

## 2 Companies & Strategies

STARBIZWEEK, SATURDAY 23 DECEMBER 2023

### CONSTRUCTION

By ELIJM POON  
elijmpoon@thestar.com.my

HSS Engineers Bhd is stepping into 2024 with much optimism and it has every reason to do so.

For one thing, the engineering and project-management consultant is set to end its current financial year on a strong note, following a robust performance for the first nine months ended Sept 31, 2023 (9M23).

For another, its earnings visibility for the medium term is also good, supported by a healthy order book.

What's more, HSS Engineers is currently "at the start of something bigger", as its executive vice-chairman Tan Sri Kuna Sittampalam tells *StarBizWeek* in an exclusive interview.

In the near term, Kuna says, the group will expand more aggressively into Sarawak within the Malaysian market. He reveals the group will also focus on expanding its presence to Indonesia, the Philippines and Cambodia in Asean, India and Bangladesh in South Asia, and the Middle East and North Africa (Mena) region.

"I believe we owe it to Malaysia to build our company and take it to the international stage, and that is precisely what we are doing. In terms of revenue, overseas ventures contribute less than 5% to our total revenue now."

"However, our target is for it to eventually make up 30% of our total revenue in the next five years," he says.

On the local front, the group, through its subsidiary HSS Alliance (Sarawak) Sdn Bhd, is planning to undertake projects such as a bitumen plant in Bintulu, a solid-waste management facility for the Miri City Council, upgrading of roads under the Sarawak Rural Road Connectivity project, and the Trans-Borneo Railway.

On the international front, not only has the group made inroads into Bangladesh to undertake a railway project this year, it has also inked partnerships with four leading Japanese engineering consultancies to undertake projects in various countries.

"Japan is initiating a significant rollout of about US\$360bil worth of infrastructure in the Asean, India and the Mena region, led

# HSS Engineers steps up its game

Company eyes expansion at home and abroad



"I believe we owe it to Malaysia to build our company and take it to the international stage, and that is precisely what we are doing."

Tan Sri Kuna Sittampalam

by the Japan International Cooperation Agency.

"Due to demographic shifts, Japan is facing a shortage of people to manage these extensive projects, as the older generation constitutes a larger percentage of the population."

"Hence, we intend to take on some of the workload through these collaborations," Kuna says.

In addition to broadening its reach across various regions, the company is diversifying its operations into multiple sectors, specifically into telecommunications, digital technology including data centres, as well as renewable energy.

"We have ventured into the drone-services segment with our new entity HSS-ProPick Technologies."

"We want to move into different sectors within the technology space because technology and artificial intelligence are moving into the construction industry."

"As for data centres, we are already involved in five so far as the project-management consultant (PMC)."

"We are the early movers in this segment and as such, we expect there will be substantial work for us."

"We are bidding for PMC work on prospective data centres."

"In the next five years, we expect data centres to contribute 5% to 10% of our total revenue," Kuna says.

HSS Engineers saw its net profit surge by almost 30% year-on-year (y-o-y) to RM14.7mil for 9M23 in tandem with the rise in its revenue by about 24% y-o-y to RM142.1mil, spurred by project management contracts for major infrastructure projects.

HSS Engineers' financial success resonates in its soaring share price, which has more than doubled year-to-date (y-t-d). The counter has greatly outperformed the Bursa Malaysia Construction Index, which has risen by around 24% y-t-d.

According to Bloomberg data, there are only two brokerages covering HSS Engineers, with both placing a "buy" call on the company's shares.

Their median target price for the counter is RM1.21, representing an upside potential of about 26% from Friday's close of 96 sen.

Listed on the Main Market of Bursa Malaysia, HSS Engineers holds the distinction of being the sole listed provider of engineering consultancy and project management consultancy services in Malaysia.

The group operates mainly in engineering services, with a focus on engineering design and construction supervision, project management, and building information modelling (BIM).

Kuna says the company's market share in project management is increasing and it is currently fortifying its foothold and even extending its services overseas.

With BIM, HSS Engineers has gone so far as to develop its own software for site supervision.

"In general, PMC margins differ from the engineering services due to their wider scope and higher technical expertise."

"While margins differ for different projects, they are typically within the 20% to 30% range compared with engineering services (10% locally, 15% overseas), depending on the scope, technical expertise needed and duration of the project," he says.

Moreover, HSS Engineers is diversifying its revenue streams by establishing a long-term recurring source of income as another business segment.

Instead of just getting paid for the provision of design and project-management services, the group is looking to acquire equity stakes in projects both domestically and abroad.

In August, the group along with consortium partners Shizen International Inc, Solarvest Asset Management Sdn Bhd and Aitho Trading Sdn Bhd was awarded a contract by the Energy Commission to develop a 29.99 megawatt solar photovoltaic plant in Kuala Muda, Kedah.

SEE PAGE 4

## Diversifying operations will safeguard company's future earnings

> FROM PAGE 2

This marks HSS Engineers' entry into the fourth recurring income segment as the partner for the corporate green-power programme, with a 10% stake in the project.

Apart from higher margins, Kuna says the setting up of the new segment will serve as a safeguard against any decline in the roll out of projects in the country. Water concessions, operation and maintenance or facility-management service contracts are among other opportunities the group plans to focus on apart from renewable energy to generate recurring revenue.

"The margins of overseas jobs in most instances are better, especially Asian Development Bank-funded projects."

"Right now, job announcements in the country are very healthy. We are planning ahead for the next five years. Should jobs start to dry up in the future, we will be equipped with an alternate growth strategy as we will not be over-reliant on one market," he says, adding that the group's established track record and cost-effective structure gives it an edge over other firms as it expands globally. "We have a total workforce of about 1,000 with over half comprising engineers in various disciplines. As such we are able to deploy skilled professionals for our overseas endeavours."

"Also, we possess certain advantages over others in sectors such as water, highways and railways. These are our strong suits. Hence, we are trying to secure jobs in sectors like water and transportation overseas. In other sectors, however, we may not hold the same advantage," he says.

Despite the unveiling of numerous major projects by the government such as the Penang Light Rail Transit worth RM10bil-RM12bil; flood mitigation projects worth RM11.8bil; Pan Borneo Sabah Highway Phase 1B worth RM15.7bil; and the Mass Rapid Transit 3 (MRT3) system with work worth RM30bil-RM45bil, Kuna says the implementation of jobs continues to be in low gear.

"We are very hopeful that with the

Cabinet reshuffle there will be a potential acceleration in the execution of these mega projects in the near term," he says.

Meanwhile, HSS Engineers is being kept busy as the PMC of the MRT3 project. The group has an order book of RM1.5bil and a tender book of RM442mil. Thus far, it has achieved slightly more than RM200mil worth of job wins out of its full-year target of RM300mil. Kuna says the company is still waiting for the letters of award for a number of projects and is fairly optimistic in hitting the RM300mil target.

"We are fortunate to have a strong order book in Malaysia which will help to buoy earnings going forward, while we anticipate the implementation of the announced projects. Apart from the MRT3 work, our order book consists of RM4500mil worth of projects across sectors like water, roads, highways, data centres and renewable energy."

About 80% of these projects fall within the short to medium-term category and are valued at less than RM20mil. This implies revenue recognised from these projects will

help to mitigate any risks of project delays elsewhere," he says.

Additionally, the group is bidding for RM442mil worth of projects across traditional strongholds of railway, roads, highways, and water, in addition to new emerging sectors like data centres and healthcare.

"Other than government mega projects, we also tender for private-sector projects as the government still looks at privatisation as part of the engine of growth. For example, we are involved in the Perak interstate water project and highway projects like the Petaling Jaya Dispersal Link," Kuna says.

"Our involvement in these sectors contributes significantly to our revenue stream, often through direct appointments," he adds, pointing to the group's long-standing collaboration with Westports Holdings Bhd, which dates back to 1994 and has extended to other projects such as the Westports 2.0, as an example.

As such, Kuna is confident that the year ahead will hold promising opportunities for HSS Engineers.