MERCURY SECURITIES SDN BHD
(A Participating Organisation of Bursa Malaysia Securities Bhd.)

BURSA RISE+
Brought to you by Bursa Malaysia
Supported by Capital Market Development Fund

HSS Engineers Berhad

Company Update
BUY (↔)
research@mersec.com.my
Wednesday, November 18, 2026
Price: RM 0.440
Target Price: RM 0.560 (↑)

Catalysts Lining Up for FY27

Coming from its post-results briefing, we remain positive on HSS Engineers Berhad (HSS)'s long-term prospects as profitability margins continue to improve on a richer engineering design mix and its HSS 2030 transformation programme. The order book remains robust at a six-quarter high of RM2.24bn, with MRT 3 civil works awards likely in 3QFY27–4QFY27. New orders of RM242m have been secured, while Baghdad Metro collections of US$14.3m are expected by 2QFY27. Budget 2027's RM21.3bn allocation to its core sectors and HSS Digital's launch in Dec 2026 provide further growth avenues. We raise our FY26E/FY27E earnings by 24.3%/30.1% following housekeeping adjustments, and lift our TP to RM0.56 (from RM0.53) based on a revised 9.6x P/E (from 11.7x) on FY27E EPS of 5.9 sen. Reiterate our BUY call.

We attended HSS 9MFY26 post-results briefing and key-takeaways are:

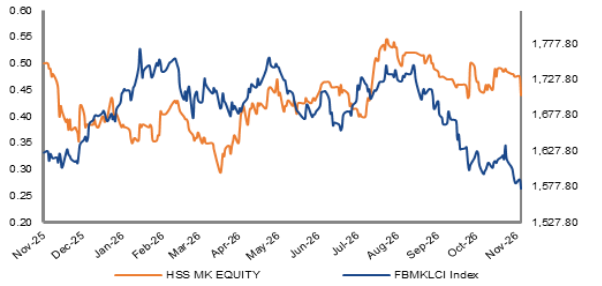
1. Margin Expansion Drives Earnings Growth. To recap, 9MFY26 topline was broadly flat at RM157.9m (+0.9% YoY), yet PATAMI rose 33.1% YoY to RM17.9m. The earnings growth came from improving profitability margins. GP margin expanded 4.6ppts to 34.4% and PATAMI margin improved 2.7ppts to 11.4%. This was driven by higher-margin engineering design work, whose revenue rose 39.6% YoY, lifting its share to 35.1% of total revenue (9MFY25: 25.4%) on new projects such as the Johor E-ART Stage 1 scheme design and Westports 2 (CT10–CT13). The 3-year HSS 2030 transformation programme also lifted staff utilisation with flat headcount, and management expects bottomline margins to improve further by FY2030.

2. Net Operating Cash Flow Turns Positive in Period Under Review. 9MFY26 net cash from operating activities turned positive at RM6.8m (9MFY25: net cash outflow of RM17.0m), mainly because unbilled contract assets rose only RM2.1m (9MFY25: RM32.4m). However, receivables and prepayments rose RM36.4m, double the RM17.7m increase in 9MFY25, limiting cash conversion to 21.5% of operating profit.

3. Robust Order Book at RM2.24bn, with Core Book at RM667.5m. At 30 Sept 2026, HSS's unbilled order book reached a six-quarter high of RM2.24bn (8.8x our FY27E revenue). The order book is concentrated, with the MRT 3 Circle Line project management consultancy (PMC) contract (RM939.7m) and Baghdad Metro (RM632.3m) making up c.70% of the total. Excluding both, the core book of RM667.5m across c.220 contracts still cover 2.6x our FY27E revenue. On the MRT 3 project, all payments due from MRT Corp have been received, and realignment design for KL Polo Club and Titiwangsa will begin in Dec 2026 amid ongoing land acquisition. Once the realignment design is completed, tender documents will be prepared, with civil works awards likely in 3QFY27–4QFY27, per management.

4. New Secured Orders of RM242m, 81% of FY26 Target. 9MFY26 new orders reached RM242m (81% of the RM300m FY26 target), a 1.51x replenishment rate against RM160m of billings. Water, wastewater and flood mitigation led 54.3% of new contract value, anchored by the Northern Perak, Jeniang Phase 2 and Ulu Padas schemes. The tender book currently stands at c.RM520m, plus RM30m at Letter of Award (LOA) stage. In data centres, HSS won a PMC contract for two K2 blocks on 11 Nov 2026. Management targets at least RM25m of new data centre orders in FY27 (Base case). The Johor E-ART concession agreement, key to HSS's full engineering appointment, may slip to early FY2027.

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)	1,575.15
YTD KLCI chg.	-6.2%
YTD Stock Price chg.	12.8%

Price Performance	1M	3M	12M
Absolute (%)	-1.1%	-11.1%	-12.0%
Relative to KLCI (%)	0.2%	-2.4%	-8.8%

Stock Information	
Market Cap (RM m)	223.7
Issued Shares (m)	508.5
52-week High (RM)	0.55
52-week Low (RM)	0.29
Est. Free Float (%)	46%
Beta	1.0
3-month Avg Vol.	221,837
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	41.0	47.9
EBIT	23.7	38.0	45.3
PBT	19.8	36.0	43.5
Core Net Profit	**13.4**	**24.6**	**29.8**
Consensus Net Profit		22.8	27.3
Earnings Revision (%)	-	24.3	30.1
Core EPS (sen)	2.64	4.85	5.87
Core EPS Growth (%)	-46.6%	83.6%	20.9%
Net Div. Yield (%)	1.8%	3.3%	4.0%
BVPS (sen)	58.7	58.5	65.6
PER (x)	16.6	9.1	7.5
PBV (x)	0.8	0.8	0.7
Net Gearing (x)	0.2	0.0	0.0

5. Baghdad Metro Collections of US$14.3m Expected by 2Q27. The CHSS–HSSE joint venture (HSS's stake: 50%) has invoiced US$26.3m (c.RM108m) for Stages 1/A and 1/B, of which US$1.5m (c.RM6m) has been collected. A further US$2.3m (c.RM9m) awaits sign-off from Iraq's Minister of Planning and US$12.0m (c.RM49m) has been approved, bringing expected collections by 2QFY27 to US$14.3m (c.RM58m). The remaining US$10.5m (c.RM43m) awaits requirements from the Mayoralty of Baghdad, which has allocated IQD50bn (c.US$37.9m or c.RM155m) to the project in its 2027 budget. Management noted a stabilising political backdrop following the appointment of a new Prime Minister and the withdrawal of US forces, with the cabinet keen to revive the project and China Exim Bank financing being re-evaluated. HSS's team was scheduled to meet the Deputy Prime Minister in Baghdad on 17 Nov 2026. HSS has not recognised new revenue from the project since 1QFY26.

6. Pursuing Overseas Opportunities and Expanding Renewable Energy. Beyond its core consultancy business, HSS is pursuing several growth initiatives. Overseas, HSS (i) attended a shortlisting interview with Japanese partner Oriental Consultants Global for a c.50km Ho Chi Minh City metro line, targeting US$10–20m of Vietnam wins in FY27; (ii) is bidding for two AI data centre sites in Taiwan with specialist partners; and (iii) leads a consortium bidding for a Timor-Leste highway supervision PMC, while (iv) finalisation of an Adani contract in India has been delayed to early CY2027 on the client's budget constraints. In renewable energy, HSS bid as a 60% partner for a c.100MW solar and battery storage project (results by year-end), while the 95MW Hilir Perak solar project (40% stake via HEB Energy) reached financial close on 30 Apr 2026 and is under construction, with its Scheduled Commercial Operation Date (SCOD) targeted for December 2027.

7. HSS Digital to Commence Operations in Dec 2026. HSS has set up a new subsidiary, HSS Digital Sdn Bhd, incorporated in FY25, to undertake ICT systems integration work covering both hardware and software, a new business for the Group. Management indicated that about 30% of development budgets could go towards digital by CY2030. HSS Digital has completed its Ministry of Finance ICT registration and will be operational from 1 Dec 2026. It will focus on three areas: Ministry of Health hospital information system (HIS) and electronic medical records (EMR) rollouts, where it will bid selectively for certain regions; Huawei public cloud; and MCMC-licensed projects.

8. Budget 2027 Allocates RM21.3bn to HSS's Core Sectors. Budget 2027 features an RM510bn spending and investment envelope (+8.5% YoY), including RM83bn of federal development expenditure. Within Budget 2027, RM21.3bn of allocations fall within HSS's core sectors: i. roads and highways (RM6.9bn), ii. rail and transport (RM4.8bn), iii. water, flood and sewerage (RM3.9bn), iv. rural infrastructure (RM3.1bn), v. corridors and studies (RM1.6bn) and vi. digital government (RM1.0bn). HSS already has ongoing projects in these sectors, including the MRT 3 PMC, Pan Borneo Sabah PMC and the Northern Perak, Jeniang and Ulu Padas water schemes. Over a longer horizon, the RM611bn RMK13 development budget translates into an estimated RM7.9bn serviceable engineering and advisory fee pool from which HSS may benefit.

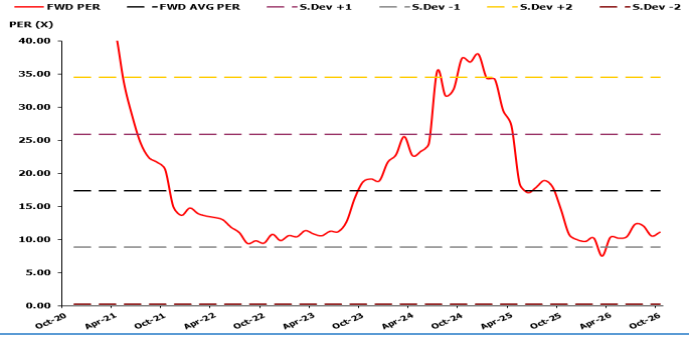
Changes to Our Forecast. We raise our FY26E/FY27E earnings by 24.3%/30.1% to RM24.6m/RM29.8m following housekeeping adjustments to our model.

Valuation. We revise our targeted P/E multiple to 9.6x (from 11.7x), based on the five-year historical average P/E of its closest peers, applied to our FY27E EPS of 5.9 sen, resulting in a TP of RM0.56 (previously: RM0.53). Reiterate our **BUY** recommendation.

Investment Merits. We continue to favour HSS for: (i) its established position as one of Malaysia's largest engineering and project management consultancies; (ii) solid earnings visibility from a six-quarter-high RM2.24bn unbilled order book as at 9MFY26, equivalent to 8.8x our FY27E revenue and billable over the next eight years; (iii) healthy replenishment prospects, supported by a c.RM520m tender book and Budget 2027's RM83bn of federal development expenditure, of which RM21.3bn falls within its core sectors; (iv) a strong foothold in water infrastructure, reinforced by new appointments for the Northern Perak, Jeniang Phase 2 and Ulu Padas water schemes, and two Indah Water Konsortium (IWK) sewerage contracts; and (v) longer-term optionality from digital initiatives under HSS Propick Technologies, including telecom tower digital twins (1,500+ towers digitized, with a further 1,750 planned for 2027) and AI-powered drone solutions for the palm oil sector.

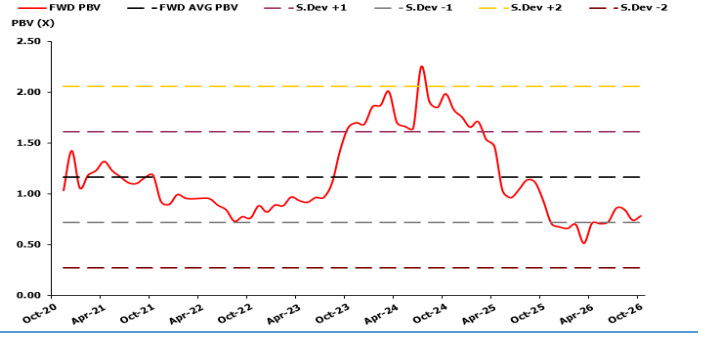
Risks to our recommendation include: (i) project delays or cancellations, (ii) talent retention challenges, (iii) high exposure to the domestic market, and (iv) changes in government policies.

Figure 1: 5-Year P/E Band



Source: Bloomberg, Mercury Research

Figure 2: 5-Year P/B Band



Source: Bloomberg, Mercury Research

Key Financial Data

Income Statement

FY Dec (RM m)	2024A	2025A	2026E	2027E	2028E
Revenue	**201.2**	**220.7**	**217.1**	**253.9**	**336.9**
EBITDA	40.8	28.0	41.0	47.9	47.7
Depreciation & Amortization	(4.1)	(4.3)	(3.1)	(2.7)	(2.5)
Operating Profit	36.7	23.7	38.0	45.3	45.2
Interest Inc/(Exp)	(2.8)	(3.9)	(2.0)	(1.7)	(1.6)
Profit Before Tax	33.9	19.8	36.0	43.5	43.6
Taxation	(9.0)	(6.5)	(11.6)	(14.0)	(14.0)
Net Profit	24.9	13.3	24.4	29.5	29.6
PATAMI	**25.1**	**13.4**	**24.6**	**29.8**	**29.8**

Balance Sheet

Fixed Assets	4.0	3.7	4.2	3.7	3.7
ROU Assets	5.9	3.4	48.5	2.1	1.9
Intangible Assets	163.7	163.6	162.2	163.6	163.6
Other Fixed Assets	2.0	8.1	1.9	1.9	1.9
Receivables	48.3	64.4	53.8	54.3	50.8
Other Current Assets	18.4	18.6	26.6	30.1	35.1
Cash	14.9	26.1	26.1	26.1	26.1
Total Assets	**418.1**	**464.9**	**500.4**	**487.6**	**519.4**
Payables	69.0	57.9	77.7	86.8	85.6
ST Borrowings	35.4	74.1	35.6	35.6	35.6
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
Other LT Liability	9.4	12.0	10.5	9.5	8.5
Net Assets	**291.7**	**297.5**	**296.8**	**332.6**	**366.6**
Shareholders' Equity	291.9	297.8	297.0	332.8	366.9
Minority Interests	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Total Equity	**291.7**	**297.5**	**296.8**	**332.6**	**366.7**

Cashflow Statement

FY Dec (RM m)					
Operating CF	(3.6)	(6.7)	57.9	51.0	43.9
Investing CF	0.1	(6.9)	(0.8)	(0.7)	1.2
Financing CF	(2.7)	(3.7)	(11.7)	(13.3)	(3.4)
Change In Cash	(2.7)	(3.7)	(11.7)	(13.3)	(3.4)
Free CF	**3.2**	**(1.9)**	**64.8**	**60.1**	**51.8**

Financial Data & Ratios

FY Dec	2024A	2025A	2026E	2027E	2028E
Growth					
Turnover	7.4%	9.7%	-1.6%	17.0%	32.7%
EBITDA	15.4%	-31.4%	46.7%	16.8%	-0.6%
Operating Profit	17.4%	-35.4%	60.3%	19.2%	-0.2%
PBT	18.0%	-41.6%	81.9%	20.9%	0.2%
Core Net Profit	22.6%	-46.6%	83.6%	20.9%	0.2%
Profitability					
Gross Profit Margin	35.0%	34.2%	33.0%	33.0%	28.3%
EBITDA Margin	20.3%	12.7%	18.3%	18.9%	14.1%
Operating Margin	18.2%	10.7%	13.6%	17.8%	13.4%
PBT Margin	16.8%	9.0%	12.7%	17.1%	12.9%
Core Net Margin	12.5%	6.1%	11.3%	11.7%	8.9%
Effective Tax Rate	-26.5%	-32.6%	-32.1%	-32.1%	-32.1%
ROA	6.0%	2.9%	4.9%	6.1%	5.7%
ROE	8.5%	4.5%	8.2%	8.9%	8.1%
Leverage					
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
Net (Cash)/Debt	20.8	48.5	9.7	9.7	9.7
Net Debt/Equity (x)	0.1	0.2	0.0	0.0	0.0
Valuations					
Core EPS (sen)	4.9	2.6	4.9	5.9	5.9
NDPS (sen)	1.5	0.8	1.5	1.8	1.8
BV/sh (RM)	57.5	58.7	58.5	65.6	72.3
PER (x)	8.9	16.6	9.1	7.5	7.5
Div. Yield (%)	3.3	1.8	3.3	4.0	4.0
PBV (x)	0.8	0.8	0.8	0.7	0.6

Source: Mercury Securities, Company

Disclaimer & Disclosure of Conflict of Interest

This report has been prepared by Mercury Securities pursuant to the Research Incentive Program under Bursa Research Incentive Scheme Plus ("Bursa RISE+") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaims any and all liability, howsoever arising, out of or in relation to the administration of Bursa Research Incentive Program and/or this report.

The information contained in this report is based on data obtained from data and sources believed to be reliable at the time of issue of this report. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the information or opinions in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as "believe", "estimate", "intend" and "expect" and statements that an event or result "may", "will" or "might" occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to Mercury Securities Sdn Bhd. ("Mercury Securities") and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. Mercury Securities expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

Accordingly, neither Mercury Securities nor any of its holding company, related companies, directors, employees, agents and/or associates nor person connected to it accept any liability whatsoever for any direct, indirect, or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the information or opinions in this publication. Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Mercury Securities has no obligation to update its opinion or the information in this report.

This report does not have regard to the specific investment objectives, financial situation and particular needs of any specific person. Accordingly, investors are advised to make their own independent evaluation of the information contained in this report and seek advice from, amongst others, tax, accounting, financial planner, legal or other business professionals regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you. This report is not intended, and should not under no circumstances be considered as an offer to sell or a solicitation of any offer or a solicitation or expression of views to influence any one to buy or sell the securities referred to herein or any related financial instruments.

Mercury Securities and its holding company, related companies, directors, employees, agents, associates and/or person connected with it may, from time to time, hold any positions in the securities and/or capital market products (including but not limited to shares, warrants and/or derivatives), trade or otherwise effect transactions for its own account or the account of its customers or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment, share margin facility or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests and should exercise their own judgement before making any investment decisions.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Mercury Securities. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted, or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Mercury Securities takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Mercury Securities own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Mercury Securities' website shall be at your own risk.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.

Recommendation Rating

Mercury Securities maintains a list of stock coverage. Stock can be added or dropped subject to needs with or without notice. Hence, the recommendation rating only applicable to stocks under the list. Stocks out of the coverage list will not carry recommendation rating as the analyst may not follow the stocks adequately.

Mercury Securities has the following recommendation rating:

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

Published & Printed By:

MERCURY SECURITIES SDN BHD
Registration No. 198401000672 (113193-W)
L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur
Telephone: (603) - 6203 7227
Website: www.mercurysecurities.com.my
Email: mercurykl@mersec.com.my