



HSS Engineers Berhad

Company Update

BUY (↑)

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Friday, May 22, 2026

Price: RM 0.43

Target Price: RM 0.50 (↑)

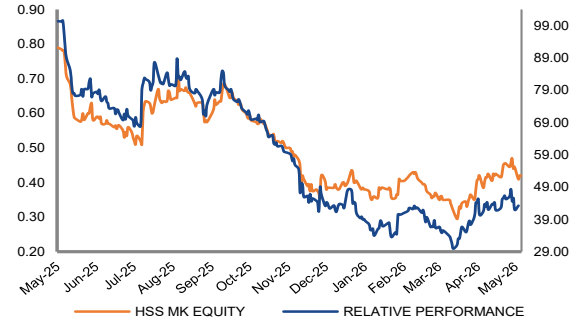
Margin Inflection Begins Amid a Towering RM2.1bn Order Book

Coming from its management update, we are optimistic on its long term prospects as orderbook remained resilience with core profitability undergoes a powerful structural shift toward high-margin engineering portfolios. Despite 1QFY26 topline softness at RM46.0m, PAT skyrocketed by 151.3% YoY to RM3.5m, driving a sharp 4.9 ppt expansion in PAT margins to 7.6%. This bottom-line velocity overrides short-term execution timing and sets a strong foundation for full-year margins. Order book also remain robust, with pending LOAs in the next six months. Forecasts unchanged but TP raised to RM0.50 (previously RM0.43) as we rollover our valuations to FY27 EPS with an unchanged P/E of 11.7x

We attended HSS 1QFY26 post-results briefing and key-takeaways are:

- High-Margin Project Mix to Boost Temporary Topline Softness.** Management emphasized that the 1QFY26 topline is not representative of full-year execution momentum due to the cyclical timing of progress billings. However, the quality of earnings improved dramatically as high-yield project components dominated the mix. Moving forward into FY26, we expect progressive margin acceleration. Management has provided conservative guidance for full-year PBT and PAT margins to normalize upward toward their historical structural band of 10%–12% as progress billings gather speed.
- Towering RM2.1bn Order Book Secures Long-Term Visibility.** As of 31 March 2026, HEB's outstanding order book stands at a healthy RM2.1b, providing visible 8.4x revenue coverage of our FY27E revenue. This is complemented by an active tender book of RM525.0m (excluding projects under privatization or direct negotiation frameworks). Given HEB's historical 40.0%–50.0% tender win rate, this active pipeline provides a highly dependable foundation for our forward order book replenishment targets. HEB has achieved 27% of its RM300m contract replenishment target, securing RM80m new wins up to April 2026. Regionally, following its strategic MOU with India's Adani Group, management confidently expects to land approximately USD25.0m worth of contract wins within this financial year.
- Imminent Conversion of Pending LOAs to Boost Replenishment.** HEB is currently in the advanced stages of securing a series of high-probability, pending Letters of Award (LOA) (expected within the next six months) and direct negotiations with an aggregate estimated fee value between RM150.0m and RM250.0m. This imminent conversion pipeline includes two distinct design packages for the Johor ART, the Sg Perak–Penang and Sabah Ulu Padas water schemes, topside consultancy for Westport's Phase 1 expansion, and the finalized design-and-build infrastructure LOA from JPS for the Sabah Sabo disaster-mitigation project.
- High-Margin Tech Integrations Unlock Superior Operational Leverage.** The Group is successfully transforming from a human-capital-heavy advisory model into a high-margin intellectual property provider through scalable technology integrations. This is driven by an ongoing collaboration with EDOTCO to map 1.5k telecom digital twin towers through 2026, automated roadway assessments spanning 185,000 km alongside HanuAI to lower maintenance costs by up to 30.0%, and AI-powered drone diagnostics for the agriculture sector under the Malaysian Palm Oil Board's MARCOP program.

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)	1,708.36
YTD KLCI chg.	1.7%
YTD Stock Price chg.	10.3%

Risk Performance	1M	3M	12M
Absolute (%)	11.7%	2.4%	-44.9%
Relative to KLCI (%)	11.3%	4.9%	-55.2%

Stock Information

Market Cap (RM m)	218.6
Issued Shares (m)	508.5
52-week High (RM)	0.81
52-week Low (RM)	0.29
Est. Free Float (%)	46%
Beta	1.1
3-month Avg Vol.	888,702
Shariah Compliant	Yes
Bloomberg Ticker	HSS MK EQUITY

Top 3 Shareholders

	%
Victech Solutions	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		25.1	35.2
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



- 5. Disciplined Risk Management via the Baghdad Stance** Management continues to employ a highly conservative financial approach by not recognizing revenue yet from the Baghdad Metro project due to post-election transitions and geopolitical shifts. However, physical progress risk remains heavily mitigated. Amanat Baghdad's Bank Al Raidain successfully completed the first major milestone by transferring the initial payment into the Trade Bank of Iraq (TBI) account. Because this project is fully omitted from current active financial forecasts, any imminent breakthrough in the Letter of Credit (LC) process provides pure, unpriced upside to the bottom line.
- 6. Massive RM7.9bn Total Serviceable Market Multiplies Long-Term Bidding Scale.** HEB's multi-year growth runway is reinforced by a massive identified domestic Total Serviceable Market (TSM) of RM7.9bn, with management targeting a highly realistic capture wallet of RM2.0bn. This is aggressively supported by the upcoming 13th Malaysia Plan (RMK13) and its monumental RM611.0bn development expenditure budget (translating to a fresh RM300.0m–RM664.0m pipeline for HEB), alongside massive infrastructure pipelines like the RM78.0bn PIKAS 2030 PPP masterplan, the RM255.0bn Trans Borneo Railway, and federal water mitigation works.

Outlook. We expect HEB's execution pace to pick up over the coming quarters, making the softer 1Q revenue performance largely transitional as the Group ramps up progress billing from its sizeable RM2.1bn outstanding order book. Earnings visibility remains supported by its active RM525.0m tender pipeline and potential order book replenishment, led by the recently secured Sabah Sabo infrastructure project (valued between RM150.0m and RM250.0m), alongside an expected USD25.0m contract pipeline from India's Adani Group. Looking ahead, we expect stronger revenue recognition in 2HFY26, driven by catch-up billings from the Johor ART project ahead of its concession agreement in November, as well as increasing opportunities in flood mitigation and water-related projects from IWK. As these consultancy projects gain traction and preliminary designs for the KL Node highway privatisation progress by late-2026, we expect operational leverage and margins to improve gradually, supporting a return towards management's historical PAT margin guidance of 10.0%–12.0%.

No changes to our forecast. We maintain FY26E/FY27E earnings estimates.

Valuations. We roll forward our valuation base, applying FY27E EPS to an unchanged 11.7x P/E multiple, benchmarked against the five-year historical average P/E of its closest peers. Accordingly, we upgrade our HOLD call to BUY with a TP of RM0.50 (from RM0.43) as valuations continue to appear undemanding, given HSS' improving earnings visibility backed by a robust orderbook.

Investment Case. We continue to like HEB for several key reasons: (i) Strong structural margin inflection driven by a lucrative shift toward premium consulting and engineering design segments, successfully decoupling core profitability from transient headline revenue fluctuations. (ii) Unmatched earnings visibility anchored by a record-high unbilled order book of RM2.13bn (providing 8.4x cover of our FY27E revenue) that remains highly de-risked through strict accounting conservatism and tight receivable controls. (iii) Accelerating near-term catalyst velocity backed by an active RM525.0m tender book and an imminent RM150.0m–RM250.0m conversion pipeline of high-probability, pending Letters of Award. (iv) Favourable macro tailwinds as the premier pure-play engineering proxy for Malaysia's multi-year infrastructure renaissance, strategically positioned to capture a RM2.0bn target wallet within a massive RM7.9bn Total Serviceable Market energized by RMK13 and PIKAS 2030. (v) Attractive risk–reward profile driven by its ongoing transformation into an asset-light intellectual property provider, unlocking superior operational leverage through highly scalable technology integrations across telecom digital twins, automated AI roadway assessments, and agricultural drone diagnostics.

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.

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SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

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