



Wentel Engineering Holdings Bhd

IPO Note - "Long-standing excellence in metal fabrication and assembly"

ACE Market
Industrial Products & Services Sector
SUBSCRIBE
IPO Price: RM0.26
Fair Value: RM0.36

Valuation / Recommendation

We have a SUBSCRIBE recommendation on Wentel Engineering Holdings Berhad with a target price of RM0.36 based on FY25F EPS of 2.8 sen and a weighted peer average PE of 13x.

We like the stock for its established track record and strong relationship with its global customer base. The company stand to benefit from the growth of Malaysia's fabricated metal product industry, which grew by 8.1% to RM13.9 billion in 9M2023 compared to 9M 2022. The target price represents a potential return of 38.5% over the IPO price.

Investment Highlights

Comprehensive engineering solution. Wentel Engineering's team of in-house engineers provide almost a one-stop solution for customers, including refining designs during new product introduction, creating technical drawings and CAD drawings, as well as designing jigs and fixtures for precise manufacturing processes. The engineering team, totalling 12, is distributed across various functions, including new product introduction, production, CAM programming, compliance, sales, marketing, and quality assurance.

Supports a diverse range of growing industries. Wentel Engineering operates in diverse and expanding industries, including security screening, semiconductors, CNC machines, and medical devices. The demand for security screening equipment rose in tandem with increased global airport movements and container throughput in ports. In the semiconductor sector, Wentel Engineering's involvement in fabricating metal parts aligns with Malaysia's significant growth in export values, although global sales declined in 2023 due to inflation and reduced consumer demand. The company's contribution to CNC machines, a sector where Malaysia is a net importer, saw increased export values in 2023. Additionally, Wentel Engineering's fabrication of metal parts for medical diagnostic equipment capitalised on heightened demand following the COVID-19 pandemic, reflected in the country's growing export values of medical devices. This diversified engagement across industries positions Wentel Engineering strategically to navigate and capitalise on evolving market trends.

Operational presence in Singapore, a key market. Established in 2008, Wentel Engineering's presence in Singapore, marked by a sales office, has been a strategic move. Operating in Singapore serves as a crucial advantage, expanding the company's market reach beyond Malaysia. This not only broadens addressable markets but also acts as a risk mitigation strategy, safeguarding against potential business downturns in a single country.

Over 2 decades of proven excellence. With a history spanning 22 years as a fabricator of semifinished metal products and metal parts, and 18 years as an assembler of finished products since 2001, Wentel Engineering boasts a solid track record. Over this period, the company has fostered enduring relationships, with its top 5 major customers for FPE 2023 being partners for 2 to 13 years.

Risk factors. (1) Customer concentration risk as top 4 customers represent >80% of total revenue. (2) Dependency on securing new purchase orders consistently due to lack of long-term contracts. (3) Fluctuations in metal prices.

Investment Statistics	FY21	FY22	FY23	FY24F	FY25F
Revenue	89.9	117.5	111.7	134.0	174.2
EBITDA (RM m)	25.0	33.0	29.1	34.8	46.7
PATMI (RM m)	13.7	20.5	18.7	22.0	32.2
Profit Margin (%)	15.3	17.4	16.8	16.4	18.5
EPS (sen)	1.2	1.8	1.6	1.9	2.8
EPS Growth (%)	-9.0	49.4	-8.6	17.5	46.5
BV Per Share (sen)	5.9	7.6	11.9	17.8	30.6
PE (x)	21.8	14.6	16.0	13.6	9.3
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROA	14.8	19.0	12.4	8.5	8.0
ROE	20.3	23.4	13.6	10.7	9.1

Business Overview

Wentel Engineering Holdings Bhd is involved in the fabrication of semi-finished metal products, fabrication of metal parts, and assembly of finished products. The Company is supported by its in-house facilities including CNC machines and other manufacturing equipment as well as surface treatment and coating facilities.

Listing Details

Listing date	6 Feb 2024
New shares (m)	273.2
Offer for sale (m)	46.0
Funds raised (RM m)	71.0

Post Listing

Ordinary shares (m)	1,150
Market cap (RM m)	299
Free float	23.8
P/E (FY22)	14.6

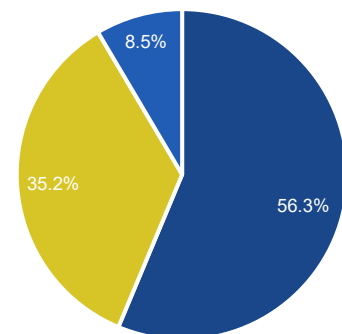
Top 3 Shareholders

Wong Kim Fatt	37.1%
WCSB	16.6%
Ban Kim Wah	13.3%

Utilisation of Proceeds

(RM m)

Construction of new manufacturing plant (part finance)	40.0
Purchase of new machinery & equipment (part finance)	25.0
Estimated listing expenses	6.0



- Construction of new manufacturing plant
- Purchase of new machinery & equipment
- Estimated listing expenses

Source: Mercury Securities, Bloomberg

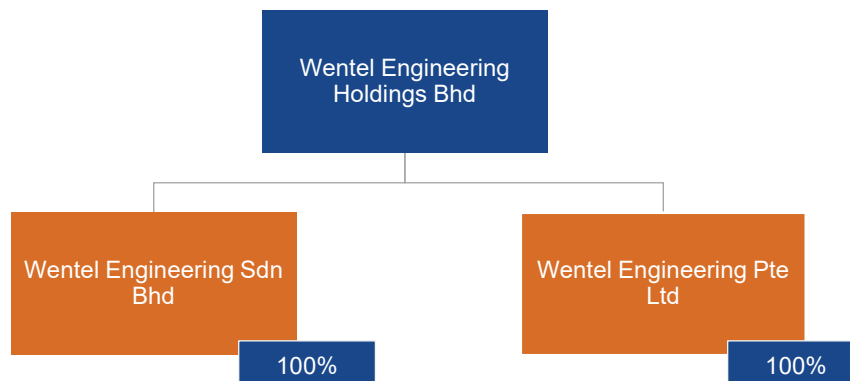


IPO Details

	Offer for sale (m)	Public issue (m)	Total (m)	(%)
Malaysian public		57.5	57.5	5.0
Pink form allocations		33.0	33.0	2.9
Private placement to Bumiputera investors approved by MITI		143.75	143.75	12.5
Private placement to selected investors	46.0	38.95	84.95	7.4
Total	46.0	273.2	319.2	27.8

Source: Company

Group Structure Post Listing



Source: Company

Peer Comparison

Company	Bloomberg Ticker	Share Price (RM)	Market Cap (RM m)	P/E (x)	EPS (sen)	EPS Growth	P/BV (x)
				FY25F	FY25F	FY25F	FY25F
KKB Engineering Bhd	KKB MK	1.73	508.2	14.8	11.7	8.8%	1.1
Coraza Integrated Technology Bhd	CORAZA MK	0.43	222.13	9.7	4.4	39.6%	1.1
Weighted Average				13.2			

Source: Mercury Securities, Bloomberg



Disclaimer & Disclosure of Conflict of Interest

The information contained in this report is based on data obtained from data and sources believed to be reliable at the time of issue of this report. However, the data and/or sources have not been independently verified and as such, no representation, express or implied, are made as to the accuracy, adequacy, completeness or reliability of the information or opinions in this report.

This report may contain forward-looking statements which are often but not always identified by the use of words such as “believe”, “estimate”, “intend” and “expect” and statements that an event or result “may”, “will” or “might” occur or be achieved and other similar expressions. Such forward-looking statements are based on assumptions made and information currently available to Mercury Securities Sdn Bhd. (“Mercury Securities”) and are subject to known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement to be materially different from any future results, performance or achievement, expressed or implied by such forward-looking statements. Caution should be taken with respect to such statements and recipients of this report should not place undue reliance on any such forward-looking statements. Mercury Securities expressly disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or circumstances after the date of this publication or to reflect the occurrence of unanticipated events.

Accordingly, neither Mercury Securities nor any of its holding company, related companies, directors, employees, agents and/or associates nor person connected to it accept any liability whatsoever for any direct, indirect, or consequential losses (including loss of profits) or damages that may arise from the use or reliance on the information or opinions in this publication. Any information, opinions or recommendations contained herein are subject to change at any time without prior notice. Mercury Securities has no obligation to update its opinion or the information in this report.

This report does not have regard to the specific investment objectives, financial situation and particular needs of any specific person. Accordingly, investors are advised to make their own independent evaluation of the information contained in this report and seek advice from, amongst others, tax, accounting, financial planner, legal or other business professionals regarding the appropriateness of investing in any securities or the investment strategies discussed or recommended in this report. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise represents a personal recommendation to you. This report is not intended, and should not under no circumstances be considered as an offer to sell or a solicitation of any offer or a solicitation or expression of views to influence any one to buy or sell the securities referred to herein or any related financial instruments.

Mercury Securities and its holding company, related companies, directors, employees, agents, associates and/or person connected with it may, from time to time, hold any positions in the securities and/or capital market products (including but not limited to shares, warrants and/or derivatives), trade or otherwise effect transactions for its own account or the account of its customers or be materially interested in any securities mentioned herein or any securities related thereto, and may further act as market maker or have assumed underwriting commitment or deal with such securities and provide advisory, investment, share margin facility or other services for or do business with any companies or entities mentioned in this report. In reviewing the report, investors should be aware that any or all of the foregoing among other things, may give rise to real or potential conflict of interests and should exercise their own judgement before making any investment decisions.

This research report is being supplied to you on a strictly confidential basis solely for your information and is made strictly on the basis that it will remain confidential. All materials presented in this report, unless specifically indicated otherwise, are under copyright to Mercury Securities. This research report and its contents may not be reproduced, stored in a retrieval system, redistributed, transmitted, or passed on, directly or indirectly, to any person or published in whole or in part, or altered in any way, for any purpose.

This report may provide the addresses of, or contain hyperlinks to websites. Mercury Securities takes no responsibility for the content contained therein. Such addresses or hyperlinks (including addresses or hyperlinks to Mercury Securities own website material) are provided solely for your convenience. The information and the content of the linked site do not in any way form part of this report. Accessing such website or following such link through the report or Mercury Securities’ website shall be at your own risk.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

The views expressed in this research report accurately reflect the analyst’s personal views about any and all of the subject securities or issuers; and no part of the research analyst’s compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.



Recommendation Rating

Mercury Securities maintains a list of stock coverage. Stock can be added or dropped subject to needs with or without notice. Hence, the recommendation rating only applicable to stocks under the list. Stocks out of the coverage list will not carry recommendation rating as the analyst may not follow the stocks adequately.

Mercury Securities has the following recommendation rating:

BUY	Stock's total return is expected to be +10% or better over the next 12 months (including dividend yield)
HOLD	Stock's total return is expected to be within +10% or -10% over the next 12 months (including dividend yield)
SELL	Stock's total return is expected to be -10% or worse over the next 12 months (including dividend yield)

Published & Printed By:

MERCURY SECURITIES SDN BHD
Registration No. 198401000672 (113193-W)
L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur
Telephone: (603) - 6203 7227
Website: www.mercurysecurities.com.my
Email: mercurykl@mersec.com.my