



HSS Engineers Berhad

Topline Fades, Bottom Line Recovers

HSSEB's 1QFY26 results came in within expectations, with both YoY and QoQ earnings registering growth underpinned by cost optimisation, despite a broad-based topline decline across key segments. The revenue weakness was primarily driven by the completion of the Cyberjaya Data Centre project (Engineering Design Segment), lower ECRL billings (Construction Supervision Segment) and the absence of Baghdad Metro revenue recognition (Project Management Segment). We maintained our HOLD call with an unchanged TP based on 11.7x P/E applied to our FY26E EPS of 3.7 sen, with earnings estimates kept pending the post-results briefing later.

1QFY26 results came in slightly within our expectations, accounting for 20%/14% of our/market estimates. The Company did not declare any dividend for the quarter as historically it is being announced in 2Q.

YoY. Topline contracted by 10.7% to RM46m in 1QFY26, dragged by lower contribution from the engineering design segment (-17.6%), primarily due to the completion of the Proposed Data Centre at Cyberjaya project, as well as weaker construction supervision (-9.6%) from lower ECRL billings and softer project management (-6.1%) from the absence of Baghdad Metro revenue recognition. Despite the softer topline, GP, PBT and PATAMI surged by 17.5%, 127.4% and 137.7% respectively, as Cost of Sales dropped 19.8% and OPEX declined 16.6% YoY, lifting GP margin to 32.0% (1QFY25: 24.3%) and PBT margin to 12.1% (1QFY25: 4.7%). PATAMI margin further expanded to 8.1% (1QFY25: 3.1%), aided by a lower effective tax rate of 36.8% versus 42.9% in 1QFY25.

QoQ. Topline fell 30.2% to RM46m, dragged by broad-based weakness across all key revenue segments. Engineering Design, Construction Supervision and Project Management, all fell by 19.9%, 17.0% and 34.6%, respectively. Despite the softer revenue, GP, PBT and PATAMI surged by 18%, 127% and 152% respectively. That said, GP margin took a hit QoQ, compressing to 32% from 45.8% in 4QFY25, as Cost of Sales grew faster than revenue, rising 51.2% QoQ against a 30.2% decline in topline. On a brighter note, EBITDA margin improved to 16.6% (1QFY25: 13.6%), due to the lower Net Impairment Losses at RM63k vs RM12.0m in 1QFY25. Consequently, this leads up to better EBIT and PBT margins, both up 2ppts QoQ, while PATAMI recovered strongly to 8.1% (4QFY25: 0.3%), aided by a significantly lower ETR of 36.8% compared to the elevated 95% recorded in 4QFY25.

Order book remains robust. As at 31st March 2026, HSS maintained a healthy order book of approximately RM2.13bn (vs. RM2.16bn as at 31 December 2025), underpinned predominantly by the project management segment at 80% of total. The order book provides strong earnings visibility, with billings to be recognised progressively over the next eight years, representing a robust 9.8x cover of our FY26E revenue.

Post-results. We maintain our FY26E earnings pending the post-results briefing today. FY26E earnings remain supported by secured order book execution and the absence of further large impairments.

Valuation. We maintain our TP at RM0.43, based on an unchanged 11.7x P/E applied to our FY26E EPS of 3.7 sen, benchmarked against the five-year historical average P/E of its closest peers. Maintain **HOLD**.

Result Note

HOLD (↔)

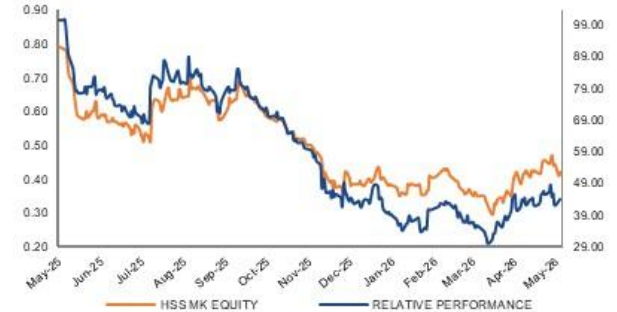
Research Team Coverage / research@mersec.com.my

Thursday, May 21, 2026

Price: RM 0.42

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)	1,717.69
YTD KLCI chg.	2.2%
YTD Stock Price chg.	7.7%

Price Performance	1M	3M	12M
Absolute (%)	18.7%	25.4%	-43.0%
Relative to KLCI (%)	15.6%	26.0%	-55.4%

Stock Information

Market Cap (RM m)	213.6
Issued Shares (m)	508.5
52-week High (RM)	0.81
52-week Low (RM)	0.29
Est. Free Float (%)	46%
Beta vs FBM KLCI	1.1
3-month Avg Vol. (m)	888,702
Shariah Compliant	Yes
Bloomberg Ticker	HSS MK EQUITY

Top 3 Shareholders

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

FY Dec (RM m)	FY25A	FY26E	FY27E
Revenue	201.2	217.1	253.9
EBITDA	40.8	39.7	46.3
EBIT	36.7	29.6	33.6
PBT	33.9	27.6	31.8
Core Net Profit	25.1	18.9	21.7
Consensus Net Profit		27.7	34.6
Earnings Revision (%)	-	-	-
Core EPS (sen)	0.03	0.04	0.04
Core EPS Growth (%)	-46.6%	40.9%	15.1%
Net Div. Yield (%)	1.5%	2.7%	3.1%
BVPS (sen)	58.5	57.4	62.9
PER (x)	15.9	11.3	9.8
PBV (x)	0.7	0.7	0.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash



Outlook. We expect FY26E–FY27E earnings to improve, underpinned by HSS Engineers' RM2.13bn unbilled order book and continued replenishment from the water, transport and data centre sectors. FY26E earnings should benefit from the absence of one-off impairments seen in FY25 and a higher contribution from margin-accretive overseas projects, while margins are expected to normalise in FY27E as project mix shifts towards later-stage project management and supervision work. 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)	1Q26	4Q25	QoQ Chg	1Q25	YoY Chg	3M25	3M25	YoY Chg
Turnover	46.02	65.88	-30.2%	51.56	-10.7%	46.02	51.56	-10.7%
Gross Profit	14.71	30.16	-51.2%	12.52	17.5%	14.71	12.52	17.5%
OPEX	-7.09	-8.92	-20.6%	-8.50	-16.6%	-7.09	-8.50	-16.6%
EBITDA	7.65	8.93	-14.3%	4.25	80.0%	7.65	4.25	80.0%
EBIT	6.58	7.85	-16.2%	3.20	105.3%	6.58	3.20	105.3%
PBT/(LBT)	5.56	6.60	-15.8%	2.44	127.4%	5.56	2.44	127.4%
Taxation	-2.04	-6.27	-67.4%	-1.05	94.9%	-2.04	-1.05	94.9%
Net Profit	3.51	0.33	970.7%	1.40	151.8%	3.51	1.40	151.8%
PATAMI	3.74	0.19	1828.9%	1.57	137.7%	3.74	1.57	137.7%
Core EPS (sen)	0.74	0.04	1828.9%	0.31	137.7%	0.74	0.31	137.7%
DPS (sen)	0.74	0.04	1750.0%	0.00		0.74	0.00	

Margins

Gross Profit	32.0%	45.8%		24.3%		32.0%	24.3%
Opex	-15.4%	-13.5%		-16.5%		-15.4%	-16.5%
EBITDA	16.6%	13.6%		8.2%		16.6%	8.2%
EBIT	14.3%	11.9%		6.2%		14.3%	6.2%
PBT	12.1%	10.0%		4.7%		12.1%	4.7%
PATAMI	8.1%	0.3%		3.1%		8.1%	3.1%
ETR	-36.8%	-95.0%		-42.9%		-36.8%	-42.9%

Revenue Breakdown (RM'm)

Engineering design	11.73	14.63	-19.9%	14.22		11.73	14.22	-17.6%
Construction supervision	10.60	12.77	-17.0%	11.72		10.60	11.72	-9.6%
Project Management	21.28	32.51	-34.6%	22.65		21.28	22.65	-6.1%
Digital Services	0.72	3.21	-77.7%	0.36		0.72	0.36	99.2%
Reimbursable Income	1.70	2.76	-38.3%	2.60		1.70	2.60	-34.7%
Total	46.02	65.88	-30.2%	51.56		46.02	51.56	-10.7%

Source: Company, Bursa Malaysia, Mercury Securities



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