

COMPANY UPDATE

Hong Leong Asia (HLA SP)

Attractive Valuations Despite Recent Rise In Share Price Performance

HLA is set to post strong earnings growth for 2025-27, driven by its two main business segments. With a significant market share across its key markets, the building materials segment faces a robust pipeline of mega infrastructure and HDB projects. The diesel engine segment also faces strong volume growth across new markets. In our view, HLA remains undervalued given the positive outlook for its businesses. Maintain BUY with a higher SOTP-based target price of S\$1.46.

WHAT'S'S NEW

- Robust domestic construction demand.** We continue to see Hong Leong Asia (HLA) benefitting from increased construction demand across its key markets Singapore and Malaysia. As a recap, according to the Singapore's Building and Construction Authority, total projected construction demand in 2025 would be between S\$47b and S\$53b, a sharp increase from S\$44.2b in 2024. This trend is further highlighted by higher Ready-Mix Concrete (RMC) projections which indicate that RMC volume is expected to grow from 13.4m³ in 2024 to 13.0m³-14.5m³ in 2025, primarily driven by both the public and private sectors. Increased 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 are expected to boost demand in the near to medium term.
- Strong growth up north.** In Malaysia, quarterly value of construction works completed remains on an uptrend. According to the Department of Statistics Malaysia, the quarterly value of construction work completed in 4Q24 reached RM42.0b (+2.2% qoq, +23.1% yoy). This implies the 12th qoq improvement in a row since the resumption of construction activities in 3Q21. Moving forward, mega infrastructure projects such as the Mass Rapid Transit Phase 3, Pan Borneo Sabah Phase 1, High Speed Rail and Sabah-Sarawak Link Road are expected to help drive market sentiment as well. With significant market share and a strong pipeline of both public and private sector projects, HLA's building materials unit (BMU) segment serves 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.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2023	2024	2025F	2026F	2027F
Net turnover	4,081	4,249	4,497	4,722	4,958
EBITDA	176	150	274	303	345
Operating profit	84	63	115	144	186
Net profit (rep./act.)	65	87	113	126	145
Net profit (adj.)	65	87	113	126	145
EPS (S\$ cent)	8.7	11.7	15.1	16.9	19.5
PE (x)	11.7	8.7	6.8	6.0	5.2
P/B (x)	0.8	0.8	0.7	0.6	0.6
EV/EBITDA (x)	8.9	10.4	5.7	5.2	4.5
Dividend yield (%)	2.0	3.9	4.9	5.4	5.9
Net margin (%)	1.6	2.1	2.5	2.7	2.9
Net debt/(cash) to equity (%)	(37.5)	(47.1)	(65.3)	(77.5)	(85.9)
Interest cover (x)	4.4	4.4	7.9	8.8	10.0
ROE (%)	7.1	9.0	10.7	11.2	11.9
Consensus net profit	-	-	107	121	138
UOBKH/Consensus (x)	-	-	1.06	1.05	1.05

Source: HLA, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.02
Target Price	S\$1.46
Upside	+43.1%
(Previous TP)	S\$1.11

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):	748.1
Market cap (S\$m):	763.1
Market cap (US\$m):	571.5
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

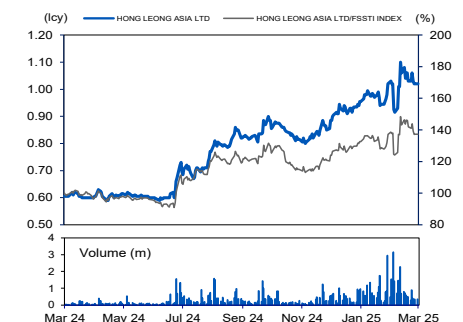
52-week high/low	S\$1.11/S\$0.585			
1mth	3mth	6mth	1yr	YTD
6.8	17.9	20.0	67.2	12.1

Major Shareholders

Kwek Hldgs	75.2
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FY25 NAV/Share (S\$)	1.46
FY25 Net Cash/Share (S\$)	0.95

PRICE CHART



Source: Bloomberg

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• **Adapting to structural changes.** As China continues to lead the world in the electrification of vehicles, diesel engines continue to be progressively phased out. We understand that the ongoing electrification is mostly impacting light-duty diesel engines, specifically on-road passenger vehicles, with medium-heavy duty diesel engines relatively unaffected as of now. As medium-heavy duty diesel engines form the bulk of HLA's revenue mix, we do not expect any significant near to medium term impact to HLA's revenue and earnings given that HLA's diversified end-user base includes industrial, marine, power generation and data centre markets. This was highlighted in 2024 when HLA's total number of engines sold grew 13.7% yoy despite a 2.6% yoy decline in commercial vehicle sales for the Chinese market. However, to mitigate this secular trend, HLA has been investing in new initiatives such as its new energy engines. For 2024, 12,100 new energy engines were sold, a 50% increase yoy. We reckon that this new segment would become a significant contributor moving forward.

STOCK IMPACT

• **Expect robust earnings growth.** Given the strong expected growth for both the BMU segment and China Yuchai, we expect HLA's PATMI to grow by 23.0% yoy for 2025 and 11.9% yoy for 2026 respectively. HLA is also implementing cost efficiency initiatives that would help support and expand margins moving forward. We forecast 2025-27 PATMI at S\$79.4m, S\$88.8m and S\$102.4m respectively.

EARNINGS REVISION/RISK

• **Earnings revision: None.**

VALUATION/RECOMMENDATION

• **Maintain BUY with a higher SOTP-based target price of S\$1.46 (S\$1.11 previously),** valuing the BMU and diesel engine segments at S\$854m (6.4x 2025F EV/EBITDA multiple) and S\$769m (6.0x 2025F EV/EBITDA multiple) respectively. The increase in target price is due to a higher market valuation for its stake in BRC Asia along with a higher EV/EBITDA multiple used for the BMU segment (4.0x 2025F EV/EBITDA multiple previously), given the robust outlook for the construction sector.

• With HLA's current market cap at around S\$763m, we still think that HLA remains undervalued, specifically its BMU segment which is currently being neglected by the market, in our view.

SHARE PRICE CATALYST

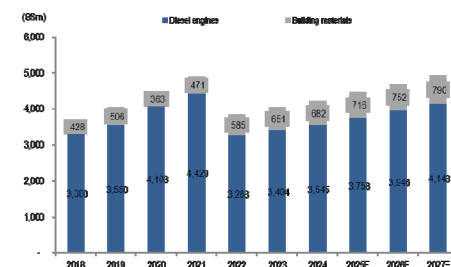
- Earnings surprise from better-than-expected engine and building materials sales.
- Better-than-expected dividend.

PEER COMPARISON

Company	Ticker	Price @ 21-Mar-25 (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)					
Construction Material Peers											
Brc Asia	BRC SP	3.09	635	9.1	10.2	10.0	1.7	7.7	17.1	6.5	5.4
Hume Cement	HUME MK	2.66	437	7.4	9.9	8.1	n.a.	5.8	30.8	n.a.	17.5
Malayan Cement	LMC MK	4.78	1,455	14.7	12.4	11.9	1.0	7.3	8.1	2.8	11.2
Pan-United	PAN SP	0.63	330	10.8	9.8	8.3	1.1	4.6	17.3	0.0	5.5
Average				10.5	10.6	9.6	1.3	6.4	18.3	3.1	9.9
Engine Peers											
Cummins	CMI US	325.4	44,736	11.4	14.5	12.4	3.9	8.9	27.6	2.3	8.9
Dongfeng Motor	489 HK	4.58	4,862	125.6	54.1	23.0	0.2	8.2	0.0	0.7	0.5
Weichai Power	2338 HK	16.28	19,284	11.7	10.2	9.1	1.4	5.9	14.0	5.4	5.5
Average				49.6	26.3	14.8	1.9	7.7	13.9	2.8	5.0
Hong Leong Asia	HLA SP	1.02	571	8.7	7.3	6.4	0.7	5.5	10.1	3.9	2.4

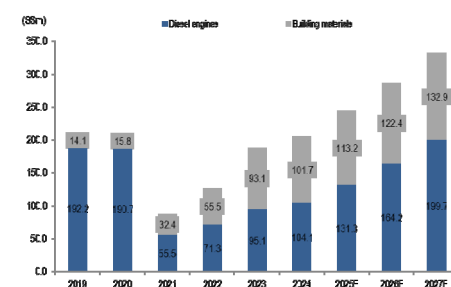
Source: Bloomberg, UOB Kay Hian

ANNUAL SEGMENTAL REVENUE



Source: HLA, UOB Kay Hian

ANNUAL SEGMENTAL OPERATING PROFIT



Source: HLA, UOB Kay Hian

SOTP VALUATION

Business Segment	Valuation (\$m)	Value ps (\$)	Remarks
Diesel Engine (48.7%)	768.6	1.03	6x 2025F EV/EBITDA
BMU (98%)	867.3	1.16	6x 2025F EV/EBITDA
BRC (20%)	165.15	0.22	Market Value
Gross value (\$m)	1,801.0	2.41	
Less: Net debt (cash)	(711.7)		
No. of shares	748.0		
Target price (\$)	\$1.46		

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2024	2025F	2026F	2027F
Net turnover	4,249.4	4,497.3	4,722.2	4,958.3
EBITDA	150.3	273.9	303.3	345.2
Deprec. & amort.	87.5	158.8	158.8	158.8
EBIT	62.8	115.1	144.5	186.4
Total other non-operating income	124.0	124.0	124.0	124.0
Associate contributions	41.8	41.8	41.8	41.8
Net interest income/(expense)	(34.5)	(34.5)	(34.5)	(34.5)
Pre-tax profit	194.1	246.4	275.8	317.7
Tax	(42.4)	(54.2)	(60.7)	(69.9)
Minorities	(64.5)	(79.4)	(88.8)	(102.4)
Net profit	87.2	112.8	126.3	145.5
Net profit (adj.)	87.2	112.8	126.3	145.5

CASH FLOW

Year to 31 Dec (\$m)	2024	2025F	2026F	2027F
Operating	289.6	445.5	424.6	414.0
Pre-tax profit	194.1	246.4	275.8	317.7
Tax	(38.2)	(54.2)	(60.7)	(69.9)
Deprec. & amort.	158.8	158.8	158.8	158.8
Associates	(41.8)	0.0	0.0	0.0
Working capital changes	(161.7)	60.0	16.2	(27.1)
Non-cash items	(3.0)	0.0	0.0	0.0
Other operating cashflows	181.5	34.5	34.5	34.5
Investing	(29.4)	(140.0)	(150.0)	(150.0)
Capex (growth)	(83.5)	(140.0)	(150.0)	(150.0)
Investments	40.4	0.0	0.0	0.0
Proceeds from sale of assets	5.0	0.0	0.0	0.0
Others	8.8	0.0	0.0	0.0
Financing	(155.3)	(71.9)	(75.6)	(79.4)
Dividend payments	(22.4)	(37.4)	(41.1)	(44.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(36.3)	0.0	0.0	0.0
Loan repayment	(31.9)	0.0	0.0	0.0
Others/interest paid	(64.9)	(34.5)	(34.5)	(34.5)
Net cash inflow (outflow)	105.0	233.6	199.0	184.6
Beginning cash & cash equivalent	1,328.9	1,352.0	1,585.6	1,784.6
Changes due to forex impact	8.6	0.0	0.0	0.0
Ending cash & cash equivalent	1,442.5	1,585.6	1,784.6	1,969.2

BALANCE SHEET

Year to 31 Dec (\$m)	2024	2025F	2026F	2027F
Fixed assets	757.5	738.8	730.0	721.2
Other LT assets	823.4	823.4	823.4	823.4
Cash/ST investment	1,352.0	1,585.6	1,784.6	1,969.2
Other current assets	2,875.8	3,050.8	3,102.0	3,247.2
Total assets	5,808.7	6,198.6	6,440.0	6,761.0
ST debt	576.3	576.3	576.3	576.3
Other current liabilities	2,278.6	2,513.6	2,581.1	2,699.1
LT debt	297.6	297.6	297.6	297.6
Other LT liabilities	205.4	205.4	205.4	205.4
Shareholders' equity	1,014.1	1,089.6	1,174.7	1,275.3
Minority interest	1,436.7	1,516.1	1,605.0	1,707.3
Total liabilities & equity	5,808.7	6,198.6	6,440.0	6,761.0

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	3.5	6.1	6.4	7.0
Pre-tax margin	4.6	5.5	5.8	6.4
Net margin	2.1	2.5	2.7	2.9
ROA	1.5	1.9	2.0	2.2
ROE	9.0	10.7	11.2	11.9
Growth				
Turnover	4.1	5.8	5.0	5.0
EBITDA	(14.8)	82.2	10.7	13.8
Pre-tax profit	16.6	26.9	11.9	15.2
Net profit	34.1	29.3	11.9	15.2
Net profit (adj.)	34.1	29.3	11.9	15.2
EPS	34.1	29.3	11.9	15.2
Leverage				
Debt to total capital	26.3	25.1	23.9	22.7
Debt to equity	86.2	80.2	74.4	68.5
Net debt/(cash) to equity	(47.1)	(65.3)	(77.5)	(85.9)
Interest cover (x)	4.4	7.9	8.8	10.0

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