

Wentel Engineering Holdings Berhad (0298)



Strong Start to FY25

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BUY ↔

TP: RM 0.40 (+36%) ↔

Current Share Price: RM 0.295

Valuation

Our target price is based on:

FY25F PE of 20x, lower than its peers' forward PE of 27x, given the smaller market size than its peers and different exposure to semiconductor industry.

Initiation Report

Growth

Investment Horizon : 12 months

Results Review

Wentel's 1QFY25 core earnings of RM6.2 million met our expectations, representing 26% of our full-year forecast. QoQ, revenue increased by 8%, primarily driven by robust orders across all segments. This led to a 7% rise in core earnings, attributable to a better product mix and improved operational efficiency.

Outlook

Our positive stance on Wentel's prospective earnings is reaffirmed by robust order accretion from the Electronics & Electrical (E&E) and security sectors. Concurrently, we anticipate Wentel will significantly benefit from ongoing global trade realignments and associated trade diversion opportunities. Evidence of this includes increased order volumes from E&E clients, resulting from a reallocation of manufacturing activities to Malaysia and the successful transition of New Product Introductions (NPIs) to mass production. The company's new facility, expected to reach completion by Q4 CY2025 and commence operations by 1Q2026, will provide expanded capacity for scanning operations, support the growth trajectory of the E&E segment, and offer enhanced warehousing capabilities. We maintain our forecasts, BUY call, and target price of RM0.40, anchored to an unchanged 20x FY25F PE, reflecting a more pronounced earnings growth outlook.

Key Assumption

Revenue Growth	Before			After		
	FY2025F	FY2026F	FY2027F	FY2025F	FY2026F	FY2027F
Security segment	15%	15%	20%	15%	15%	20%
Electrical & Electronic segment	45%	45%	45%	45%	45%	45%

Results Summary					
FYE 31 Dec (RMm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)
Revenue	25.8	28.9	31.2	7.9	21.1
Gross profit	7.0	9.3	9.7	4.2	37.6
EBITDA	3.0	9.9	9.4	-5.3	nm
Depreciation	-1.0	-1.4	-1.2	-13.0	16.5
EBIT	2.0	8.5	8.2	-4.1	nm
Pretax Profit	6.0	8.4	8.1	-4.0	34.3
Taxation	-1.4	-1.8	-2.0	9.3	40.1
Net Profit	4.6	6.6	6.1	-7.6	32.5
Core Net Profit	4.6	5.8	6.2	6.9	35.5
Margin (%)					
GP	27.3	32.1	31.0		
EBITDA	11.7	34.2	30.0		
Pretax	23.4	29.2	25.9		
Net Profit	17.7	20.0	19.8		

Financial Exhibits					
FYE 31 Dec	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Revenue (RMm)	98.8	112.4	134.0	162.3	203.8
EBITDA (RMm)	20.4	25.5	35.1	43.0	53.3
Pretax profit (RMm)	18.8	20.8	30.1	36.4	45.8
Net profit (RMm)	14.1	15.0	22.9	27.6	34.8
EPS (sen)	1.2	1.3	2.0	2.4	3.0
PER (x)	24.1	22.6	14.8	12.3	9.8
Core net profit (RMm)	13.8	19.6	22.9	27.6	34.8
Core EPS (sen)	1.2	1.7	2.0	2.4	3.0
Core EPS growth (%)	(32.7)	42.4	16.6	20.7	25.8
Core PER (x)	24.6	17.3	14.8	12.3	9.8
Net DPS (sen)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
ROE (%)	13.8	8.1	11.0	11.7	12.8
P/BV (x)	3.3	1.8	1.6	1.4	1.2

Financial Exhibits

Income statement

FYE 31 Dec (RM m)	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Revenue	98.8	112.4	134.0	162.3	203.8
Operating expenses	(5.7)	(10.6)	(7.1)	(8.0)	(11.0)
EBITDA	20.4	25.5	35.1	43.0	53.3
Depreciation	(1.3)	(4.5)	(4.7)	(6.3)	(7.2)
EBIT	19.1	21.0	30.4	36.7	46.1
Net int income/(expense)	(0.3)	(0.2)	(0.3)	(0.3)	(0.3)
Exceptional gains /(losses)	(0.3)	(4.6)	0.0	0.0	0.0
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Pretax profit	18.8	20.8	30.1	36.4	45.8
Tax	(4.7)	(5.8)	(7.2)	(8.7)	(11.0)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	14.1	15.0	22.9	27.6	34.8
Core net profit	13.8	19.6	22.9	27.6	34.8

Balance Sheet Statement

FYE 31 Dec (RM m)	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Fixed assets	42.8	67.0	70.3	72.0	71.8
Other long term assets	1.5	4.9	-	-	-
Total non-current assets	44.3	71.9	70.3	72.0	71.8
Cash and equivalents	18.6	31.5	46.2	61.6	81.3
Inventories	15.5	21.9	26.2	31.9	39.8
Receivables	20.8	26.9	31.9	38.7	48.6
Other current assets	18.3	61.8	47.8	47.8	47.8
Total current assets	73.3	142.2	152.2	180.0	217.5
Payables	6.6	7.1	8.5	10.3	12.9
Short term borrowings	1.5	1.4	1.4	1.4	1.4
Other current liabilities	6.0	14.7	-	-	-
Total current liabilities	14.1	23.3	9.9	11.7	14.3
Long term borrowings	1.4	3.5	3.5	3.5	3.5
Other long term liabilities	0.2	0.9	-	-	-
Total long term liab.	1.6	4.4	3.5	3.5	3.5
Shareholders' Funds	101.9	186.5	209.1	236.7	271.5
Minority Interest	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

FYE 31 Dec (RM m)	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Pretax Profit	18.8	20.8	30.1	36.4	45.8
Depreciation & amortisation	1.3	4.5	4.7	6.3	7.2
Working capital changes	(0.3)	(1.8)	(7.9)	(10.6)	(15.2)
Others	(2.7)	(8.2)	(7.2)	(8.7)	(11.0)
C/F from operation	17.2	15.3	19.6	23.4	26.7
Capex	(19.2)	(26.9)	(8.0)	(8.0)	(7.0)
Others	(3.6)	(47.7)	0.0	0.0	0.0
C/F from investing	(22.7)	(74.7)	(8.0)	(8.0)	(7.0)
Debt raised/(repaid)	(1.5)	(1.5)	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Others	(2.2)	69.1	0.0	0.0	0.0
C/F from financing	(3.7)	67.6	0.0	0.0	0.0
Net change in cash flow	(9.2)	8.2	11.6	15.4	19.7
Free Cash Flow	(2.0)	(11.7)	11.6	15.4	19.7

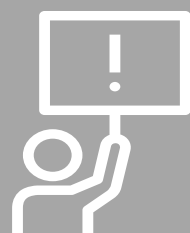
Investment Risk

1. Customer concentration risk. More than 65% of its group revenue, particularly from security screening and only two customers. Any reduction in orders, pricing renegotiations, or loss of key clients may materially affect the Group's revenue and earnings, potentially leading to a significant financial downturn.

2. Industry cyclicity. Wentel is exposed to cyclical end-markets such as semiconductors and E&E, which are subject to global demand fluctuations, inventory adjustment, and investment cycles. A downturn in the semiconductor industry, like that seen in 2023 or a slower-than-expected recovery in 2024, can lead to lower capacity utilization and deferred customer orders.

3. Execution risk from capacity expansion. The Group's ongoing expansion involves constructing new manufacturing plants and acquiring new equipment, which involves execution risks. Delays in project completion, cost overruns, or failure to scale up production as planned could negatively impact future earnings and return on investment.

4. Labour and skilled talent constraints. The precision engineering sector relies heavily on skilled technicians and engineers. Malaysia's manufacturing sector faces an ongoing shortage of technical workforce, which could affect production efficiency and quality, particularly during rapid capacity growth phases



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Tradeview Research Investment Rating System

Equity:

- BUY: Total stock return expected to exceed +15% over 12-month period
- HOLD: Total stock return to be between -15% and +15% over a 12-month period
- SELL: Total stock return expected to below -15% over a 12-month period
- TRADING BUY: Total stock return expected to exceed +10% over 6-month period
- TRADING SELL: Total stock return expected to below -10% over a 6-month period