

## Econpile Holdings Bhd

### Green shoots of recovery

#### Summary

- Econpile Holdings Bhd's (ECONBHD) 2QFY23 net loss narrowed to -RM1.6m vs. a net loss of -RM5.4m recorded in the previous corresponding quarter, mainly attributable to higher contribution from Cambodia project, while building material costs normalised. Revenue for the quarter, however, declined marginally by 1.6% YoY to RM95.3m.
- For 6MFY23, cumulative net loss narrowed to -RM6.5m against a net loss of -RM11.2m recorded in the previous corresponding period. The reported figures came in below our expected net profit of RM14.3m.
- In 2QFY23, cash balances stood at RM36.9m and net gearing at 0.2x implies that there are room to tap into external financing to fund working capital in bid to overcome the tough operating landscape.
- We gather that ECONBHD has secured some RM166.5m worth of contracts year-to-date. This makes up to 66.6% of our orderbook replenishment target of RM250.0m for FY23f. We expect construction activities to accelerate in 2H23, particularly for mega infrastructure projects post re-tabling of Budget 2023.
- As of end-2QFY23, ECONBHD is equipped with an unbilled construction orderbook of approximately RM433.9m; representing an orderbook-to-cover ratio of 1.2x against FY22 revenue of RM373.4m. This will sustain their revenue over the next 18 months.
- Moving forward, the normalising of steel prices in recent months should bode well for the general construction industry. Still, the elevated concrete price that rose 2.6% MoM in January 2023 will keep margins recovery in check. Hence, we expect ECONBHD may return to the black only towards end-2023.
- With signs of improvement over the acute labour shortage issue, we reckon that projects execution may garner pace. While the local construction industry is expected to stay muted over the foreseeable future, we believe jobs acceleration may take place towards end-2023.

#### Results Note – 2QFY23

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#### SELL (from Hold)

Share price	RM0.22
Target price	RM0.16
Previous TP	RM0.15
Capital upside	-27.3%
Dividend return	-
Total return	-27.3%

#### Company profile

Provision of piling and foundation services for construction of infrastructures and buildings

#### Stock information

Bursa Code	5253
Bloomberg ticker	ECON MK
Listing market	Main
Share issued (m)	1,417.5
Market Cap (m)	311.9
52W High/Low	0.32/0.20
Est. Free float	43.1%
Beta (x)	0.9
3-mth avg vol ('000)	12,913.7
Shariah compliant	Yes

#### Major shareholders

	%
The Cheng Eng	24.7
Pang Sar	19.5
EPF	8.1

#### Share price vs. KLCI (%)

	1M	3M	12M
Hist. return	37.5	51.7	-26.7
Absolute	3.0	19.1	-43.4
Relative			

#### Earnings summary

FYE (Jun)	FY22	FY23f	FY24f
PATMI (m)	-40.9	3.3	15.4
EPS (sen)	-2.9	0.2	1.1
P/E (x)	-	93.8	20.3

#### Relative performance chart



#### Quarterly performance

FYE Jun (RM m)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	6MFY22	6MFY23	YoY (%)
Revenue	96.9	81.9	95.3	16.5	(1.6)	182.9	177.2	(3.1)
EBITDA	0.9	0.5	3.0	512.1	232.2	1.7	3.5	106.9
PBT	(4.4)	(3.5)	(0.3)	90.7	92.5	(9.6)	(3.8)	(60.1)
PAT	(5.4)	(4.8)	(1.6)	66.1	69.6	(11.2)	(6.5)	(42.2)
Core PATMI	(5.4)	(4.8)	(1.6)	66.1	69.6	(11.2)	(6.5)	(42.2)
Reported PATMI	(5.4)	(4.8)	(1.6)	66.1	69.6	(11.2)	(6.5)	(42.2)
Core EPS (sen)	(0.4)	(0.3)	(0.1)	66.1	69.6	(0.8)	(0.5)	(42.2)
EBITDA margin (%)	0.9	0.6	3.2			0.9	2.0	
PBT margin (%)	(4.5)	(4.3)	(0.3)			(5.3)	(2.2)	
Core PATMI margin (%)	(5.5)	(5.9)	(1.7)			(6.1)	(3.6)	

## Valuation & Recommendation

- Given the weaker-than-expected result, we slashed our FY23f core net profit lower by 76.6% to RM3.3m, taking into account of the sluggish operating landscape, while keeping FY24f numbers unchanged as we reckon that the recovery during that period is largely on the table.
- Following the recent appreciation in share price, we downgrade ECONBHD to **SELL**, but with a higher target price of RM0.16 as we rolled over our valuation metrics to FY24f. Our target price is derived by ascribing a target PER of 15.0x to its FY24f EPS of 1.1 sen.
- Risks to our recommendation and target price include the stronger-than-expected orderbook replenishment rate. Lower raw material prices and energy cost would potentially improve margins and vice versa. The pace of execution of projects on hand could also determine ECONBHD's efficiency to deploy existing machineries for future orders.

## Financial Highlights

All items in (RM m) unless otherwise stated

Income Statement						Balance Sheet					
FYE Jun (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Jun (RM m)	FY20	FY21	FY22	FY23f	FY24f
Revenue	403.0	420.1	366.6	418.0	371.7	Cash	24.6	52.4	51.9	27.9	29.1
EBITDA	31.4	40.5	(11.1)	25.1	40.9	Receivables	324.4	365.9	435.0	481.0	498.9
EBIT	5.0	17.0	(28.5)	8.0	24.9	Inventories	-	-	-	-	-
Net finance income/ (cost)	(2.0)	(2.7)	(3.1)	(3.2)	(3.0)	PPE	73.3	58.9	40.3	39.9	38.8
Associates & JV	-	-	-	-	-	Others	213.4	232.2	138.8	128.8	114.9
Profit before tax	3.0	14.2	(31.6)	4.7	21.9	Assets	635.7	709.3	666.0	677.6	681.7
Tax	(0.6)	(3.1)	(9.3)	(1.4)	(6.6)	Debts	82.4	81.6	113.3	103.3	93.3
Net profit	2.3	11.1	(40.9)	3.3	15.4	Payables	152.7	176.5	124.0	134.0	137.5
Minority interest	-	-	-	-	-	Others	9.7	8.1	27.0	35.3	30.5
Core earnings	2.3	11.1	(40.9)	3.3	15.4	Liabilities	244.9	266.2	264.2	272.5	261.2
Diluted core earnings	-	-	-	3.9	15.9	Shareholder's equity	390.8	443.2	401.8	405.1	420.5
Exceptional items	-	-	-	-	-	Minority interest	-	-	-	-	-
Reported earnings	2.3	11.1	(40.9)	3.3	15.4	Equity	390.8	443.2	401.8	405.1	420.5
Cash Flow Statement						Valuation & Ratios					
FYE Jun (RM m)	FY20	FY21	FY22	FY23f	FY24f	FYE Jun (RM m)	FY20	FY21	FY22	FY23f	FY24f
Profit before taxation	3.0	14.2	(31.6)	4.7	21.9	Core EPS (sen)	0.2	0.8	(2.9)	0.2	1.1
Depreciation & amortisation	26.5	22.9	16.4	17.2	16.0	Diluted Core EPS (sen)	-	-	-	0.2	0.9
Changes in working capital	31.3	32.1	27.3	26.1	1.4	P/E (x)	133.8	28.1	-	93.8	20.3
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	95.7	23.3
Taxation	(15.3)	(10.8)	(3.9)	(1.2)	(5.5)	DPS (sen)	-	-	-	-	-
Others	-	-	-	-	-	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Operating cash flow	(27.2)	(1.9)	(30.7)	(14.0)	19.1	BVPS (RM)	0.28	0.31	0.28	0.29	0.30
Net capex	(2.3)	(0.3)	8.0	(18.0)	1.9	P/B (x)	0.8	0.7	0.8	0.8	0.7
Others	-	-	-	-	-	EBITDA margin	7.8%	9.6%	-3.0%	6.0%	11.0%
Investing cash flow	12.5	(3.7)	2.5	(16.4)	(14.7)	EBIT margin	1.2%	4.0%	-7.8%	1.9%	6.7%
Changes in borrowings	8.7	(2.8)	(2.8)	33.9	(10.0)	PBT margin	0.7%	3.4%	-8.6%	1.1%	5.9%
Issuance of shares	-	-	-	-	-	PAT margin	0.6%	2.6%	-11.2%	0.8%	4.1%
Dividends paid	(6.7)	-	-	-	-	Core PAT margin	0.6%	2.6%	-11.2%	0.8%	4.1%
Others	-	-	-	-	-	ROE	0.6%	2.5%	-10.2%	0.8%	3.7%
Financing cash flow	(3.3)	31.7	28.0	6.4	(3.3)	ROA	0.4%	1.6%	-6.1%	0.5%	2.3%
Net cash flow	(18.0)	26.1	(0.3)	(24.0)	1.1	Net gearing	14.8%	6.6%	15.3%	18.6%	15.3%
Forex	-	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	40.1	22.1	48.3	47.8	23.8						
Ending cash	22.1	48.3	47.8	23.8	24.9						

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