Huationg Global (HUAGL SP)

1H26: Margin Pressure Expected To Ease; Recovery Ahead

Analyst(s)

Tang Kai Jie
kaijietang@uobkh.com
+65 6590 6624

Highlights

- Huationg's 1H26 revenue of S$198m (+64% yoy) exceeded our expectation by 10%, driven by a 58% surge in civil engineering revenue.
- 1H26 earnings of S$8.6m were below expectations, largely due to higher diesel/fuel costs. Going forward, 2H26 earnings and margins are expected to recover from fuel cost normalisation and re-imbursement.
- Maintain BUY with a lower target price of S$0.88, pegged to a lower 10x 2026F PE. Huationg trades at 6.3x 2026F PE, a 37% discount to peers.

1H26 Results

Year to 31 Dec (S$m)	1H26	1H25	yoy % chg
Revenue	197.8	120.6	64.0
Gross profit	19.1	21.1	(9.4)
Gross margin (%)	9.7	17.5	(7.8) ppt
Net profit	8.6	8.2	(5.4)
Net profit margin (%)	7.2	4.1	(3.3) ppt

Source: Huationg, UOB Kay Hian

Analysis

- **Record-high revenue beat but saw cost headwinds.** 1H26 revenue rose 64% yoy to S$197.8m, representing 60% of our full-year forecast. Gross profit fell 9% yoy to S$19.1m largely due to higher diesel/fuel and material costs which compressed margins. Net profit was S$8.6m, down 5% yoy, below expectations and representing 39% of our full-year forecast. Gross margin dropped 7.8ppt to 9.7% while net profit margin fell 3.3ppt to 4.1%. We expect a recovery in margins in 2H26 as diesel/fuel costs normalise, and efficiency measures such as fleet upgrades, converting 100 tipper trucks to 12-wheelers to double the load per trip should bring margin upside.
- **Civil engineering drove record-high revenue; dormitory operations kicked off.** By segment, civil engineering revenue increased 58% to S$177.4m in 1H26 (1H25: S$112.1m), while its new management contract for a dormitory kicked off, contributing S$10.0m to top-line and slightly offsetting the lower civil engineering margins. Inland logistics grew 5% yoy, while sales of construction material grew 140% off a lower base.
- **Fuel shock should ease, but not fully reverse in 2026.** While 1H26 saw incremental diesel costs of about S$6m, roughly half is expected to be reimbursed by the government in 2H26, plus around S$3m in 3Q26 with a similar 50% reimbursement. We model 2026 gross margin at 13.0%, with 2H26 offsetting a weaker 1H26, but still well below 2025's 16.5%.

Key Financials

Year to 31 Dec (S$m)	2024	2025	2026F	2027F	2028F
Net turnover	226	299	322	338	367
EBITDA	38.1	47.5	39.0	39.4	45.3
Operating profit	19.1	24.8	20.3	24.2	28.2
Net profit (rep./act.)	16.3	19.8	16.6	19.8	23.0
Net profit (adj.)	16.3	19.8	16.6	19.8	23.0
EPS (S$ cent)	9.2	10.4	8.8	10.5	12.2
PE (x)	6.0	5.3	6.3	5.3	4.6
P/B (x)	0.9	0.8	0.7	0.6	0.6
EV/EBITDA (x)	1.1	0.9	1.1	1.1	1.0
Dividend yield (%)	2.0	2.7	2.9	3.1	3.2
Net margin (%)	7.2	6.6	5.2	5.9	6.3
Net debt/(cash) to equity (%)	(26.3)	(28.4)	(40.1)	(38.8)	(39.8)
Interest cover (x)	n.a.	294.8	n.a.	n.a.	n.a.
ROE (%)	15.6	16.3	11.8	12.4	13.0
Consensus net profit (S$m)	-	-	21.1	22.4	23.8
UOBKH/Consensus (x)	-	-	0.79	0.88	0.97

Source: Huationg, Bloomberg, UOB Kay Hian

BUY (Maintained)

Share Price	S$0.555
Target Price	S$0.88
Upside	+58.6%
Previous TP	S$1.23

Stock Data

Sector	Industrials
Bloomberg ticker	HUAGL SP
Shares issued (m)	188.3
Market cap (S$m)	104.5
Market cap (US$m)	82.3
3-mth avg daily t'over (US$m)	0.1

Price Performance (%)

52-week high/low S$0.935 /S$0.440

1mth	3mth	6mth	1yr	YTD
(27.0)	(32.3)	(37.6)	15.6	2.8

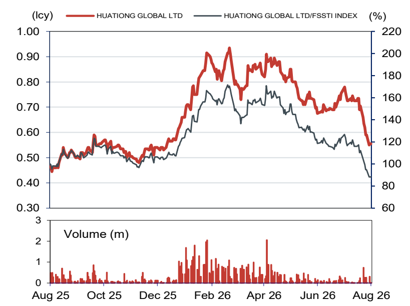
Major Shareholders (%)

Dandelion Capital Pte. Ltd.	64.73
Kian Ann Ng	7.84

Balance Sheet Metrics

FY26 NAV/Share (S$)	0.80
FY26 Net Cash/ Share (S$)	0.32

Price Chart



Source: Bloomberg

Company Description

Huationg Global provides civil engineering services for infrastructure projects and ancillary inland logistics support services. The company also sells construction materials.

- **Higher interim dividend.** A higher interim dividend of 0.6 S cent/share (1H25: 0.5 S cent; +20% yoy) was declared. While no dividend policy is set in stone yet, the company highlighted a strong final dividend for 2026 to increase shareholder value.
- **Strong order pipeline and orderbook continue to provide earnings visibility.** Huationg Global's (Huationg) strong orderbook of S$533m as of end-Jun 26 should continue to support earnings visibility over the next four years. Huationg remains focused on government infrastructure and sees a healthy pipeline from Changi Airport and other major public works. The company continues to actively tender for new projects and also highlighted three tenders of above S$100m in contract value each awaiting results.
- **Cash deployment reflects working capital and growth capex.** Cash fell to S$66.8m at end-Jun 26 from S$124.6m at end-25 after a S$24.4m operating cash outflow and S$41.9m investing outflow, including land and equipment purchases. Management expects its cash position to recover going forward, with a S$70m-80m year-end cash target.
- **Dormitory/property development adds recurring income.** The current 4000-bed government dormitory is expected to operate through Feb 27, with the tender likely to be out towards end-26. The new secondary dormitory is targeted for partial TOP by end-27, with all beds for external tenants and management expecting double-digit margins. This adds a high-margin and recurring income stream and keeps the group well-positioned for future dormitory tenders.
- **Potential Mainboard transfer could trigger re-rating.** As a profitable, dividend-paying company with over S$100m market cap and a consistent track record, Huationg meets the key eligibility criteria for a transfer from the Catalist board to the SGX Mainboard. A successful transfer would elevate visibility, improve liquidity and increase the investor base, supporting a potential re-rating.

Valuation/Recommendation

- **Maintain BUY with a 28% lower target price of S$0.88 (S$1.23 previously),** after revising our earnings forecasts downwards. Our target price is also pegged to a lower 10x 2026F PE (11x 2026F PE previously) in line with peers' average which de-rated. Huationg's strong orderbook and potential Mainboard transfer provide catalysts for re-rating. Trading at just 6.3x 2026F PE, a 37% discount to peers' average of 10x, the stock offers an attractive value proposition.

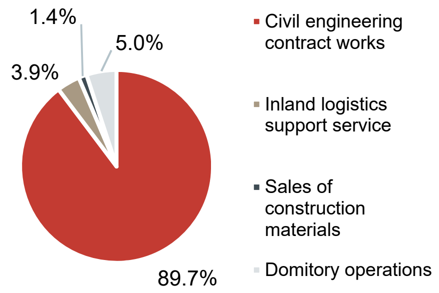
Earnings Revision/Risk

- We lower our 2026-28 revenue forecasts by 2.7%/3.7%/1.6% respectively on a slower contract rollout backdrop in 2026, and trim our earnings forecasts by 21.0%/11.5%/3.4% following higher diesel/fuel costs which impacted 1H26 earnings and margins more than expected.

Share Price Catalyst

- Higher-than-expected order wins and margin expansion.
- Potential Mainboard transfer unlocks value.

Revenue By Business Segment (1H26)



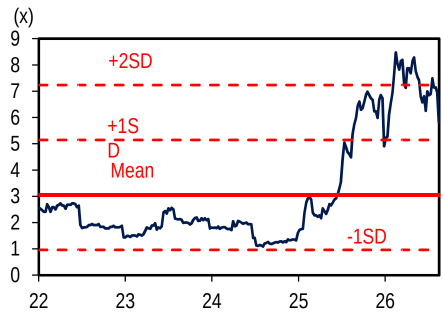
Source: Huationg, UOB Kay Hian

Revenue And Operating Profit By Segment

(S$'000)	Revenue	Operating Profit	Operating Profit Margin (%)
Civil Engineering	177,443	9,234	5.2
Inland Logistics Support	7,684	514	6.7
Sale of Construction Materials	2,716	145	5.3
Dormitory Operations	9,956	528	5.3

Source: Huationg, UOB Kay Hian

Historical PE Band



Source: Huationg, Bloomberg, UOB Kay Hian

Profit & loss

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Net turnover	298.8	321.7	337.7	367.0
EBITDA	47.5	39.0	39.4	45.3
Deprec. & amort.	22.6	18.6	15.2	17.1
EBIT	24.8	20.3	24.2	28.2
Total other non-operating income	(0.0)	(0.0)	(0.0)	(0.0)
Associate contributions	(0.0)	0.0	0.0	0.0
Net interest income/(expense)	(0.2)	0.4	0.5	0.5
Pre-tax profit	24.7	20.8	24.7	28.7
Tax	(4.9)	(4.2)	(4.9)	(5.7)
Minorities	0.0	0.0	0.0	0.0
Net profit	19.8	16.6	19.8	23.0
Net profit (adj.)	19.8	16.6	19.8	23.0

Balance Sheet

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Fixed assets	119.5	127.4	140.2	153.4
Other LT assets	0.1	0.1	0.1	0.1
Cash/ST investment	130.9	154.5	159.0	168.4
Other current assets	111.4	117.6	123.2	133.7
Total assets	361.9	399.6	422.4	455.7
ST debt	65.7	65.7	65.7	65.7
Other current liabilities	132.1	149.5	154.8	167.3
LT debt	28.2	28.2	28.2	28.2
Other LT liabilities	6.1	5.6	6.6	7.6
Shareholders' equity	130.1	150.8	167.3	187.1
Minority interest	(0.3)	(0.3)	(0.3)	(0.3)
Total liabilities & equity	361.9	399.6	422.4	455.7

Cash flow

Year to 31 Dec (S$m)	2025	2026F	2027F	2028F
Operating	34.6	45.7	35.1	42.4
Pre-tax profit	24.7	20.8	24.7	28.7
Tax	(3.8)	(5.5)	(3.6)	(4.3)
Deprec. & amort.	22.6	18.6	15.2	17.1
Associates	0.0	0.0	0.0	0.0
Working capital changes	(13.2)	12.2	(0.7)	1.5
Non-cash items	2.0	0.0	0.0	0.0
Other operating cashflows	2.2	(0.4)	(0.5)	(0.5)
Investing	(22.4)	(26.6)	(27.9)	(30.3)
Capex (maintenance)	0.0	0.0	0.0	0.0
Investment	0.1	0.0	0.0	0.0
Proceeds from sale of assets	2.2	0.0	0.0	0.0
Others	(24.7)	(26.6)	(27.9)	(30.3)
Financing	1.7	4.5	(2.7)	(2.7)
Dividend payments	(2.0)	(3.0)	(3.2)	(3.2)
Proceeds from borrowings	132.8	3.2	3.2	3.3
Loan repayment	(126.7)	0.0	0.0	0.0
Others/interest paid	(2.5)	4.3	(2.7)	(2.7)
Net cash inflow (outflow)	13.8	23.6	4.5	9.4
Beginning cash & cash equivalent	110.7	124.6	148.2	152.7
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	124.5	148.2	152.7	162.1

Key Metric

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	15.9	12.1	11.7	12.3
Pre-tax margin	8.3	6.5	7.3	7.8
Net margin	6.6	5.2	5.9	6.3
ROA	5.6	4.4	4.8	5.2
ROE	16.3	11.8	12.4	13.0
Growth				
Turnover	32.0	7.6	5.0	8.7
EBITDA	24.6	(17.9)	1.1	14.8
Pre-tax profit	23.4	(15.8)	18.9	16.1
Net profit	21.1	(15.8)	18.9	16.1
Net profit (adj.)	21.1	(15.8)	18.9	16.1
EPS	13.5	(15.8)	18.9	16.1
Leverage				
Debt to total capital	42.0	38.5	36.0	33.5
Debt to equity	72.2	62.3	56.2	50.2
Net debt/(cash) to equity	(28.4)	(40.1)	(38.8)	(39.8)
Interest cover (x)	294.8	n.a.	n.a.	n.a.