

10 June 2024

Engtex Group Proposed 3-for-4 Bonus Issue

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ENGTEX has proposed a 3-for-4 bonus share issue. We are neutral on the exercise. It is poised to benefit from the revival of water projects and improved steel product prices. We maintain our forecasts and TP of RM1.41 with OUTPERFORM call. Our TP will be adjusted to RM0.81 post the exercise.

ENGTEX has proposed a 3-for-4 bonus share of up to 414.3m new shares, of which we are neutral and deem unnecessary.

Nonetheless, its near-term prospects are strong, underpinned by an outstanding order book of RM166m (MS pipes: RM120m, DI pipes: RM46m). Meanwhile, its tender book stands at RM403m (MS pipes: RM328m, DI pipes: RM75m).

These numbers are likely to rise over the immediate term as water operators kick start their long overdue water projects on the revival of water projects on stronger finances of water operators following the recent water tariff hikes. These include: (i) non-revenue water (NRW) reduction initiatives or pipe replacement, and (ii) construction or upgrading of water treatment plants (including the consolidation of old and small plants to optimize cost). We understand that water operators are currently identifying old pipes to be replaced and working out the cost to be submitted to the Ministry of Finance (MOF) for approval. According to Malaysian Water Association, water operators have thus far submitted proposals to the MOF for water projects worth ~RM4b. There are also plans to raise water tariffs again within the next two years.

Outlook. ENGTEX, the largest water pipe maker, will benefit from investments to reduce the 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.

Fundamentals of water-related stocks have 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). These hikes will strengthen the finances of water operators, allowing them to upgrade and replace old water infrastructure. We expect a pick-up in the award of pipe replacement projects from 2HFY24 as Pengurusan Aset Air Bhd (PAAB) finalises the tenders (that typically take six months to conclude).

ENGTEX will also benefit from stronger steel product prices as steel prices in the international market bottom out (see chart on next page).

Forecasts. Maintained.

Valuations. We also maintain our TP of RM1.41, or ex-bonus TP of RM0.81, based on 0.8x FY24F PBV, which is in line with sector valuation during the last up-cycle 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 4). Our TP will adjust down to RM0.81 post the exercise.

Investment case. 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 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**.

OUTPERFORM ↔

Price: **RM1.14**
Target Price: **RM1.41** ↔

Expected Capital Gain: **+RM0.27 +23.7%**
Expected Divd. Yield: **+RM0.008 +0.7%**
Expected Total Gain: **+RM0.278 +24.4%**

KLCI Index 1,617.86

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)	503.2
Par value per share (RM)	N.A.
52-week range (H)	1.23
52-week range (L)	0.58
Free Float	38%
Beta	1.1
3-mthavg daily vol	1,621,985

Major Shareholders

NH Holdings SdnBhd	24.8%
NKG Resources SdnBhd	5.8%
Ng Chooi Guan	4.5%

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)	49.8	12.6	9.3
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

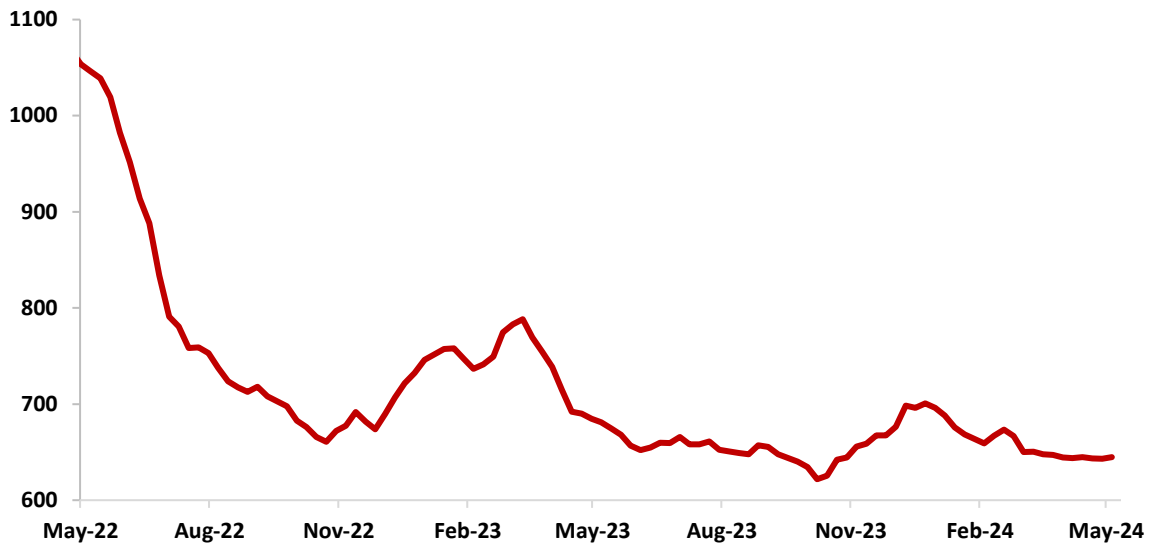


	1 mth	3 mths	12 mths
Absolute (%)	12.9%	9.6%	78.1%
Relative (%)	12.1%	4.3%	60.6%

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

Local Hot-Rolled Coil Spot Price



Source: Company, Kenanga Research

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	FY Dec	2021A	2022A	2023A	2024F	2025F
Revenue	1178.4	1444.5	1469.8	1490.3	1632.9	Growth (%)					
EBIT	119.5	65.7	42.2	79.8	98.1	Revenue	19.1	22.6	1.8	1.4	9.6
PBT	105.6	47.9	18.1	52.6	70.9	EBIT	170.5	-45.0	-35.8	89.2	22.9
Taxation	-24.6	-13.7	-7.9	-12.6	-17.0	PBT	273.6	-54.7	-62.2	190.7	34.8
Net Profit	80.9	34.1	10.2	40.0	53.9	Net Profit	405.9	-57.8	-70.2	293.4	34.8
Core Net Profit	78.4	32.4	10.1	40.0	53.9	Core Net Profit	408.1	-58.6	-68.8	295.9	34.8
						Profitability (%)					
Balance Sheet						EBIT Margin	4.5	10.1	4.6	2.9	4.9
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	PBT Margin	9.0	3.3	1.2	3.5	4.3
Fixed Assets	350.1	397.5	420.5	425.3	419.8	Core Net Margin	6.7	2.2	0.7	2.7	3.3
Other FA	87.3	85.3	90.7	90.7	90.7	Effective Tax Rate	23.3	28.7	43.8	24.0	24.0
Inventories	484.0	511.9	542.3	504.5	552.2	ROE	5.5	2.1	0.6	2.4	3.1
Receivables	374.2	403.6	448.8	449.1	492.1	ROA	9.9	4.0	1.2	4.6	5.7
Other CA	11.8	3.6	3.1	3.1	3.1	DuPont Analysis					
Cash	123.0	130.4	91.8	187.9	183.9	Net Margin (%)	6.7	2.2	0.7	2.7	3.3
Total Assets	1430.3	1532.3	1597.2	1660.7	1741.8	Assets Turnover (x)	0.8	0.9	0.9	0.9	0.9
Payables	117.6	112.2	107.3	108.1	118.3	Leverage Factor (x)	1.81	1.88	1.93	1.89	1.83
ST Borrowings	459.9	555.8	616.6	616.6	616.6	ROE (%)	9.9	4.0	1.2	4.6	5.7
Other ST Liability	11.8	5.2	4.1	4.1	4.1	Leverage					
LT Borrowings	39.2	31.8	28.7	38.7	38.7	Debt/Asset (x)	0.3	0.4	0.4	0.4	0.4
Other LT Liability	11.0	10.9	14.0	14.0	14.0	Debt/Equity (x)	0.6	0.7	0.8	0.7	0.7
Net Assets	790.8	816.3	826.5	879.1	950.0	Net (Cash)/Debt	376	457	554	467	471
Share Capital	269.9	269.9	269.9	269.9	269.9	Net Debt/Equity(x)	0.48	0.56	0.67	0.53	0.50
Other Reserves	520.9	546.4	536.0	609.2	680.1	Valuations					
Total Equity	790.8	816.3	826.5	879.1	950.0	Core EPS (sen)	18.0	7.5	2.3	9.1	12.2
Cashflow Statement						DPS (sen)	0.6	0.8	0.0	0.8	0.8
FY Dec (RM m)	2021A	2022A	2023A	2024F	2025F	BVPS (RM)	1.8	1.9	1.9	2.0	2.2
Operating CF	92.8	1.9	-29.3	143.3	43.2	Core PER (x)	6.3	15.3	49.8	12.6	9.3
Investing CF	-32.5	-52.8	-35.9	-30.0	-20.0	Net Dividend Yield (%)	0.7	1.1	0.7	0.7	0.7
Financing CF	-38.2	53.0	19.0	-17.2	-27.2	PBV (x)	0.6	0.6	0.6	0.6	0.5

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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	1.14	1.41	23.7%	503.2	Y	12/2024	9.2	12.5	300.0%	35.0%	12.3	9.1	0.6	4.7%	0.8	0.7%
OM HOLDINGS LTD	OP	1.48	1.80	21.6%	1,134.1	Y	12/2024	17.7	29.8	63.6%	68.6%	8.4	5.0	0.6	7.0%	6.6	4.5%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	5.89	6.35	7.8%	48,531.3	Y	12/2024	23.2	27.0	52.5%	16.3%	25.4	21.8	6.0	24.8%	9.3	1.2%
UNITED U-LI CORPORATION BHD	OP	1.87	2.38	27.3%	407.3	Y	12/2024	23.9	29.8	29.7%	24.6%	7.8	6.3	1.0	13.2%	6.0	3.2%
Sector Aggregate					50,575.9					54.3%	20.0%	23.7	19.7	4.5	19.0%		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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