

Wentel Engineering Holdings Berhad (0298)



Defying Gravity: E&E Flies High

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BUY

Target Price: RM 0.40 (+48%)

Current Share Price: RM 0.27

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

We initiate Wentel Engineering Holdings Berhad (Wentel) coverage with a BUY recommendation and a target price of RM0.40. We believe that Wentel, as a leading precision engineering firm, is well-positioned with the support of two global leaders in security screening technology, providing financial stability despite the slow recovery in the semiconductor sector. The company's recent breakthrough into front-end customer further strengthens its E&E segment. We believe Wentel stands to benefit from trade diversion opportunities amid ongoing global trade tensions. We forecast earnings growth CAGR of 21% for next 3 years, and supported by 19-26% revenue growth from FY25F to FY27F, driven by strong demand across both the security and E&E segments and supported by increased production capacity as its new plant comes online in 2HCY26.

Winning more orders in E&E segment



The global semiconductor industry has shown steady revenue improvement since April 2024 as reported by WSTS. This trend is reflected in Wentel's E&E segment, which achieved 21% QoQ revenue growth in 4QFY24 compared to 3QFY24. This segment constitutes 18% of FY24 revenue, and Wentel fabricates precision metal parts for semiconductor customers. Wentel has begun fulfilling orders for new front-end customers and contract manufacturers (CM), positioning the company for significant contributions to FY25F revenue. Additionally, we project 25-30% earnings growth in tandem with strong annual revenue growth of 45% for the segment, supported by increasing orders from its primary client and new CM within the customers' supply chain. The top 3 customers constitute 80% of E&E revenue. Wentel stands to benefit from trade diversion amid ongoing global trade tensions as more manufacturing orders are relocated to Malaysia and Singapore, which enhances the company's growth prospects.

Stable growth in security segment



The post-pandemic tourism boom has increased global airport traffic, which is driving multinational corporations (MNCs) to improve or upgrade security screening machines such as handbags and luggage scanners. We also understand that there is more demand for mobile cargo and vehicle or parcel scanners due to high traffic at the port and tighter enforcement of imported goods. This trend fuels Wentel's growth, as it supplies airport and cargo screening machines to two industry leaders, which hold 30%-35% of the global market share. The products are provided globally and delivered to customers' places in Singapore or locally. Notably, less than 1% of the products are delivered directly to the US. Wentel fabricates scanner metal frames, contributing 68% of FY24 revenue. We forecast 15-20% revenue growth for FY25F-FY27F, driven by the strong demand for machines as restrictions get tighter and technological advancements urge the change of scanners. The security segment offers strong double-digit margins and ensures stable business growth.

Expansion plan to increase capacity



Wentel is expanding its production capacity by constructing a new plant with a built-up area of 299,000 sq ft, up from the current 114,000 sq ft. Wentel expects the project to be completed by the end of 2025, which involves capex of c.RM69m and include adding more CNC machines. This new facility is projected to generate double the revenue of the existing plant, with a strategic focus across all segments. With the current plant operating at an average utilization rate of 75% and we anticipate surge in orders; the expansion is timely needed. The increase space will accommodate larger space for scanners, support the growing E&E segment, and provide a bigger warehouse.

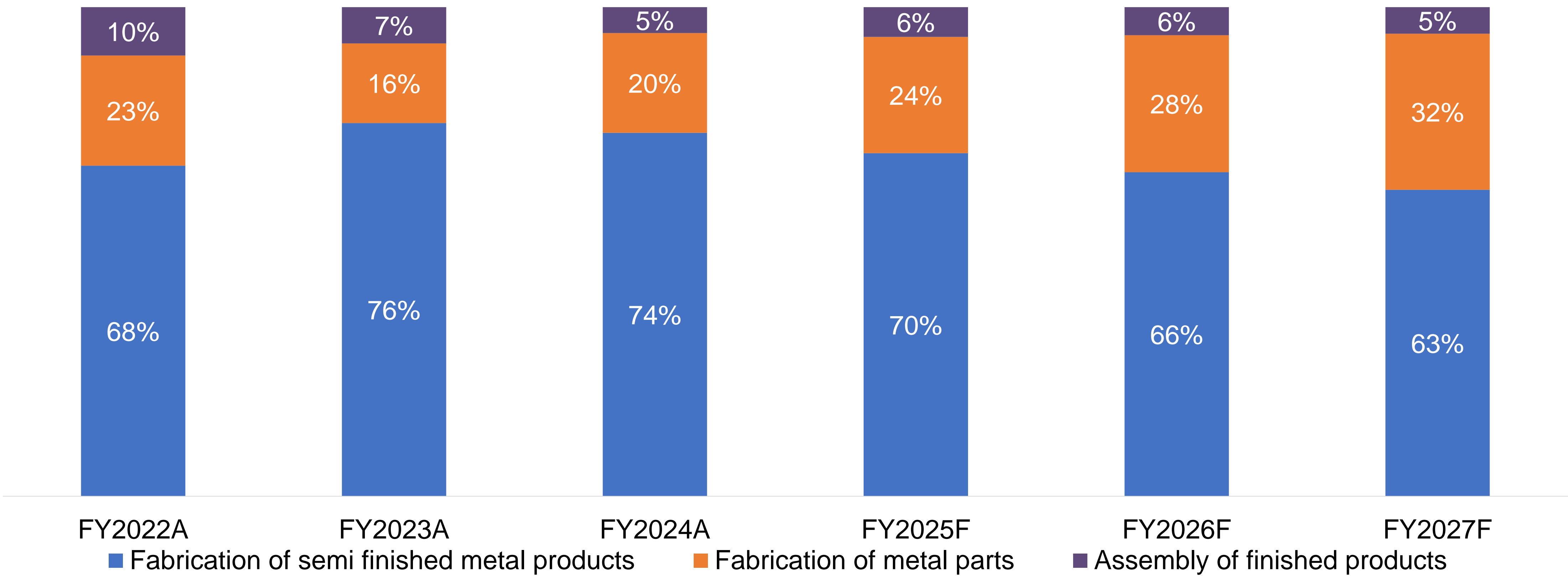
Company Overview

Wentel Engineering was established in 2000 and converted to a public limited company on 12 June 2023. As an investment holding company, Wentel Engineering became the parent of Wentel Engineering Sdn. Bhd. (WESB) and Wentel Engineering (Penang) Sdn. Bhd. (WEPL) following the completion of strategic acquisitions, both entities now operate as wholly-owned subsidiaries. The Group is principally involved in the precision fabrication of semi-finished and finished metal products and the assembly of completed components. Leveraging state-of-the-art in-house facilities, including CNC machining centers, advanced manufacturing equipment, and dedicated surface treatment and coating capabilities, Wentel Engineering delivers high-quality engineering solutions tailored to diverse industrial requirements. The Group's core markets are Malaysia and Singapore, and their capabilities are positioned to serve a broad spectrum of industries, including manufacturers of security screening systems, semiconductor equipment, computer numerical control (CNC) machinery, and medical diagnostic devices. Through a commitment to precision, efficiency, and innovation, Wentel Engineering continues strengthening its presence as a trusted partner in the precision engineering landscape.

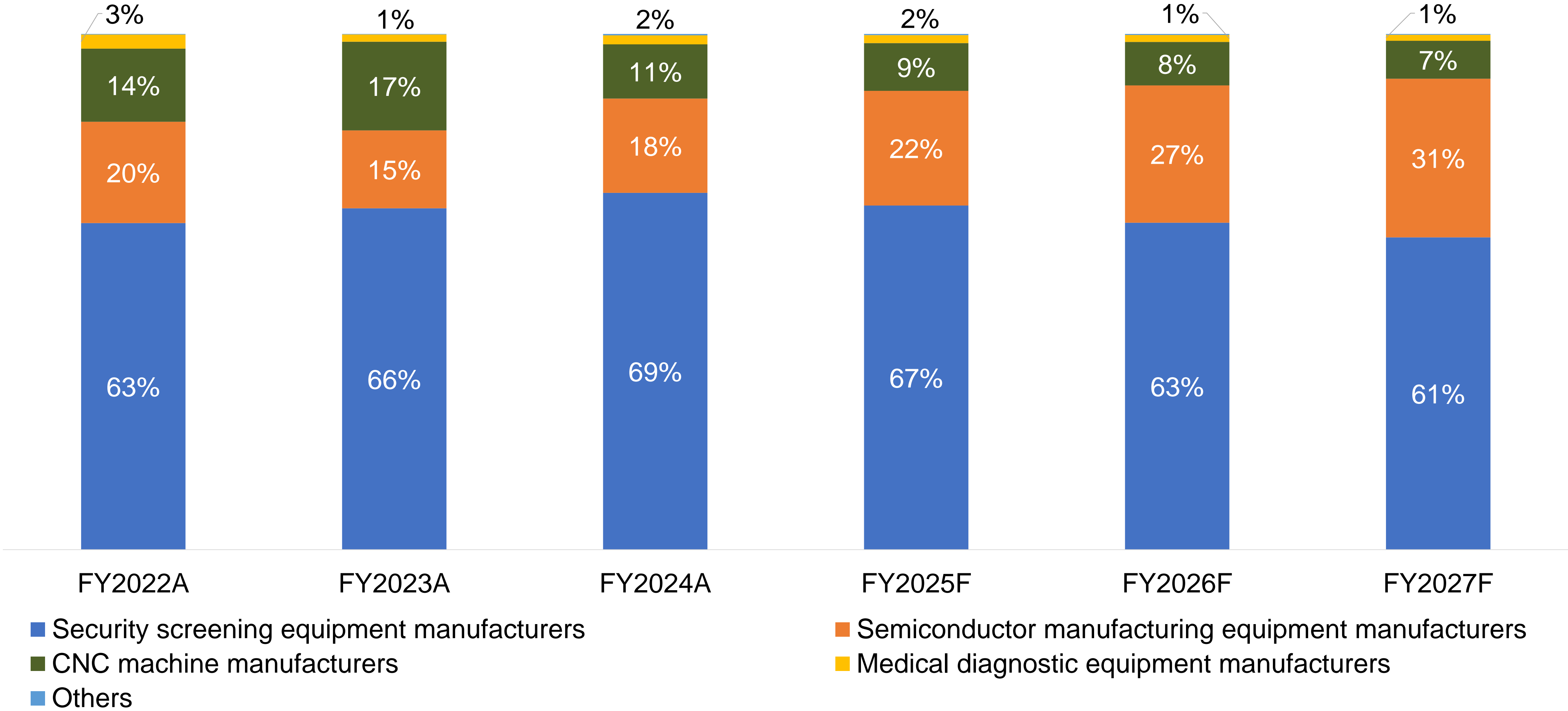
Business Segment

Notably, security screening and CNC machine segments are group under fabrication of semi finished metal products. Fabrication of metal parts mainly constitute by E&E segment follow by medical segment. We expect E&E contribution to increase as its revenue growth of 45% will outpace security segment of 15% as E&E is growing from a small revenue base and newer onboarding CMs.

Revenue by business activities



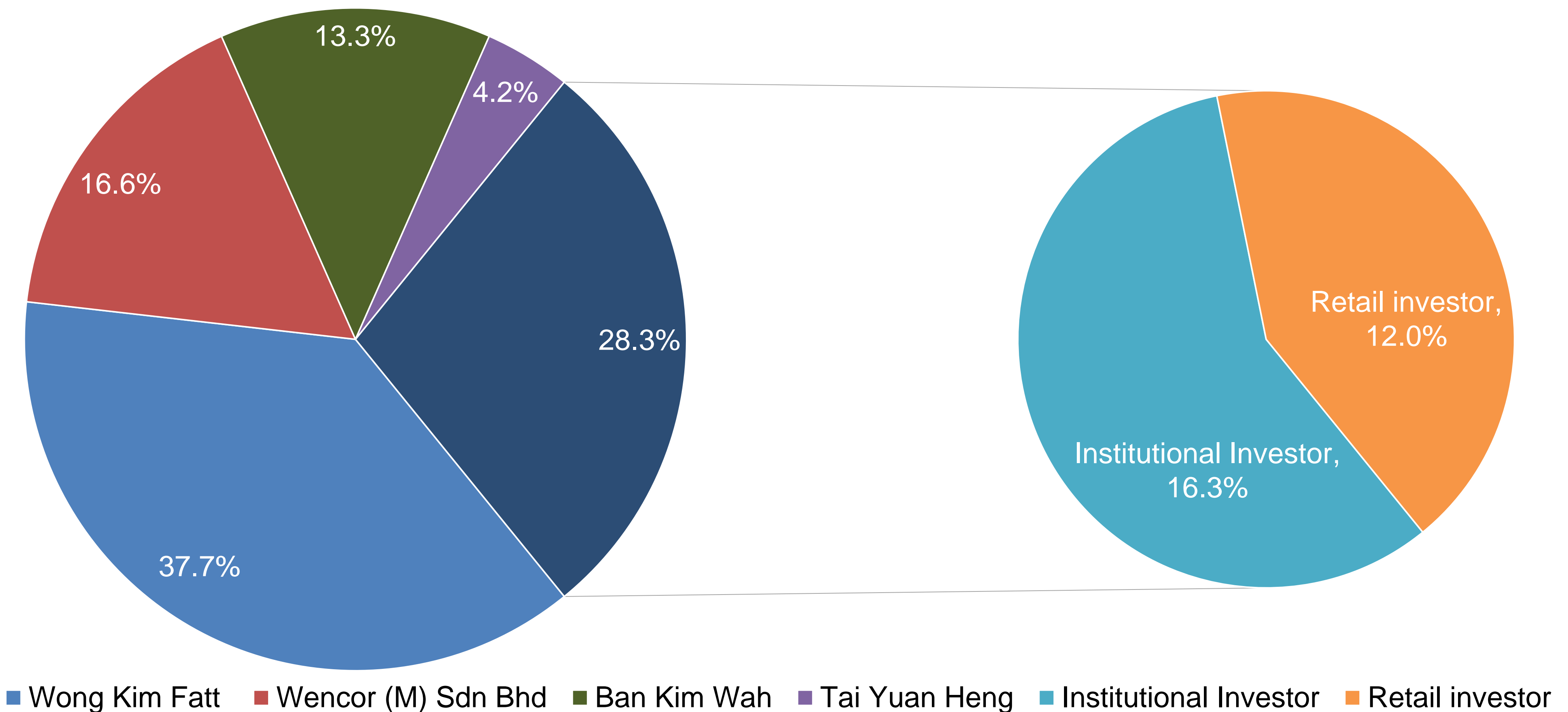
Revenue by industries



Management Team

- Mr Wong Chun Wei (Executive Director) was appointed to the Board on 1 March 2023 and re-designated as Executive Director on 28 March 2023, overseeing corporate development, strategy, sales, and customer service for the Group. He holds a Bachelor of Economics from La Trobe University and brings over nine years of experience from Golden Oriental Realty and 5E Resources, where he led business development and marketing initiatives. His leadership and industry experience support the Group’s growth. He has a family relationship with the shareholders, son of Wong Kim Fatt and nephew of Ban Kim Wah.
- Mr Chuah Chong Syn (Group Chief Executive Officer) has been with the Group for over 21 years. He oversees overall business operations, including supply chain and production planning. He holds a Bachelor of Engineering (Mechanical) from Universiti Teknologi Malaysia and has progressively advanced within the company since joining as an Engineer in 2002.
- Mr Tai Yuan Heng (General Manager) has been overseeing the Group’s daily production operations since his appointment on 28 March 2023. With over three decades of experience in metal fabrication, he began his career in Singapore as a technician before taking on leadership roles, including Plant Manager at HFB Technologies (M) Sdn. Bhd. He co-founded WESB in 2000 and has played a key role in managing factory operations and supervising production teams ever since.
- Mr Yap Yew Wei (Group Financial Controller) joined since December 2021, overseeing the Group’s accounting, finance, internal controls, and administrative functions. He holds a Bachelor of Science (Hons) in Accounting and Finance from the University of London, is a Chartered Accountant with MIA, a Chartered Member of The Institute of Internal Auditors Malaysia, and an ACCA member since 2020.
- Ms Lew Sia Ching, Head of Supply Chain since 28 March 2023, oversees the Group’s procurement, inventory management, and logistics functions. She brings nearly two decades of experience in supply chain and procurement, having held various roles at JVCKENWOOD Electronics Malaysia, including Purchasing Department Head and Planning Department Head. She joined WESB in 2017 as Supply Chain Manager, leading procurement and supplier management before her current leadership role.

Shareholding Structure

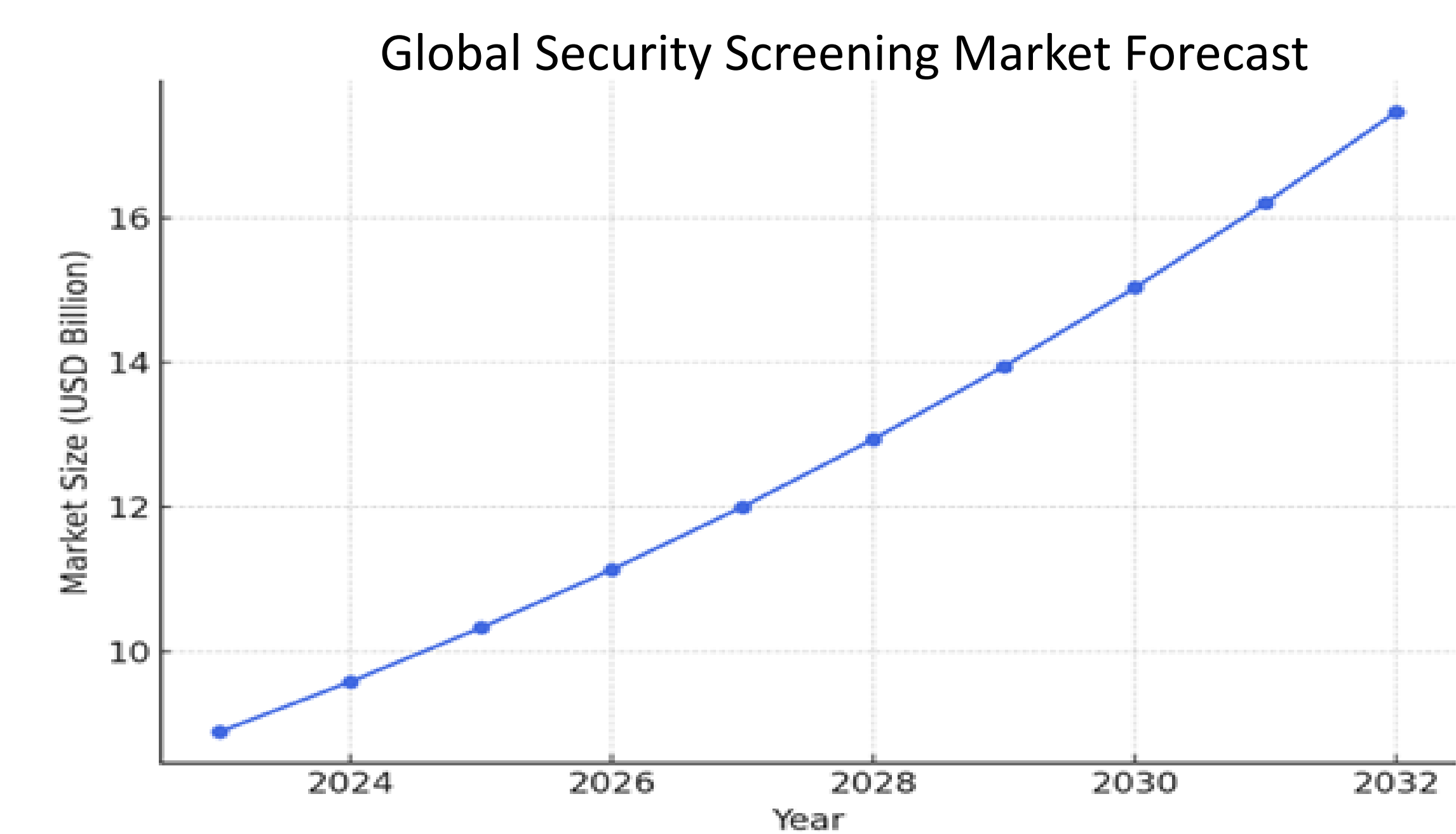


As at 31 December 2024

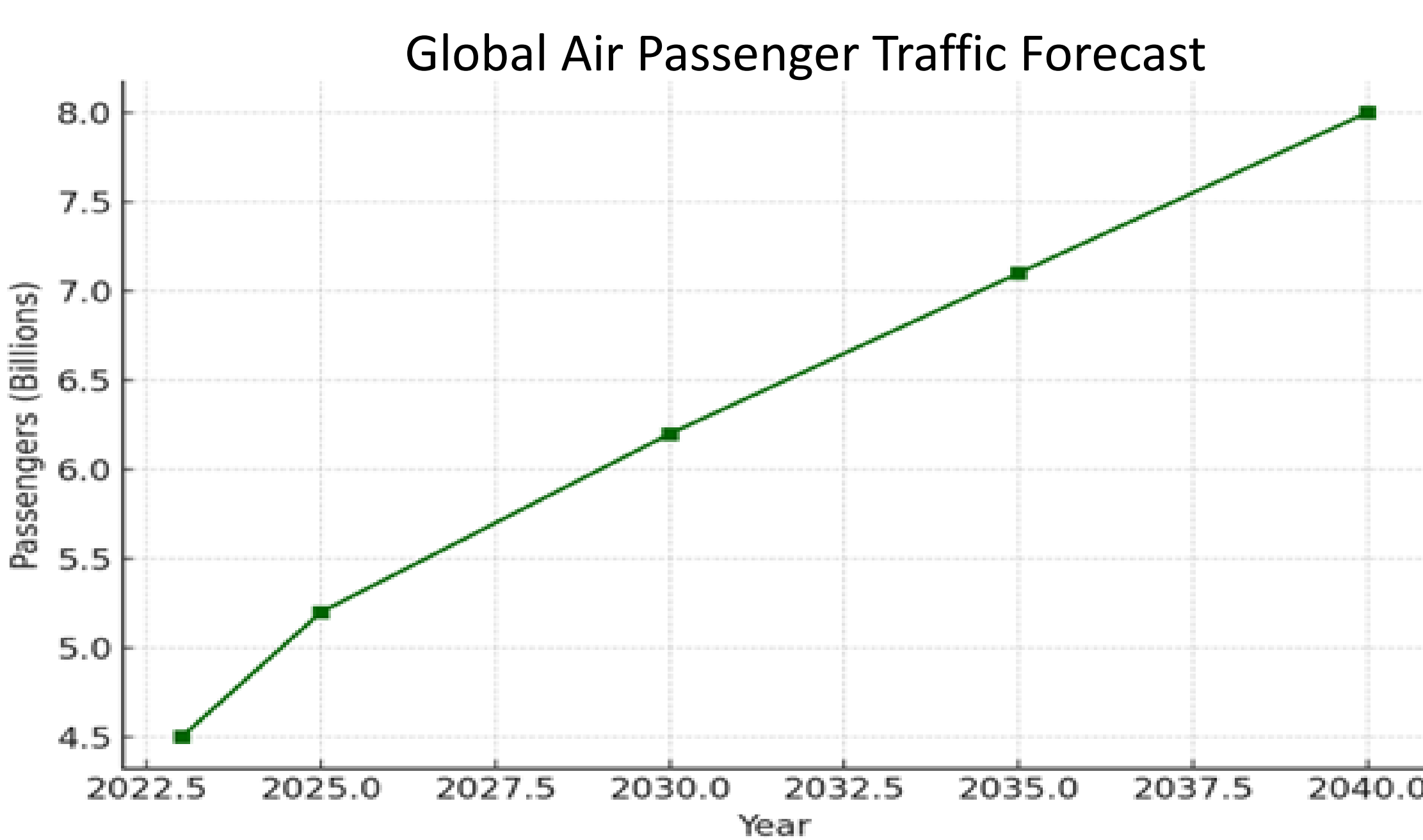
Industry outlook

Steady growth for security screening industry

The global security screening industry is entering a phase of sustained expansion, driven by rising security concerns, regulatory enforcement, and rapid technological advancement. According to Fortune Business Insights, the global security screening market was valued at USD 8.9b in 2023 and is projected to reach USD 17.3b by 2032, growing at a CAGR of 7.8% during the forecast period. This robust growth reflects rising demand for enhanced threat detection capabilities across key sectors. Airports remain the largest market segment, supported by the resurgence in international travel and continued investment in aviation infrastructure post-COVID. The International Air Transport Association (IATA) forecasts global air passenger numbers to double by 8b by 2040, compelling governments and airport operators to upgrade legacy screening systems with next-generation, AI-enabled, and contactless technologies. Beyond aviation, increased investments in urban security, government facilities, border control, and critical infrastructure are driving further adoption of advanced screening equipment. In parallel, the rise of smart cities and growing concerns around domestic terrorism, smuggling, and cyber-physical threats fuel global demand for integrated and data-driven security systems. Thus, we believe that companies like Wentel are well-positioned to benefit from this long-term uptrend especially amid trade diversification and rising demand for regional sourcing.



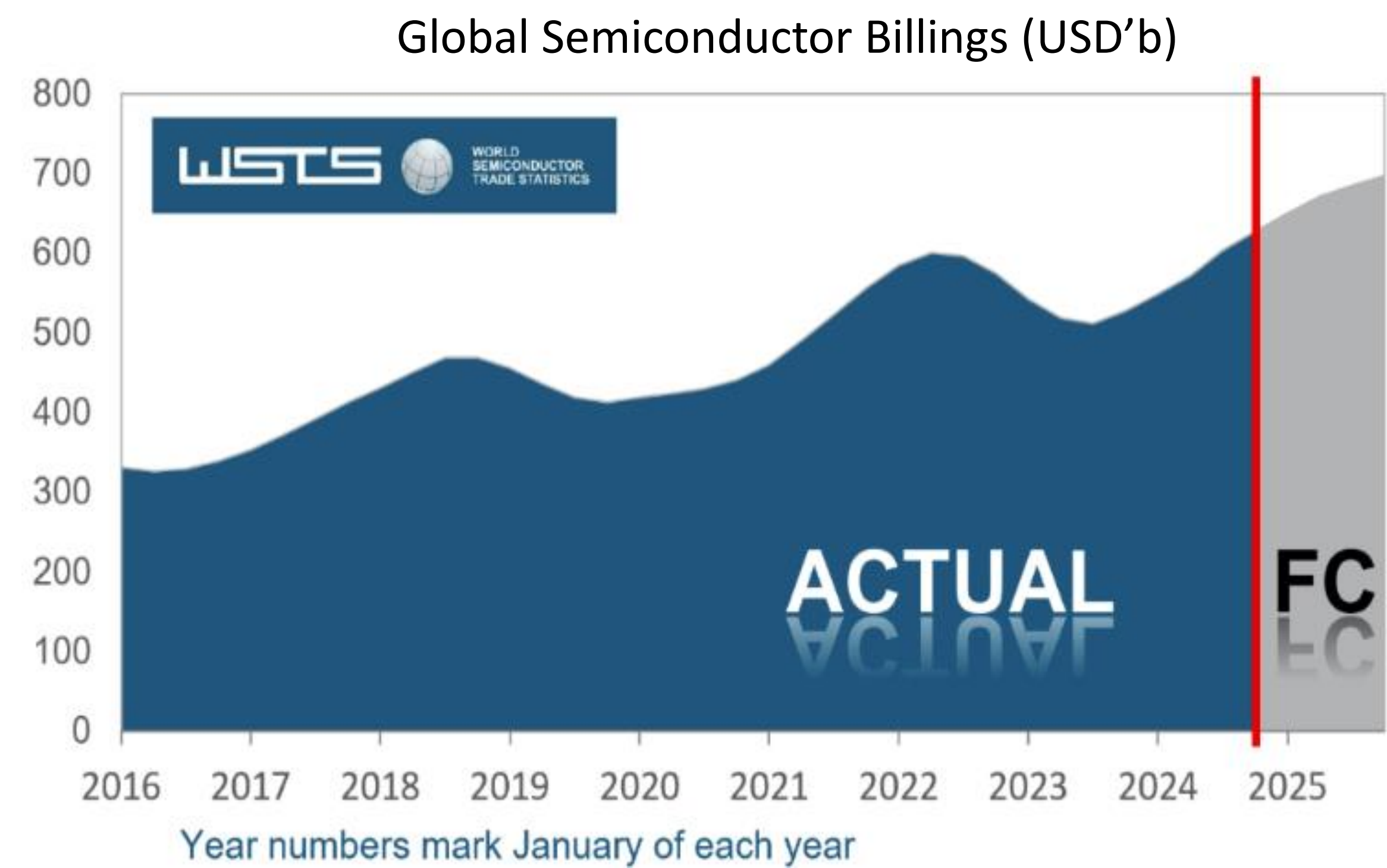
Source: Fortune Business Insights



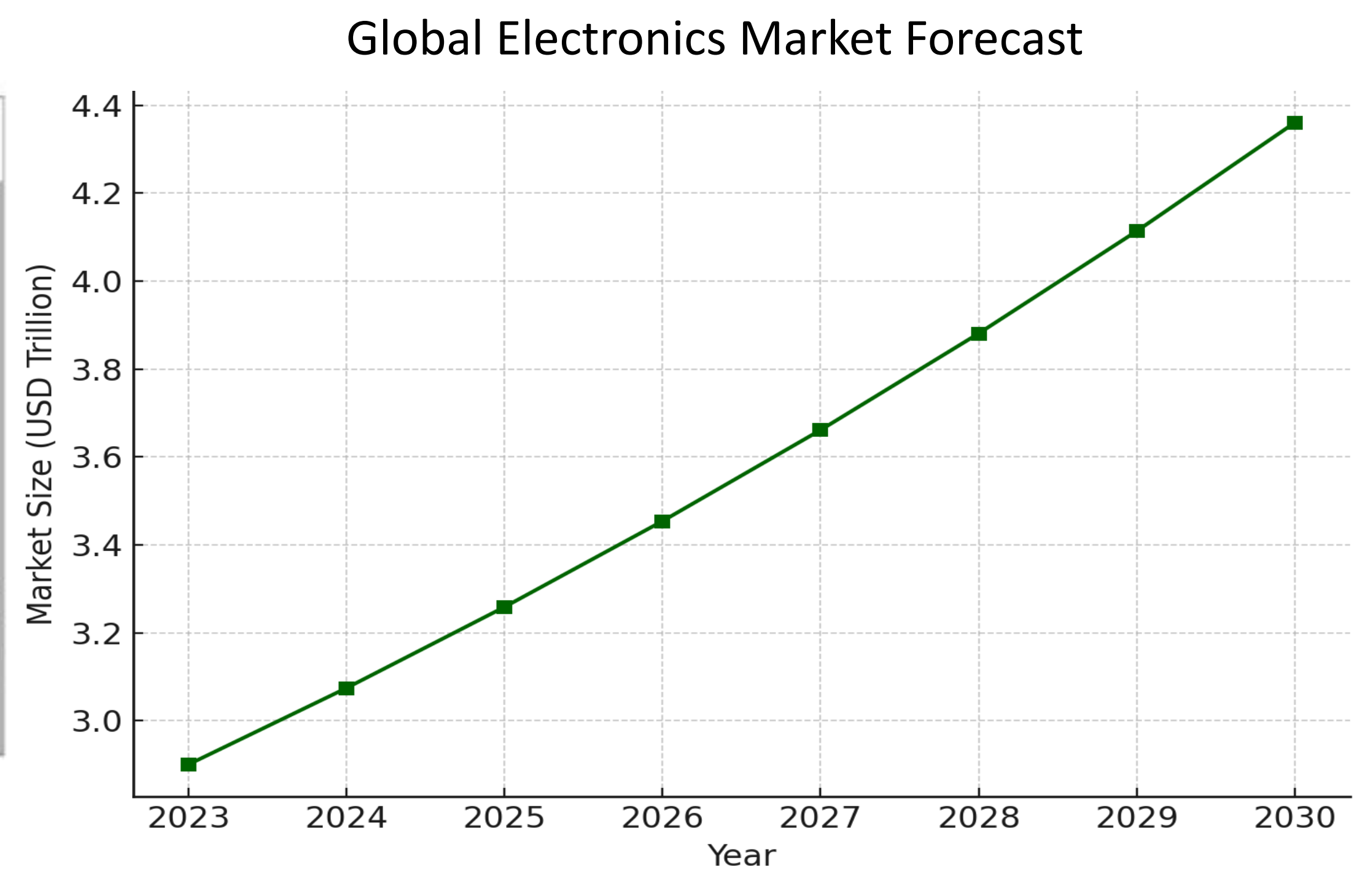
Source: International Air Transport Association (IATA)

Navigating growth and volatility: Semiconductor and E&E industry outlook

The semiconductor and electrical & electronics (E&E) industry is entering a promising upcycle, buoyed by transformative technologies such as artificial intelligence (AI), 5G, Internet of Things (IoT), electric vehicles (EVs), and smart manufacturing. However, despite these strong structural growth drivers, the industry faces headwinds from trade policy uncertainty and geopolitical tensions, leading to periodic volatility in global supply chains and capital spending. According to World Semiconductor Trade Statistic (WSTS) and Semiconductor Industry Association (SIA), the global semiconductor industry experienced a significant rebound in 2024, a 19.1% increase from 2023, particularly in computing sector. The growth was driven by strong demand across various sectors, including AI and industrial applications. Meanwhile, Statista estimates the global electronics market will expand from USD 2.9tri in 2023 to USD 4.4tri by 2030. While the long-term outlook remains bullish, the industry faces short-to-medium-term volatility stemming from (i) US-China tariff tensions, (ii) export control restrictions, and (iii) policy uncertainty. Tariff escalations can lead to sudden shifts in sourcing strategies, margin compression, and reconfiguration of production footprints. However, Wentel still receives strong demand from its customers, and no signal of orders pushing back amid the tariff uncertainties.



Source: World Semiconductor Trade Statistic (WSTS)



Source: Statista

Valuation

Initiating coverage with BUY, target price of RM0.40. We like Wentel for : (i) the organic growth of the security screening segment and strong relationship with both two leading customers in the market, (ii) robust growth from E&E segment which they have capabilities to secure MNC customers, (iii) strategic expansion initiatives to increase production capacity and enable to broader customer base.

We value Wentel at RM0.40 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. Meanwhile, there are no other listed companies involved in the security screening business. Thus, we only peg our valuation to the fabricator listed companies in Malaysia.

Peer Comparison

Name	Last price	Market Cap	FYE	Earnings Growth			PE (x)		Div. Yield	ROE
				1-yr Fwd	2-yr Fwd	Hist.	1-yr Fwd	2-yr Fwd	1-yr Fwd	Hist.
Malaysia (RM'm)										
CORAZA INTEGRATED TECHNOLOGY	0.57	249.6	12/2025	214.9	25.3	16.3	16.8	14.0	1.2	1.4
UWC BHD	2.77	2722.8	07/2025	293.6	72.8	120.8	46.6	26.3	0.0	5.1
SAM ENGINEERING & EQUIPMENT	3.69	2775.6	03/2025	-18.0	32.5	29.0	31.5	24.1	0.6	8.0
SFP TECH HOLDINGS BHD	0.555	528.0	12/2025	316.1	14.4	53.7	12.9	11.0	1.8	4.9
Simple Avg				201.7	36.2	54.9	27.0	18.9	0.9	4.8
US (USD'm)										
OSI SYSTEMS INC	211.67	3810.8	06/2025	6.5	18.1	27.8	24.4	22.5	0.0	16.7
WENTEL ENGINEERING HOLDINGS	0.28	304.8	12/2025	52.7	20.5	20.2	13.6	11.2	0.0	10.4

As 13th May 2025

SWOT Analysis

Strengths

- Established reputation for quality and reliability
- Strong market position in security sector
- Professional management team

Weakness

- Customer concentration risk
- Limited capacity

Opportunities

- Growth in semiconductor and medical sectors
- Global airport infrastructure upgrades
- Diversification of client base

Threat

- Economic downturns
- Intense competition
- Supply chain disruption

Investment Risk

- 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.
- 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.
- 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.
- 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

Financial Overview

Financial review

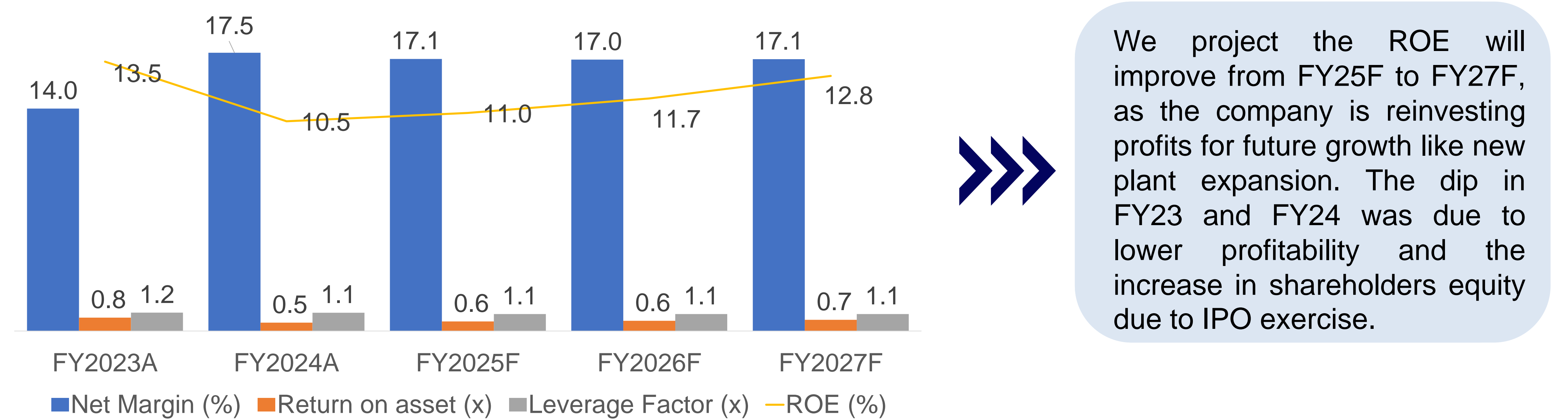
Wentel recorded a revenue CAGR of 35% from 2020 to 2022, riding on the upcycle across all segments. In FY23, the group’s revenue and earnings declined by -16% and -33%, respectively, due to the slowdown in the E&E segment (-35% YoY) and lower order allocation from both customers in the security segment (-10% YoY). In FY24, the group’s revenue improved by 14% thanks to the security (+19% YoY) and E&E (+38% YoY) sectors despite a decline of 30% in the CNC machine manufacturers segment.

Financial forecast

Moving forward, we are projecting FY25F and FY26F earnings of RM22.9m and RM27.6m, respectively, driven by (i) a stable 15% revenue growth annually in the security segment as robust demand for scanner machines for airport and port due to tighter restrictions leading to higher demand for scanners, (ii) 45% revenue growth from E&E segment as secured new customers, and (iii) upcoming plant expansion which will increase capacity. Its E&E segment will grow as the semiconductor sector recovers and trade diversion.

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)	20.4	19.1	13.6	11.2	8.9
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)	20.8	14.6	13.6	11.2	8.9
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)	2.8	1.5	1.5	1.3	1.1

Return of Equity



Key Assumptions

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

Sensitivity Analysis

Case 1 : Changes in revenue growth against earnings margin to derive earnings

Revenue base as RM112m in FY24.

Profit margin of FY25F is 17.1%

Revenue growth (%) / profit margin (%)	15.5%	16.0%	16.5%	17.0%	17.5%	18.0%
5	18.3	18.9	19.5	20.1	20.7	21.2
10	19.2	19.8	20.4	21.0	21.6	22.3
15	20.0	20.7	21.3	22.0	22.6	23.3
20	20.9	21.6	22.3	22.9	23.6	24.3
25	21.8	22.5	23.2	23.9	24.6	25.3
30	22.7	23.4	24.1	24.8	25.6	26.3

Case 2 : Changes in net profit against PE to derive target price

Net profit of FY25F is RM22.9m.

Net profit (RM m) / PE (x)	17	18	19	20	21	22	23
20	0.30	0.31	0.33	0.35	0.37	0.38	0.40
21	0.31	0.33	0.35	0.37	0.38	0.40	0.42
22	0.33	0.34	0.36	0.38	0.40	0.42	0.44
23	0.34	0.36	0.38	0.40	0.42	0.44	0.46
24	0.35	0.38	0.40	0.42	0.44	0.46	0.48
25	0.37	0.39	0.41	0.43	0.46	0.48	0.50
26	0.38	0.41	0.43	0.45	0.47	0.50	0.52

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

ESG Matrix

ESG	Category	Score	Materiality	Weighted Score
Environment	Regulatory Compliance & Operational Exposure	8	15%	1.2
	Greenhouse Gas Emission & Air Quality	5	5%	0.25
	Energy & Water Consumption	6	5%	0.3
	Waste Management	5	10%	0.5
	Biodiversity Conservation	5	10%	0.5
Social	Human Resources	6	6%	0.36
	Employee Health & Safety	5	8%	0.4
	Community Involvement	6	7%	0.42
	Customer Responsibility	6	2%	0.12
	Innovation	5	2%	0.1
Governance	Corporate Governance	6	10%	0.6
	ESG Policy & Disclosure	5	5%	0.25
	Business Ethics	5	5%	0.25
	Risk Management	6	8%	0.48
	Supply Chain	6	2%	0.12
Total		100%		5.9



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- 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