HIL Industries to accelerate property launches for better margins

BY **LEE WENG KHUEN**

After a year's hiatus from property development in 2022, plastic solutions provider HIL Industries Bhd is looking to accelerate its property launches, particularly of high-rises, to chalk up better margins for the group.

At end-June, the contribution of the property development segment made up nearly half of the group's top and bottom lines, with the remainder coming from its manufacturing business.

"We want to see continued growth in both sectors ... Manufacturing is a very good business because it's a non-depleting asset and we just provide services. But for property, it is very cyclical," HIL Industries managing director Datuk Milton Norman Ng Kwee Leong tells *The Edge*.

Having been involved in landed home developments, HIL Industries now has its sights on more high-rise projects. It is currently in talks to acquire land in Mont'Kiara — one of the most sought-after addresses in Kuala Lumpur — as well as Kota Kemuning, Selangor.

Despite the property overhang in the country, Ng believes demand for affordably priced homes in the Klang Valley will remain encouraging.

"We continue to look for land bank. Having a joint venture (JV) is our preference because we don't have to take out the initial land payment. We're working on a few projects, hopefully doing some JVs with other companies," he adds.

The group is set to launch superlink homes in its Amverton Links project in Klang, Selangor, in the next three to four months, at a gross development value (GDV) of RM110 million. This will be followed by the launch of a JV project next year that has a GDV of more than RM40 million.

For the plastic components segment, HIL Industries believes it will continue to be supported by robust car sales in the country as its plastic component products are widely used in the automotive sector. These are also popular in the electrical and electronics, telecommunications and IT industries.

In the automotive segment, Perusahaan Otomobil Kedua Sdn Bhd (Perodua) has been its key customer, contributing 70% to the segment's revenue in FY2022. Other clients include Toyota, Honda and Proton Holdings Bhd.

"The automotive [segment] is doing very well with a high backlog of orders. Our customers' forecasts are still very strong," says Ng.

Vehicle sales have been impressive and Perodua, for instance, is targeting sales of 314,000 units this year — 11.3% higher than the 282,019 units sold last year. The Malaysian Automotive Association (MAA) has revised upwards its car sales forecast for 2023 to 725,000 units, up 11.5% from an initial 650,000 units projected at the start of the year.

Given HIL's long-term partnership with Perodua, Ng is confident that it will continue to support growth in the manufacturing business.

"Once you have received a project, then it will be very secure for the next five to six years, as a model usually lasts about five years before a minor change or a facelift. So, you can see earnings visibility is there," he says.

HIL Industries is setting up a new plant in Rawang, which mainly caters for its headliner operation. The total investment cost is about RM15 million and the plant is expected to commence operation by year end.

"We're waiting for the CCC (Certificate of Completion and Compliance). We've bought new machines and we're aiming for it to be ready this year," says Ng.

At the same time, the group will produce polyurethane (PU) sheets, one of the raw materials, at the new plant to increase its local content while saving on logistics costs when importing the PU sheets.

SUHAIMI YUSUF/THE EDGE

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"We try to localise as many components as we can," he says, adding that the group is looking at broadening its plastic component product offerings, as well as opportunities in the electric vehicle segment.

The company's Penang plant mainly supplies the IT sector, to clients such as Western Digital and BYD.

"We just resumed the supply of hard disks to Western Digital. Also last year, we started supplying to BYD, which is involved in the iRobot vacuum cleaner business," says Ng.

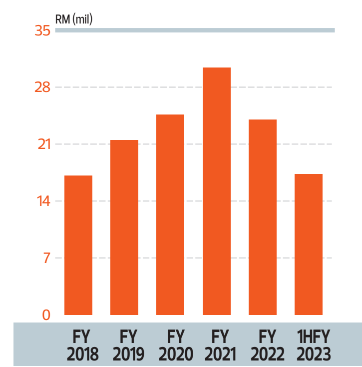
On the recent closure of its operation in Suzhou, China, owing to losses incurred as a result of the US-China trade war, he stresses that the impact is minimal on the overall group operations.

"We chose to focus on Malaysia and we're doing very well here. Of course, we're looking at other opportunities in terms of whether we can venture into other industries because we have some money [in China] ... maybe [we will look at] development. But the property market there is very depressed right now, so we're taking our time," says Ng.

Given that it is in a net cash position of RM130.81 million with zero borrowings at end-June, Ng says the group has sufficient funds for its business operations and expansion plans. However, he does not rule out that it may have to raise funds next year for its high-rise property projects.

HIL Industries

Five-year net profit



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"We've been around for so many years, partly because of our prudent management. And diversification helped us sustain through the pandemic, when we had to close our plants for a few months," he says.

Its key challenges are rising energy costs and the higher minimum wage.

"We have asked the clients [to pass on additional costs], but we haven't got there [yet]. We have no choice but to try to find our own ways of reducing internal costs," says Ng, noting that the installation of solar panels at its plants has helped to partly mitigate the additional energy costs.

Ng's father, Tan Sri Ng Boon Thong, is executive chairman and largest shareholder of HIL Industries with direct and indirect stakes of 4.54% and 70.37% respectively.

Last month, Yap Kok Meng emerged as a substantial shareholder of HIL Industries with 5.7% equity interest following the acquisition of 2.4 million shares, or a 0.72% stake, via a direct business transaction.

As for the group's personal protective equipment (PPE) segment, which it expanded into during the Covid-19 pandemic in 2020, Ng says the segment has been inactive since the pandemic eased. Nonetheless, it will produce face masks and face shields if there are orders for the products.

"It was a good learning experience. From there, we got valuable knowledge of how to manufacture for the medical industry. So hopefully, we can apply that experience and do more plastic injections for the healthcare side," he says.

The group is expanding the healthcare business to complement its property development segment, such as the setting up of clinics and wellness centres. "We're working with a few healthcare providers to introduce new elements to our development sites," says Ng.

HIL Industries posted a lower net profit of RM24.01 million for the financial year ended Dec 31, 2022 (FY2022) against RM30.35 million for FY2021, due to the absence of property launches.

In 1HFY2023, the group's net earnings were 26.7% higher at RM17.25 million compared with RM13.62 million in the previous corresponding period. It is hopeful of achieving better financial results for FY2023 given the improved performance in the first half of the year.

HIL Industries' share price closed at RM1.04 last Friday, giving the group a market value of RM345.2 million. Despite its improved earnings in 1HFY2023, its share price has been flat since early this year. E

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