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HSS Engineers Berhad

Margins Cushion, But Revenue Falters

Result Note
HOLD (⇔)
Research Team Coverage / research@mersec.com.my
Thursday, August 27, 2026
Price: RM 0.520
Target Price: RM 0.500 (⇔)

HSSEB's 6MFY26 results came in above our expectations, profitability lower-than-expected. Revenue fell YoY on lower billings across Engineering Design (Cyberjaya DC completion), Construction Supervision (ECRL, Langat II) and Project Management segment (absence of Baghdad Metro revenue). Consequently, we maintain our FY26E/FY27E earnings of RM18.9m/RM21.7m, pending a post-results briefing today, and maintain our TP of RM0.50, based on an unchanged 11.7x target P/E multiple applied to our FY27E EPS of 4.3 sen. Demanding valuations, we lower our call to Hold for now.

6MFY26 results came in above our expectations, accounting for 56%/46% of our/market estimates. The slight variance against our forecast was mainly due to a lower-than-expected GP margin of 33% (our assumption: 35%). The Company did not declare any dividend for the quarter, with the last dividend declared in 1QFY24.

YoY, 6MFY26 Topline fell -8% YoY to RM101m, coming in below our expectation of revenue declining -2% YoY. All revenue segments recorded declines, with Engineering Design falling -14% YoY to RM28m, attributed to lower revenue from the Proposed Data Centre at Cyberjaya, which, however, remains in line with the completion status of the project. Construction Supervision fell -7% YoY to RM22m, due to lower revenue contribution from ECRL and Langat II Water Supply Scheme Phase 1. Project Management fell -2% YoY to RM46m, attributed to the absence of revenue recognition from Baghdad Metro. Digital Services and Reimbursable Income, albeit on a lower base, fell -1%/-28% YoY to RM1m/RM4m, respectively.

Despite the softer topline, GP rose +4% YoY to RM34m, with GP margin expanding to 33% (6MFY25: 29%) against our assumption of 35% for FY26E. EBITDA rose +16% YoY to RM19m, with EBITDA margin growing to 19% (6MFY25: 15%), driven by higher GP as explained above, supported by lower operating expenses, which fell -9% YoY to RM14m. Consequently, PBT rose +27% YoY to RM15m, with PBT margin expanding to 15% (6MFY25: 11%), supported by the above factors and lower depreciation costs of RM1m (6MFY25: RM2m). Consequently, bottomline rose +29% YoY to RM11m, with PATAMI margin rising to 11% (6MFY25: 7%), supported by a slightly lower ETR of 31% (6MFY25: 32%).

QoQ, Topline rose +19% QoQ to RM55m, primarily driven by higher revenue recognition during the quarter. GP grew +20% QoQ to RM19m, with GP margin improving to 34%, as revenue growth outpaced the increase in cost of sales. EBITDA surged +52% QoQ to RM12m, with EBITDA margin expanding to 21% (1QFY26: 17%), driven by the above factors and supported by a Net Impairment Gain on Financial Assets of RM99k in 2Q (1QFY26: Net impairment loss of RM63k). Continuing the momentum, PBT rose +69% QoQ to RM9m, with PBT margin increasing to 17% (1QFY26: 12%), due to lower depreciation costs as explained in YoY. Subsequently, bottomline rose +82% QoQ to RM7m, with PATAMI margin increasing to 12% (1QFY26: 8%), due to a lower ETR of 28% (1QFY26: 37%).

Update on the Order Book. As at 30th June 2026, HSS maintained a healthy order book of approximately RM2.2bn (vs. RM2.1bn as at 31 March 2026), underpinned predominantly by the project management segment at

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)	1,748.54
YTD KLCI chg.	4.1%
YTD Stock Price chg.	33.3%

Price Performance	1M	3M	12M
Absolute (%)	4.0%	20.9%	-23.0%
Relative to KLCI (%)	1.9%	18.0%	-33.5%

Stock Information	
Market Cap (RM m)	264.4
Issued Shares (m)	508.5
52-week High (RM)	0.69
52-week Low (RM)	0.29
Est. Free Float (%)	46%
Beta vs FBM KLCI	0.9
3-month Avg Vol. (m)	532,762
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	220.7	217.1	253.9
EBITDA	28.0	39.7	46.3
EBIT	23.7	29.6	33.6
PBT	19.8	27.6	31.8
Core Net Profit	**13.4**	**18.9**	**21.7**
Consensus Net Profit		23.0	30.7
Earnings Revision (%)	-	-	-
Core EPS (sen)	**2.64**	**3.72**	**4.29**
Core EPS Growth (%)	-46.6%	40.9%	15.1%
Net Div. Yield (%)	1.5%	2.7%	3.1%
BVPS (sen)	58.7	57.4	62.9
PER (x)	19.7	11.3	9.8
PBV (x)	0.9	0.7	0.7
Net Gearing (x)	0.2	N.Cash	N.Cash

80% of total. The order book provides strong earnings visibility, further supported by a tender book of approximately RM480m for order book replenishment. The order book provides strong earnings visibility, with billings to be recognised progressively over the next eight years, representing a robust 9.9x cover of our FY26E revenue.

Outlook. We expect FY26E–FY27E earnings to improve, underpinned by HSS Engineers' RM2.15bn unbilled order book and continued replenishment from the water, transport and data centre sectors. 2HFY26 should see continued momentum from transport (Klang Valley Double Tracking Phase 2, Pan Borneo Sabah Highway, ECRL Section 9), water (Sungai Perai Water Treatment Plant Project, Skim Jamin Air Selangor) and data centre/port jobs (Gamuda DC – Data Centre, KTP DC, Westports 2 Expansion, and Greenfield Container Terminal at Tuna Tekra), while the Philippines (Davao PTMP – Public Transport Modernisation Project) offsets the loss of Middle East contributions. Additional upside optionality comes from the Group's solar PV pipeline (95.0MW Hilir Perak, 29.99MW Kuala Muda) and digital/AI initiatives under HSS Propick Technologies.

Post-results. We maintain our FY26E/FY273 earnings of RM18.9m/RM21.7m, pending for the post-results briefing today.

Valuation. We maintain our target price at RM0.50, based on an unchanged 11.7x P/E applied to our FY27E EPS of 4.3 sen, benchmarked against the five-year historical average P/E of its closest peers. Valuations demanding with an accelerations of its price recently, we lower our call to Hold.

Investment Merits. 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)	2Q25	1Q26	QoQ Chg	2Q25	YoY Chg	6M25	6M25	YoY Chg
Turnover	**54.94**	**46.02**	***19.4%***	**57.70**	***-4.8%***	**100.95**	**109.25**	***-7.6%***
Gross Profit	**18.79**	**14.71**	***27.7%***	**19.62**	***-4.3%***	**33.50**	**32.14**	***4.2%***
OPEX	-7.25	-7.09	*2.3%*	-7.32	*-0.9%*	-14.33	-15.81	*-9.4%*
EBITDA	11.63	7.65	*52.0%*	12.40	*-6.2%*	19.28	16.65	*15.8%*
EBIT	10.56	6.58	*60.5%*	10.27	*2.8%*	17.13	13.47	*27.2%*
PBT/(LBT)	**9.37**	**5.56**	***68.7%***	**9.35**	***0.3%***	**14.93**	**11.79**	*26.6%*
Taxation	*-2.60*	*-2.04*	*27.2%*	*-2.76*	*-5.9%*	***-4.64***	***-3.81***	*21.9%*
Net Profit	*6.77*	*3.51*	*92.9%*	*6.59*	*2.8%*	*10.29*	*7.98*	*28.9%*
PATAMI	**6.82**	**3.74**	***82.2%***	**6.56**	***3.9%***	**10.56**	**8.14**	***29.8%***
Core EPS (sen)	1.34	0.74	*82.2%*	1.29	*3.9%*	2.08	1.60	*29.8%*
DPS (sen)	0.00	0.74	*-100.0%*	0.00		0.74	0.00	
Margins								
Gross Profit	34.2%	32.0%		34.0%		33.2%	29.4%	
Opex	-13.2%	-15.4%		-12.7%		-14.2%	-14.5%	
EBITDA	21.2%	16.6%		21.5%		19.1%	15.2%	
EBIT	19.2%	14.3%		17.8%		17.0%	12.3%	
PBT	17.1%	12.1%		16.2%		14.8%	10.8%	
PATAMI	12.4%	8.1%		11.4%		10.5%	7.4%	
ETR	-27.7%	-36.8%		-29.5%		-31.1%	-32.3%	
Revenue Breakdown (RM'm)								
Engineering design	16.02	11.73	36.6%	17.86		27.75	32.08	-13.5%
Construction supervision	11.33	10.60	6.9%	11.80		21.93	23.52	-6.8%
Project Management	24.56	21.28	15.4%	24.02		45.84	46.67	-1.8%
Digital Services	0.77	0.72	7.8%	1.14		1.49	1.49	-0.5%
Reimbursable Income	2.26	1.70	33.0%	2.89		3.96	5.49	-27.8%
Total	**54.94**	**46.02**	**19.4%**	**57.70**		**100.95**	**109.25**	**-7.6%**

Source: Company, Bursa Malaysia, Mercury Securities

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