Wentel Engineering Holdings Berhad

Earnings Below Expectations

Summary

- **Earnings below expectations.** WENTEL registered a 1Q26 core PAT of RM2.7m (-52.4% QoQ, -55.5% YoY), accounting for only 10.9% of our FY26f earnings estimate. We deem the results below expectations, mainly due to weaker-than-expected gross margin and higher operating expenses, which were affected by an unfavourable product mix and foreign exchange losses during the quarter.

- **YoY.** While WENTEL's revenue grew marginally by 1.8% YoY to RM31.8m, supported by higher contribution from fabrication of semi-finished metal products and assembly of finished products, which offset softer fabrication of metal parts, the core PAT declined 55.5% YoY to RM2.7m, while PBT fell 54.5% YoY to RM3.7m, mainly due to lower GP margin from unfavourable customer product mix and foreign exchange losses during the quarter. Core PAT margin narrowed to 8.6% from 19.6% in 1QFY25.

- **QoQ.** Revenue declined 16.8% QoQ to RM31.8m from RM38.2m in 4QFY25, while PBT contracted by 39.2% QoQ to RM3.7m. The sequential weakness was mainly due to changes in customer product mix, coupled with the impact of foreign exchange movements during the quarter. As a result, PBT margin softened to 11.6% in 1QFY26 from 15.9% in 4QFY25.

- **Segmental performance.** Malaysia continued to anchor WENTEL's revenue base, while Singapore softened despite the group's exposure to security screening customers such as Rapiscan. Nevertheless, we view the decline as a timing issue rather than a structural weakness, given OSI Systems' healthy FY26 revenue guidance of USD1.825bn–USD1.867bn. Meanwhile, fabrication of semi-finished metal products remained WENTEL's core revenue contributor, accounting for RM22.9m of 1Q26 revenue, supported by demand for machine bodies and modules. With the new production line and Lot 815 expansion expected to lift capacity, we believe WENTEL has ample room to scale alongside its key customers' growth trajectory.

- **Outlook.** We remain positive on WENTEL's outlook, anchored by its leverage to the expanding security screening and E&E supply chains. The global security screening market is projected to grow from USD9.92bn in 2025 to USD13.80bn by 2030, implying a 6.8% CAGR, while Mordor Intelligence highlights government procurement, aviation recovery and geopolitical tensions as key drivers for advanced detection equipment demand. This bodes well for WENTEL's exposure to security screening customers, particularly as OSI Systems, the parent of Rapiscan, reiterated healthy FY26 revenue guidance of USD1.825bn–1.867bn. Coupled with the upcoming Lot 815 expansion, which should unlock the next leg of capacity growth, and >1,000 NPIs under assessment, we believe WENTEL is well-positioned to scale as customer orders recover, although near-term margins may remain sensitive to product mix and FX movements

Results Note – 1QFY26

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HOLD

Share price	**RM0.240**
Target price	**RM0.230**
Previous TP	**RM0.480**
Capital upside	-5.8%
Dividend return	-
Total return	-5.8%

Company profile

Principally involved in fabricating semi-finished metal products, parts, as well as assemblies, serving clients in Malaysia, Singapore and the United States.

Stock information

Bursa Code	0298
Bloomberg ticker	WENTEL MK
Listing market	ACE
Share issued (m)	1150.0
Market Cap (m)	276.0
52W High/Low	0.36 / 0.215
Est. Free float (%)	22.4
Beta (x)	1.0
3-mth avg vol ('000)	3073.0
Shariah compliant	Yes

Major shareholders	**%**
Wong Kim Fatt & Loo Sok Ching	37.7
Wencor (M) Sdn Bhd	16.6

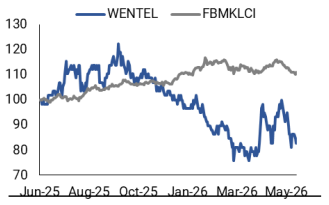
Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-5.9	2.1	-17.2
Relative	-2.3	3.9	-25.4

Earnings snapshot

FYE (Dec)	FY25	FY26f	FY27f
PAT (m)	23.0	10.7	11.9
EPS (sen)	2.00	0.93	1.03
P/E (x)	12.1	25.7	23.2

Relative performance chart



Quarterly performance 1Q26

Quarterly performance

FYE Dec (RM m)	1QFY25	4QFY25	1QFY26	QoQ (%)	YoY (%)
Revenue	31.2	38.2	*31.8*	*(16.8)*	1.8
PBT	8.1	6.1	*3.7*	*(39.2)*	(54.5)
PAT	6.1	5.7	*2.7*	*(52.4)*	(55.5)
Core PAT	6.1	5.7	*2.7*	*(52.4)*	(55.5)
Reported PAT	6.1	5.7	*2.7*	*(52.4)*	(55.5)
Core EPS (sen)	0.5	0.5	*0.2*	*(52.4)*	(55.5)
PBT margin (%)	25.9	15.9	*11.6*		
Core PATMI margin (%)	19.6	15.0	8.6		

Source: WENTEL, M+ Research

Valuation & Recommendation

- **Forecast.** Following the weaker-than-expected 1Q26 results, we cut our FY26f–27f core PAT forecasts by 57–58% to RM10.7m–RM11.9m, respectively. The revision mainly reflects our more conservative assumptions on gross margin, higher cost of sales and elevated operating expenses.

- **Downgrade to HOLD with revised TP of RM0.23.** Following the earnings downgrade, we lower our recommendation to HOLD with a revised target price of RM0.23. Our TP is derived by pegging a 23x P/E multiple to mid-FY27f EPS of 0.98 sen. We will be meeting management next week for an analyst briefing and will revisit our assumptions should there be any material updates on margins, customer orders, capacity ramp-up or operating cost trends.

- **Downside risks.** Risks to our recommendation include: (i) fluctuations in raw material prices; (ii) foreign exchange volatility, as a portion of revenue and purchases are denominated in foreign currencies; (iii) heavy reliance on certain key customers; and (iv) industry cyclicality.

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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