



HSS Engineers Berhad

Contract Billing is Still A Slow Burner

HSSEB's FY25 results came in below our expectations. Although topline grew 11% and margins improved, earnings were dragged by higher-than-expected provisioning. Post-results, we revised up our FY26E/FY27E earnings by 11%/8% to reflect an improved and stable profitability margins. Accordingly, we raise our target price by 11% to RM0.43 (from RM0.39), based on an unchanged 11.7x FY26E P/E, and maintained our HOLD recommendation.

12MFY25 results came in below expectations, with core net profit accounting for 84%/60% of our/consensus full-year estimates. The variance was mainly attributable to a weaker-than-expected PATAMI, following the higher-than-expected recognition of RM12m in impairment losses on financial instruments. No dividend was declared for the quarter, in line with historical practice as dividends are typically announced in 2Q. For FY2025, HSS declared a cumulative single-tier dividend of 1.46 sen per share (above expectation).

YoY 12MFY25, revenue rose 11% to RM222m (FY24: RM201m), driven by strong growth in the engineering design segment (+33.3%) following revenue recognition from newly secured BIM and engineering design consultancy works for the Tuna Tekra Container Terminal in India. This was partly offset by a 5% decline in construction supervision revenue to RM48m (FY24: RM50m) due to lower contributions from the Langat II Water Supply Scheme – Phase 1. Meanwhile, project management revenue increased 5% to RM103m (FY24: RM98m), supported by the Baghdad Metro project, while digital services surged 204% to RM6m (FY24: RM2m) on contributions from the EDOTCO project.

Bottom line fell 45% YoY to RM14m (FY24: RM25m), primarily dragged by the recognition of a RM12m provision for doubtful debts. GP margins remained broadly stable at 35%. However, EBIT margins fell by 4ppts to 11% due to higher other operating expenses and impairment losses. Consequently, PBT margins dropped by 8ppts to 9% (FY24: 17%), as net funding costs rose by 41% YoY to RM4m. PATAMI margin narrowed to 6% (FY24: 13%) following a higher effective tax rate of 32% (FY24: 27%).

QoQ, revenue rose 40%, driven by higher revenue recognition across all business segments. Engineering design surged 91% QoQ to RM15m (3QFY25: RM8m), while project management recorded strong growth of 35% QoQ to RM33m (3QFY25: RM24m). Digital services, albeit from a low base, also increased >100% QoQ to RM3m (3QFY25: RM1m). GP margin expanded to 46% (3QFY25: 31%), supported by a higher contribution from the high-margin engineering design segment. EBITDA margin improved by 2ppts and EBIT margin by 6ppts, aided by lower depreciation costs. Despite the operational improvement, PATAMI margin dropped to 0.3% (FY24: 11% - aided by a tax refund RM3.6m) due to higher-than-expected ETR.

Outlook. We expect FY26–FY27 earnings to improve, underpinned by HSS Engineers' RM2.15bn unbilled order book and continued replenishment from the water, transport and data centre sectors. FY26 earnings should benefit from the absence of one-off higher impairments and a higher contribution from margin-accretive overseas projects, while margins are expected to constant in FY26 as project mix shifts towards later-stage project management and supervision work.

Result Note

HOLD (↔)

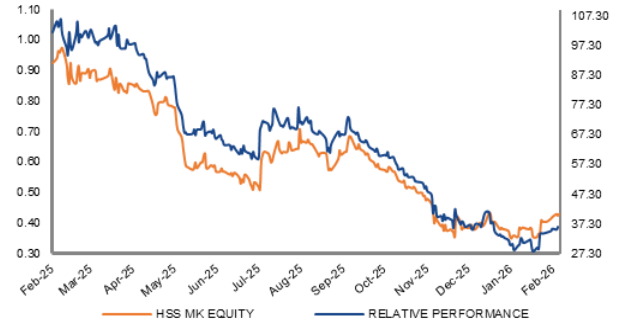
Research Team Coverage / research@mersec.com.my

Thursday, February 26, 2026

Price: RM 0.43

Target Price: RM 0.43 (↑)

Share Price Performance



Business Overview

HSS Engineers Bhd through its subsidiaries is engaged in providing engineering and project management services including engineering design, project management, construction supervision and building information modelling services. The Company has operations in Malaysia, India, the Middle East and Brunei. HSS is listed on the Main Market, under the Industrial Products and Services sector.

Return Information

KLCI (pts)	1,747.81
YTD KLCI chg.	4.0%
YTD Stock Price chg.	10.3%

Price Performance	1M	3M	12M
Absolute (%)	21.1%	-4.4%	-55.5%
Relative to KLCI (%)	20.9%	-12.9%	-67.0%

Stock Information

Market Cap (RM m)	218.6
Issued Shares (m)	508.5
52-week High (RM)	1.01
52-week Low (RM)	0.34
Est. Free Float (%)	67%
Beta vs FBM KLCI	1.1
3-month Avg Vol. (m)	1,338,325
Shariah Compliant	Yes
Bloomberg Ticker	HSS MK EQUITY

Top 3 Shareholders

Shareholder	%
Victech Solutions Sd	21.3%
Flamingo	15.1%
Teo Chok Boo	6.6%

FY Dec (RM m)	FY25A	FY26E	FY27E
Revenue	222.3	217.1	253.9
EBITDA	28.2	39.7	46.3
EBIT	23.9	29.6	33.6
PBT	20.0	27.6	31.8
Core Net Profit	13.7	18.9	21.7
Consensus Net Profit	9.3	17.6	26.7
Earnings Revision (%)	-	10.6%	8.0%
Core EPS (sen)	0.03	0.04	0.04
Core EPS Growth (%)	-45.5%	38.1%	15.0%
Net Div. Yield (%)	1.9%	2.6%	3.0%
BVPS (sen)	54.1	58.6	63.8
PER (x)	16.0	11.6	10.0
PBV (x)	0.8	0.7	0.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash



Post-results, we revised up our FY26E/FY27E earnings to RM19m/RM22m on the back of improved margins and the absence of higher impairment losses.

Valuation. We upgrade our target price to RM0.43 (from RM0.39), based on an unchanged 11.7x FY26E P/E applied to FY26E EPS of 3.7 sen, benchmarked against the five-year historical average P/E of its closest peers. **HOLD** recommendation maintained.

Investment Merits. Despite on-going risks of certain projects, we remain cautiously optimistic on HSS, underpinned by (i) its established position as one of the largest engineering and project management service providers in Malaysia, (ii) its ongoing overseas expansion, and (iii) opportunities arising from the water sector transformation, where HSS has built a strong presence in water and irrigation infrastructure.

Risks to our recommendation include: (i) project delays or cancellations, (ii) talent retention challenges, (iii) high exposure to the domestic market, and (iv) changes in government policies.

Results Highlights

Y/E : December (RM m)	4Q25	3Q25	QoQ Chg	4Q24	YoY Chg	12M25	12M24	YoY Chg
Turnover	65.88	47.16	39.7%	59.91	10.0%	222.30	201.24	10.5%
Gross Profit	30.16	14.51	107.9%	23.23	29.8%	76.81	70.37	9.2%
OPEX	-8.92	-8.81	1.2%	-3.95	125.8%	-33.54	-29.42	14.0%
EBITDA	8.93	5.83	53.3%	19.04	-53.1%	31.40	34.87	-9.9%
EBIT	7.85	2.62	199.3%	15.02	-47.7%	23.94	30.77	-22.2%
PBT/(LBT)	6.60	1.66	297.8%	14.27	-53.8%	20.04	33.89	-40.9%
Taxation	-6.27	3.64	-272.2%	-3.64	72.4%	-6.44	-8.98	-28.3%
Net Profit	0.33	5.30	-93.8%	10.63	-96.9%	13.61	24.91	-45.4%
PATAMI	0.19	5.34	-96.4%	10.69	-98.2%	13.67	25.09	-45.5%
Core EPS (sen)	0.04	1.05	-96.4%	2.11	-98.2%	2.74	4.97	-44.8%
DPS (sen)	0.04	1.46	-97.3%	0.00		1.50	1.21	

Margins

Gross Profit	45.8%	30.8%		38.8%		34.6%	35.0%
Opex	-13.5%	-18.7%		-6.6%		-15.1%	-14.6%
EBITDA	13.6%	12.4%		31.8%		14.1%	17.3%
EBIT	11.9%	5.6%		25.1%		10.8%	15.3%
PBT	10.0%	3.5%		23.8%		9.0%	16.8%
PATAMI	0.3%	11.3%		17.8%		6.2%	12.5%
ETR	-95.0%	219.5%		-25.5%		-32.1%	-26.5%

Revenue Breakdown (RM'm)

Engineering design	14.63	7.65	91.3%	12.19		54.36	40.78	33.3%
Construction supervision	12.77	11.58	10.3%	11.85		47.87	50.46	-5.1%
Project Management	32.51	24.05	35.2%	32.83		103.23	98.19	5.1%
Digital Services	3.21	1.22	164.1%	0.76		5.92	1.95	204.3%
Reimbursable Income	2.76	2.67	3.3%	2.28		10.92	10.11	8.0%
Total	65.88	47.16	39.7%	59.91		222.30	201.24	10.5%

Source: Company, Bursa Malaysia, Mercury Securities



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