

COMPANY UPDATE

Hong Leong Asia (HLA SP)

Undervalued Gem Backed By A Strong Positive Outlook

HLA is set to post strong earnings growth for 2024-26, driven by its two main segments. With significant market share across its key markets, the building materials segment faces a robust pipeline of mega infrastructure and HDB projects. Backed by favourable regulatory tailwinds, the diesel engine segment is on the verge of an earnings upcycle. In our view, HLA remains undervalued given the positive outlook for its businesses. Maintain BUY with an SOTP-based target price of S\$1.11.

WHAT'S NEW

- Robust growth and demand.** The Building and Construction Authority (BCA) reports that total construction demand is expected to reach S\$31b-38b by end-24. This upward trend is primarily driven by the public sector, with anticipated HDB projects and upcoming infrastructure projects such as the development of Changi Airport Terminal 5, Tuas Port developments, contracts for phase two of the Cross Island Line and expansions to the Integrated Resorts in Marina Bay Sands. Also, in Malaysia, mega infrastructure projects such as the Penang LRT, Pan Borneo Sabah Phase 1, large-scale flood mitigation projects and Sabah-Sarawak Link Road are expected to help drive market sentiment. With significant market share in both key markets, a strong pipeline of both public and private sector projects would benefit Hong Leong Asia's (HLA) building materials unit (BMU) segment, serving as a strong proxy for the construction sector, in our view.
- Diversified and innovative portfolio.** As a recap, HLA's 48%-owned subsidiary, China Yuchai International Limited (China Yuchai, CYD US, non-rated) is one of the top diesel engine manufacturers in China, mainly producing heavy-duty/medium-duty/light-duty diesel engines used across various industries. China Yuchai has consistently committed to invest in research and development to develop and improve its existing portfolio in response to new emission standards such as the upcoming China 7 standards and ongoing secular trends such as new energy vehicles (NEV). Some new energy solutions include electric-continuously variable transmission power-split hybrid powertrain, integrated electric drive axle powertrain and hydrogen fuel cell systems. Moving forward, we expect new product designs and growing segments like NEV to help drive engine sales.
- Favourable regulatory tailwinds.** In Jul 24, in a bid to boost domestic consumption and spur economic recovery, China's National Development and Reform Commission announced a Rmb300b stimulus programme to encourage businesses and consumers to scrap old vehicles and equipment and replace them for newer versions. Subsidies for purchasing new commercial diesel trucks could reach up to Rmb80,000, which forms the main bulk of China Yuchai's diesel engine portfolio. With the stricter China 7 emission standards also expected to be published in the medium term, we expect China Yuchai to benefit from these tailwinds which would drive engine sales in 2025 and beyond.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	3,881	4,081	4,231	4,485	4,709
EBITDA	188	176	278	313	344
Operating profit	66	84	127	161	193
Net profit (rep./act.)	55	65	95	109	122
Net profit (adj.)	55	65	95	109	122
EPS (S\$ cent)	7.3	8.7	12.7	14.6	16.3
PE (x)	11.3	9.5	6.5	5.7	5.1
P/B (x)	0.7	0.7	0.6	0.6	0.5
EV/EBITDA (x)	8.4	8.9	5.7	5.0	4.6
Dividend yield (%)	2.4	2.4	3.6	3.6	3.6
Net margin (%)	1.4	1.6	2.2	2.4	2.6
Net debt/(cash) to equity (%)	(15.4)	(37.5)	(57.6)	(75.2)	(87.6)
Interest cover (x)	6.0	4.4	7.5	8.4	9.2
ROE (%)	5.9	7.1	9.9	10.5	10.8
Consensus net profit	-	-	77	85	94
UOBKH/Consensus (x)	-	-	1.23	1.28	1.31

Source: HLA, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.83
Target Price	S\$1.11
Upside	+33.9%
(Previous TP)	S\$1.38

COMPANY DESCRIPTION

Hong Leong Asia is the trade and industry arm of Singapore conglomerate Hong Leong Group. The company's management portfolio includes diesel engines and building materials supply chain.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	HLA SP
Shares issued (m):	748.0
Market cap (S\$m):	620.8
Market cap (US\$m):	462.0
3-mth avg daily t'over (US\$m):	0.2

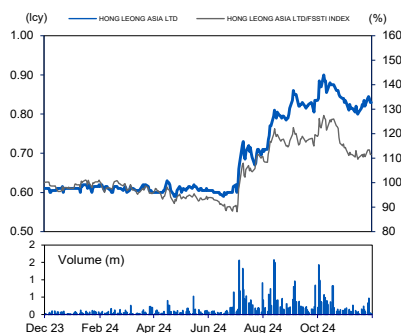
Price Performance (%)

52-week high/low	S\$0.91/S\$0.585			
1mth	3mth	6mth	1yr	YTD
(1.2)	5.1	37.2	39.5	36.1

Major Shareholders

Kwek Hldgs	75.2
FY24 NAV/Share (S\$)	1.33
FY24 Net Cash/Share (S\$)	0.77

PRICE CHART



Source: Bloomberg

ANALYST(S)

**Llalleythan Tan**  
 +65 6590 6624  
 yirong@uobkayhian.com

**John Cheong**  
 +65 6590 6623  
 johncheong@uobkayhian.com

### STOCK IMPACT

- **Expect robust earnings growth as construction activities recover.** With a strong pipeline of projects, we expect the BMU segment to outperform moving forward, in tandem with the sector recovery. HLA's wholly-owned subsidiary in Malaysia, Tasek, specifically outperformed in 2023 and 1H24, driven by higher sales volumes and ASPs. Its Singapore operations are also expected to benefit from higher HDB sales and mega infrastructure public projects starting in 2025. Based on our estimates, we expect the building materials segment to clock in revenue and EBITDA CAGR growths of 6.0% yoy and 13.2% yoy for 2024-26 respectively.
- **Earnings recovery.** Based on our estimates, we expect China Yuchai's earnings to grow in 2024-26 on the back of the favourable regulatory policy coupled with new segments such as NEV driving growth. Coming off a COVID-19 low in 2023, we estimate that unit sales in 2024-26 would grow by around 5-8% yoy. As a result, we expect 2024-26 segmental revenue and EBITDA to grow at CAGRs of 4.9% yoy and 12.6% yoy respectively.

### EARNINGS REVISION/RISK

- **Expect robust earnings growth in 2024.** Given the strong expected growth for both the BMU segment and China Yuchai, we expect HLA's PATMI to grow by 46.5% yoy for 2024 and 14.9% yoy for 2025 respectively. HLA is also implementing costs efficiency initiatives that would help support and expand margins. We now forecast 2024-26 PATMI at S\$95.0m, S\$109.2m and S\$122.2m respectively.
- **Risks include:** a) labour crunch in the construction industry; b) slower-than-expected recovery in demand for building materials; and c) economic slowdown which could result in lower demand for diesel engines.

### VALUATION/RECOMMENDATION

- **Maintain BUY with an SOTP-based target price of S\$1.11 (S\$1.38 previously),** valuing the BMU and diesel engine segments at S\$607m (4x 2025F EV/EBITDA multiple) and S\$896m (6x 2025F EV/EBITDA multiple) respectively. With HLA's current market cap at around S\$620m, we think that HLA remains undervalued, specifically its diesel engine segment given that China Yuchai trades at a negative enterprise value while the BMU segment is also set to outperform in 2024-26 from higher demand.

### SHARE PRICE CATALYST

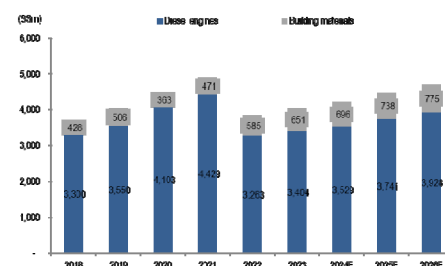
- Earnings surprise from better-than-expected engine and building materials sales.
- Better-than-expected dividend.

### PEER COMPARISON

Company	Ticker	Price @ 12-Dec-24 (1cy)	Market Cap (US\$m)	PE			P/B 2025 (x)	EV/EBITDA 2025 (x)	ROE 2025 (%)	Yield 2025 (%)	2025 Net Margin (%)
				2023 (x)	2024 (x)	2025 (x)					
<b>Construction Material Peers</b>											
Brc Asia	BRC SP	2.55	521	9.2	7.5	8.1	1.4	6.3	17.2	7.6	5.5
Hume Cement	HUME MK	3.18	520	26.7	8.8	11.4	3.1	7.2	31.1	4.4	17.8
Malayan Cement	LMC MK	4.82	1,453	39.7	14.8	12.7	1.0	7.6	7.7	2.6	11.0
Pan-United	PAN SP	0.55	286	11.2	9.0	8.1	1.4	4.1	16.6	2.6	4.7
<b>Average</b>				<b>21.7</b>	<b>10.0</b>	<b>10.1</b>	<b>1.7</b>	<b>6.3</b>	<b>18.1</b>	<b>4.3</b>	<b>9.8</b>
<b>Engine Peers</b>											
Cummins	CMI US	370.15	50,778	71.3	18.0	16.6	4.0	10.4	26.1	2.0	8.8
Dongfeng Motor	489 HK	4.19	4,447	n.a.	89.0	27.2	0.2	11.7	0.4	1.7	1.0
Weichai Power	2338 HK	11.66	15,788	10.5	8.4	7.2	1.0	5.0	14.0	7.4	5.4
<b>Average</b>				<b>40.9</b>	<b>38.5</b>	<b>17.0</b>	<b>1.8</b>	<b>9.1</b>	<b>13.5</b>	<b>3.7</b>	<b>5.1</b>
Hong Leong Asia	HLA SP	0.83	462	9.6	6.5	5.7	0.6	5.7	10.5	3.6	1.8

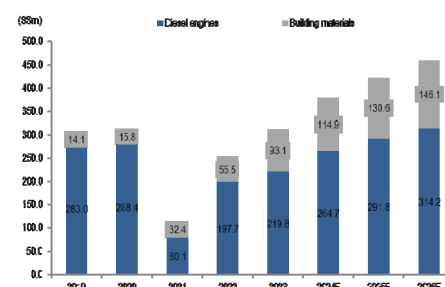
Source: Bloomberg, UOB Kay Hian

### ANNUAL SEGMENTAL REVENUE



Source: HLA, UOB Kay Hian

### ANNUAL SEGMENTAL OPERATING PROFIT



Source: HLA, UOB Kay Hian

### SOTP VALUATION

Business Segment	Valuation (S\$m)	Value ps (S\$)	Remarks
Diesel Engine (48%)	896.3	1.20	6x 2025F EV/EBITDA
BMU (98%)	607.4	0.81	4x 2025F EV/EBITDA
BRC (20%)	140.7	0.19	Market Value
Gross value (S\$m)	1,644.5	2.20	
Less: Net debt (cash)	(813.8)		
No. of shares	748.0		
<b>Target price (S\$)</b>	<b>\$1.11</b>		

Source: Bloomberg, UOB Kay Hian

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	4,081.5	4,231.2	4,485.1	4,709.3
EBITDA	176.5	278.2	312.8	344.4
Deprec. & amort.	92.8	151.3	151.3	151.3
EBIT	83.7	126.9	161.5	193.1
Total other non-operating income	96.9	96.9	96.9	96.9
Associate contributions	25.8	45.0	45.0	45.0
Net interest income/(expense)	(39.9)	(37.3)	(37.3)	(37.3)
<b>Pre-tax profit</b>	<b>166.4</b>	<b>231.5</b>	<b>266.1</b>	<b>297.7</b>
Tax	(46.4)	(55.6)	(63.9)	(71.4)
Minorities	(55.0)	(80.9)	(93.0)	(104.1)
<b>Net profit</b>	<b>65.0</b>	<b>95.0</b>	<b>109.2</b>	<b>122.2</b>
Net profit (adj.)	65.0	95.0	109.2	122.2

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	779.6	758.3	747.0	745.7
Other LT assets	796.0	796.0	796.0	796.0
Cash/ST investment	1,233.7	1,461.0	1,701.0	1,923.0
Other current assets	2,686.6	2,989.2	3,027.5	3,077.8
<b>Total assets</b>	<b>5,496.0</b>	<b>6,004.5</b>	<b>6,271.5</b>	<b>6,542.5</b>
ST debt	510.0	510.0	510.0	510.0
Other current liabilities	2,046.2	2,401.3	2,488.4	2,555.7
LT debt	378.0	378.0	378.0	378.0
Other LT liabilities	194.3	194.3	194.3	194.3
Shareholders' equity	922.0	994.6	1,081.3	1,181.1
Minority interest	1,445.5	1,526.4	1,619.4	1,723.5
<b>Total liabilities &amp; equity</b>	<b>5,496.0</b>	<b>6,004.5</b>	<b>6,271.5</b>	<b>6,542.5</b>

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>362.0</b>	<b>417.0</b>	<b>439.7</b>	<b>431.7</b>
Pre-tax profit	166.4	231.5	266.1	297.7
Tax	(31.8)	(55.6)	(63.9)	(71.4)
Deprec. & amort.	151.3	151.3	151.3	151.3
Associates	(25.8)	0.0	0.0	0.0
Working capital changes	13.7	52.4	48.9	16.9
Non-cash items	(1.8)	0.0	0.0	0.0
Other operating cashflows	90.0	37.3	37.3	37.3
<b>Investing</b>	<b>(72.4)</b>	<b>(130.0)</b>	<b>(140.0)</b>	<b>(150.0)</b>
Capex (growth)	(68.3)	(130.0)	(140.0)	(150.0)
Investments	(6.1)	0.0	0.0	0.0
Proceeds from sale of assets	1.7	0.0	0.0	0.0
Others	0.3	0.0	0.0	0.0
<b>Financing</b>	<b>(49.4)</b>	<b>(59.7)</b>	<b>(59.7)</b>	<b>(59.7)</b>
Dividend payments	0.0	(22.4)	(22.4)	(22.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(41.3)	0.0	0.0	0.0
Loan repayment	18.3	0.0	0.0	0.0
Others/interest paid	(26.3)	(37.3)	(37.3)	(37.3)
<b>Net cash inflow (outflow)</b>	<b>240.3</b>	<b>227.3</b>	<b>240.0</b>	<b>222.0</b>
Beginning cash & cash equivalent	1,104.2	1,233.7	1,461.0	1,701.0
Changes due to forex impact	(39.4)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>1,305.1</b>	<b>1,461.0</b>	<b>1,701.0</b>	<b>1,923.0</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	4.3	6.6	7.0	7.3
Pre-tax margin	4.1	5.5	5.9	6.3
Net margin	1.6	2.2	2.4	2.6
ROA	1.2	1.7	1.8	1.9
ROE	7.1	9.9	10.5	10.8
<b>Growth</b>				
Turnover	5.2	3.7	6.0	5.0
EBITDA	(6.0)	57.7	12.4	10.1
Pre-tax profit	34.6	39.1	14.9	11.9
Net profit	18.6	46.1	14.9	11.9
Net profit (adj.)	18.6	46.1	14.9	11.9
EPS	18.6	46.1	14.9	11.9
<b>Leverage</b>				
Debt to total capital	27.3	26.0	24.7	23.4
Debt to equity	96.3	89.3	82.1	75.2
Net debt/(cash) to equity	(37.5)	(57.6)	(75.2)	(87.6)
Interest cover (x)	4.4	7.5	8.4	9.2

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