

Wentel Engineering Holdings Berhad

Engineering Prowess On Safety & Security

- WENTEL plans to set up a new larger production facility, as well as purchase new machinery to increase scale of production and the sophistication of products.
- At the IPO offer price of RM0.26, WENTEL is trading at 14.6x based on FY22 core net EPS of 1.78 sen. Meanwhile, WENTEL's forward P/E valuation for FY23-24f is estimated at 20.0x and 15.5x, respectively.
- We arrived at our fair value of RM0.335 (28.8% potential upside from its IPO price) by ascribing a target P/E of 20x to our forecasted FY24f average EPS of 1.67 sen. The assigned P/E is more than a 50% discount to the average peers' P/E of 43.8x, as WENTEL having a smaller market capitalisation.

Investment merits

- **Purchase of new machinery to improve the scale and variety of product offerings.** Pursuant to the utilization of IPO proceeds, WENTEL plans to purchase several new machineries which includes CNC laser cutting and/or turret punching machines, CNC milling machines and others. The newer machines will not only allow WENTEL to increase the scale of production by increasing the amount of goods produced, but also improves the product offerings as the new machines have a higher level of precision which will allow WENTEL to cater to more specific demands from its clients.
- **Setting up a new and larger production facility.** WENTEL will also use the IPO proceeds to set up a larger production facility which includes a larger production area, storage area, office, hostel and others. We understand from the management, the current production facility is unable to meet the spatial demand for the new machinery. Thus, upon the commencement of operations in 2H 2025, WENTEL will be able to greatly improve its scale of production.
- **The security screening market projected to grow at a CAGR of 8.2% from 2024 to 2034.** In 2024, the security screening market is valued at USD11.72bn and is projected to reach USD25.70bn by 2034 on the back of demand factors such as the increasing threats from terrorism and geopolitical tensions among selected countries, the growing adherence to stricter government regulations and international security guidelines, etc. The growth will enable WENTEL to grow its sales by catering to the growing demand for security screening machines. (Source: Future Market Insights)

Company Overview

- Established since year 2000, Wentel Engineering Holdings Berhad (WENTEL) is principally involved in the fabrication of semi-finished metal products, fabrication of metal parts and assembly of finished products, supported by in-house facilities such as CNC machines and other manufacturing equipment as well as surface treatment and coating facilities.
- WENTEL serves mainly 3 geographical markets namely Malaysia, Singapore and the United States. The manufactured goods are sold directly to customers, which are predominantly involved in security screening, semiconductor manufacturing, CNC machines, medical equipment and others.

IPO note report

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Not Rated

IPO price	RM0.26
Fair value	RM0.335
Capital upside	28.8%
Dividend return	0.0%
Total return	28.8%

FBM KLCI	1511.34
FBM Small Cap	16477.79

Company profile

WENTEL is principally involved in the fabrication of semfinished metal products, fabrication of metal parts and assembly of finished products.

Stock information

Bursa Code	0298
Bloomberg ticker	WENTEL MK
Listing market	ACE
Share issued (m)	1,150.0
Market Cap (m)	299.0
Shariah	Yes

Major shareholders




	%
Wong Kim Fatt, Loo Sok	54.2
Ching & Wencor	
Ban Kim Wah	13.3
Tai Yuan Heng	4.8

Earnings snapshot

FYE (Dec)	FY22	FY23f	FY24f
PATMI (m)	20.5	14.9	19.3
EPS (sen)	1.78	1.30	1.67
P/E (x)	14.6	20.0	15.5



Fig #1 WENTEL Business Overview

Business activities and revenue streams	Geographical markets	Distribution channel and customer base
Principal activities  Fabrication Semifinished metal products ⁽¹⁾ Metal parts  Assembly Walk-through metal detectors	Main markets served  Malaysia Singapore Other market • United States ⁽²⁾	Main channel – direct ⁽³⁾ Manufacturers of: <ul style="list-style-type: none"> • Security screening equipment • Semiconductor manufacturing equipment • CNC machines • Medical diagnostic equipment • Others ⁽⁴⁾

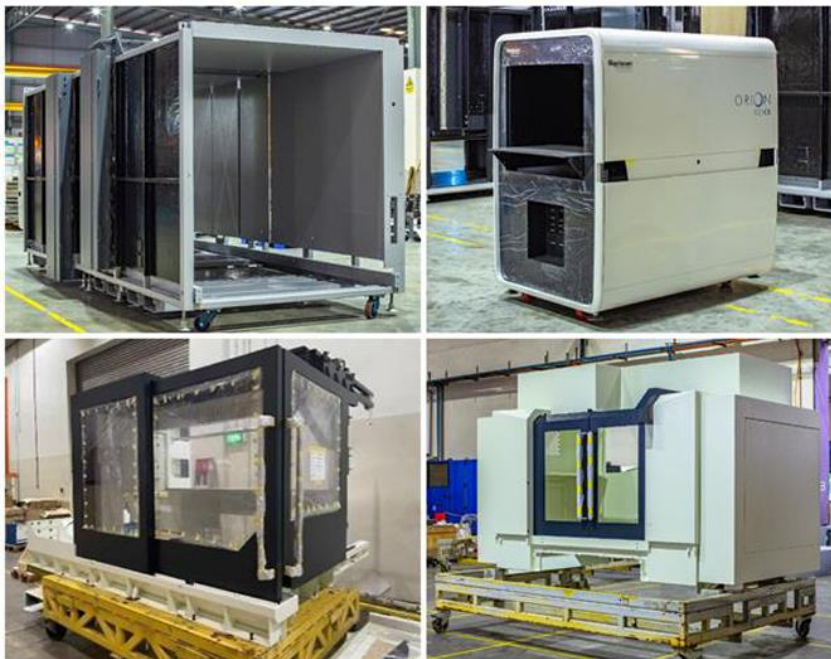
Source: Company prospectus

Business Overview

Fabrication of semifinished metal products & metal accessories (75.6% of revenue)

- The fabrication of semifinished metal products involves cutting, punching, bending, milling, welding, surface finishing and joining individual pieces to form the metal products. The fabrication is mainly done using computer numerical control (CNC) milling and CNC manufacturing equipment such as CNC laser cutting, CNC turret punching, CNC bending and CNC welding to achieve higher levels of accuracy. The surface of the metal products are then treated with processes such as sandblasting, degreasing, buffing, zinc phosphate treatment, etc. Some parts such as motors, pumps, cooling fans, wiring, etc are purchased from third parties, which are installed on the semifinished products.

Fig #2 Examples of semifinished metal products



Top: Metal bodies of security scanning machine; Bottom: Metal bodies of CNC machine

Source: Company prospectus



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- Besides semifinished parts, WENTEL fabricates metal accessories for security screening equipment and CNC machines as well, such as tray return systems for scanning machines, coolant tanks for CNC machines, etc.

Fig #3 Examples of metal accessories



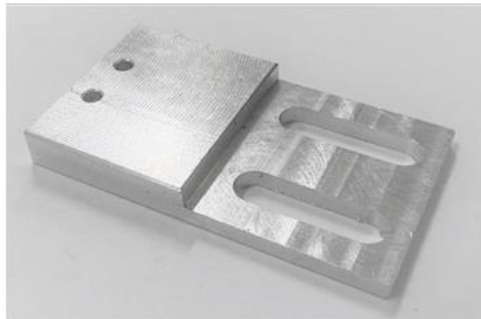
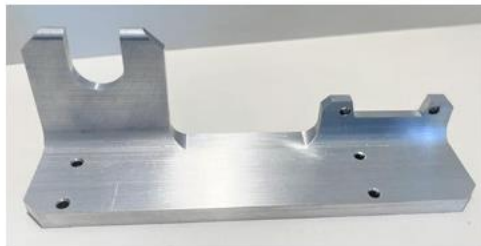
Left: Tray return system; Right: Coolant tank

Source: Company prospectus

Fabrication of Metal parts (16.6% of revenue)

- Furthermore, WENTEL uses CNC machines and other manufacturing equipment to fabricate metal parts, mainly with carbon steel, electrogalvanised steel, stainless steel, aluminium and brass. The metal parts are used by manufacturers' machines, equipment, vehicles, etc.

Fig #4 Examples of metal accessories



Source: Company prospectus

Assembly of finished products (7.8% of revenue)

- As at the date of the prospectus, WENTEL is only involved in assembling walk-through metal detectors. Our assembly business segment involves joining the workpieces together with procured parts and other materials to produce the finished products that are operational and ready for use. The assembly of finished products mainly uses materials procured from selected suppliers and in-house aluminium to be assembled into complete operational products. The assembly process encompasses electrical, electronic & mechanical parts, components and systems, as well as electrical wiring and processing system installation, and functional testing of the finished products.



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Fig #5 Assembly of finished products



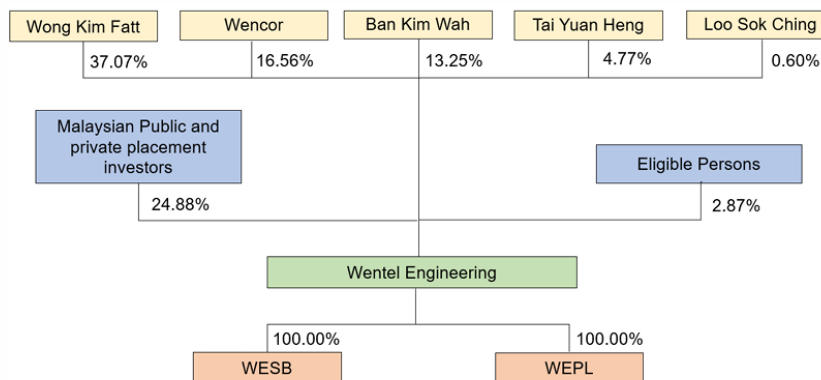
Source: Company prospectus

Some of the **Competitive Strengths** of WENTEL are:

- An established track record of approximately 22 years with an experienced management team.
- A physical presence in Singapore which provides WENTEL with an additional market to grow their business coverage.
- Provides a wide range of production facilities to meet the different needs of customers for fabricated semifinished metal products and metal parts.
- Strong technical expertise supported by in-house engineers to meet specific customers' specifications.
- WENTEL has quality programmes and certifications to support their commitment and emphasis on product quality.

Fig #6 WENTEL Post-IPO group structure

Group Structure after the IPO



Source: Company



Industry Overview (from Vital Factor Consulting)

Fig #7 Comparison between WENTEL and Selected Competitors

Company/Group	FYE ⁽¹⁾	Rev ⁽²⁾ (RM mil)	GP ⁽²⁾ (RM mil)	GP Margin (%)	NP/(NL) ⁽²⁾ (RM mil)	NP/(NL) Margin (%)
Frencken Mechatronics (M) S/B ⁽³⁾	Dec-22	393.9	63.9	16.2	35.5	9.0
Trend Technologies Malaysia S/B	Dec-22	385.4	64.0	16.6	32.9	8.5
*Dufu Technology Corp. Bhd	Dec-22	304.0	n.a.	n.a.	67.0	22.0
*UWC Bhd	Jul-23	271.7	n.a.	n.a.	53.8	19.8
Grand Venture Technology S/B ⁽⁴⁾	Dec-22	182.6	52.7	28.9	24.8	13.6
*CPE Technology Bhd	Jun-23	145.3	51.5	35.5	30.3	20.9
^Coraza Integrated Technology Bhd	Dec-22	143.3	37.4	26.1	14.7	10.3
Wentel Engineering Group	Dec-22	117.5	31.2	26.5	20.5	17.4
Intec Precision Engineering S/B	Sep-22	116.5	31.5	27.1	17.0	14.6
^SFP Tech Holdings Bhd	Dec-22	85.8	43.0	50.1	32.0	37.3
MACE Instrumentation S/B ⁽⁵⁾	Dec-22	76.5	16.0	21.0	10.2	13.4
IPE Automation S/B	Dec-22	72.9	16.5	22.6	(2.0)	(2.8)

Source: Company prospectus, Vital Factor Consulting

- **WENTEL holds less than 1.0% of market share in the fabricated metals products segment, and 3% in the Machining, treatment and coating of metals segment.** The fabricated metal product industry is diversified where different manufacturers produce a wide range of different metal products used in various industries, coupled with the low barrier to entry as there are fewer regulatory requirements to enter the industry.

IPO Details

Fig #8 Utilisation of IPO proceeds

Utilisation of proceeds	RM'm	%	Estimated timeframe for utilisation
Part financing of the construction of 2 blocks of single storey factory (with double storey office) and 2 blocks of workers' hostel	40.00	56.3	Within 18 months
Part financing of the purchase of new machinery and equipment	25.03	35.2	Within 18 months
Estimated listing expenses	6.00	8.5	Within 3 months
Total	71.03	100.0	

Source: Company prospectus

Financials

- **Revenue to be lower in FY23 as FY22 was a high-base year.** In 2022, WENTEL registered revenue of RM117.5m (+30.8% YoY) and core PATMI of RM20.5m (+65.1% YoY) due to (i) increased number of orders from customers and (ii) better net profit margins. However, we forecast a decline in the core PATAMI to RM14.9m for FY23f as WENTEL has not achieved the same level for 9MFY23. Nevertheless, we expect a jump in its FY24 core PATAMI to RM19.3m on the back of healthier sales demand.



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- Upon the commencement of the new production facility in 2H FY25, WENTEL should be able to increase production levels and achieve greater economies of scale, as well as garner more sales with its more sophisticated product offerings.

Financial Highlights

FYE Dec (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	64.8	89.9	117.5	96.4	106.0
Revenue growth (%)	-	38.8	30.8	(18.0)	10.0
PATMI - Core	2.8	12.4	20.5	14.9	19.3
PATMI - Reported	2.8	12.4	20.5	14.9	19.3
Core PATMI growth (%)	(74.8)	347.1	65.1	(27.0)	28.8
Core EPS (sen)	0.24	1.08	1.78	1.30	1.67
P/E (x)	107.7	24.1	14.6	20.0	15.5
P/B (x)	5.4	4.4	3.4	1.6	1.4
ROE (%)	3.6	20.3	26.4	10.8	9.7
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: Company prospectus, MSSB Research

Valuation

- At the IPO offer price of RM0.26, WENTEL is trading at 14.6x based on FY22 core net EPS of 1.78 sen. Meanwhile, WENTEL's forward P/E valuation for FY23-24f is estimated at 20.0x and 15.5x, respectively.
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Fig #9 Bloomberg – P/E Comps for WENTEL's selected peers

Name	Mkt Cap (MYR)	Last Px (MYR)	Chg Pct 1D	Chg Pct 1M	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld
Average	1.30B	1.79	-0.25%	-4.58%	15.63%	-25.33%	43.84	11.80%	1.71%
01) WENTEL ENGINEERING HOLDINGS	--	--	--	--	30.81%	--	--	26.31%	--
02) DUFU TECHNOLOGY CORP BHD	959.90M	1.81	-0.55%	-3.21%	-13.81%	-9.23%	46.41	6.11%	3.04%
03) UWC BHD	3.46B	3.14	-0.95%	-8.19%	-21.38%	-48.56%	114.74	7.37%	--
04) CPE TECHNOLOGY BHD	647.82M	0.97	0.00%	1.58%	4.63%	--	--	--	--
05) CORAZA INTEGRATED TECHNOLOGY	197.45M	0.40	-1.23%	-6.98%	35.06%	-16.76%	33.06	4.81%	--
06) SFP TECH HOLDINGS BHD	2.14B	0.89	0.00%	-5.32%	70.17%	--	54.38	22.51%	0.45%
07) JHM CONSOLIDATION BHD	418.14M	0.69	0.00%	-3.50%	19.96%	-32.74%	25.75	5.44%	--
08) FRENCKEN GROUP LTD	1.99B	4.67	0.77%	-3.65%	2.48%	-12.09%	14.92	9.89%	2.76%
09) GRAND VENTURE TECHNOLOGY LTD	600.42M	1.77	0.00%	-7.41%	12.76%	-32.57%	17.67	12.01%	0.60%

Source: Bloomberg

Investment risks

- **Dependent on certain major customers which contributes significantly to the total revenue.** In FY23, the top 4 customers contributed to 89.3% of the group's revenue, therefore any disruptions to the continuity of future orders may have a significant adverse effect on the group's overall performance.
- **Exposed to fluctuations in raw material prices.** WENTEL's metal input materials such as steel, lead and aluminium make up a significant portion of production costs, therefore any adverse movement in the raw material prices and the potential inability to pass on the cost to customers may have a significant impact on the group's net profits.



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As of **Tuesday, 06 Feb, 2024**, the analyst(s), Loui Low Ley Yee, whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.

Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned

