



HSS Engineers Berhad

Secures RM11m Sewerage Treatment Plant Job

HSS's 30% associate, HSS Integrated, has secured a RM10.95m engineering consultancy and site supervision appointment for Indah Water Konsortium's sewage treatment plant upgrading works in Negeri Sembilan and Melaka (Phase 2). While modest in size, the job extends the Group's water infrastructure footprint into sewerage. The Group's order book remains unchanged at RM2.16bn, providing 9.9x/8.4x cover of our FY26E/FY27E revenue. Nonetheless, we slashed our FY26E/FY27E earnings by 12.1% each to RM16.6m/RM19.1m, as we revise our GP margin assumption to 33% (from 35%) given the ongoing geopolitical uncertainties raising execution risks. Consequently, we lower our TP to RM0.44 (from RM0.50), based on an unchanged 11.7x P/E applied to our FY27E EPS of 3.8 sen. Reiterate our HOLD recommendation.

Contract Details. HSS Integrated Sdn Bhd (HSSI), an associate of HSS, has accepted a Letter of Appointment (LOA) from Sutracom Sdn Bhd, the main contractor for Package UP-3 of Indah Water Konsortium's (IWK) sewage treatment plant upgrading works in Negeri Sembilan and Melaka (Phase 2). The upgrading works aimed at meeting the Paragraph (i) effluent standard under the Environmental Quality (Sewage) Regulations 2009. The appointment, valued at RM10.95m (inclusive of SST), covers civil & structural and mechanical & electrical engineering consultancy services, as well as full-time construction site supervision throughout the construction period. The expected completion period will be **42 months**. They will be executed jointly by HSSI and HSS Engineering Sdn Bhd (HSSE), a wholly-owned subsidiary, under their exclusive teaming arrangement. HSS expects the services to contribute to Group earnings from FY26 through FY30.

Strategic Fit in Water. While modest in size, we view the appointment as strategically meaningful. It marks HSS's extension from its established water supply work into wastewater infrastructure. The Group's existing water portfolio is anchored by PAAB's capital water supply projects across five states, including the RM600m Sungai Perai Water Treatment Plant, and by the Skim Jamin Air Selangor initiative. Its panel consultancy with Air Selangor has also secured eight packages to date under the state's NRW reduction programme. Given that the Project is designated as Phase 2 of a regulatory-driven upgrading programme, we see potential for further packages as IWK continues upgrading its sewage treatment plants to meet stricter effluent standards.

Update on Order Book. As the appointment was secured via HSSI, a 30%-owned associate, we conservatively treat its contribution as share of associate profit rather than consolidated revenue. As such, the Group's unbilled order book remains unchanged at RM2.16bn as at 6MFY26, equivalent to 9.9x/8.4x our FY26E/FY27E revenue, and will be billed progressively over the next eight years.

Moving Forward. We continue to see a supportive medium-term outlook for HSS, underpinned by its RM2.16bn unbilled order book. The order book is anchored by project management (c.80%) and will be billed progressively over the next eight years. Replenishment prospects remain healthy, with a tender book of RM480m as at 6MFY26 and a steady rollout of infrastructure projects under Budget 2026, which allocated RM131.3bn in development-related spending. Near-term billings should continue to be driven by transport (Klang Valley Double Tracking Phase 2, Pan Borneo Sabah Highway, ECRL Section 9), water (Sungai Perai Water Treatment Plant, Skim Jamin Air Selangor and

Company Update

HOLD (↔)

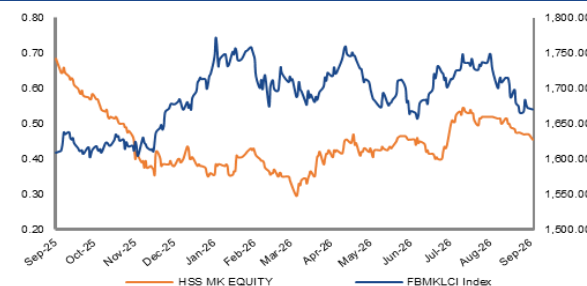
research@mersec.com.my

Tuesday, September 29, 2026

Price: RM 0.455

Target Price: RM 0.440 (↓)

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)	1,670.02
YTD KLCI chg.	-0.6%
YTD Stock Price chg.	16.7%

Price Performance	1M	3M	12M
Absolute (%)	-12.5%	0.0%	-33.6%
Relative to KLCI (%)	-8.0%	-0.1%	-37.4%

Stock Information

Market Cap (RM m)	231.4
Issued Shares (m)	508.5
52-week High (RM)	0.69
52-week Low (RM)	0.29
Est. Free Float (%)	46%
Beta	1.0
3-month Avg Vol.	446,060
Shariah Compliant	Yes
Bloomberg Ticker	HSS MK EQUITY

Top 3 Shareholders

	%
Victech Solutions	21.3%
Flamingo Works	15.2%
Kaf Investment Funds	8.0%

FY Dec (RM m)	FY25A	FY26E	FY27E
Revenue	220.7	217.1	253.9
EBITDA	28.0	36.3	42.4
EBIT	23.7	26.2	29.7
PBT	19.8	24.3	27.9
Core Net Profit	13.4	16.6	19.1
Consensus Net Profit		25.1	35.2
Earnings Revision (%)	-	-12.1	-12.1
Core EPS (sen)	2.64	3.27	3.77
Core EPS Growth (%)	-46.6%	23.8%	15.2%
Net Div. Yield (%)	1.7%	2.2%	2.5%
BVPS (sen)	58.7	57.0	61.9
PER (x)	17.2	13.9	12.1
PBV (x)	0.8	0.8	0.7
Net Gearing (x)	N.Cash	N.Cash	N.Cash



now the IWK sewage treatment plant upgrading works) and data centre/port jobs (Gamuda DC, KTP DC, Westports 2 Expansion, and the greenfield container terminal at Tuna Tekra). Overseas, the Philippines (Davao PTMP) offsets the loss of Middle East contributions. Additional upside optionality comes from the Group's involvement in solar PV projects (95.0MW Hilir Perak via a 40%-owned SPV, and 29.99MW Kuala Muda as engineering design and project management consultant) and its digital/AI initiatives under HSS Propick Technologies.

Changes to Our Forecast. We slashed our FY26E/FY27E earnings by 12.1% each to RM16.6m/RM19.1m, after revising our GP margin assumption to 33% (from 35%) to reflect ongoing geopolitical uncertainties and heightened execution risks. Minimal impact from its 30% share of associate profit - from the new RM10.95m contract - but we raise its associate contribution by 6%/31% to RM295k/RM382k for FY26E/FY27E, based on our assumed core net profit margin of 8% (similar to our FY26E assumption for HSS Engineers Berhad).

Valuations. We lower our target price to RM0.44 (previously: RM0.50), based on an unchanged 11.7x P/E applied to our FY27E EPS of 3.8 sen, benchmarked against the five-year historical average P/E of its closest peers. Reiterate our **HOLD** recommendation.

Investment Case. We continue to like HEB for several key reasons: (i) established position as one of Malaysia's largest engineering and project management consultancies, with an asset-light model that saw GP margin expand to 33% in 6MFY26 (6MFY25: 29%); (ii) solid earnings visibility from its RM2.16bn unbilled order book as at 6MFY26, equivalent to 8.4x our FY27E revenue and billable over the next eight years; (iii) healthy replenishment prospects, supported by a RM480m tender book and Budget 2026's RM131.3bn in development-related spending; (iv) strong foothold in water infrastructure, now extending into sewerage works with the latest IWK-related appointment; and (v) longer-term optionality from its digital initiatives under HSS Propick Technologies, including telecom tower digital twins (more than 1,500 towers digitised) and AI-powered drone solutions for the palm oil sector under an MPOB grant.

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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Key Financial Data

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2024A	2025A	2026E	2027E	2028E	FY Dec	2024A	2025A	2026E	2027E	2028E
Revenue	201.2	220.7	217.1	253.9	336.9	Growth					
EBITDA	40.8	28.0	36.3	42.4	40.4	Turnover	7.4%	9.7%	-1.6%	17.0%	32.7%
Depreciation & Amortization	(4.1)	(4.3)	(10.1)	(12.7)	(12.8)	EBITDA	15.4%	-31.4%	29.9%	16.8%	-4.9%
Operating Profit	36.7	23.7	26.2	29.7	27.6	Operating Profit	17.4%	-35.4%	10.8%	13.2%	-7.2%
Interest Inc/(Exp)	(2.8)	(3.9)	(2.0)	(1.8)	(1.6)	PBT	18.0%	-41.6%	22.6%	15.2%	-7.2%
Profit Before Tax	33.9	19.8	24.3	27.9	25.9	Core Net Profit	22.6%	-46.6%	23.8%	15.2%	-7.2%
Taxation	(9.0)	(6.5)	(7.8)	(9.0)	(8.3)						
Net Profit	24.9	13.3	16.5	19.0	17.6	Profitability					
PATAMI	25.1	13.4	16.6	19.1	17.7	Gross Profit Margin	35.0%	34.2%	33.0%	33.0%	28.3%
						EBITDA Margin	20.3%	12.7%	18.3%	16.7%	12.0%
Balance Sheet						Operating Margin	18.2%	10.7%	13.6%	11.7%	8.2%
Fixed Assets	4.0	3.7	4.2	3.7	3.4	PBT Margin	16.8%	9.0%	12.7%	11.0%	7.7%
ROU Assets	5.9	3.4	48.5	49.4	58.9	Core Net Margin	12.5%	6.1%	7.6%	7.5%	5.3%
Intangible Assets	163.7	163.6	162.2	161.6	161.2	Effective Tax Rate	-26.5%	-32.6%	-32.1%	-32.1%	-32.1%
Other Fixed Assets	2.0	8.1	1.9	1.9	1.9	ROA	6.0%	2.9%	3.5%	3.8%	3.5%
Receivables	48.3	64.4	53.8	54.3	50.8	ROE	8.5%	4.5%	5.7%	6.0%	5.2%
Other Current Assets	18.4	18.6	26.6	30.1	35.1						
Cash	14.9	26.1	26.1	26.1	26.1	Leverage					
Total Assets	418.1	464.9	465.6	496.4	507.6	Debt/Asset (x)	0.1	0.2	0.1	0.1	0.1
						Debt/Equity (x)	0.1	0.3	0.1	0.1	0.1
Payables	69.0	57.9	77.7	86.8	85.6	Net (Cash)/Debt	20.8	48.5	9.7	9.7	9.7
ST Borrowings	35.4	74.1	35.6	35.6	35.6	Net Debt/Equity (x)	0.1	0.2	0.0	0.0	0.0
Other ST Liability	12.5	22.8	22.8	22.8	22.8						
LT Borrowings	0.2	0.6	0.2	0.2	0.2	Valuations					
Other LT Liability	9.4	12.0	10.5	9.5	8.5	Core EPS (sen)	4.9	2.6	3.3	3.8	3.5
Net Assets	291.7	297.5	318.7	341.4	354.8	NDPS (sen)	1.5	0.8	1.0	1.1	1.0
						BV/sh (RM)	57.5	58.7	57.0	61.9	66.2
Shareholders' Equity	291.9	297.8	289.0	314.1	336.1	PER (x)	8.5	15.9	13.9	12.1	13.0
Minority Interests	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)	Div. Yield (%)	3.5	1.9	2.2	2.5	2.3
Total Equity	291.7	297.5	288.8	314.0	336.0	PBV (x)	0.7	0.7	0.8	0.7	0.7
Cashflow Statement											
FY Dec (RM m)											
Operating CF	(3.6)	(6.7)	56.9	50.3	41.9						
Investing CF	0.1	(6.9)	19.0	10.3	21.1						
Financing CF	(2.7)	(3.7)	(9.3)	(10.0)	(3.2)						
Change In Cash	(2.7)	(3.7)	(9.3)	(10.0)	(3.2)						
Free CF	3.2	(1.9)	60.1	54.6	44.5						
Source: Mercurv Securities. Company											



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