

Singapore

ADD (no change)

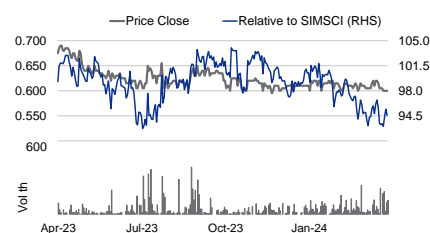
Consensus ratings*: Buy 1 Hold 0 Sell 0

Current price:	S\$0.60
Target price:	S\$1.00
Previous target:	S\$1.00
Up/downside:	66.7%
CGSI / Consensus:	0.0%
Reuters:	HLAA.SI
Bloomberg:	HLA SP
Market cap:	US\$329.5m
	S\$448.8m
Average daily turnover:	US\$0.03m
	S\$0.04m
Current shares o/s:	748.0m
Free float:	23.7%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0	-1.6	-12.4
Relative (%)	0.6	-6.8	-6

Major shareholders	% held
Hong Leong Corp Holdings	75.2

Hong Leong Asia

Highlights from investor meetings

- We hosted meetings with HLA's management this week, where we gained further insights into latest business trends and longer-term ambitions.
- We believe HLA's BMU unit can benefit from robust SG/MY construction activities in the medium term, while Yuchai earnings recover from a low base.
- Reiterate Add; we believe HLA is an underappreciated proxy for the SG/MY construction industry upcycle – share price implies 2.5x P/E for its BMU unit.

Building materials unit (BMU) Malaysia: volume growth continues

Helped by stronger volumes, HLA notes that cement prices in Malaysia have increased c.20% since the beginning of 2023, reflecting pricing discipline by key industry players. This has enabled Malaysian cement players to record strong profit improvements over the past four quarters (Fig 2). HLA is positive on the medium-term outlook for the industry, with tailwinds from increased construction activities and likely rollout of key mega projects in 2HCY24F (such as MRT 3, Bayan Lepas LRT and KL-Singapore high-speed rail).

BMU Singapore: room for industry consolidation

In Singapore, forecasts by The Building and Construction Authority (BCA) suggest construction activities are likely to remain robust for the next five years. Moreover, HLA expects regulation-driven industry consolidation, particularly in the ready-mix concrete (RMC) and prefabricated prefinished volumetric construction (PPVC) sectors. Singapore aims to transform the industry through integrated construction parks and a requirement for 50% local sourcing in government PPVC tenders. We think HLA is well-positioned to benefit from these developments with its Integrated Construction and Prefabrication Hub (completed 2022) and Jurong Port RMC Ecosystem batching plant (completed 2023).

Diesel engine unit (Yuchai): recovering from industry downcycle

HLA expects Yuchai to achieve volume growth of 10-15% yoy in FY24/25F, and margins to gradually improve on a better scale. Recall that sales of medium- and heavy-duty trucks in China were impacted in 2022/23 due to Covid-19 and inventory destocking post new engine standard implementation, and Yuchai plans to better tap on export markets and sales of natural gas engines to drive volume growth in FY24F. Yuchai is investing in new energy solutions, including electric drivetrains (range extenders) and hydrogen fuel cell technology for medium- and heavy-duty applications to prepare for the energy transition.

Underappreciated proxy for SG/MY construction industry upcycle

Excluding HLA's stake in listed subsidiaries/associates, the implied valuation of its building materials unit (which accounted for c.80% of HLA's FY23 PATMI before corporate costs) is only at S\$150m, or 2.5x 12M-trailing P/E, based on latest market value. Reiterate Add on HLA as we expect PATMI growth of another 15% in FY24F, driven by stronger construction activity levels and volume recovery of its diesel engine unit (Yuchai), with a SOP-based TP of S\$1.00. Re-rating catalysts include stronger margin improvement at its building materials unit riding on strong demand growth, and corporate actions to unlock value for shareholders. Downside risks include delays in the award of key infrastructure projects in Malaysia or intensified pricing competition.

Analyst(s)



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Financial Summary

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue (S\$m)	3,881	4,081	4,448	4,686	4,879
Operating EBITDA (S\$m)	222.4	245.5	272.4	298.6	323.0
Net Profit (S\$m)	54.76	64.99	75.00	79.52	83.04
Core EPS (S\$)	0.06	0.08	0.10	0.11	0.11
Core EPS Growth	(10.9%)	31.7%	28.7%	6.0%	4.4%
FD Core P/E (x)	10.14	7.70	5.98	5.64	5.40
DPS (S\$)	0.020	0.020	0.025	0.027	0.028
Dividend Yield	3.33%	3.33%	4.18%	4.43%	4.63%
EV/EBITDA (x)	7.50	5.89	4.94	4.03	3.62
P/FCFE (x)	NA	1.40	2.25	1.78	2.93
Net Gearing	(4.7%)	(13.3%)	(17.9%)	(23.9%)	(25.7%)
P/BV (x)	0.50	0.49	0.46	0.43	0.41
ROE	4.76%	6.39%	7.89%	7.89%	7.77%
EPS/Consensus EPS (x)			1.00	0.97	1.01

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Highlights from investor meetings

Figure 1: Segment performance

FYE Dec (S\$ m)	1H20	2H20	1H21	2H21	1H22	2H22	1H23	2H23	hoh (%)	yoy (%)
Revenue:										
Powertrain solutions (Yuchai)	1,971.8	2,131.0	2,601.0	1,827.9	1,798.2	1,465.1	1,755.7	1,647.8	-6.1%	12.5%
Building materials	152.3	210.7	222.9	248.2	282.0	303.4	306.3	344.3	12.4%	13.5%
Rigid packaging	11.7	14.1	14.3	15.9	13.2	12.6	10.4	11.0	5.6%	-12.3%
Corporate and others	1.4	3.3	0.6	1.8	3.2	3.5	2.7	3.2	19.7%	-9.8%
Group revenue	2,137.2	2,359.1	2,838.7	2,093.8	2,096.6	1,784.6	2,075.1	2,006.4	-3.3%	12.4%
Pretax profit:										
Powertrain solutions (Yuchai)	110.6	83.3	92.1	2.6	41.8	37.2	69.3	35.1	-49.3%	-5.6%
Building materials	0.3	15.6	13.9	18.5	33.6	21.3	37.0	56.4	52.3%	164.8%
Rigid packaging	(0.2)	(0.2)	(0.7)	(0.1)	9.9	(1.6)	(1.2)	(0.9)	-20.7%	-40.9%
Corporate and others	(5.4)	(8.9)	6.1	0.0	(4.3)	(14.2)	(13.6)	(15.6)	14.7%	9.8%
Group pretax profit	105.3	89.8	111.4	21.1	80.9	42.7	91.5	74.9	-18.1%	75.5%
Pretax profit margin (%):										
Powertrain solutions (Yuchai)	5.6%	3.9%	3.5%	0.1%	2.3%	2.5%	3.9%	2.1%	-1.8% pts	-0.4% pts
Building materials	0.2%	7.4%	6.2%	7.5%	11.9%	7.0%	12.1%	16.4%	4.3% pts	9.4% pts
Rigid packaging	-1.5%	-1.6%	-4.8%	-0.7%	74.8%	-12.4%	-11.1%	-8.4%	2.8% pts	4.0% pts
Group pretax profit margin	4.9%	3.8%	3.9%	1.0%	3.9%	2.4%	4.4%	3.7%	-0.7% pts	1.3% pts

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 2: Quarterly financial performance of Malaysian cement peers (RM m)

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Hume Cement Industries Berhad												
Revenue	160.7	114.1	128.1	193.4	191.8	213.3	206.8	255.3	289.0	263.2	306.7	322.3
Revenue growth (yoy %)					19.3%	87.0%	61.5%	32.0%	50.7%	23.4%	48.3%	26.2%
Gross profit	23.8	15.5	20.8	48.6	40.9	46.7	28.0	49.9	80.9	88.2	111.2	123.9
GPM (%)	14.8%	13.6%	16.3%	25.1%	21.3%	21.9%	13.5%	19.5%	28.0%	33.5%	36.2%	38.5%
Operating profit	-9.7	-12.6	-8.5	15.7	8.1	11.8	-9.3	13.4	42.5	52.5	69.5	83.3
OPM (%)	-6.0%	-11.0%	-6.7%	8.1%	4.2%	5.6%	-4.5%	5.2%	14.7%	20.0%	22.6%	25.8%
PATMI	-11.8	-17.4	-11.3	7.6	1.9	4.9	-12.0	4.5	27.0	40.6	48.3	59.1
PATMI margin (%)	-7.3%	-15.3%	-8.8%	3.9%	1.0%	2.3%	-5.8%	1.7%	9.3%	15.4%	15.8%	18.3%
Malayan Cement Bhd												
Revenue	374.8	276.3	284.6	821.0	794.9	804.8	858.9	897.0	990.7	1010.5	1148.1	1158.6
Revenue growth (yoy %)					112.1%	191.2%	201.8%	9.2%	24.6%	25.6%	33.7%	29.2%
Gross profit	40.4	29.2	8.7	242.4	210.1	232.3	190.4	206.7	277.7	312.7	340.3	380.5
GPM (%)	10.8%	10.6%	3.1%	29.5%	26.4%	28.9%	22.2%	23.0%	28.0%	30.9%	29.6%	32.8%
Operating profit	7.2	13.8	-28.4	112.5	61.8	88.0	42.0	62.2	140.4	166.9	195.6	224.8
OPM (%)	1.9%	5.0%	-10.0%	13.7%	7.8%	10.9%	4.9%	6.9%	14.2%	16.5%	17.0%	19.4%
PATMI	3.6	9.9	-23.7	54.9	18.2	19.0	1.0	15.3	53.2	78.6	93.3	118.4
PATMI margin (%)	1.0%	3.6%	-8.3%	6.7%	2.3%	2.4%	0.1%	1.7%	5.4%	7.8%	8.1%	10.2%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

Figure 3: Sum-of-parts valuation

	CY25F net profit (S\$m)	Implied FY25F P/E (X)	Value (S\$m)	Per share (S\$)	% of SOP	Comment
Diesel engines			288.5	0.39	35.6%	Based on our target price of CYD US
Building materials	85.9	8.0	687.5	0.92	84.9%	Based on 8x CY25F P/E
Rigid plastic packaging	-1.6		0.0	0.00	0.0%	Assuming value written off
Net cash as of end-FY24F			-166.6	-0.22	-20.6%	
Cash owned by Hong Leong Asia excl. CYD			287.7	0.38		
Less: borrowings of Hong Leong Asia excl. CYD			-454.4	-0.61		
Sum-of-parts valuation			809.3	1.08	100.0%	
No. of shares (mm)			748.0			
Discount to SOP				10%		
Target Price (S\$)				1.00		

SOURCES: CGSI 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 new energy mobility solutions in China, such as alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. On its building materials unit front, it continuously innovates its production processes and explores 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

Yuchai has invested heavily in R&D to reduce its environmental impact and to meet stricter emission standards as required by the Chinese government. Yuchai is also advancing towards alternative fuels and environmentally friendly hybrid engines with improved fuel efficiency. These include next-generation hybrid powertrains, fuel cell systems and range extenders which will enlarge the portfolio of new energy vehicle products and provide customers with a wider range of green options. Yuchai targets to increase its green product sales to 20% of its total engine sales by 2025.

Implications

Given China's growing emphasis on environmental protection management, we think Yuchai's continued success is dependent on its ability to fulfil the latest emission standards in China.

ESG highlights

In Singapore, HLA 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. In FY23, HLA continued to improve its processes to develop and adopt cost-efficient raw material substitutes.

As of FY23, 12% of HLA's concrete sales volumes were derived from green concrete products (FY22: 8%), with the group aiming to exceed 20% by 2025F.

Implications

We like HLA's continuous efforts to innovate its production processes as well as explore 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

Total energy consumption for HLA's operations increased c.20% in FY23 to 9,127 TJ, primarily due to increased clinker/cement production in Malaysia which have returned to pre-pandemic levels.

HLA has set a target to reduce CO2 emission intensity by 50% (compared to 2016 levels) by end-2025F (FY23: achieved 28% reduction).

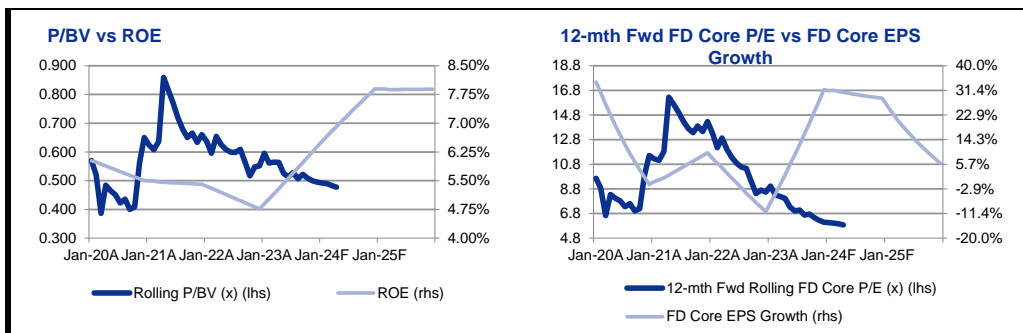
Implications

The decline in energy consumption and scope 1 emissions was due to lockdowns in China and a challenging building materials operating environment in Malaysia.

We are pleased that HLA continues to take steps to improve its environmental footprint, such as raising the use of low-carbon alternative fuels and alternative substitute materials.

SOURCES: CGSI RESEARCH

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Net Revenues	3,881	4,081	4,448	4,686	4,879
Gross Profit	682	755	850	898	939
Operating EBITDA	222	246	272	299	323
Depreciation And Amortisation	(153)	(151)	(133)	(141)	(146)
Operating EBIT	69	94	139	158	177
Financial Income/(Expense)	(34)	(50)	(42)	(42)	(42)
Pretax Income/(Loss) from Assoc.	4	26	27	28	29
Non-Operating Income/(Expense)	85	97	65	66	61
Profit Before Tax (pre-EI)	124	166	190	210	226
Exceptional Items					
Pre-tax Profit	124	166	190	210	226
Taxation	(21)	(46)	(46)	(52)	(56)
Exceptional Income - post-tax					
Profit After Tax	103	120	143	158	170
Minority Interests	(48)	(55)	(68)	(79)	(87)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	55	65	75	80	83
Recurring Net Profit	44	58	75	80	83
Fully Diluted Recurring Net Profit	44	58	75	80	83

Cash Flow

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
EBITDA	222.4	245.5	272.4	298.6	323.0
Cash Flow from Inv. & Assoc.	(3.5)	(25.8)	(27.4)	(28.4)	(29.5)
Change In Working Capital	(295.5)	13.7	(10.2)	22.3	(93.5)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	127.0	167.6	70.8	72.0	68.9
Net Interest (Paid)/Received	(2.9)	(7.1)	(10.0)	(10.0)	(10.0)
Tax Paid	(9.9)	(31.8)	(46.4)	(51.9)	(55.8)
Cashflow From Operations	37.6	362.0	249.1	302.6	203.2
Capex	(115.9)	(68.3)	(80.0)	(80.0)	(80.0)
Disposals Of FAs/subsidiaries	0.2	(4.0)	0.0	0.0	0.0
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	46.3	(0.1)	30.0	30.0	30.0
Cash Flow From Investing	(69.4)	(72.4)	(50.0)	(50.0)	(50.0)
Debt Raised/(repaid)	19.1	31.1	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	(15.0)	(15.0)	(18.8)	(19.9)	(20.8)
Preferred Dividends					
Other Financing Cashflow	(67.7)	(65.6)	(52.1)	(52.0)	(52.1)
Cash Flow From Financing	(63.6)	(49.4)	(70.8)	(71.9)	(72.8)
Total Cash Generated	(95.3)	240.3	128.3	180.7	80.4
Free Cashflow To Equity	(12.6)	320.8	199.1	252.6	153.2
Free Cashflow To Firm	(0.5)	329.5	239.1	292.6	193.2

SOURCES: CGSI RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(\$m)	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Total Cash And Equivalents	1,014	1,234	1,362	1,543	1,623
Total Debtors	1,610	1,745	1,911	1,941	2,069
Inventories	1,029	937	1,034	938	1,113
Total Other Current Assets	5	5	5	5	5
Total Current Assets	3,657	3,920	4,311	4,426	4,810
Fixed Assets	888	780	726	666	599
Total Investments	170	189	216	245	274
Intangible Assets	324	324	324	324	324
Total Other Non-Current Assets	277	283	283	283	283
Total Non-current Assets	1,659	1,576	1,550	1,517	1,481
Short-term Debt	672	510	510	510	510
Current Portion of Long-Term Debt					
Total Creditors	1,679	1,845	2,098	2,054	2,264
Other Current Liabilities	201	201	201	201	201
Total Current Liabilities	2,551	2,556	2,809	2,765	2,975
Total Long-term Debt	203	378	378	378	378
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	203	194	194	194	194
Total Non-current Liabilities	406	572	572	572	572
Total Provisions	0	0	0	0	0
Total Liabilities	2,957	3,129	3,381	3,337	3,548
Shareholders' Equity	903	922	978	1,038	1,100
Minority Interests	1,456	1,445	1,502	1,568	1,643
Total Equity	2,359	2,367	2,480	2,606	2,743

Key Ratios

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Revenue Growth	(21.3%)	5.2%	9.0%	5.4%	4.1%
Operating EBITDA Growth	(4.6%)	10.4%	10.9%	9.6%	8.2%
Operating EBITDA Margin	5.73%	6.02%	6.12%	6.37%	6.62%
Net Cash Per Share (\$)	0.15	0.42	0.59	0.83	0.94
BVPS (\$)	1.21	1.23	1.31	1.39	1.47
Gross Interest Cover	2.22	2.36	3.47	3.95	4.42
Effective Tax Rate	16.8%	27.8%	24.5%	24.7%	24.7%
Net Dividend Payout Ratio	27.3%	23.0%	25.0%	25.0%	25.0%
Accounts Receivables Days	156.2	150.0	150.4	150.0	150.0
Inventory Days	126.4	107.9	100.3	95.0	95.0
Accounts Payables Days	216.9	193.3	200.5	200.0	200.0
ROIC (%)	2.24%	3.15%	6.85%	6.45%	7.49%
ROCE (%)	2.06%	2.88%	4.16%	4.56%	4.91%
Return On Average Assets	2.26%	2.92%	3.26%	3.26%	3.33%

Key Drivers

	Dec-22A	Dec-23A	Dec-24F	Dec-25F	Dec-26F
Diesel Engines PBT margin (%)	2.4%	3.1%	3.4%	3.7%	3.9%
Building Materials PBT margin (%)	9.4%	14.4%	13.8%	13.7%	13.6%
Rigid Plastic Packaging PBT margin (%)	32.2%	-9.7%	-9.1%	-8.8%	-8.5%

SOURCES: CGSI RESEARCH, COMPANY REPORTS

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Description:	Excellent	Very Good	Good	N/A	N/A

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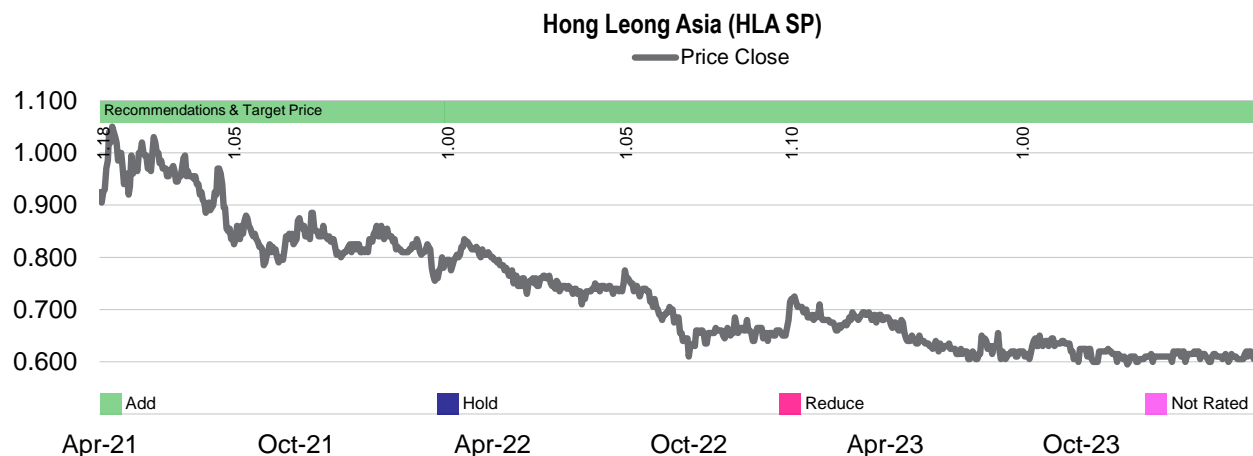
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Distribution of stock ratings and investment banking clients for quarter ended on 31 March 2024		
634 companies under coverage for quarter ended on 31 March 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	65.5%	1.3%
Hold	24.1%	0.2%
Reduce	10.4%	0.3%

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

Stock Ratings

Definition:

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.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.

Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.

Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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