

28 February 2025

Engtex Group

Tapping Into the Water Pipe Boom

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ENGTEX's 4QFY24 results failed to return to the black due to high tax charge. This rendered FY24 performance a miss although underlying performance going by pre-tax profit was well in line with forecast. We expect margin normalisation in FY25 with increased water pipe orders in late 2HCY25. Hence, we trim our FY25F earnings by 47%, shifting the pipe order contributions to FY26. We maintain our TP of RM0.81 after rolling forward the valuation base year and reiterate our **OUTPERFORM** call.

Below expectations. Its FY24 core net profit of RM5.4m fell short, coming in at only 49% and 42% of our full-year forecast and the full-year consensus estimate, respectively. The key variance against our forecast came largely from higher-than-expected effective tax rate of 52% (vs our assumption of 24%).

YoY, its FY24 revenue was flattish due to weak ASPs. However, its core net profit tumbled 47% dragged by higher effective tax rate, largely from a RM7.3m deferred tax but partially offset by an improved GP margin (+1 ppt) which is in line with our assumption of more manageable inventory costs.

QoQ, its 4QFY24 losses narrowed due to higher sales volume, particularly from the Sungai Rasau project coupled with better margin as inventory levels fell to 3 months from 5 months, resulting in reduced costs.

Outlook. The sentiment towards water-related stocks has improved following the 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 accelerated in 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, the recent surge in the number of data centres setting up in Malaysia will further push the government to address water infrastructure issues, as reliable water supply is crucial for the cooling function of such facilities. 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.

Several mega infrastructure projects are set to be rolled out, including: (i) Sungai Perak Raw Water Transfer Scheme to Penang (SPRWTS), (ii) Langat 2 water treatment plant, and (iii) Sungai Rasau phase 2. Based on our estimates, the total value of the water pipe components for these projects is approximately RM1.1b.

Forecasts. We cut our FY25F earnings by 47% to reflect the delay in the water pipe replacement rollout and higher inventory costs while introducing our FY26F numbers.

Valuations. However, we maintain our TP of RM0.81 as we roll forward our valuation base year to FY26F based on 0.8x PBV, 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 following the completion of the Pahang-Selangor Raw Water Transfer project. There is no adjustment to our TP for ESG on a 3-star rating as appraised by us (see Page 5).

OUTPERFORM ↔

Price: RM0.51
Target Price: RM0.81 ↔

Expected Capital Gain: +RM0.30 +58.8%
Expected Divd. Yield: +RM0.008 +1.6%
Expected Total Gain: +RM0.308 +60.4%

KLCI Index 1,586.60

Stock Information

Bloomberg Ticker	ENGT MK Equity
Bursa Code	5056
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	793.3
Market Cap (RM m)	404.6
Par value per share (RM)	N.A.
52-week range (H)	0.79
52-week range (L)	0.51
Free Float	39%
Beta	1.0
3-mth avg. daily vol.	594,148

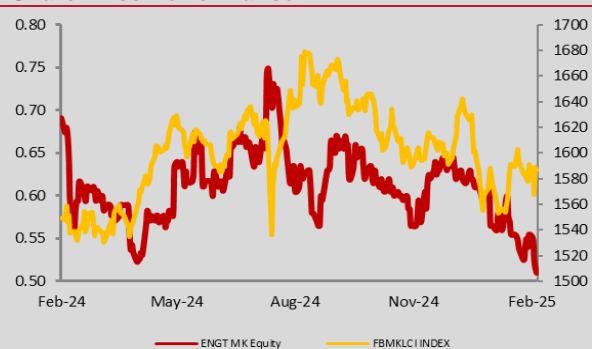
Major Shareholders

NH Holdings Sdn Bhd	24.2%
NKG Resources Sdn Bhd	6.3%
Ng Chooi Guan	4.4%

Summary Earnings Table

FY Dec (RM m)	2024A	2025F	2026F
Turnover	1,461	1,450	1,633
EBIT	45	55	75
PBT	22	28	48
Net Profit	11	21	36
Core Net Profit	5	21	36
Consensus (NP)	-	13	42
Earnings Revision (%)	-	-46.8	NEW
Core EPS (sen)	1.0	3.9	6.6
Core EPS Growth (%)	-47.0	298.0	71.1
NDPS (sen)	0.5	0.8	1.8
BVPS (RM)	1.4	1.6	1.6
PER (x)	52.5	13.2	7.7
PBV (x)	0.4	0.3	0.3
Net Gearing (x)	0.8	0.5	0.6
Net Div. Yield (%)	1.0	1.5	3.4

Share Price Performance



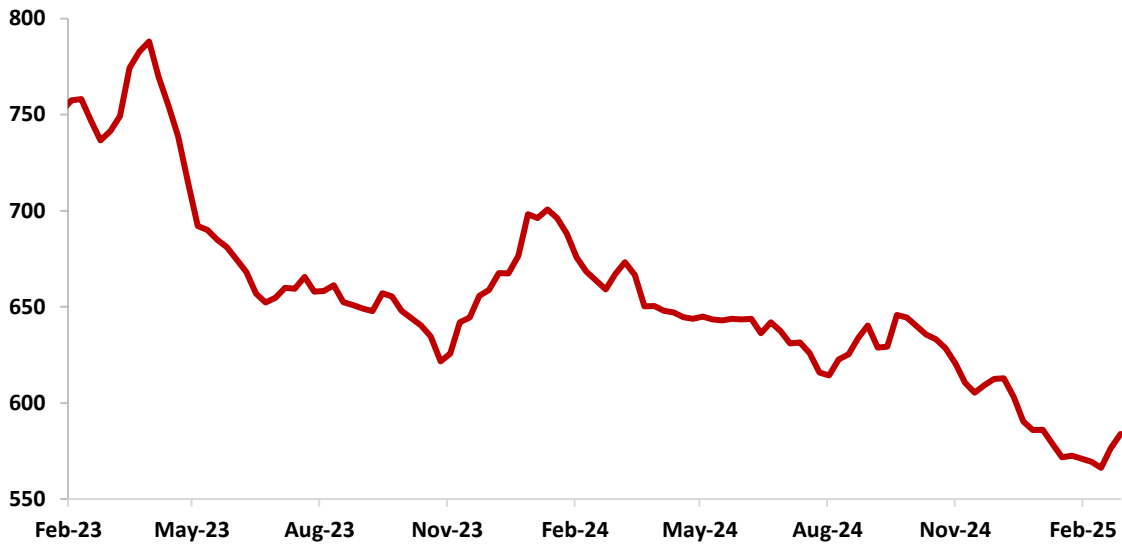
	1 mth	3 mths	12 mths
Absolute (%)	-9.7%	-9.7%	-25.0%
Relative (%)	-10.3%	-9.5%	-26.8%

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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.

Exhibit 1: Local Hot-Rolled Coil Spot Price



Source: Company, Kenanga Research

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Results Highlights

	4Q	3Q	QoQ	4Q	YoY	4Q	YoY	
FYE Dec (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	
Revenue	383.9	364.6	5%	370.1	4%	1,461.3	1,469.8	-1%
COGS	-347.8	-335.6	4%	-336.1	3%	-1,317.7	-1,330.2	-1%
Gross profit	36.1	29.1	24%	34.1	6%	143.7	139.6	3%
Admin expenses	-14.9	-14.9	0%	-14.6	2%	-58.5	-57.3	2%
Distribution costs	-12.3	-11.8	4%	-10.6	15%	-45.8	-44.2	4%
Net gain on impairment	-1.5	-0.6	165%	0.8	-281%	-3.0	1.5	-301%
Other operating expenses	-0.1	-0.2	-31%	0.0	195%	-0.3	-0.2	60%
Other operating income	1.5	5.9	-74%	0.8	98%	8.5	2.8	204%
EBIT	8.9	7.5	18%	10.4	-15%	44.7	42.2	6%
Finance costs	-7.5	-6.2	22%	-7.5	0%	-27.8	-28.6	-3%
Finance income	1.0	0.8	16%	1.2	-17%	5.1	4.5	15%
PBT	2.3	2.2	9%	4.1	-42%	22.1	18.1	22%
Taxation	-4.9	-0.5	952%	-2.8	75%	-11.5	-7.9	44%
MI	-0.5	5.3	-110%	-0.3	91%	5.3	0.1	7978%
Net profit	-2.1	-3.6	-42%	1.5	-238%	10.8	10.1	6%
Core net profit	-2.1	-3.6	-42%	1.5	-238%	5.4	10.1	-47%
Gross margin	9%	8%		9%		10%	9%	
EBIT margin	2%	2%		3%		3%	3%	
PBT margin	1%	1%		1%		2%	1%	
Net margin	-1%	0%		0%		1%	1%	
Core net margin	-1%	-1%		0%		0%	1%	
Effective tax rate	210%	22%		69%		52%	44%	

Source: Company, Kenanga Research

Segment Breakdown

	4Q	3Q	QoQ	4Q	YoY	4Q	YoY	
	FY24	FY24	Chg	FY23	Chg	FY24	FY23	
Revenue								
Wholesale & Distribution	191.9	180.5	6%	173.1	11%	696.4	697.0	0%
Manufacturing	187.1	178.3	5%	193.2	-3%	743.9	753.6	-1%
Property Development	0.9	1.9	-53%	0.8	6%	7.0	8.8	-20%
Hospitality	3.9	3.9	1%	2.9	34%	13.7	10.4	32%
Total Revenue	383.8	364.5	5%	370.1	4%	1,461.1	1,469.8	-1%
EBITDA								
Wholesale & Distribution	10.8	6.4	69%	11.4	-5%	31.8	36.4	-13%
Manufacturing	5.1	0.6	685%	6.7	-24%	31.9	33.2	-4%
Property Development	0.1	0.1	-31%	-0.2	N.A.	0.3	-0.4	N.A.
Hospitality	0.2	5.7	-96%	0.0	2220%	5.8	-0.9	N.A.
Total EBITDA	16.3	12.9	26%	17.8	-9%	69.7	68.3	2%
EBITDA margins								
Wholesale & Distribution	6%	4%		7%		5%	5%	
Manufacturing	3%	0%		3%		4%	4%	
Property Development	10%	7%		-29%		4%	-4%	
Hospitality	6%	147%		0%		42%	-9%	

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	0.510	0.810	58.8%	404.6	Y	12/2025	3.9	6.6	294.4%	70.9%	13.2	7.7	0.3	2.5%	0.8	1.5%
OM HOLDINGS LTD	OP	0.920	1.80	95.7%	705.0	Y	12/2024	17.7	29.8	63.6%	68.6%	5.2	3.1	0.4	7.0%	6.6	7.2%
PRESS METAL ALUMINUM HOLDINGS BHD	OP	5.25	6.10	16.2%	43,258.0	Y	12/2025	24.3	27.9	8.2%	14.7%	21.6	18.8	4.5	22.0%	9.7	1.3%
UNITED U-LI CORPORATION BHD	OP	1.62	2.13	31.5%	352.8	Y	12/2025	23.3	26.6	41.1%	14.0%	6.9	6.1	0.9	12.9%	8.0	4.9%
Sector Aggregate					44,720.4					11.9%	18.4%	20.2	17.1	3.5	17.1%		3.7%

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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