Engtex Group

Growth intact

OUTPERFORM ↔

Price :	**RM0.44**
Target Price :	**RM0.51** ↔

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We recently attended a briefing with ENGTEX and came away more positive on its earnings recovery and tender pipeline. Quarterly earnings are expected to see improvement QoQ, driven by depletion of high-cost inventory and recovery in water infrastructure demand. Current order book stands at RM109m, while the outstanding tender book has expanded to RM2bn, of which RM1bn is in mega projects expected to be finalized in 2HCY26. Given the Group's historical win rate of 60% and its capability in large-diameter DI pipe, we believe it is well-positioned to secure a meaningful share. Near-term focus includes the finalization of the Perak Penang water transfer and the other mega project tenders by year end. Maintain TP of RM0.51.

Margin momentum expected to continue. CNP margin in Q1FY26 turned positive at 3% compared to a loss-making position a year ago. This was driven by: (i) depletion of high-cost inventory by end of Q3FY25 and (ii) stronger contribution, particularly from DI pipes which typically carry broader margins. Moving forward, quarterly earnings are expected to see QoQ improvement, supported by: (i) recovery in water infrastructure demand following the post-festive season and (ii) resumption of business as seen in increasing utilization rates of 42% (vs 37% in Q1FY25). Margins could see further upside, supported by the Group's strategy to increase local sourcing (c.40% currently) to mitigate forex volatility.

Key to watch out for mega projects. Current order book stands at RM109m (71% MS pipe, remainder DI pipe). The outstanding tender book has expanded to around RM1bn (90% MS pipe, balance DI pipe), including several sizable contracts above RM100m in Sungai Rasau, Pahang, and Kuantan. Looking ahead, an additional three mega projects namely Perak-Penang water scheme, Sungai Langat Phase 2, and Sungai Rasau Phase 2 totalling RM1bn are expected to be finalised in 2HCY26, with potential award flows in CY27. Given that the Group remains one of the few players capable of supplying large-diameter DI pipe with a historical win rate of around 60%, we believe it is well positioned to secure a meaningful share.

Data Centre exposure. We gather that the Group has participated in data centre development, mainly supplying MS pipe for water cooling towers and wire mesh for construction in smaller volumes. Nevertheless, we believe water infrastructure will remain the key driver of near-term earnings given its higher volume and better margins, while any major data centre win would serve as additional upside to our earnings forecast.

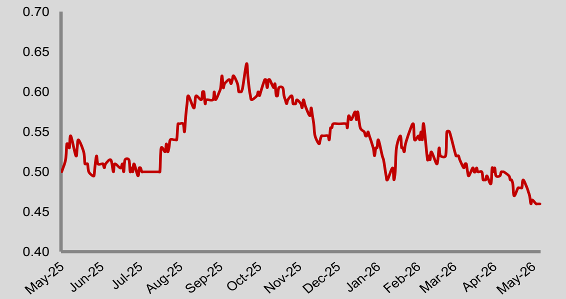
Forecasts. No upward revisions to order win assumptions for now, as we await further clarity on mega project awards.

Valuations. TP maintained at RM0.51, incorporating a 3% ESG premium for a 3-star rating (See Page 4).

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 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.

Share Price Performance



KLCI	1,678.96
YTD KLCI chg	-0.1%
YTD stock price chg	-23.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	Engt MK EQUITY
Market Cap (RM m)	366.9
Shares Outstanding	843.5
52-week range (H)	0.64
52-week range (L)	0.43
3-mth avg. daily vol.	513,782
Free Float	38%
Beta	0.8

Major Shareholders

NH Holdings Sdn Bhd	22.8%
NKG Resources Sdn Bhd	9.5%
Employees Provident Fund	3.7%

Summary Earnings Table

FYE Dec (RM m)	2025A	2026F	2027F
Turnover	1,434	1,594	1,589
EBIT	62	84	97
PBT	43	57	70
Net Profit	**28**	**43**	**53**
Core PATAMI	**24**	**43**	**53**
Consensus (NP)		58.1	61.9
Earnings Revision	-	38.9%	55.5%
Core EPS (sen)	4.4	5.4	5.5
Core EPS Growth (%)	87.7	23.3	0.8
NDPS (sen)	0.6	0.8	0.8
NTA per Share (RM)	1.6	1.2	1.0
PER (x)	10.0	8.1	8.0
PBV (x)	0.3	0.4	0.4
Net Gearing (x)	0.4	0.5	0.4
Net Div. Yield (%)	1.4	1.7	1.7

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	0.435	0.510	17.2%	366.9	Y	12/2026	4.4	5.5	79.2%	23.3%	9.8	7.9	0.4	4.7%	0.8	1.8%
PRESS METAL ALUMINUM HOLDINGS BHD	MP	8.90	8.80	-1.1%	73,332.6	Y	12/2026	37.4	42.1	44.1%	12.7%	23.8	21.1	6.5	29.9%	14.9	0.9%
UNITED U-LI CORPORATION BHD	OP	1.44	1.83	27.1%	313.6	Y	12/2026	18.7	22.9	13.3%	22.3%	7.7	6.3	0.8	10.3%	8.0	5.6%
SECTOR AGGREGATE					**74,013.2**					**44.0%**	**12.9%**	**23.4**	**20.7**	**5.9**	**25.2%**		**8.3%**

Source: Kenanga Research

Stock ESG Ratings:

Sustainability-Related Opportunities

- **Green Product Demand & Certifications**: Engtex holds several eco-label recognitions, including SIRIM Eco-Label licenses and MyHijau Mark registrations for its concrete-lined pipes, ductile iron pipes, and welded steel fabric. This presents strong commercial pivots to capture the expanding data center infrastructure market in Malaysia, which relies heavily on low-carbon industrial components and water infrastructure.

- **Operational Decarbonisation Efficiencies**: The company has actively scaled up on-site solar photovoltaic (PV) generation, spending RM5.4 million to complete rooftop systems across 7 operational locations. This infrastructure generated 2,744,031 kWh of renewable electricity in FY2025, lowering absolute Scope 2 utility reliance and mitigating grid tariff volatility.

- **Circular Economy Sourcing**: The Group avoids raw natural resource extraction costs by utilizing scrap metals as production feedstocks in its Electric Arc Furnace, alongside integrating recycled fuel oil for plant process heating.

Sustainability-Related Risks and Disclosure Gaps

- **Physical Climate Risk Vulnerability**: Under the forward-looking IPCC SSP5-8.5 high-emissions climate scenario model, absolute pluvial flash flooding and regional fluvial basin overflows represent a material operational threat. Engtex defines its site materiality threshold at an annualised financial exposure of over RM250,000, driven by potential inventory losses, plant and machinery (P&M) asset damage, and productivity downtime.

- **Reduced Occupational Safety Performance**: The Group's Lost Time Injury Frequency Rate (LTIFR) worsened from 2.5 in FY2024 to **2.8** in FY2025, exceeding the internal corporate management target of under 2.0. This operational risk was driven by recurring incidents at two plants involving machinery adjustments and uncompliant material handling behaviors.

- **Information Risk & Disclosures Gaps**: Although Engtex references relevant sustainability reporting standards and frameworks, Scope 3 disclosure remains restricted to business travel and employee commuting, leaving upstream/downstream value chain data omitted.

ESG Rating

Criterion	Rating				
Greenhouse Gas Emissions	★	★	★	★	★
Air Quality	★	★	★		
Energy Management	★	★	★	★	
Water Management	★	★	★	★	
Waste Management	★	★	★	★	
Workforce Health & Safety	★	★	★		
Supply Chain Sourcing	★	★	★	★	
OVERALL	★	★	★	★	

☆	denotes half-star
★	-5% discount to TP
★★	-3% discount to TP
★★★	TP unchanged
★★★★	+3% premium to TP
★★★★★	+5% 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%

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

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