

24 May 2024

Engtex Group

Buoyed by Water Project Revival

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ENGTEX's 1QFY24 results met expectations. Its 1QFY24 core net profit surged 1.5x as its profitability was no longer capped by high-cost inventory. It is poised to benefit from a new wave of water projects including pipe replacement. We maintain our forecasts, TP of RM1.41 and OUTPERFORM call.

Its 1QFY24 core net profit of RM9.4m met expectations at 24% of both our full-year forecast and the full-year consensus estimate.

YoY, its 1QFY24 revenue grew marginally by 1% driven by higher sales volume but partially offset by weaker ASP for its steel products. However, its core net profit more than doubled as its margins normalised with the depletion of high-cost inventory (which had come about due to the declining steel prices).

QoQ, similarly, its 1QFY24 core net profit surged more than 5x on a 4% growth in its top line as its profitability was no longer capped by high-cost inventory (see chart on next page).

Outlook. The sentiment towards water-related stocks has improved following the recent announcement by National Water Services Commission (SPAN) of an average hike of RM0.25/m³ or ~42% hike in water tariffs effective 1 Feb 2024 for domestic users (of which some have not been adjusted in the past four decades). The hike will translate to strengthened cash flows for these water operators, allowing them to kick start their capex programmes in water infrastructure including non-revenue water (NRW) reduction initiatives. We believe a pick-up in pipe replacement orders will be kicking in by 2HFY24 and accelerate into FY25 as the tendering and funding process among Pengurusan Aset Air Bhd (PAAB), water operators, and contractors typically takes at least six months to be finalised. Also helping is the stabilisation of product prices as steel prices bottom out (see chart on next page).

ENGTEX, a water pipe maker, will benefit from investments to reduce the national non-revenue water (NRW) from 36% in 2021 to 15% by 2049. It is estimated that 70%-75% of current NRW is attributed to leaks, pipe bursts, and damaged fittings.

Forecasts. Maintained.

Valuations. We also maintain our TP of RM1.41 based on 0.8x FY24F PBV, which is in line with sector valuation during the last upcycle in 2014 which was triggered by the massive RM1b Langat 2 water treatment plant with a capacity of 1,130m litres per day (MLD) following the completion of the Pahang-Selangor Raw Water Transfer project. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Investment case. We like ENGTEX for: (i) the huge potential in the water pipe replacement market locally, (ii) its dominant market position in both large-diameter mild steel (MS) pipes and ductile iron (DI) pipes, and (iii) its strong earnings visibility underpinned by significant order backlogs and a strong pipeline of new projects. Maintain **OUTPERFORM**.

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

OUTPERFORM ↔

Price: RM1.12
Target Price: RM1.41 ↔

Expected Capital Gain: +RM0.29 +25.9%
Expected Divd. Yield: +RM0.008 +0.7%
Expected Total Gain: +RM0.298 +26.6%

KLCI Index 1,629.18

Stock Information

Bloomberg Ticker	ENGT MK Equity
Bursa Code	5056
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	441.4
Market Cap (RM m)	494.3
Par value per share (RM)	N.A.
52-week range (H)	1.23
52-week range (L)	0.57
Free Float	38%
Beta	1.1
3-mth avg. daily vol.	1,766,024

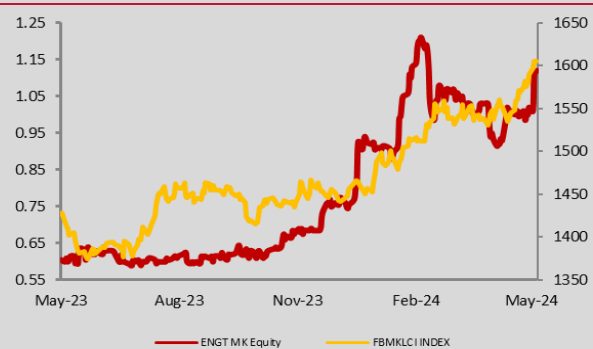
Major Shareholders

NH Holdings Sdn Bhd	24.8%
NKG Resources Sdn Bhd	5.8%
Ng Chooi Guan	4.4%

Summary Earnings Table

FY Dec (RM m)	2023A	2024F	2025F
Turnover	1,470	1,490	1,633
EBIT	42	80	98
PBT	18	53	71
Net Profit	10	40	54
Core Net Profit	10	40	54
Consensus (NP)	-	39	52
Earnings Revision (%)	-	-	-
Core EPS (sen)	2.3	9.1	12.2
Core EPS Growth (%)	-68.8	295.9	34.8
NDPS (sen)	0.8	0.8	0.8
BVPS (RM)	1.9	2.0	2.2
PER (x)	48.9	12.4	9.2
PBV (x)	0.6	0.6	0.5
Net Gearing (x)	0.7	0.5	0.5
Net Div. Yield (%)	0.7	0.7	0.7

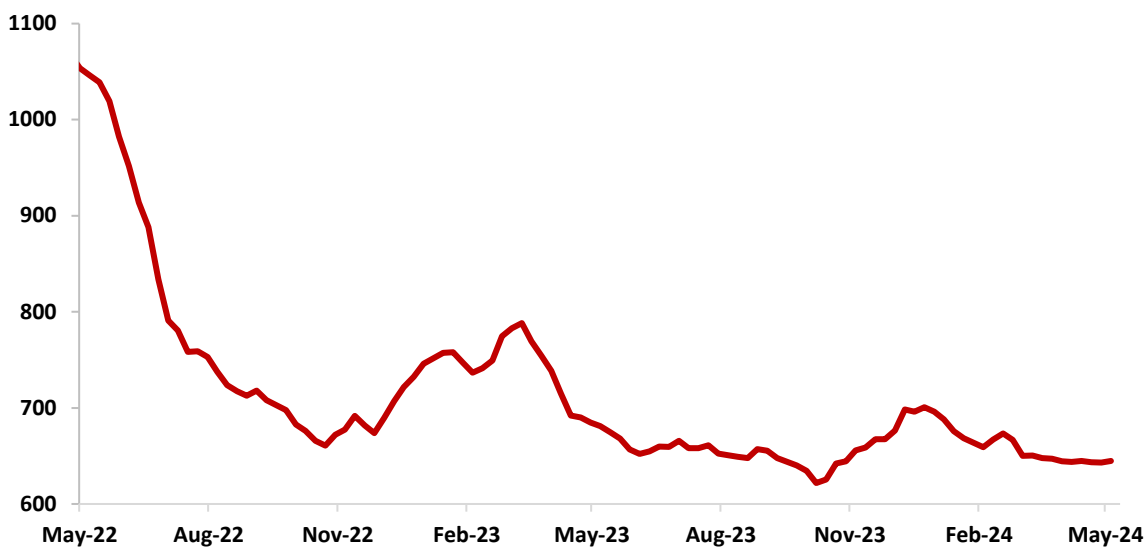
Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	21.7%	-7.4%	83.6%
Relative (%)	17.4%	-12.6%	68.2%



Local Hot-Rolled Coil Spot Price



Source: Company, Kenanga Research

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Dec (RM m)	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	383.5	370.1	4%	377.9	1%	383.5	377.9	1%
COGS	-337.0	-336.1	0%	-339.5	-1%	-337.0	-339.5	-1%
Gross profit	46.6	34.1	37%	38.5	21%	46.6	38.5	21%
Admin expenses	-14.9	-14.6	2%	-14.2	5%	-14.9	-14.2	5%
Distribution costs	-11.9	-10.6	12%	-12.2	-3%	-11.9	-12.2	-3%
Net gain on impairment	-1.1	0.8	-229%	-0.1	1096%	-1.1	-0.1	1096%
Other operating expenses	0.0	0.0	-86%	-0.1	-92%	0.0	-0.1	-92%
Other operating income	0.6	0.8	-25%	0.5	19%	0.6	0.5	19%
EBIT	19.3	10.4	86%	12.4	55%	19.3	12.4	55%
Finance costs	-7.4	-7.5	-1%	-6.5	14%	-7.4	-6.5	14%
Finance income	2.3	1.2	95%	0.6	291%	2.3	0.6	291%
PBT	14.1	4.1	248%	6.4	119%	14.1	6.4	119%
Taxation	-4.1	-2.8	45%	-2.5	60%	-4.1	-2.5	60%
MI	0.7	-0.3	N.A.	0.1	369%	0.7	0.1	369%
Net profit	9.4	1.5	524%	3.8	150%	9.4	3.8	150%
Core net profit	9.4	1.5	524%	3.8	150%	9.4	3.8	150%
Gross margin	12%	9%		10%		12%	10%	
EBIT margin	5%	3%		3%		5%	3%	
PBT margin	4%	1%		2%		4%	2%	
Net margin	3%	0%		1%		3%	1%	
Core net margin	2%	0%		1%		2%	1%	
Effective tax rate	29%	69%		40%		29%	40%	

Source: Company, Kenanga Research

Segment Breakdown

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Revenue								
Wholesale & Distribution	163.4	173.1	-6%	185.7	-12%	163.4	185.7	-12%
Manufacturing	213.9	193.2	11%	187.7	14%	213.9	187.7	14%
Property Development	2.3	0.8	178%	2.3	2%	2.3	2.3	2%
Hospitality	3.0	2.9	2%	2.3	31%	3.0	2.3	31%
Total Revenue	382.5	370.1	3%	377.9	1%	382.5	377.9	1%
EBITDA								
Wholesale & Distribution	7.2	11.4	-37%	9.5	-24%	7.2	9.5	-24%
Manufacturing	18.1	6.7	170%	9.6	88%	18.1	9.6	88%
Property Development	0.0	-0.2	-99%	0.1	-102%	0.0	0.1	-102%
Hospitality	-0.1	0.0	-610%	-0.5	-91%	-0.1	-0.5	-91%
Total EBITDA	25.2	17.8	41%	18.6	35%	25.2	18.6	35%
EBITDA margins								
Wholesale & Distribution	4%	7%		5%		4%	5%	
Manufacturing	8%	3%		5%		8%	5%	
Property Development	0%	-29%		5%		0%	5%	
Hospitality	-2%	0%		-24%		-2%	-24%	

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																	
ENGTEX GROUP BHD	OP	1.12	1.41	25.9%	494.3	Y	12/2024	9.2	12.5	300.0%	35.0%	12.1	9.0	0.6	4.7%	0.8	0.7%
OM HOLDINGS LTD	OP	1.58	1.80	13.9%	1,210.7	Y	12/2024	17.7	29.8	63.6%	68.6%	8.9	5.3	0.6	7.0%	6.6	4.2%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	5.36	4.90	-8.6%	44,164.4	Y	12/2024	17.3	19.9	13.8%	14.9%	30.9	26.9	5.7	18.8%	6.9	1.3%
UNITED U-LI CORPORATION BHD	OP	1.84	1.91	3.8%	400.8	Y	12/2024	23.9	29.8	29.7%	24.6%	7.7	6.2	1.0	13.2%	6.0	3.3%
Sector Aggregate					46,270.1					19.2%	19.9%	28.1	23.4	4.2	15.0%		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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