16 December 2025

Basic Materials | Building Materials

Hong Leong Asia (HLA SP)

Not Rated

Undervalued On Ex-Cash Basis With Growth Tailwinds

Fair Value (Return):	N/A
Price (Market Cap):	SGD2.18 (USD1,265m)
ESG score:	3.0 (out of 4)
Avg Daily Turnover (SGD/USD)	3.55m/2.74m

- **Hong Leong Asia offers exposure to Asia's industrial and construction upcycle** through its powertrain solutions and building materials platforms. Earnings momentum should be supported by China Yuchai International (CYI), while Singapore's multi-year construction pipeline underpins recovery in building materials, complemented by indirect exposure via BRC Asia (BRC SP, NR). A net cash balance sheet and strong cash flow generation supports potential higher shareholder returns. Trading at an undemanding ex-cash P/E, HLA should see greater investor interest with better earnings visibility.
- **HLA is a Singapore-listed diversified industrial group** with operations across China, Singapore, and Malaysia. Its business is anchored on two core segments: i) Powertrain solutions is driven primarily by its 48.7% stake in CYI (providing exposure to engines across on-road, off-road, and power generation applications) and ii) building materials, which supplies cement, ready-mix concrete (RMC), and precast solutions – offering earnings leverage to regional construction activities.
- **Positives.** Powertrain solutions should see earnings momentum, supported by market share gains at CYI, export growth, and emerging demand from data centre (DC) power backup generators. Building materials is positioned for sustained growth in demand for cement and RMC, underpinned by a multi-year construction upcycle in Singapore. HLA also has an indirect exposure to the construction cycle through its 20% stake in BRC, broadening its participation across the value chain.
- **Better use of its net cash balance sheet.** A substantial net cash position of c.SGD705m as at Jun 2025 provides downside protection while creating flexibility for enhanced shareholder value generation. The recent increase in interim dividends signals management confidence in cash flow sustainability. Looking ahead, surplus capital could support higher dividends or selective acquisitions, reinforcing returns through the growth cycle.
- **Cheap on an ex-cash basis.** While headline P/E multiple appear elevated, this metric overstates HLA's true valuation due to its large net cash balance, which is c.58% of the market cap. On an ex-cash basis, it trades at a mid-single-digit forward P/E, which appears undemanding relative to consensus growth expectations. As earnings improve and capital returns become clearer, valuation focus may increasingly shift towards ex-cash metrics.
- **Risks.** Key risks include earnings concentration in CYI, which exposes HLA to China's commercial vehicle cycle and evolving emissions regulations. In building materials, execution risks remain, particularly around capacity normalisation, operating costs, and contractor financial stress during recovery phases.

Analyst

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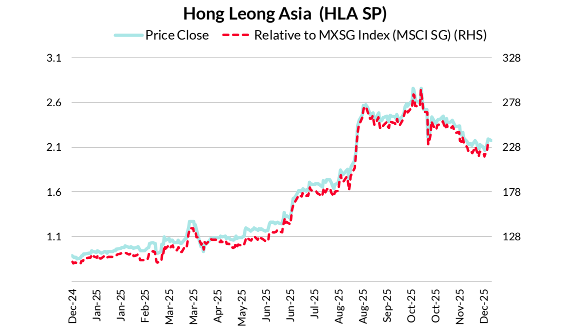
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	139.6	(6.4)	(11.0)	74.4	156.5
Relative	121.5	(4.9)	(7.8)	65.2	140.6
52-wk Price low/high (SGD)					0.85 –2.76



Source: Bloomberg

Forecasts and Valuation	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Total turnover (SGDm)	4,496	4,933	3,881	4,081	4,249
Recurring net profit (SGDm)	108	59	48	55	65
Recurring net profit growth (%)	-	(45.3)	(19.0)	14.5	17.2
Recurring P/E (x)	15.03	27.49	33.66	29.62	25.27
P/B (x)	1.9	1.7	1.8	1.8	1.6
P/CF (x)	5.33	12.48	42.96	4.50	5.63
Dividend Yield (%)	0.5	0.5	0.9	0.9	1.4
EV/EBITDA (x)	6.75	8.21	9.03	7.64	6.85
Return on average equity (%)	-	6.3	5.1	6.1	6.6
Net debt to equity (%)	net cash	net cash	net cash	net cash	net cash

Source: Company data, RHB

Overall ESG Score: 3.0 (out of 4)

E Score: 3.0 (GOOD)
S Score: 3.0 (GOOD)
G Score: 3.0 (GOOD)
Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis

In FY24, HLA reduced Scopes 1 and 2 CO_2 emissions intensity by 27% vs the 2016 baseline, despite higher absolute emissions due to expanded reporting coverage in China, which now covers key subsidiaries.

Emissions (tCO2e)	Dec-22	Dec-23	Dec-24
Scope 1	1,335,005	1,644,689	1,650,679
Scope 2	230,590	265,242	345,757
Scope 3	3,987,577	4,642,055	5,239,291
Total emissions	5,553,172	6,551,986	7,235,727

Source: Company data, RHB

Latest ESG-Related Developments

HLA is progressing towards finalising its 2030 ESG targets. In Malaysia, a decarbonisation roadmap for Tasek Corp was developed in 3Q24. ReGen Sustainable Solutions is set to commence operations in 2025, advancing circularity and reducing landfill waste.

In Singapore, the upgrade of Island Concrete's truck fleet to a larger capacity is improving efficiency and lowering diesel consumption. In China, Guangxi Yuchai Machinery or GYMCL is advancing the adoption of hydrogen combustion engines.

ESG Unbundled

Overall ESG Score: 3.0 (out of 4)

Last Updated: 15 Dec 2025

E Score: 3.0 (GOOD)

While 2030 ESG targets are still being finalised, HLA aims by 2025 to cut CO_2 emissions intensity by at least 50% from the 2016 baseline and to have new energy products account for at least 20% of powertrain solutions sales.

S Score: 3.0 (GOOD)

Since 2023, HLA has tied executive remuneration to ESG key performance indicators (KPIs), which now account for at least 20% of total performance evaluation. These KPIs cover employee health and safety, the use of recycled and alternative materials, as well as mandatory quarterly safety activities and CSR participation targets for leaders and employees.

G Score: 3.0 (GOOD)

HLA's board comprises about 60% independent directors and 40% female representation, supporting robust oversight and diverse perspectives. It was ranked 14th of 477 SGX-listed companies on the Singapore Governance and Transparency Index 2024.

Financial Exhibits

Asia
Singapore
Basic Materials
Hong Leong Asia
HLA SP
Not Rated

Valuation basis

N/A

Key drivers

i. Stronger-than-expected construction upcycle in Singapore and Malaysia;
ii. Continued earnings recovery in the building materials segment;
iii. Better-than-expected volume growth at CYI;
iv. Accretive acquisitions or value-unlocking initiatives (eg a potential IPO of a CYI subsidiary).

Key risks

i. Higher operating costs pressuring profitability;
ii. Slower construction demand or project delivery delays;
iii. Further tightening of diesel genset emissions regulations in China.

Company Profile

HLA is a Singapore-listed Asian multinational with core businesses in powertrain solutions and building materials, operating mainly in China, Singapore, and Malaysia. Incorporated in 1963, it is part of the Hong Leong Group, a globally diversified conglomerate with operations across multiple sectors and regions.

Financial summary (SGD)	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Recurring EPS	0.15	0.08	0.06	0.07	0.09
DPS	0.01	0.01	0.02	0.02	0.03
BVPS	1.18	1.28	1.22	1.23	1.36
Return on average equity (%)	-	6.3	5.1	6.1	6.6

Valuation metrics	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Recurring P/E (x)	15.03	27.49	33.66	29.62	25.27
P/B (x)	1.9	1.7	1.8	1.8	1.6
FCF Yield (%)	10.4	(0.3)	(4.8)	18.0	12.6
Dividend Yield (%)	0.5	0.5	0.9	0.9	1.4
EV/EBITDA (x)	6.75	8.21	9.03	7.64	6.85
EV/EBIT (x)	10.13	14.89	18.16	14.04	12.66

Income statement (SGDm)	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Total turnover	4,496	4,933	3,881	4,081	4,249
Gross profit	719	729	682	684	731
EBITDA	367	324	305	332	346
Depreciation and amortisation	(122)	(145)	(153)	(151)	(159)
Operating profit	244	179	151	181	187
Net interest	(38)	(30)	(31)	(40)	(35)
Pre-tax profit	195	132	124	166	194
Taxation	(42)	(14)	(21)	(46)	(42)
Reported net profit	105	58	48	55	64
Recurring net profit	108	59	48	55	65

Cash flow (SGDm)	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Change in working capital	(50)	(167)	(296)	14	(163)
Cash flow from operations	306	131	38	362	290
Capex	(137)	(136)	(116)	(68)	(83)
Cash flow from investing activities	(169)	(239)	(69)	(72)	(29)
Dividends paid	(7)	(7)	(15)	(15)	(22)
Cash flow from financing activities	(126)	(85)	(64)	(49)	(155)
Cash at beginning of period	1,204	1,346	1,219	1,014	1,234
Net change in cash	11	(193)	(95)	240	105
Ending balance cash	1,274	1,201	1,032	1,215	1,347

Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Total cash and equivalents	1,376	1,242	1,017	1,234	1,352
Tangible fixed assets	994	1,013	888	780	758
Total investments	142	197	182	196	223
Total assets	5,857	5,952	5,316	5,496	5,809
Short-term debt	495	724	672	510	576
Total long-term debt	328	176	203	378	298
Total liabilities	3,439	3,423	2,957	3,129	3,358
Total equity	2,418	2,529	2,359	2,367	2,451
Total liabilities & equity	5,857	5,952	5,316	5,496	5,809

Key metrics	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
Revenue growth (%)	0.0	9.7	(21.3)	5.2	4.1
Recurrent EPS growth (%)	0.0	(45.3)	(18.3)	13.6	17.2
Gross margin (%)	16.0	14.8	17.6	16.8	17.2
Operating EBITDA margin (%)	8.2	6.6	7.8	8.1	8.1
Net profit margin (%)	2.3	1.2	1.2	1.4	1.5
Dividend payout ratio (%)	7.1	12.9	31.3	27.0	35.3
Capex/sales (%)	3.1	2.8	3.0	1.7	2.0
Interest cover (x)	6.51	5.95	4.86	4.53	5.41

Source: Company data, RHB

Investment Merits

Positive factors

Powertrain solutions delivering visible earnings momentum. Growth in the powertrain solutions segment is underpinned by strong execution at HLA's 48.7%-owned subsidiary, CYI. In 1H25, the latter delivered unit sales growth of c.30% YoY, materially outperforming a contracting truck and bus market in China. This translated into a significant uplift in segment profitability, reflecting both operating leverage and market share gains. The ability to grow volumes in a soft domestic environment reinforces the segment's role as the key earnings stabiliser and upside driver for HLA.

A structural growth vector is emerging from DC power generation engines, which – while still small in absolute volume terms – is scaling rapidly. CYI shipped around 1,000 high-horsepower engines for DC applications in 1H25, equivalent to cumulative volumes sold between 2018 and 2023. The group also expanded its product offering to address this demand. Industry fundamentals are supportive, as JLL estimates global DC centre capacity to grow at 15% pa through 2027, driven by artificial intelligence (AI), and cloud and edge computing adoption, which underpins sustained demand for standby and back-up power solutions.

In parallel, emissions-driven replacement cycles provide a medium-term tailwind. China formally implemented the National VI-b emissions standard in Jul 2023, banning the production, import, and sale of non-compliant vehicles – policymakers are already working towards the next phase of standards (National VII), potentially by end 2025. These regulatory upgrades favour manufacturers with proven compliance and research depth. CYI has been proactively investing in cleaner and higher-value solutions, including gas engines, hybrid systems, and alternative fuel technologies, positioning itself to benefit from accelerated fleet renewals.

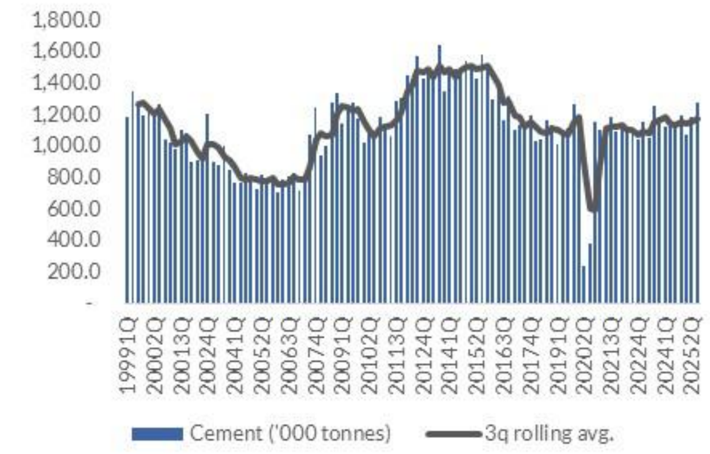
Finally, export-led growth provides an effective buffer against China domestic cyclicality. CYI continues to expand exports via its original equipment manufacturer or OEM partners into ASEAN and other emerging markets, particularly Thailand and Vietnam, without incurring heavy overseas capex. Around 20% of production is exported, largely to non-US destinations, insulating the business from tariff risks while broadening its addressable market.

Building materials positioned for sustained growth on the back of a construction upcycle. The building materials business is well positioned to benefit from a multi-year construction upcycle in Singapore, anchored by public sector demand with high visibility and long project durations. The Building & Construction Authority or BCA projects construction demand of SGD39-46bn pa from 2026 onwards, led primarily by public housing, transport, and healthcare infrastructure. Public housing remains a core driver, with the Housing & Development Board or HDB planning to launch 55,000 Build-To-Order flats between 2025 and 2027. This exceeds prior targets and reinforces sustained demand for RMC and prefabricated building components, which align directly with HLA's vertically integrated capabilities.

Beyond housing, large-scale national infrastructure projects provide additional volume and earnings visibility. Rail expansions (eg Cross Island Line and Downtown Line extension), port developments at Tuas, and major healthcare projects – including the Tengah and Eastern General Hospitals – are expected to run concurrently through the late 2020s, smoothing industry cyclicality and supporting utilisation across HLA's cement, RMC, and precast operations. Private sector activity further strengthens the backdrop, with the government land sale or GLS programme set to release 25,000 private residential units between 2025 and 2027, on top of an existing pipeline of over 45,000 units, underpinning medium-term construction demand.

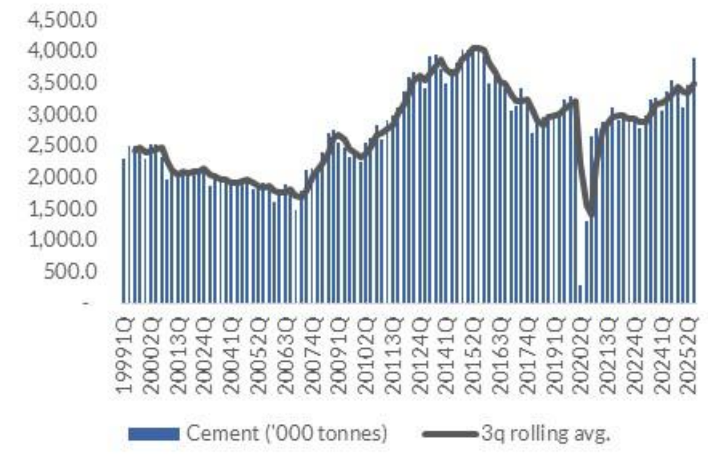
The softer performance of the segment in 1H25 was largely operational rather than structural, driven by temporary capacity disruptions from plant relocations and replacement. These issues were mainly linked to the expiry of leases in Malaysia, which forced short-term relocation of RMC production, and weighed on volumes and profitability.

Figure 1: Singapore's long-term quarterly cement demand



Source: SingStat, RHB

Figure 2: Singapore's long-term quarterly RMC demand



Source: SingStat, RHB

Precast volumes remained supported by public housing and infrastructure demand, while RMC volumes are expected to recover as new capacity comes onstream. Management commentary and industry data continue to point towards a multi-year construction upcycle in Singapore.

Recent visit to Island Concrete plant. Our recent visit to Island Concrete's Jurong batching plant highlights HLA's long-duration production asset life and operational scalability, with a permanent site secured by a 30-year lease to 2053/2054 and daily output of around 2,000cu m. Management is also rolling out AI-enabled scheduling and dispatch, alongside plans for a second, more automated Jurong plant from 2027.

Figure 3: Island Concrete – office entrance

Source: RHB

Figure 4: Island Concrete – exterior view of mixer and dispatch

Source: RHB

Figure 5: Island Concrete – cement mixer

Source: RHB

Figure 6: Island Concrete – centralised control

Source: RHB

In addition, HLA has indirect exposure to the Singapore construction cycle through its 20% strategic stake in BRC, a leading steel reinforcement solutions provider, acquired in 2021 for SGD68.1m. This investment broadens the group's participation across the construction value chain, enhances earnings leverage to large-scale infrastructure and public housing projects, and creates potential operational synergies alongside its existing cement, RMC, and precast businesses.

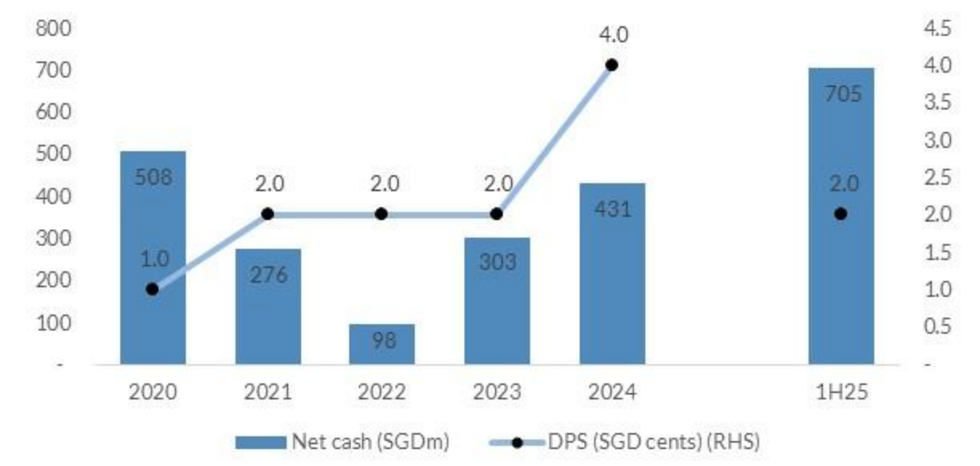
Balance sheet strength could lead to enhanced shareholder value generation. HLA's strong balance sheet is a key differentiator within the Singapore industrials space and underpins optionality for shareholder value creation. As at 30 Jun 2025, HLA was in a net cash position of approximately SGD705m (adjusting for lease liabilities), supported by robust operating and free cash flow generation in 1H25.

The doubling of the interim dividend signals management's confidence in the sustainability of cash flows and marks a shift towards more visible capital returns, which is increasingly valued by investors in a volatile macro environment.

Looking ahead, HLA's balance sheet strength provides strategic flexibility to deploy capital in a value-accretive manner, whether through higher and more consistent dividend payouts or selective acquisitions that deepen exposure to core growth themes such as construction materials and industrial solutions.

In the context of Singapore's ongoing equity market reforms and renewed focus on small- and mid-cap value creation, HLA's net cash position enhances its appeal to investors seeking companies with both downside protection and upside optionality, positioning balance sheet deployment as a potential catalyst for re-rating.

Figure 7: Net cash position (adjusted for lease liabilities) and DPS



Source: Company data, RHB

Trading cheap on ex-cash basis. While HLA screens optically expensive on headline P/E metrics, this materially overstates its true valuation given the strength of its balance sheet. The group's net cash position of c.SGD705m accounts for c.58% of its market capitalisation, materially lowering the implied valuation of the underlying operating businesses. On a net cash-adjusted basis, HLA trades at roughly 5.2x 2FY earnings based on Bloomberg estimates, which appears undemanding relative to street expectations of c.14% EPS growth over the same period. This valuation discount is further underpinned by visible dividend upside and strong free cash flow generation, as evidenced by the significant increase in interim DPS in 1H25.

With Singapore's construction market still in the early stages of a multi-year upcycle, and ongoing equity market reforms potentially supporting re-rating of quality small- and mid-cap names, investors may increasingly focus on ex-cash valuations rather than headline multiples, providing scope for multiple expansion as earnings momentum and capital returns become more apparent.

Figure 8: Peer comparisons

			Market		P/E		EV/EBITDA		P/BV		Div		
	BBG	Price	cap	1FY							yield	ROE	Net margin
Company name	**ticker**	**(LCY)**	**(USDm)**	**year**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**2FY**	**1FY**	**1FY**	**1FY**
BRC	BRC SP	4.08	866	Sep-26	11.5	10.6	9.6	9.0	2.01	1.86	5.1%	18.3%	6.0%
Hong Leong Asia	HLA SP	2	1,222	Dec-25	14.1	12.4	-	-	1.44	1.32	2.0%	11.3%	2.4%
Pan United	PAN SP	1.05	568	Dec-25	15.2	13.0	8.3	7.1	2.53	2.31	3.4%	17.5%	5.4%
Weighted average			**2,656**		**13.5**	**11.9**	**9.1**	**8.3**	**1.86**	**1.71**	**3.3%**	**14.9%**	**4.2%**

Note: Prices are as at 12 Dec 2025
Source: Blomberg, RHB

Potential concerns

Dependence on CYI for earnings delivery. Despite improved diversification, HLA's earnings remain heavily concentrated in its powertrain solutions business via CYI, exposing the group to swings in China's commercial vehicle and industrial cycle. Any sharper-than-expected slowdown in domestic demand, withdrawal of policy support, or heightened pricing competition could have a disproportionate impact on group profitability. While CYI invests heavily on R&D, China's engine market remains intensely competitive, and sustained market share gains are not guaranteed if innovation or cost competitiveness falters.

In addition, part of CYI's medium-term growth narrative is linked to diesel gensets for DCs, which face evolving regulatory and technological risks. Tighter emissions standards, local permitting constraints, and restrictions on emergency-use generators could raise costs or slow adoption in certain markets. Over the longer term, alternative technologies such as natural gas gensets, battery-to-uninterruptable power supply or UPS systems and hydrogen fuel cells may increasingly compete with diesel solutions, although fuel logistics and long-duration economics remain key hurdles today. While export growth and new-energy powertrains provide some mitigation, CYI concentration remains a key sensitivity within HLA's investment profile.

Execution risk in building materials recovery. The building materials segment remains operationally sensitive to execution risks, particularly during recovery phases. The construction industry is inherently cyclical, and periods of stress can translate into contractor cash flow strains and higher counterparty risks. Singapore has seen an elevated number of construction-related post-pandemic insolvencies due to cost inflation, labour shortages, and project delays, which raises the risk of delayed receivables or write-offs – even for established suppliers such as HLA.

In addition, while we believe there will be recovery in RMC volumes – as capacity replacement and plant relocation issues normalise – any slippage in commissioning timelines, persistently higher operating or energy costs, or continued manpower constraints could extend the earnings drag from this segment. While demand visibility is supported by the broader construction upcycle, timing and execution remain key sensitivities, and a slower-than-expected ramp-up would weigh on near-term group earnings momentum, in our view.

Company Overview

Business profile

HLA is a Singapore-listed diversified industrial group with operations spanning China, Singapore, and Malaysia. It has a corporate history dating back to 1963. Listed on the SGX since 1998, HLA combines exposure to regional industrial manufacturing and construction-related demand, positioning it as a differentiated proxy within the Singapore industrials universe. It is part of the Hong Leong Group, a well-established global conglomerate, which underpins HLA with strong governance standards, balance sheet discipline, and long-term strategic support.

At group level, it operates a dual-engine business model anchored in industrial and urban development themes across Asia. HLA's portfolio is structured to balance export-oriented manufacturing exposure with domestic and regional infrastructure demand, allowing earnings to be diversified across geographies and economic cycles. This business profile provides the group with both cyclical leverage and resilience, supporting cash generation and strategic optionality through different phases of the economic cycle.

Powertrain solutions

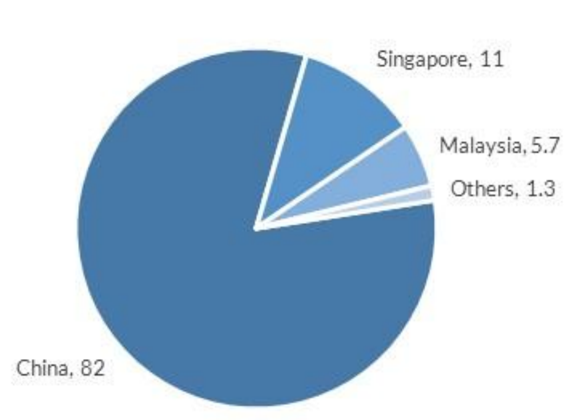
The powertrain solutions segment is the group's principal earnings driver, anchored by its 48.7% stake in NYSE-listed China Yuchai. The segment provides HLA with scaled exposure to a broad engine application base (on-road and off-road) and multiple demand vectors that can run in parallel: i) export growth and market share gains even in a softer China domestic market, ii) emissions-driven replacement cycles as China tightens emissions standards, and iii) DC back-up power demand, where HLA has highlighted portfolio widening and early traction from genset applications.

Building materials

The building materials segment supplies cement, RMC, and precast in Singapore and Malaysia. This business provides HLA with exposure to: i) Vertical integration and installed capacity and ii) multi-year construction demand visibility driven by public infrastructure and housing pipelines.

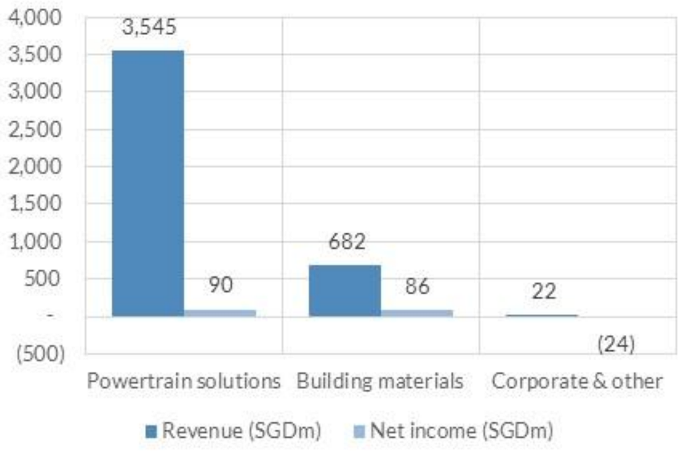
Some key entities under the group's building materials division are Island Concrete and R3 Precast in Singapore, as well as Tasek Corp (Tasek) in Malaysia. HLA also holds equity stakes in Singapore Cement Manufacturing (50%), the HL-Sunway Prefab Hub JV (51%), Cement Industries (Sabah) (29.48%), and BRC (20.15%).

Figure 9: 2024 revenue breakdown by country (%)



Source: Company data, RHB

Figure 10: 2024 revenue and profit breakdown by segment



Source: Company data, RHB

Management

The group's management team blends financial rigour, regional operating depth, and segment-level accountability, reinforcing confidence in HLA's ability to navigate cyclical volatility while capturing medium-term growth opportunities.

Chief Executive Officer Stephen Ho, who assumed full responsibilities in Aug 2020, brings over three decades of senior financial and management experience, including his prior role as group CFO of Wilmar International (WIL SP, NEUTRAL, TP: SGD3). Ho's background in capital markets, banking, and global operations underpins HLA's focus on earnings quality, balance sheet strength, and cash flow conversion, which has become increasingly evident in recent years through improved profitability and dividend visibility. He also sits on the boards of CYI and Tasek, aligning group-level strategy with execution at key operating subsidiaries.

The finance function has been further strengthened with the appointment of Josephine Lee as group CFO in Aug 2024, adding over 25 years of senior financial leadership experience across listed Singapore corporates. Her background across manufacturing, real estate, and asset management supports tighter financial controls and disciplined capital deployment across China, Singapore, and Malaysia.

At the operating level, CYI President Hoh Weng Ming provides long-standing continuity and deep China market expertise, while Simon Loh, COO of Building Materials Group, brings more than 30 years of industry-specific experience, supporting execution through the construction cycle.

RHB Guide to Investment Ratings

Buy:	Share price may exceed 10% over the next 12 months
Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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