

Singapore

ADD (no change)

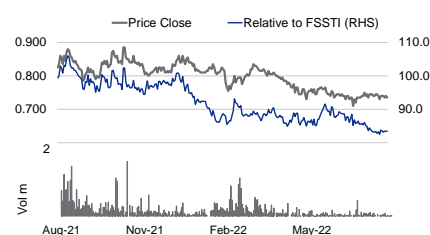
Consensus ratings*: Buy 2 Hold 0 Sell 0

Current price:	S\$0.735
Target price:	S\$1.05
Previous target:	S\$1.00
Up/downside:	42.9%
CGS-CIMB / Consensus:	na
Reuters:	HLAA.SI
Bloomberg:	HLA SP
Market cap:	US\$393.6m
	S\$549.8m
Average daily turnover:	US\$0.02m
	S\$0.03m
Current shares o/s:	747.9m
Free float:	23.7%

*Source: Bloomberg

Key changes in this note

► FY22-24F EPS raised by 1.3%-4.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	-3.3	-10.9
Relative (%)	-2	-4.3	-16

Major shareholders	% held
Hong Leong Corp Holdings	75.2

Analyst(s)



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Hong Leong Asia

BMU recovery cushions engine weakness

- 1H22 core PATMI of S\$32.1m (+36% hoh, +6% yoy) was in line. Building materials segment's strength offset diesel engines segment's weakness.
- We expect stronger PATMI in 2H22F, underpinned by tailwinds from a recovery in Singapore's construction activities.
- Reiterate Add with a slightly higher TP of S\$1.05.

1H22: Building materials strength offset diesel engine weakness

HLA's 1H22 core PATMI (excluding S\$10.6m gain from asset disposal) of S\$32.1m (+36% hoh, +6% yoy) was in line with our expectations at 50% of our FY22F forecast. Stronger-than-expected performance of building materials segment offset diesel engines segment's weakness in 1H22.

Building materials: Strong recovery in 1H22; more to come

Building materials (BMU) segment PBT surged 141% yoy to S\$33.6m in 1H22, helped by improving construction activities in Singapore as a result of relaxation of border restrictions which led to an inflow of migrant workers. That said, the Singapore Ministry of Trade and Industry (MTI) pointed out the value-add of the sector remained 24% below pre-pandemic levels in 2QCY22, with pace of recovery partly dampened by 1) increased workplace incidents (and lower productivity) given time needed to train the newly replenished workforce, and 2) increased number of stop work orders at construction sites due to an increase in reported dengue and Covid-19 cases. We view these as transient issues which should be alleviated in the upcoming quarters, and forecast segment PBT of S\$35.7m (+93% yoy) in 2H22F with further recovery in construction activities.

Diesel engines (Yuchai): Pushing back recovery expectations

Engine unit sales fell 37% yoy to 181k engines in 1H22 (off a high base in 1H21 which benefited from strong pre-buying on new engine standard implementation), but improved 6% hoh as distributors' accumulated inventory was better digested. Sales of off-road engines performed relatively better compared to truck and bus engines. In view of China's economic slowdown and disruptions from ongoing Covid-19 restrictions, we think market conditions could remain challenging in 2H22F; hence, we lower our segment revenue growth forecast to 5% yoy for 2H22F. That being said, we believe segment PBT margins should see further sequential improvements with 1) ramp-up of National VI (N6) engine sales, enabling Yuchai to reach volume commitment needed to negotiate further cost reductions on required parts, and 2) higher sales mix of the off-road segment.

Reiterate Add with higher TP of S\$1.05

Maintain Add as we expect stronger net profit in 2H22F, underpinned by tailwinds from a recovery in Singapore's construction activities. Our FY22-24F EPS is raised by 1.3-4.2% on stronger BMU volume assumptions; our SOP-based TP is raised slightly to S\$1.05 accordingly. Potential catalysts include faster recovery in Singapore's construction sector or Chinese government's stimulus measures catalysing diesel engine sales. Downside risks include supply chain disruptions further dampening business sentiment in China.

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (S\$m)	4,496	4,933	4,180	4,446	4,613
Operating EBITDA (S\$m)	284.6	233.0	211.8	271.8	309.7
Net Profit (S\$m)	45.26	59.66	75.40	80.22	85.38
Core EPS (S\$)	0.06	0.07	0.09	0.11	0.11
Core EPS Growth	(1.3%)	9.7%	30.5%	23.8%	6.4%
FD Core P/E (x)	12.14	11.07	8.48	6.85	6.44
DPS (S\$)	0.010	0.020	0.025	0.027	0.029
Dividend Yield	1.36%	2.72%	3.43%	3.65%	3.88%
EV/EBITDA (x)	5.37	7.33	7.44	6.57	5.14
P/FCFE (x)	3.10	NA	2.47	NA	1.65
Net Gearing	(21.4%)	(11.4%)	(17.2%)	(10.8%)	(19.6%)
P/BV (x)	0.62	0.57	0.54	0.51	0.48
ROE	5.50%	5.41%	6.58%	7.69%	7.72%
% Change In Core EPS Estimates			1.25%	4.17%	3.47%
CGS-CIMB/Consensus EPS (x)			1.17	0.98	1.04

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BMU recovery cushions engine weakness

Figure 1: Results comparison

FYE Dec (S\$ m)	1H22	1H21	yoy chg (%)	2H21	hoh chg (%)	FY22F	FY21	yoy chg (%)	Prev FY22F	Comments
Revenue	2,096.6	2,838.7	(26.1)	2,093.8	0.1	4,180.0	4,932.6	(15.3)	4,655.6	Below due to lower diesel Yuchai engine sales. 1H22 formed 45% of our FY22F forecast
Cost of sales	(1,736.5)	(2,450.5)	(29.1)	(1,752.7)	(0.9)	(3,468.6)	(4,203.2)	(17.5)	(3,862.3)	
Gross profit	360.1	388.3	(7.3)	341.2	5.5	711.4	729.4	(2.5)	793.3	
GPM (%)	17.2%	13.7%		16.3%		17.0%	14.8%		17.0%	
Opex	(297.3)	(302.2)	(1.6)	(339.7)	(12.5)	(604.1)	(641.9)	(5.9)	(620.9)	
Operating profit	80.4	108.3	(25.8)	40.6	98.0	155.9	148.8	4.8	183.0	Building materials strength offset diesel engines weakness
OPM (%)	3.8%	3.8%		1.9%		3.7%	3.0%		3.9%	
Associates	0.6	3.2	(81.5)	(19.5)	(103.0)	2.8	(16.4)	(117.4)	15.3	Below due to higher losses from Yuchai joint ventures
Profit before tax	80.9	111.4	(27.4)	21.1	284.5	158.8	132.5	19.8	198.3	
Tax expense	(16.8)	(21.1)	(20.4)	7.4	(328.4)	(36.5)	(13.8)	165.6	(36.6)	
Effective tax rate	20.7%	18.9%		-34.9%		23.0%	10.4%		18.5%	
Net profit	64.2	90.3	(29.0)	28.4	125.8	122.2	118.7	2.9	161.7	
NCI	21.5	50.0	(57.0)	9.1	135.6	46.9	59.1	(20.7)	97.7	
PATMI	42.7	40.4	5.6	19.3	121.2	75.4	59.7	26.4	64.0	
Core PATMI	32.1	30.4	5.5	19.3	66.3	64.8	59.7	8.6	64.0	In line, 1H22 formed 50% of our FY22F forecast

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Earnings revision

FYE Dec (S\$ m)	New			Old			% change		
	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F	FY22F	FY23F	FY24F
Revenue	4180.0	4446.5	4613.3	4655.6	4947.9	5135.0	-10.2%	-10.1%	-10.2%
Gross profit	711.4	793.6	837.8	793.3	871.6	916.2	-10.3%	-8.9%	-8.6%
Profit before tax	158.8	199.9	225.9	198.3	237.3	256.6	-19.9%	-15.8%	-12.0%
PATMI	75.4	80.2	85.4	64.0	77.0	82.5	17.8%	4.2%	3.5%
Core PATMI	64.8	80.2	85.4	64.0	77.0	82.5	1.3%	4.2%	3.5%
Core EPS (Scts)	8.7	10.7	11.4	8.6	10.3	11.0	1.3%	4.2%	3.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 3: Sum-of-parts valuation

Sum-of-the-parts valuation	CY23F net profit (S\$m)	Implied FY23F P/E (X)	Value (S\$m)	Per share (S\$)	% of SOP	Comment
Diesel engines			347.7	0.46	40.0%	Based on our target price of CYD US
Building materials	61.3	10.0	613.1	0.82	70.6%	Based on 10x CY23F P/E
Rigid plastic packaging	-0.2		0.0	0.00	0.0%	Assuming value written off
Net cash as of end-FY22F			-92.2	-0.12	-10.6%	
Cash owned by Hong Leong Asia excl. CYD			359.0	0.48		
Less: borrowings of Hong Leong Asia excl. CYD			-451.2	-0.60		
Sum-of-parts valuation			868.6	1.16	100.0%	
No. of shares (mm)			747.9			
Discount to SOP				10%		
Target Price (S\$)				1.05		

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS



ESG in a nutshell

We are pleased that HLA is actively taking steps to contribute to better environmental protection standards. On its diesel engine front, it has been investing in R&D to develop the next National VI engine products in China to reduce emissions and achieve higher energy efficiency. It also continues to devote resources to develop new energy engine products and green technology. On its building materials unit front, it is also continuously innovating its production processes and exploring the use of alternative raw materials to mitigate and minimise its environmental impact. HLA is also stepping up investments in digitising its systems and processes to speed up the business transformation at its plants to reduce energy consumption and carbon emissions.

Keep your eye on

In line with China's full implementation of National VI (a) engines by Jul 2021, HLA has already launched a complete range of products that is in compliance with the latest standards.

By the end of 2020, Yuchai had a portfolio of engines that was National VI (b) emission standards compliant, even though such emission standards are not scheduled for implementation until Jul 2023.

Implications

Given China's growing emphasis on environmental protection management, its emission standards for diesel engines have surpassed that of European standards. We think the continued success of HLA's diesel engine unit is dependent on its ability to fulfil the latest emission standards in China. Continued R&D to keep up with the latest standards, as well as new energy engine products and green technology, is crucial.

ESG highlights

In Singapore, HLA has successfully completed a commercial project using Portland fly-ash concrete (PFAC) in FY20. PFAC is viewed as a "greener" choice compared to Ordinary Portland Cement (OPC), as it directly reduces the need for clinker production (95% of the material) by 30-50%, and hence helps decrease carbon emissions significantly. The treatment and utilisation of pulverised coal which is incorporated into the mix also helps to optimise recycled materials, reducing the consumption of natural raw materials, water and energy to create a more sustainable construction material.

Implications

We like HLA's continual efforts in innovating its production processes, as well as exploring the use of alternative raw materials at its building materials unit to mitigate and minimise its environmental impact. We think this is especially important in Singapore, where the government is taking the lead in green building.

Trends

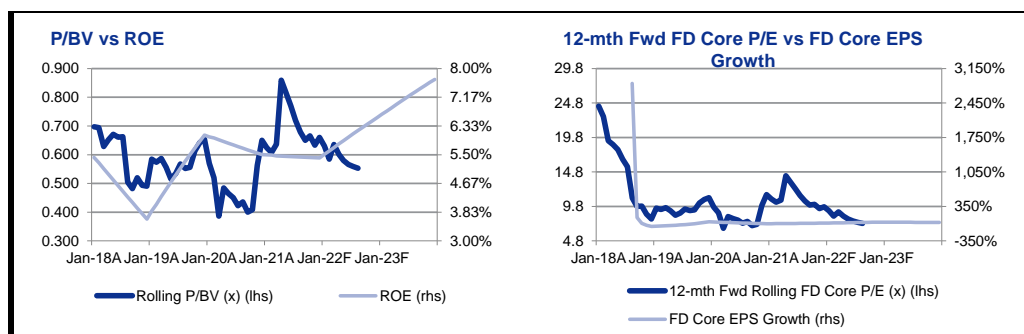
In FY20, both energy intensity and scope 1 emissions intensity of HLA were lowered. Overall energy intensity was lowered to 1.59TJ/S\$ million in FY20, compared to 2.07TJ/S\$ million in FY19. Meanwhile, scope 1 emissions intensity also decreased to 339tCO₂/S\$ million in FY20, compared to 442tCO₂/S\$ million in FY19.

Implications

While this is partially due to shorter operating hours amid the Covid-19 pandemic which triggered a nationwide lockdown, we are pleased that HLA continues to take steps to improve its environmental protection standards.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	4,496	4,933	4,180	4,446	4,613
Gross Profit	719	729	711	794	838
Operating EBITDA	285	233	212	272	310
Depreciation And Amortisation	(122)	(145)	(104)	(111)	(115)
Operating EBIT	162	88	107	161	194
Financial Income/(Expense)	(43)	(32)	(31)	(31)	(30)
Pretax Income/(Loss) from Assoc.	(12)	(16)	3	8	10
Non-Operating Income/(Expense)	88	93	80	63	52
Profit Before Tax (pre-EI)	195	132	159	200	226
Exceptional Items					
Pre-tax Profit	195	132	159	200	226
Taxation	(42)	(14)	(37)	(42)	(43)
Exceptional Income - post-tax					
Profit After Tax	153	119	122	158	183
Minority Interests	(108)	(59)	(47)	(78)	(98)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	45	60	75	80	85
Recurring Net Profit	45	50	65	80	85
Fully Diluted Recurring Net Profit	45	50	65	80	85

Cash Flow

(\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	284.6	233.0	211.8	271.8	309.7
Cash Flow from Inv. & Assoc.	11.8	16.4	(2.8)	(7.5)	(10.0)
Change In Working Capital	(50.1)	(166.9)	120.1	(232.7)	166.5
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	111.5	87.2	48.4	36.2	28.4
Net Interest (Paid)/Received	(3.1)	(1.7)	1.5	1.5	1.5
Tax Paid	(48.6)	(37.2)	(36.5)	(41.9)	(42.8)
Cashflow From Operations	306.1	130.7	342.5	27.4	453.3
Capex	(137.3)	(136.0)	(150.0)	(150.0)	(150.0)
Disposals Of FAs/subsidiaries	0.0	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(31.4)	(102.6)	30.0	30.0	30.0
Cash Flow From Investing	(168.7)	(238.6)	(120.0)	(120.0)	(120.0)
Debt Raised/(repaid)	39.9	58.3	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(7.5)	(7.5)	(18.8)	(20.1)	(21.3)
Preferred Dividends					
Other Financing Cashflow	(158.9)	(136.2)	(41.0)	(41.0)	(41.0)
Cash Flow From Financing	(126.5)	(85.3)	(59.9)	(61.1)	(62.4)
Total Cash Generated	10.9	(193.2)	162.6	(153.6)	271.0
Free Cashflow To Equity	177.3	(49.6)	222.5	(92.6)	333.3
Free Cashflow To Firm	174.9	(77.8)	251.0	(64.1)	361.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	1,346	1,219	1,382	1,228	1,499
Total Debtors	1,862	1,754	1,682	1,973	1,819
Inventories	968	1,187	419	1,272	476
Total Other Current Assets	28	8	8	8	8
Total Current Assets	4,204	4,168	3,490	4,481	3,802
Fixed Assets	994	1,013	1,058	1,097	1,133
Total Investments	104	173	176	183	194
Intangible Assets	265	333	333	333	333
Total Other Non-Current Assets	290	307	307	307	307
Total Non-current Assets	1,653	1,825	1,874	1,920	1,966
Short-term Debt	495	724	724	724	724
Current Portion of Long-Term Debt					
Total Creditors	2,163	2,166	1,446	2,357	1,573
Other Current Liabilities	259	206	206	206	206
Total Current Liabilities	2,918	3,096	2,376	3,288	2,504
Total Long-term Debt	328	176	176	176	176
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	193	192	192	192	192
Total Non-current Liabilities	521	368	368	368	368
Total Provisions	0	0	0	0	0
Total Liabilities	3,439	3,464	2,744	3,656	2,872
Shareholders' Equity	880	957	1,013	1,074	1,138
Minority Interests	1,538	1,572	1,606	1,672	1,757
Total Equity	2,418	2,529	2,620	2,745	2,894

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	9.8%	9.7%	(15.3%)	6.4%	3.8%
Operating EBITDA Growth	2.6%	(18.1%)	(9.1%)	28.4%	13.9%
Operating EBITDA Margin	6.33%	4.72%	5.07%	6.11%	6.71%
Net Cash Per Share (S\$)	0.69	0.39	0.60	0.40	0.76
BVPS (S\$)	1.18	1.28	1.36	1.44	1.52
Gross Interest Cover	4.32	2.91	3.77	5.64	6.83
Effective Tax Rate	21.6%	10.4%	23.0%	21.0%	18.9%
Net Dividend Payout Ratio	16.5%	12.5%	25.0%	25.0%	25.0%
Accounts Receivables Days	145.7	133.8	150.0	150.0	150.4
Inventory Days	75.69	93.56	84.50	84.50	84.73
Accounts Payables Days	189.0	188.0	190.0	190.0	190.5
ROIC (%)	8.07%	3.40%	3.80%	7.46%	8.01%
ROCE (%)	5.17%	2.61%	3.06%	4.45%	5.18%
Return On Average Assets	3.49%	2.42%	2.59%	3.22%	3.51%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Diesel Engines PBT margin (%)	4.7%	2.1%	2.5%	3.7%	4.4%
Building Materials PBT margin (%)	4.4%	6.9%	11.9%	10.5%	9.4%
Rigid Plastic Packaging PBT margin (%)	-1.5%	-2.7%	35.2%	-1.0%	-0.3%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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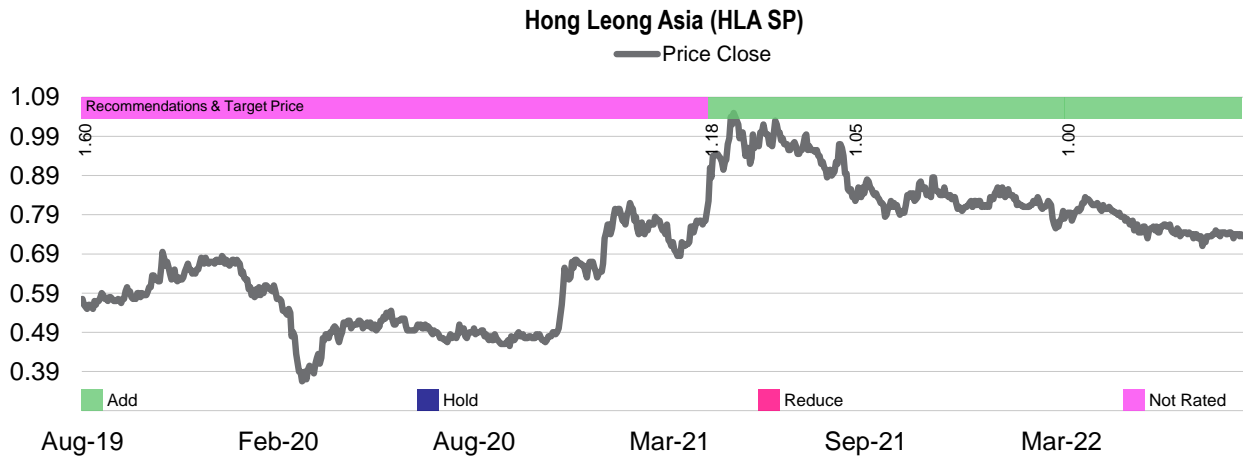
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Distribution of stock ratings and investment banking clients for quarter ended on 30 June 2022		
643 companies under coverage for quarter ended on 30 June 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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Add The stock's total return is expected to exceed 10% over the next 12 months.

Hold The stock's total return is expected to be between 0% and positive 10% over the next 12 months.

Reduce The stock's total return is expected to fall below 0% or more over the next 12 months.

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