Investment Idea

HB Global Ltd

★★★★½ **BUY**

Price: RM0.345
Target price: RM0.760

Tapping the telco business

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HB Global Ltd (HBG) is primarily dealing with Foods Processing business which specialise in the R&D, and manufacturing of a variety Ready-To-Serve foods (RTS). In April 2021, the company acquired a 60% stake in Forward Resources and Construction SB (FRC) for RM66m. Following the acquisition, HBG has diversified into the construction and engineering solution services. FRC has a remaining orderbook amounting to RM1.6-1.7bn, which provide earnings visibility for the next 3-4 years. The new sources of income will greatly improve HBG's earnings for FY21 and beyond. BUY with a target price of RM0.76 based on 15x FY22 FD EPS.

In April 2021, HBG received shareholders' approval to acquire a 60% stake in FRC for RM66m. At the same time, shareholders also approved the company's diversification to include the construction and engineering solution services. Management noted the diversification will provide strong and stable alternative income stream to HBG. FRC comes with a profit guarantee of RM20m in aggregate for FY21 and FY22, excluding exceptional gains.

HBG's existing business of Food & Supply Chain Solutions does not provide stable income, hence, the acquisition of FRC will generate recurring income and positive cashflow for the company.

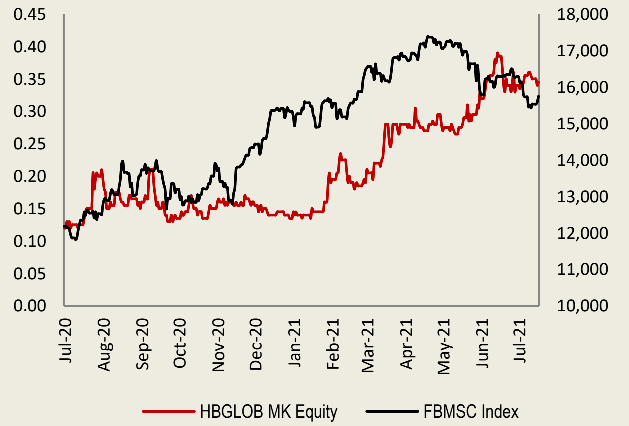
The businesses of FRC includes the supply, delivery, installation, testing, commission, operation, maintenance, and deployment of the 5G infrastructure and solutions across Malaysia. FRC provides the services of laying fibre optic cables, supply, delivery, installation and commissioning of related network equipment, as well as provision of related maintenance services at selected sites of the project owner.

At present, FRC has a remaining project orderbook amounting to RM1.6-1.7bn which provide earnings visibility for the next 3-4 years. The existing clients of FRC includes Digi, Maxis and Asiana Citarasa SB. On top of that, the company is planning to tender more projects from other telecommunications provider in the future.

Based on management's guidance, these projects will generate gross profit margins of between 30% and 40%. We project HBG's revenue to grow by 134% and 229% to RM139.8m and RM459.8m for FY21-FY22 respectively. We forecast the company to make net earnings of RM10.6m and RM39.2m for FY21-22 and arrived at a target price of RM0.76 based on 15x FY22 FD EPS. Our BUY recommendation is premised on: (i) strong remaining orderbook of RM1.6bn-RM1.7bn which provide clear earnings visibility; and (ii) emergence of 5G which will boost the telco sector.

Technically Speaking

Resistance level	RM0.37
Support level	RM0.32



KLCI	1,514.6
YTD FBM KLCI change	-6.9%
YTD FBM SC Index change	0.2%
YTD stock price change	137.9%

Stock Information

Market Cap (RM'm)	265.7
Issued Shares (m)	770.0
52-week range (H)	0.40
52-week range (L)	0.12

Major Shareholders

Chee Chen Hao	27.1%
Seng Keh Chuan	16.8%
Shen Hengbao	4.6%

Summary Earnings Table

FY Dec (RM'm)	2019A	2020A	2021F	2022F
Revenue	92.6	59.8	139.8	459.8
EBIT	9.1	(15.8)	19.1	67.1
Pretax profit	9.9	(27.7)	14.1	52.3
Net profit	9.9	(27.7)	10.6	39.2
Core net profit	**4.9**	**(18.4)**	**10.6**	**39.2**
Consensus	n.a.	n.a.	n.a.	n.a.
Core EPS (sen)	0.6	(2.4)	1.4	5.1
EPS growth (%)	-27.0%	-478.0%	-157.2%	271.5%
DPS (sen)	0.0	0.0	0.0	0.0
PER (x)	54.4	(14.4)	25.2	6.8
BV/Share (RM)	0.26	0.23	0.26	0.31
ROE (%)	2.4%	-10.2%	5.5%	17.8%
Div. Yield (%)	0.0%	0.0%	0.0%	0.0%

Sources: Company, Rakuten Trade Research

COMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:
The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

Published:

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