

Engtex Group

Generic Steel Products Drag

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ENGTEX's 1QFY23 results disappointed. While we acknowledge its dominant market positions in both large-diameter mild steel (MS) pipes and ductile iron (DI) pipes used in water projects, we are mindful that low-margin generic steel products still make up a lion's share of its overall turnover. We cut our FY23-24F net profit forecasts by 55% and 28%, respectively, lower our TP by 23% to RM0.58 (from RM0.75) and downgrade our call to MARKET PERFORM from OUTPERFORM.

Below expectations. 1QFY23 core net profit of RM4m disappointed, coming in at only 8% and 7% of our full-year forecast and the full-year consensus estimate, respectively. The key variance against our forecast came from the still subdued prices and hence margins for its generic steel products.

Results' highlights. YoY, 1QFY23 revenue grew 2% mainly driven by increased demand for selective steel products. However, core net profit plunged 79%, weighed down by high-cost inventory of hot rolled coil, wire rod and scrap metal.

QoQ, it returned to the black in 1QFY23 from losses in the preceding quarter (due mainly to the knock-on effect of depressed steel prices in the international market on its generic steel products, see chart on next page).

Outlook. The demand for ENGTEX's generic steel products will recover in tandem with the economy reopening. In addition, it is poised to benefit from the revival of water projects nationwide as the new unity government settles in and starts to embark on the roll-out of public infrastructure projects.

Recall, there have been plans to reduce NRW from 34% in 2020 to 25% by 2025, and 15% by 2049. On the other hand, planned pipe replacement programmes have yet to get off the ground in a major way including those from: (i) the Twelfth Malaysia Plan (12MP) (ii) pipe replacement in Selangor (i.e. Sungai Rasau Water Supply Scheme Phase 2), and (iii) the ongoing nationwide pipe replacement programme.

Forecasts. We cut our FY23-24F earnings by 55% and 28%, respectively.

Consequently, we reduce our TP by 23% to RM0.58 (from RM0.75) based on FY24F PER of 7x, at a discount to 9x forward PER of peer Hiap Teck Venture given the former's slightly smaller size. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

Investment thesis. We continue to like ENGTEX for: (i) the huge potential in the water pipe replacement market locally, (ii) its dominant market position in both large-diameter MS pipes and DI pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects. However, we are mindful that generic steel products still make up a lion's share of its overall turnover, which will continue to be a drag given their high-cost inventories, translating to depressed margins. Downgrade to **MARKET PERFORM** from **UNDERPERFORM**.

Risks to our call include: (i) volatility in input costs and end-product selling prices, and (ii) delay in the rollout of water infrastructure projects.

MARKET PERFORM ↓

Price: RM0.605
Target Price: RM0.58 ↓

Expected Capital Gain: -RM0.025 -4.1%
Expected Divd. Yield: +RM0.008 +1.3%
Expected Total Gain: -RM0.017 -2.8%

KLCI Index 1,402.48

Stock Information

Bloomberg Ticker	ENGT MK Equity
Bursa Code	5056
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	432.7
Market Cap (RM m)	261.8
Par value per share (RM)	N.A.
52-week range (H)	0.73
52-week range (L)	0.55
Free Float	28%
Beta	0.8
3-mth avg daily vol	111,176

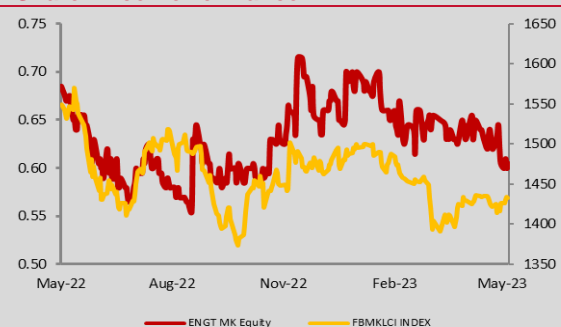
Major Shareholders

NH HOLDINGS SDN BHD	24.6%
NKG RESOURCES SDN BHD	5.5%
Ng Hook	4.7%

Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Turnover	1444	1493	1583
EBIT	66	55	71
PBT	48	32	50
Net Profit	32	21	35
Core Net Profit	32	21	35
Consensus (NP)		55	57
Earnings Revision (%)	-	-54.5	-27.8
Core EPS (sen)	7.3	5.0	8.2
Core EPS growth (%)	-58.5	-33.9	64.5
NDPS (sen)	0.0	0.8	0.8
BVPS (RM)	1.8	1.9	2.0
PER (x)	8.7	12.9	7.8
PBV (x)	0.3	0.3	0.3
Net Gearing (x)	0.6	0.6	0.6
Net Div. Yield (%)	0.0	1.2	1.2

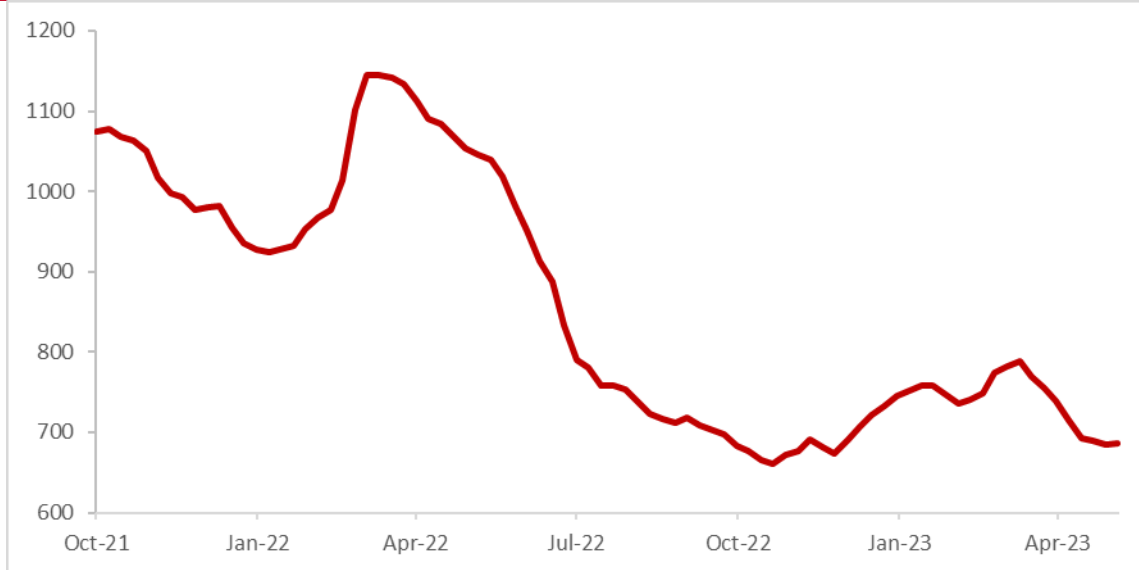
Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-7.6%	-9.7%	-9.7%
Relative (%)	-6.0%	-6.0%	-1.3%

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HRC Spot Prices in Malaysia



Source: Company, Kenanga Research

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	377.9	351.7	7.5%	370.9	1.9%	377.9	370.9	1.9%
COGS	-339.5	-324.4	4.6%	-319.4	6.3%	-339.5	-319.4	6.3%
Gross profit	38.5	27.3	41.2%	51.4	-25.2%	38.5	51.4	-25.2%
Admin expenses	-14.2	-15.1	-5.9%	-13.6	4.6%	-14.2	-13.6	4.6%
Distribution costs	-12.2	-9.7	26.0%	-9.0	35.3%	-12.2	-9.0	35.3%
Net gain on impairment	-0.1	-6.1	-98.5%	-0.1	53.4%	-0.1	-0.1	53.4%
Other operating expenses	-0.1	-0.1	-4.7%	-0.0	2950.0%	-0.1	-0.0	2950.0%
Other operating income	0.5	2.0	-76.0%	0.6	-20.2%	0.5	0.6	-20.2%
EBIT	12.4	-1.7	-820.4%	29.4	-57.8%	12.4	29.4	-57.8%
Finance costs	-6.5	-5.5	18.3%	-4.6	42.2%	-6.5	-4.6	42.2%
Finance income	0.6	0.5	16.0%	0.2	204.1%	0.6	0.2	204.1%
PBT	6.4	-6.8	-195.5%	25.0	-74.2%	6.4	25.0	-74.2%
Taxation	-2.5	-0.2	1016.7%	-6.7	-61.7%	-2.5	-6.7	-61.7%
MI	0.1	-0.6	-123.6%	0.1	8.5%	0.1	0.1	8.5%
Net profit	3.8	-6.4	-158.9%	18.2	-79.3%	3.8	18.2	-79.3%
Core net profit	3.8	-6.4	-158.9%	18.2	-79.3%	3.8	18.2	-79.3%
Gross margin	10.2%	7.8%		13.9%		10.2%	13.9%	
EBIT margin	3.3%	-0.5%		7.9%		3.3%	7.9%	
PBT margin	1.7%	-1.9%		6.7%		1.7%	6.7%	
Net margin	1.0%	-1.8%		4.9%		1.0%	4.9%	
Core net margin	1.0%	-1.8%		4.9%		1.0%	4.9%	
Effective tax rate	39.5%	-3.4%		26.6%		39.5%	26.6%	

Source: Company, Kenanga Research

Segment Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY23	FY22	Chg	FY22	Chg	FY23	FY22	Chg
Revenue								
Wholesale & Distribution	185.7	162.8	14.1%	189.6	-2.1%	185.7	190.1	-2.3%
Manufacturing	187.7	182.9	2.6%	177.3	5.9%	187.7	177.7	5.6%
Property Development	2.3	3.3	-30.3%	1.6	37.8%	2.3	1.7	37.0%
Hospitality	2.3	2.8	-17.6%	1.3	69.9%	2.3	1.4	69.6%
EBITDA								
Wholesale & Distribution	9.5	4.0	139.5%	16.4	-42.2%	9.5	16.4	-42.2%
Manufacturing	9.6	0.5	1885.1%	19.7	-51.4%	9.6	19.7	-51.4%
Property Development	0.1	0.0	238.9%	-0.1	-303.3%	0.1	-0.1	-303.3%
Hospitality	-0.5	-0.1	441.6%	-0.5	5.4%	-0.5	-0.5	5.4%
EBITDA margins								
Wholesale & Distribution	5.1%	2.4%		8.6%		5.1%	8.6%	
Manufacturing	5.1%	0.3%		11.1%		5.1%	11.1%	
Property Development	5.4%	1.1%		-3.6%		5.4%	-3.6%	
Hospitality	-23.9%	-3.6%		-38.5%		-23.9%	-38.4%	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
ANN JOO RESOURCES BHD	UP	1.04	0.800	-23.08%	583.8	Y	12/2023	4.6	10.9	-84.4%	136.0%	22.1	9.6	0.4	1.9%	1.0	1.0%
ENGTEX GROUP BHD	MP	0.605	0.570	-5.79%	261.8	Y	12/2023	5.0	8.2	-33.8%	64.2%	12.1	7.4	0.3	2.6%	0.8	1.2%
OM HOLDINGS LTD	OP	1.90	2.95	55.26%	1,403.4	Y	12/2023	46.8	42.0	16.8%	-10.4%	3.3	3.7	0.7	18.7%	6.6	3.5%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	4.68	6.30	34.62%	38,561.4	Y	12/2023	21.4	22.9	22.9%	7.3%	25.4	23.5	5.0	24.5%	8.5	1.5%
UNITED U-LI CORPORATION BHD	MP	1.06	1.15	8.49%	230.9	Y	12/2023	11.7	14.4	-30.9%	23.1%	9.1	7.4	0.6	7.1%	5.0	4.7%
Sector Aggregate					41,041.3					33.0%	6.7%	18.9	17.7	3.4	17.9%		2.4%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	☆		
	Community Investment	★	★			
	Workers Safety & Wellbeing	★	★	☆		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★			
SPECIFIC	Product Quality & Safety	★	★	★		
	Supply Chain Management	★	★			
	Energy Efficient	★	★	★		
	Effluent/Water Management	★	★	☆		
	Waste Management	★	★	☆		
	Legal & Regulatory Compliance	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations****

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
 MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
 NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
 UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

**** The Expected Total Return might contain rounding discrepancy**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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