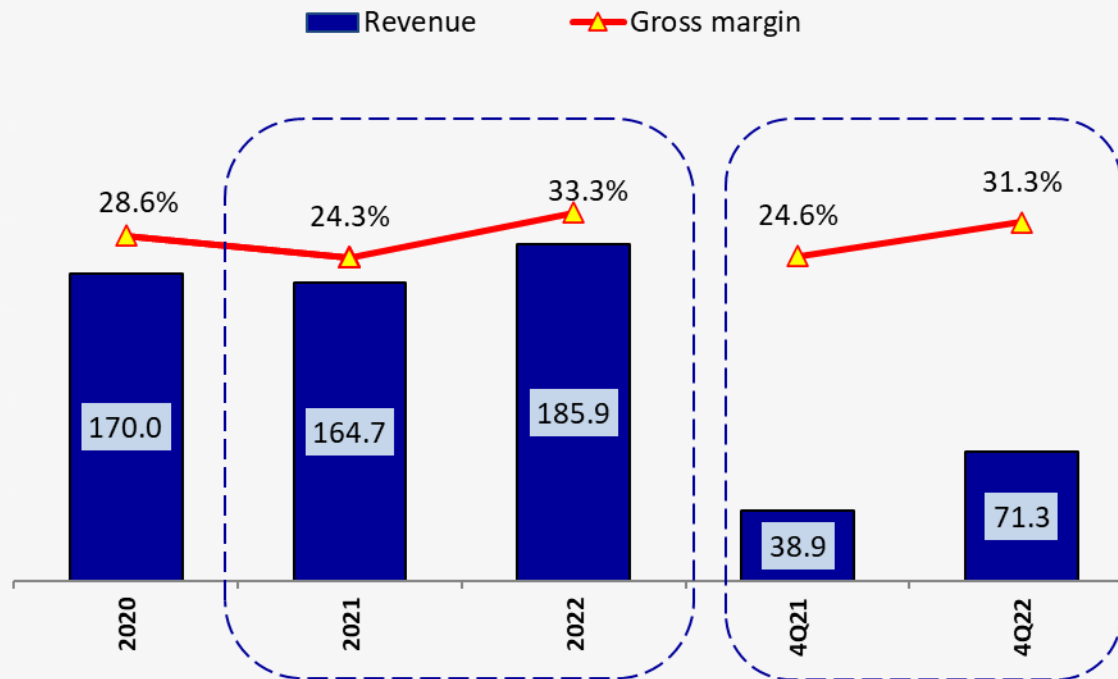
- **Malaysia is poised** and is on the **cusps of a second take-off:-**
  - Pledge of **multi-billion (FDI) approximately RM 25 billion** from **Global Giants** (Sea Ltd / Yondr Group / Inseact / AirTrunk / Wilhelmsen)
- **Revenue Diversification (Telco & Data Centre) bearing fruits:-** First PMC for Data Centre Project secured
- **More in – roads overseas via strategic collaborations** (Philippines / Bangladesh / Indonesia & India)
- **Expecting Bigger Haul in 2023:** Mega infrastructure project rollouts underpinned by the national development agenda outlined in the **12th Malaysia Plan (12MP)** set to gain pace in 2023. (Rail / Highways / Ports)
- More projects roll-outs to come on stream with **Privatisation** playing a pivotal role

## 2. FINANCIALS



*Commendable quarterly revenue in 4Q22 with all systems go in Project Management Consultancy segment*

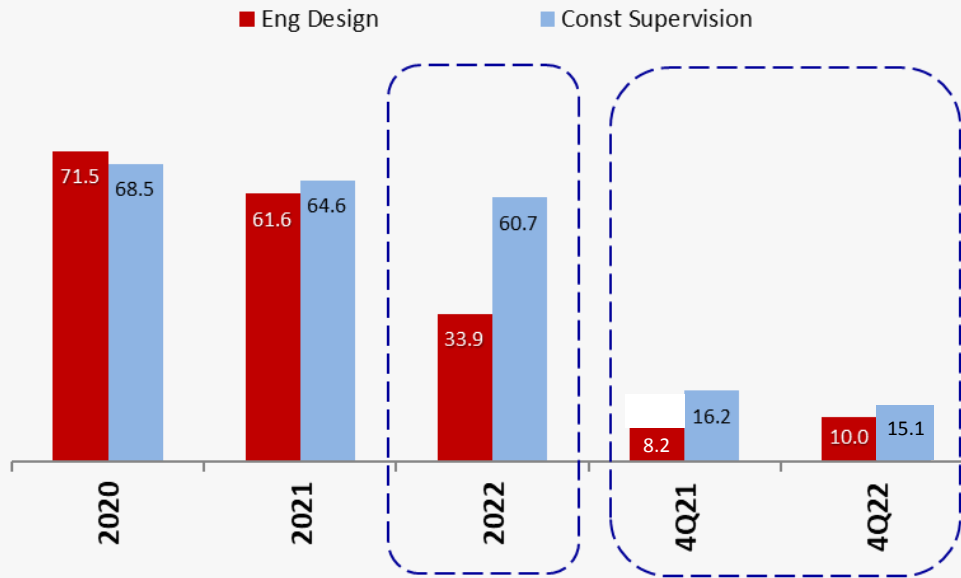
### REVENUE (RM 'MIL) & GROSS MARGIN (%)



- **+83.3% jump in 4Q22 revenue to reach RM71.3 mil, i.e. Commendable quarterly topline**
  - 4Q22 gross margin lifted by favourable project mix
- **FY22 topline +12.9% to RM185.9 mil**
  - Positive trajectory anticipated to continue in view of order book visibility and upcoming developments

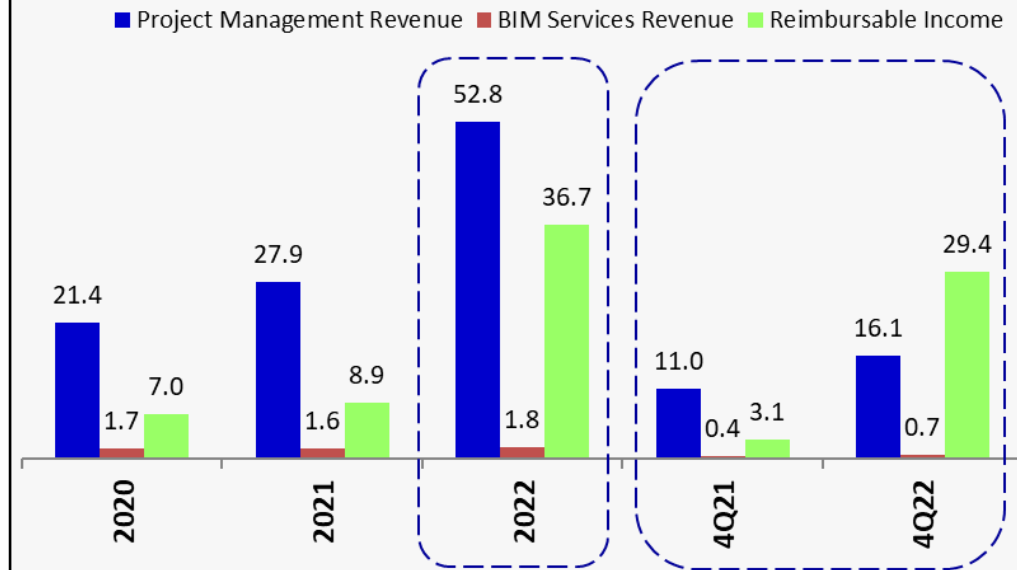
*Engineering Services largest revenue contributor...*  
*PMC achieved significant improvement*

### Engineering Services (RM'mil)



- **4Q22 Engineering Design revenue +22.2% from provision of Peer Review Consultancy Services for MRT3**, offset by activities from on-going projects such as ECRL detailed design and Iskandar BRT
- **Construction Supervision remained stable** on project progress of on-going projects

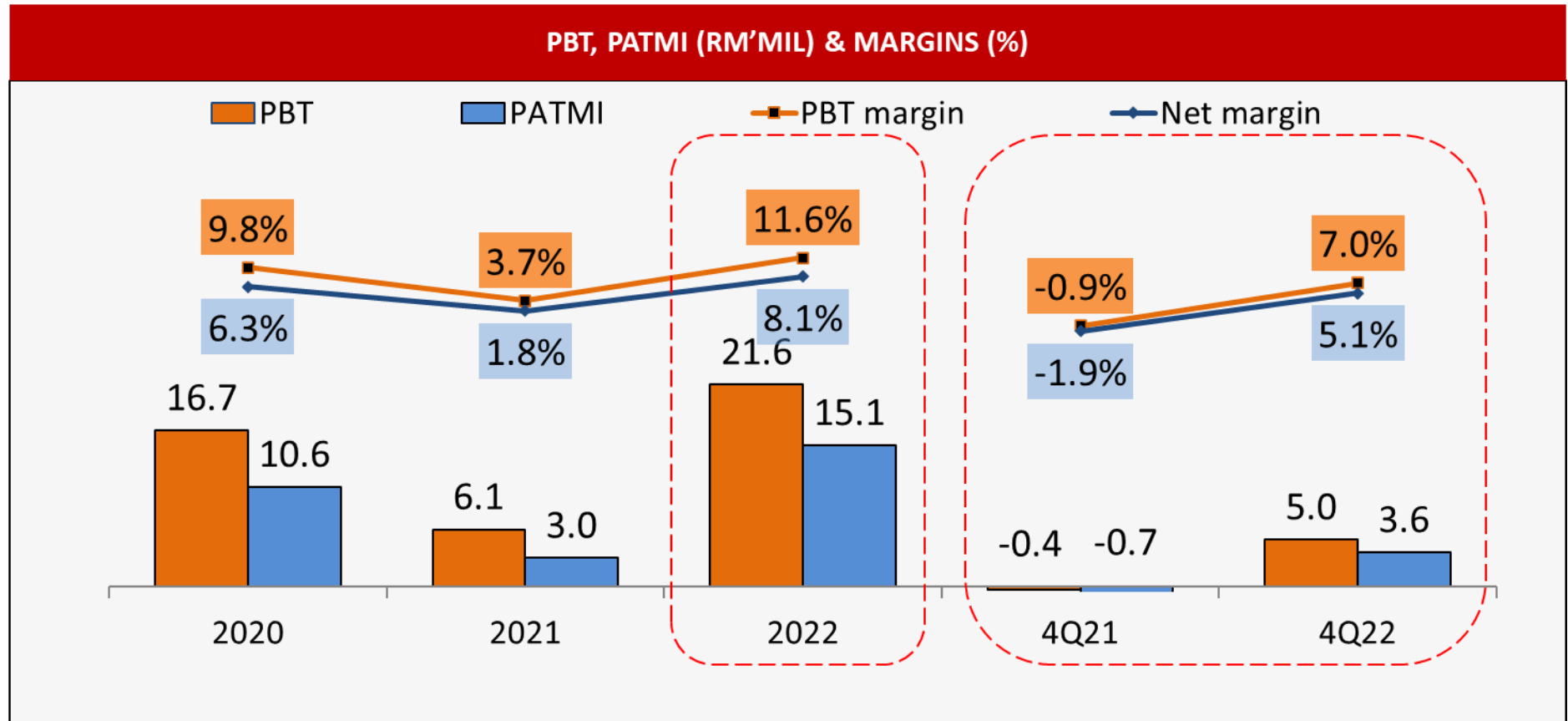
### Project Management, BIM Services & Reimbursable Income (RM'mil)



- **4Q22 PMC revenue** reflecting steady progress for MRT3, Pan Borneo Highway Sabah and Project Delivery Management Office for all projects within the Northern Corridor Economic Region
- No significant fluctuation in **BIM revenue**



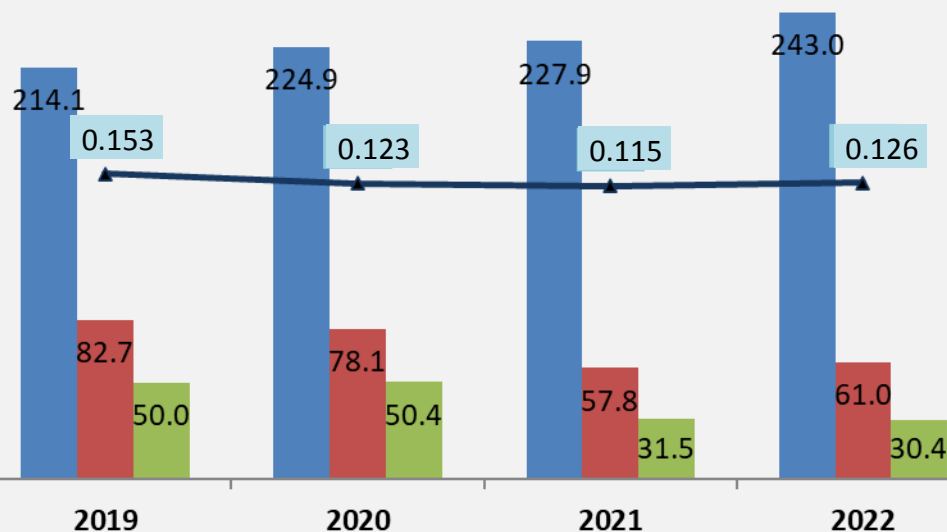
*Strong 2H22 leads to HEB Group's commendable net profit ...  
increasing margins denoting favourable mix*



*Firm fundamentals with healthy net gearing...*

**Balance Sheet Analysis**

■ Shareholders' Equity
 ■ Total Borrowings
 ■ Cash, Bank Balances & Bank Deposits
 —▲— Net Gearing (times)



Balance Sheet (RM'mil)	FY2021 (Audited)	2022 (Unaudited)	Remarks
Non-Current Assets	179.1	175.9	Lower on decrease in PPE, right-of-use assets and intangible assets
Current Assets	188.8	227.8	Trade and other receivables and contract assets in line with progress
Current Liabilities	96.3	146.2	Increased short-term borrowings in line with working capital needs
Non-Current Liabilities	43.7	14.5	Drastically reduced long-term loan
Shareholders' Equity	227.9	243.0	Continued improvement in accumulated losses
Net Gearing Ratio	0.12	0.13	Largely stable on project-related borrowings

# 3. OPERATIONAL HIGHLIGHTS



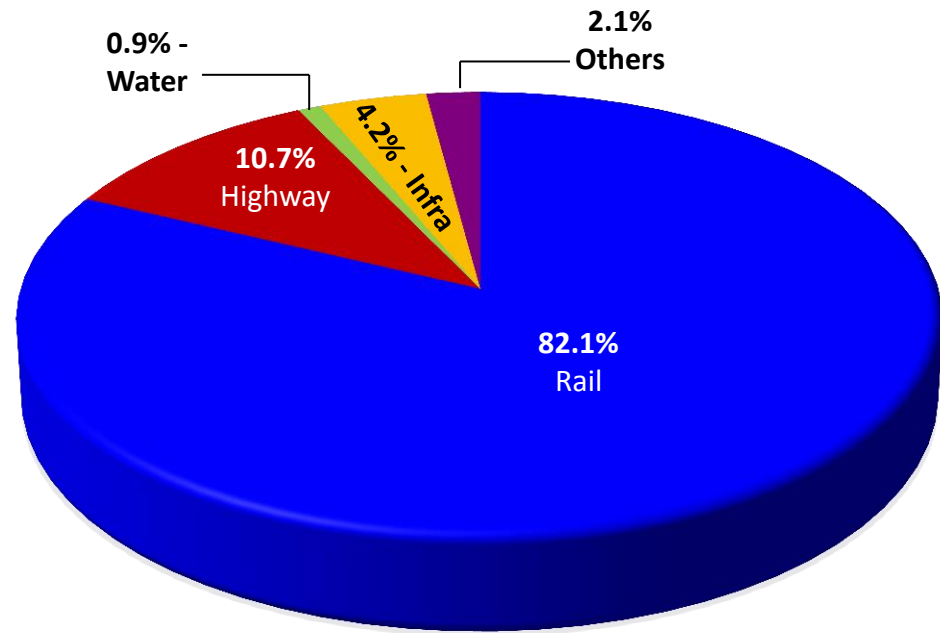
# COMBINED ORDER BOOK AS OF 31<sup>st</sup> DEC 2022

## EARNINGS VISIBILITY FOR NEXT 5-8 YEARS

### Combined Orderbook of Enlarged Group

**RM 1.4 Billion**

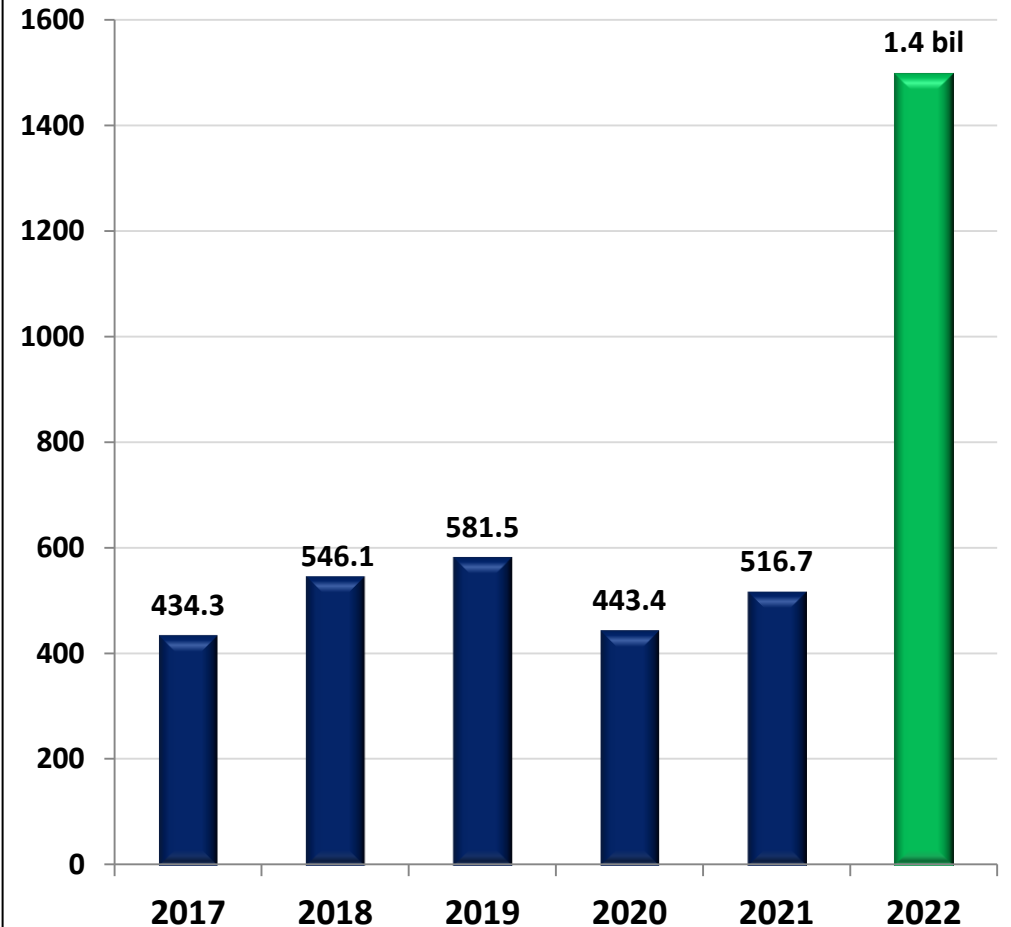
As at 31<sup>th</sup> Dec 2022



■ Rail 
 ■ Highway 
 ■ Water 
 ■ Infra 
 ■ Others

- New orders secured in 2022: RM 1.1 Billion**

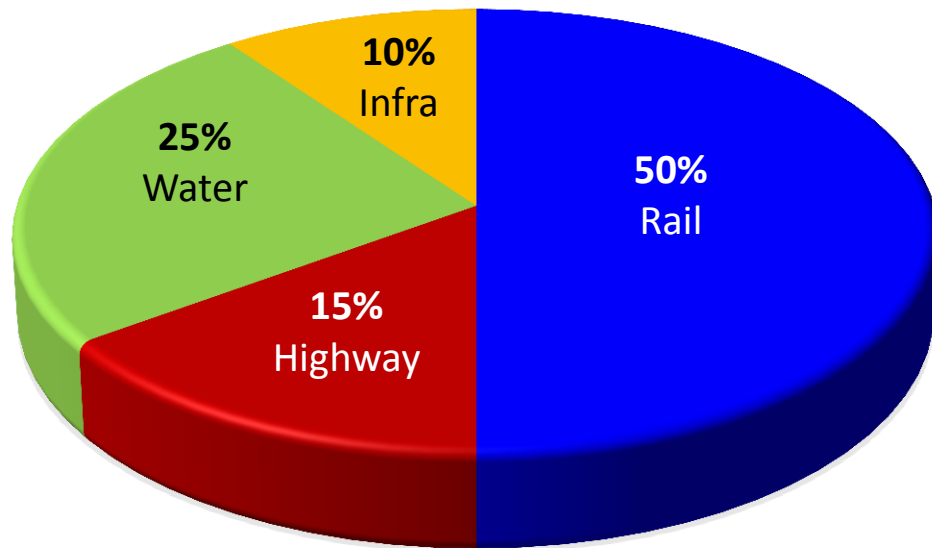
### Remaining Order Book





### *Tender book value is RM 380 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		154	40.50
	• Construction Supervision		70	18.50
2	<b>Project Management</b>		150	39.00
3	<b>BIM Services</b>	Contractors	3	1.00
		Direct Client	3	1.00
	<b>Total</b>		380	100.00

***“Expected Tender Roll-Outs in 2Q2023”***

# 4. FUTURE PROSPECTS-

## All Systems Go!

*Implementation of major infrastructure projects and award of contracts will be accelerated in 2023 to pump-prime the economy*



**ALL SYSTEMS GO:- IMPLEMENTATION OF MAJOR INFRA PROJECTS**

<b>FUTURE PROSPECTS</b>	
<b>ROADS &amp; HIGHWAY SECTOR</b>	<ul style="list-style-type: none"> <li>• Pan Borneo Highway Sabah- Phase 1B</li> </ul>
	<ul style="list-style-type: none"> <li>• PJD Link Highway (34.3 km Fully Elevated Expressway)</li> </ul>
	<ul style="list-style-type: none"> <li>• Various Other Privatisation Proposals (Urban Highways)</li> </ul>
<b>RAILWAY AND AIRPORT SECTOR</b>	<ul style="list-style-type: none"> <li>• Johor LRT</li> </ul>
	<ul style="list-style-type: none"> <li>• Bayan Lepas LRT</li> </ul>
<b>PORT SECTOR</b>	<ul style="list-style-type: none"> <li>• Westport Phase 2</li> </ul>
<b>WATER SECTOR</b>	<ul style="list-style-type: none"> <li>• Dam Safety Review of Hydroelectric Dams</li> </ul>
	<ul style="list-style-type: none"> <li>• Integrated River Basin Management Plan (IRBM)</li> </ul>
	<ul style="list-style-type: none"> <li>• Pelan Induk Saliran Mesra Alam</li> </ul>
	<ul style="list-style-type: none"> <li>• Off-River Storages</li> </ul>
	<ul style="list-style-type: none"> <li>• Submarine Pipelines</li> </ul>
<b>FLOOD MITIGATION SECTOR</b>	<ul style="list-style-type: none"> <li>• Over RM 12.0 billion allocation for Flood Mitigation projects</li> <li>• More than RM300 billion will be needed for long-term solutions to the country's flood problems over the next 50 years</li> </ul>



## 5. 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

F

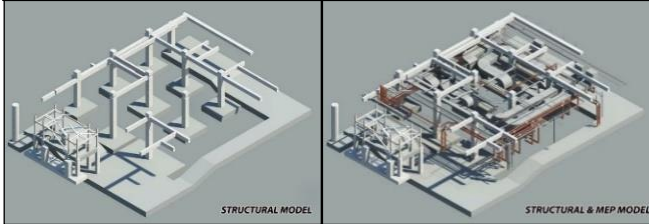
### Strategic Smart Partnership

# OVERALL GROWTH & FUTURE STRATEGY

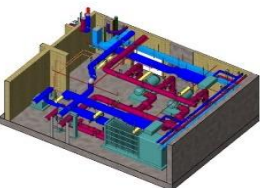
## A) NEW SERVICE DEVELOPMENT (DIGITAL TRANSFORMATION) - BGV

### CURRENT SCOPE OF SERVICES

#### 3D Modelling & Clash Detection LOD100-LOD500



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



Pipe Accessory Schedule		
Description	Size	Total
Isolating Valve	40 mme-40 mme	5
Isolating Valve	50 mme-50 mme	1
Isolating Valve	150 mme-150 mme	6
Isolating Valve	200 mme-200 mme	5
Isolating Valve	250 mme-250 mme	4
Isolating Valve-1	40 mme-40 mme	3
Non-Return Valve	201 mme-201 mme	3
Pressure Gauge	15 mme	10
Strainer	150 mme-150 mme	2
Strainer-1	250 mme-250 mme	3
Temperature Gauge	15 mme	8

Collaboration with  
technology partners

\*explore Digital  
Engineering Solutions

Ready to Launch  
Construction  
Management  
Integrated System  
(CMIS)  
1 April 2023

#### Construction Simulation (4D)



#### As-Built Information Input LOD500



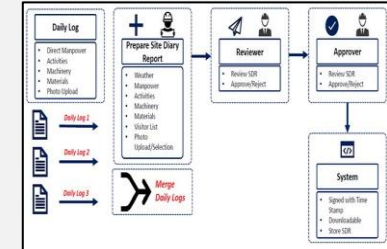
### SITEBUDDY

#### CONSTRUCTION MANAGEMENT INTEGRATED SYSTEM (CMIS)

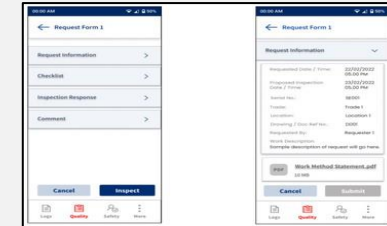
#### THE MODULES



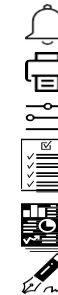
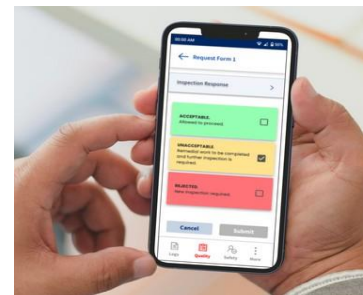
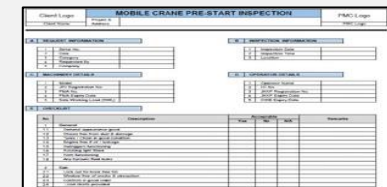
#### SITE DIARY WORKFLOW OVERVIEW



#### QUALITY MANAGEMENT APPS USER INTERFACE OVERVIEW



#### ENVIRONMENT SAFETY & HEALTH SAMPLE OF FORM OUTPUT



NOTIFICATION FEATURES  
HARDCOPY VERSION READY  
CUSTOMIZATION FEATURES  
DYNAMIC LIBRARY/FORMS  
DASHBOARD AND REPORTING  
DIGITAL SIGNATURE

- Revenue Diversification has started bearing fruits (Telco & Data Centre)
- On 16<sup>th</sup> January 2023, the Group secured its **first project management consultancy services** contract for the upcoming **Yellowwood data centre and its electrical substation at Sedenak Tech Park, Johor Darul Takzim.**
- **HSS secured further work from DNB (Phase 2A) – Similar scope as earlier**
- **Upcoming Data Centers :-**
  - *INFINAXIS - Submitted BID*
  - *Area Advisory*
  - *Equinix Data Centre SG3*
- **Upcoming Telco:-**
  - *In Building Solution (IBS) – DNB & Others*
  - *Celcom / Digi/Axiata*
  - *Panel Consultant for Edotco & Edgepoint*



## **"HSS HAS ALREADY SET-UP SHOP IN SARAWAK"**

### **HSS Alliance (Sarawak) Sdn Bhd**

- 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.

#### **POTENTIAL PROJECTS THAT WE ARE CURRENTLY WORKING ON:-**

- Bintulu Bitumen Plant
- Miri City Council – Solid Waste Management
- RFP for Consultancy Study On Battery Energy Storage System (BESS) For Peak Management 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)*
  - *YACHIYO ENGINEERING (MOU concluded on 15<sup>th</sup> September 2022)*
  - *NIPPON KOEI*
  - *PADECO*
3. On 14th February 2023, HEB Group signed a contract agreement *with Bangladesh Railway to provide consulting and technical services for the Asian Development Bank (ADB)-funded Railway Connectivity Improvement Preparatory Facility Project in Dhaka.* This marks our *first inroads into Bangladesh with JV partners Oriental Consultants Global Co., Ltd., Japan (“OCG”) and EGIS Rail S.A., France (“EGIS”)* and places us on the global map in terms of engineering consultancy expertise alongside other experts
4. Other Opportunities:-
  - *Dhaka Metro*
  - *Bangladesh Rail*
  - *Jakarta LRT*
  - *Patna Metro*

### 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
- *MOU concluded with **Shizen International Inc.** (21 September 2022) to collaborate on a 'preferred partner' basis in the development of solar projects up to a capacity of 250MW in the ASEAN region.*
  - *Top Glove Secured Project (10MW) EPC contractors selected, Gate 4 passed, Design and Engineering ongoing for all 4 projects. HSS will be considered as a potential partner (co investor) upon COD and the project novated to SPV.*
  - *Syarikat Air Melaka (SAMB) 150MW Floating Project in Durian Tunggal Reservoir, Melaka – FS Stage. HSS could be potential support in terms of engineering and project management and also could be considered as co-investor.*
  - *Tanjung Tualang Floating Solar Project (up to 35MW)*
  - *Kossan Rubber Industries Bhd (up to 6MW)*
- ***AETI (Asia Energy Transition Initiative) - USD 10 Billion Finance Support in Asia Renewable Energy /Energy Efficient (LNG)***

## 6. CONCLUSION





28<sup>th</sup> Dec 2022

70 SEN TARGET PRICE

# 'BUY' CALL KEPT ON HSS

Affin Hwang says firm remains competitive in bidding for new contracts

ASILA JALIL  
KUALA LUMPUR  
bt@nst.com.my

**H**SS Engineers Bhd will continue to thrive under the new unity government as most of its contracts are secured through open tender and it remains competitive in bidding for new government projects, said Affin Hwang Capital.

It said HSS's remaining order book of RM1.47 billion as at the end of the third quarter of this year comprised mostly contracts secured through open tender.

They included the RM998 million Klang Valley MRT Line 3 (MRT3) project management consultant and RM145 million Pan Borneo Highway Sabah Phase 1A PMC contracts.

Affin Hwang also gathered that HSS might make full impairment for legacy receivables to clean up its books in the fourth quarter amounting to about RM6 million in bottom-line impact.

The receivables relate to work done for a privatised highway concession company that is undergoing a debt restructuring exercise.

"We understand that certain parties are interested in coming in as a white knight to take over the concession company.

"HSS could recover partial/full amount of the RM11 million receivables owed by the latter if a deal is struck.

"Since it is unusual for HSS to incur bad debts and most of its contracts are gov-

ernment projects, we classify the impairment as an exceptional loss in our earnings forecasts," said Affin Hwang.

It expects HSS to have better profit margins on certain engineering design contracts near completion, which should boost its fourth quarter earnings.

Affin Hwang said the award of contracts for the three civil work packages for MRT3, initially expected by year end, could be delayed to March-April next year.

"We gather that the government is reviewing the alignment, construction cost, financing options for the project and potential private finance initiative to reduce the estimated overall cost of RM50.2 billion for MRT3."

HSS's remaining order book is at a record RM1.47 billion, equivalent to 8.9 times of last year's revenue.

Affin Hwang has maintained its "buy" call on the stock with a 70 sen target price.

Outthink. Outperform.



RM0.405 @ 28 December 2022

## HSS Engineers (HSS MK)

**BUY (maintain)**

Up/Downside: +72.8%

**Price Target: RM0.70**

Previous Target (Rating): RM0.70 (BUY)



**ENGINEERS**

**HSS ENGINEERS BERHAD**

Registration No. 201501003232 (1128564-U)

**THANK YOU**

IR Adviser



**FEBRUARY 2023**