Wentel Engineering Holdings Berhad (0298)

Robust Demand Drives Growth

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BUY ⬌

TP: RM 0.48 (+57%) ⬌

Current Share Price: RM 0.305

Valuation

Our target price is based on:

FY26F with unchanged 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.

Results Report | **Growth** | **Investment Horizon : 12 months**

Results Review

Wentel's 9MFY25 core earnings of RM17.4mn met our expectations, representing 76% of our and 74% of consensus full-year forecast. QoQ, revenue increased by 10%, primarily driven by better contribution from fabrication of semi-finished metal products, likely from their E&E segment. Its core earnings increased 13% thanks to better gross profit margin improved by 0.8%-ppt driven by better product mix.

Outlook

We maintain a positive outlook on Wentel's earnings, supported by strong order growth in the E&E and security sectors. We continue to see robust E&E demand driven by the recovery in semiconductor demand. Meanwhile, the security segment remains stable, underpinned by strong demand for scanning and inspection equipment and the introduction of stricter scanning regulations. We reiterate that the company stands to benefit from global trade realignments and diversion opportunities following the 19% reciprocal tariff, with minimal risk given that direct U.S. revenue accounts for less than 1%. Supporting evidence includes rising E&E orders driven by manufacturing shifts to Malaysia and the successful ramp-up of new product innovations (NPIs) into mass production. We keep our forecasts unchanged. We reiterate our BUY call and unchanged target price of RM0.48, based on FY26F PE of 20x, reflecting a more pronounced earnings growth outlook.

Key Assumption

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

Results Summary

FYE 31 Dec (RMmn)	3QFY24	2QFY25	3QFY25	QoQ (%)	YoY (%)	9MFY24	9MFY25	YoY (%)
Revenue	29.0	34.9	38.4	*10.3*	*32.8*	83.5	104.5	*25.2*
Gross profit	8.0	9.5	10.8	*13.5*	*34.1*	22.3	30.0	*34.5*
EBITDA	5.6	7.9	9.4	*18.3*	*67.0*	15.6	26.6	*70.7*
Depreciation	-1.1	-1.2	-1.2	*0.8*	*11.4*	-3.1	-3.5	*14.1*
EBIT	4.6	6.7	8.2	*21.7*	*79.8*	12.5	23.1	*84.8*
Pretax Profit	4.5	6.7	8.2	*22.0*	*79.5*	16.5	22.9	*39.1*
Taxation	-1.1	-1.7	-2.0	*18.7*	*75.9*	-4.0	-5.6	*-40.6*
Net Profit	3.4	5.0	6.2	*23.1*	*81.0*	12.5	17.3	*38.6*
Core Net Profit	3.7	5.3	5.9	*12.9*	*60.1*	12.8	17.4	*35.4*
Margin (%)								
GP	27.8	27.2	28.0			26.7	28.7	
EBITDA	19.4	22.7	24.4			18.7	25.5	
Pretax	15.7	19.2	21.2			19.7	21.9	
Core Net Profit	12.8	15.1	15.5			24.2	24.4	

Financial Exhibits

FYE 31 Dec	FY2023A	FY2024A	FY2025F	FY2026F	FY2027F
Revenue (RMmn)	98.8	112.4	134.0	162.3	203.8
EBITDA (RMmn)	20.4	25.5	35.1	43.0	53.3
Pretax profit (RMmn)	18.8	20.8	30.1	36.4	45.8
Net profit (RMmn)	14.1	15.0	22.9	27.6	34.8
EPS (sen)	1.2	1.4	2.0	2.5	3.1
PER (x)	24.9	21.8	15.3	12.2	9.8
Core net profit (RMmn)	13.8	19.6	22.9	27.6	34.8
Core EPS (sen)	1.2	1.8	2.0	2.5	3.1
Core EPS growth (%)	(32.7)	50.1	11.1	25.0	24.0
Core PER (x)	25.4	16.9	15.3	12.2	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)	3.4	1.9	1.7	1.5	1.3

Financial Exhibits

Income statement

FYE 31 Dec (RMmn)	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 (RMmn)	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 (RMmn)	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 cyclicality. 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

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