

Wentel Engineering Holdings Berhad (0298)

Looking Through 1Q Softness

Bloomberg Ticker: WENTEL MK | Investment Horizon: 12 Months

Recommendation

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.

Results Review

We deem Wentel's 1QFY26 core earnings of RM2.5mn within expectation, representing 10% of our and consensus full-year forecast. We anticipate sequential improvement from 2QFY26 onwards as product mix normalizes toward higher-margin security machines and E&E deliveries accelerate.

YoY, revenue increase marginally by 2% thanks to better contributions from the fabrication of semi-finished products and assembly of finished products. However, its core earnings dropped by 60% due to the unfavourable product mix and realised forex impact of RM1.7mn.

QoQ, 1QFY26 revenue declined 17%, likely due to fewer operating days during the festive season. Core earnings fell more sharply by 58%, driven by: (i) unfavorable product mix skewed toward smaller security machines, which compressed gross margin by 2.9pp, and (ii) higher operating expenses from forex volatility.

Outlook

Management indicated that the new plant expansion remains on track, with Certificate of Completion and Compliance (CCC) expected by 1HCY26, and to start production in early 3QCY26. 1st phase machines like laser cutters and others have already arrived and are being installed. Once operational, the new facility will mainly serve the security segment, where management expects a shorter customer audit and approval cycle. This should allow both plants to run concurrently, while freeing up more capacity at the existing plant for the E&E segment, where demand remains strong.

We understand the expansion could increase effective capacity by around 60%-70%, as the current plant utilisation rate is 70-75%, providing Wentel with a meaningful uplift in production capability. More importantly, the reallocation of production lines between the two plants should improve operational flexibility and better position the group to meet rising demand across both segments.

We believe Wentel's security segment is likely to remain supported by increasingly stringent security requirements, particularly amid heightened geopolitical tensions. The current environment could accelerate replacement demand for security screening and inspection machines, as customers prioritise operational reliability and stricter compliance standards. That said, management highlighted that some customers are still holding back from building inventory while awaiting greater clarity on war-related developments, including disruptions arising from port closures and shipping routes. However, we understand that customers may eventually begin stocking up more aggressively to mitigate the risk of longer shipping lead times and broader supply chain disruptions. This could provide an additional uplift to order replenishment in the coming quarters.

Wentel's E&E segment continues to show encouraging momentum, with order visibility of more than four months. This suggests that near-term production loading should remain healthy, while customer confidence appears to be improving. More notably, around 400 new product introductions (NPIs) are expected to enter mass production in 2026, which should drive stronger volume contribution going forward.

In addition, management indicated that certain customers are already issuing liability purchase orders for material procurement in advance to secure raw materials ahead of future ramp-ups. We view this as a positive signal, as it not only strengthens demand visibility but also suggests that customers are preparing for a more meaningful production scale-up over the medium term.

Forecast

We maintain our FY26F-FY28F forecast earnings unchanged.

Investment Risk to our Call

(i) Customer concentration risk, (ii) industry cyclicality, (iii) execution risk from capacity expansion, and (iv) labour and skilled talent constraints.

BUY ↔

Target Price: RM0.48 (+57%) ↔

Current Share Price: RM0.25

Ace Market
Industrial Products & Services

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Company Overview

Wentel Engineering Holdings Berhad is 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.

Stock Information

Market Cap (RM'mn)	287.5
Issued Shares (mn)	1,150
52W High (RM)	0.36
52W Low (RM)	0.21
Estimated Free Float (%)	22.42
Beta vs FBM KLCI	0.9
3-month Average Vol. (mn)	1.3
Shariah Compliant	Yes

Consensus	FY25A	FY26F	FY27F
EPS (sen)	0.021	0.025	0.030
Ratings	Buy	Hold	Sell
	2	0	0

Category	Score	Materiality	Weighted Score
Environmental	29	45%	2.8
Social	28	25%	1.4
Governance	28	30%	1.7
Total	85	100%	5.9

Results Summary

FYE 31 Dec (RMm)	1QFY25	4QFY25	1QFY26	QoQ (%)	YoY (%)
Revenue	31.2	38.2	31.8	(16.9)	1.8
Gross profit	9.7	10.3	7.7	(25.7)	(20.9)
EBITDA	9.4	7.3	5.1	(30.2)	(45.4)
Depreciation	(1.2)	(1.2)	(1.4)	12.9	16.7
EBIT	8.2	6.1	3.7	(39.0)	(54.3)
Pretax Profit	8.1	6.1	3.7	(39.2)	(54.4)
Taxation	(2.0)	(0.4)	(1.0)	177.1	(51.3)
Net Profit	6.1	5.7	2.7	(52.4)	(55.6)
Core Net Profit	6.2	5.9	2.5	(57.9)	(60.2)
Margin (%)					
GP	31.0	27.0	24.1		
EBITDA	30.0	19.2	16.1		
Pretax	25.9	15.9	11.6		
Core Net Profit	19.8	15.3	7.7		

Key Assumption

Revenue Growth	Actual		Unchanged		
	FY24	FY25	FY26F	FY27F	FY28F
Security Segment	19%	15%	15%	16%	15%
Electrical & Electronic Segment	38%	45%	45%	60%	30%

Key Financial Metrics

FYE 31 Dec	FY2024A	FY2025A	FY2026F	FY2027F	FY2027F
Revenue (RM'mn)	112.4	142.7	162.3	206.8	247.2
EBITDA (RM'mn)	25.5	34.0	46.7	57.2	65.6
Pretax profit (RM'mn)	20.8	29.0	36.3	45.8	54.5
Net profit (RM'mn)	15.0	23.0	27.6	34.8	41.5
EPS (sen)	1.4	2.1	2.4	3.1	3.7
PER (x)	21.8	14.5	12.7	9.8	8.2
Core net profit (RM'mn)	19.6	23.2	27.6	34.8	41.5
Core EPS (sen)	1.8	2.1	2.4	3.1	3.7
Core EPS growth (%)	50.1	16.7	14.3	29.2	19.4
Core PER (x)	16.9	14.5	12.7	9.8	8.2
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 (%)	8.1	11.0	11.6	12.8	13.2
P/BV (x)	1.9	1.7	1.5	1.3	1.1

Financial Exhibits

Income statement

FYE 31 Dec (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Revenue	112.4	142.7	162.3	206.8	247.2
Operating expenses	(10.6)	(11.1)	(8.3)	(12.0)	(14.6)
EBITDA	25.5	34.0	46.7	57.2	65.6
Depreciation	(4.5)	(4.8)	(10.4)	(11.3)	(11.0)
EBIT	21.0	29.2	36.3	45.9	54.6
Net int income/(expense)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Exceptional gains /(losses)	(4.6)	0.2	0.0	0.0	0.0
Associates' contribution	0.0	0.0	0.0	0.0	0.0
Pretax profit	20.8	29.0	36.3	45.8	54.5
Tax	(5.8)	(5.9)	(8.7)	(11.0)	(13.1)
Minority interest	0.0	0.0	0.0	0.0	0.0
Net profit	15.0	23.0	27.6	34.8	41.5
Core net profit	19.6	23.2	27.6	34.8	41.5

Balance Sheet Statement

FYE 31 Dec (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Fixed assets	67.0	115.3	113.0	109.7	106.7
Other long term assets	4.9	3.4	-	-	-
Total non-current assets	71.9	118.8	113.0	109.7	106.7
Cash and equivalents	31.5	42.5	67.7	89.5	118.9
Inventories	21.9	24.0	31.9	40.4	48.3
Receivables	26.9	34.3	38.7	49.3	58.9
Other current assets	61.8	13.1	-	-	-
Total current assets	142.2	113.9	138.3	179.2	226.1
Payables	7.1	7.7	10.3	13.1	15.6
Short term borrowings	1.4	-	-	-	-
Other current liabilities	14.7	13.9	2.6	2.6	2.6
Total current liabilities	23.3	21.6	13.0	15.7	18.2
Long term borrowings	3.5	1.6	1.6	1.6	1.6
Other long term liabilities	0.9	0.2	-	-	-
Total long term liab.	4.4	1.7	1.6	1.6	1.6
Shareholders' Funds	186.5	209.3	236.8	271.6	313.0
Minority Interest	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

FYE 31 Dec (RMmn)	FY2024A	FY2025A	FY2026F	FY2027F	FY2028F
Pretax Profit	20.8	29.0	36.3	45.8	54.5
Depreciation & amortisation	4.5	4.8	10.4	11.3	11.0
Working capital changes	(1.8)	(15.2)	(9.8)	(16.4)	(15.0)
Others	(8.2)	(7.2)	(8.7)	(11.0)	(13.1)
C/F from operation	15.3	11.4	28.2	29.8	37.4
Capex	(26.9)	(51.4)	(8.0)	(8.0)	(8.0)
Others	(47.7)	56.2	0.0	0.0	0.0
C/F from investing	(74.7)	4.8	(8.0)	(8.0)	(8.0)
Debt raised/(repaid)	(1.5)	(1.4)	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Others	69.1	(1.7)	0.0	0.0	0.0
C/F from financing	67.6	(3.1)	0.0	0.0	0.0
Net change in cash flow	8.2	13.1	20.2	21.8	29.4
Free Cash Flow	(11.7)	(40.0)	20.2	21.8	29.4



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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

IPO Note:

SUBSCRIBE: Total stock return expected to exceed +15% over 12-month period

NEUTRAL: Total stock return expected to below +15% over 12-month period