

Econpile Holdings Bhd

On track to return to the black

Summary

- Econpile Holdings Bhd's (ECONBHD) 3QFY23 net loss narrowed to -RM0.2m vs. a net loss of -RM16.2m recorded in the previous corresponding quarter, driven by better margins generated from its on-going construction projects arising from stabilising building material costs and improvement in labour supply. Revenue for the quarter climbed 5.1% YoY to RM96.7m.
- For 9MFY23, cumulative net loss narrowed to -RM6.7m against a net loss of -RM27.4m recorded in the previous corresponding period. The reported figures came in below our expected net profit of RM3.3m and consensus expectations of RM7.1m. While the final quarter may see the group returning to the black, we reckon that the numbers may not be able to strike out the cumulative losses in 9MFY23.
- In 3QFY23, cash balances improved to RM47.1m, from RM36.9m 2QFY23 and net gearing was at 0.1x. We gather that the net operating cash flow has returned to the black during the quarter.
- As of end-3QFY23, ECONBHD is equipped with an unbilled construction orderbook of approximately RM404.7m from 24 on-going projects; representing an orderbook-to-cover ratio of 1.1x against FY22 revenue of RM366.6m. This will sustain their revenue over the next 18 months. Despite YTD orderbook replenishment (c. RM223.0m) exceeded FY22 replenishment at RM155.6m, we reckon that earnings recovery is still at nascent stage.
- For now, we maintain our view that ECONBHD may return to the black in coming quarters, while the acceleration of mega-infrastructure projects may take place sometime in 2H23. The completion of relatively large scale Cambodia project may cement their reputation for future works.
- We reckon that the elevated building material cost and rising minimum wages to keep margins recovery in check. On a brighter note, acute labour shortage issue has alleviated and this may provide room for breather to execute multiple projects simultaneously.

Results Note – 3QFY23

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SELL

Share price	RM0.18
Target price	RM0.16
Previous TP	RM0.16
Capital upside	-11.1%
Dividend return	-
Total return	-11.1%

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)	255.2
52W High/Low	0.255/0.13
Est. Free float	42.7%
Beta (x)	0.8
3-mth avg vol ('000)	4,850.8
Shariah compliant	Yes

Major shareholders

The Cheng Eng	24.7%
Pang Sar	19.5%
EPF	8.5%

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	-7.7	-14.3	-23.4
Relative	-6.7	-11.4	-16.6

Earnings summary

FYE (Jun)	FY22	FY23f	FY24f
PATMI (m)	-40.9	-4.0	15.4
EPS (sen)	-2.9	-0.3	1.1
P/E (x)	-	-	16.6

Relative performance chart



Quarterly performance

FYE Jun (RM m)	3QFY22	2QFY23	3QFY23	QoQ (%)	YoY (%)	9MFY22	9MFY23	YoY (%)
Revenue	92.0	95.3	96.7	1.4	5.1	274.9	273.9	(0.4)
EBITDA	(7.6)	3.0	3.8	24.9	150.2	(5.8)	7.3	225.4
PBT	(12.7)	(0.3)	1.2	476.8	109.7	(22.3)	(2.6)	88.3
PAT	(16.2)	(1.6)	(0.2)	86.7	98.7	(27.4)	(6.7)	75.6
Core PATMI	(16.2)	(1.6)	(0.2)	86.7	98.7	(27.4)	(6.7)	75.6
Reported PATMI	(16.2)	(1.6)	(0.2)	86.7	98.7	(27.4)	(6.7)	75.6
Core EPS (sen)	(1.1)	(0.1)	(0.0)	86.7	98.7	(1.9)	(0.5)	75.6
EBITDA margin (%)	(8.2)	3.2	3.9			(2.1)	2.7	
PBT margin (%)	(13.8)	(0.3)	1.3			(8.1)	(1.0)	
Core PATMI margin (%)	(17.6)	(1.7)	(0.2)			(10.0)	(2.4)	

Valuation & Recommendation

- Following the weaker-than-expected result, we now expect FY23f to register core net loss of -RM4.0m, after taking into account of slower-than-expected recovery in margins, while keeping FY24f numbers unchanged as we reckon that the recovery during that period is largely on the table.
- We maintain our **SELL** recommendation on ECONBHD with an unchanged target price of RM0.16. 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	28.5	29.7
EBITDA	31.4	40.5	(11.1)	14.6	37.2	Receivables	324.4	365.9	435.0	481.0	499.0
EBIT	5.0	17.0	(28.5)	(2.5)	24.6	Inventories	-	-	-	-	-
Net finance income/ (cost)	(2.0)	(2.7)	(3.1)	(3.2)	(2.9)	PPE	73.3	58.9	40.3	31.5	30.1
Associates & JV	-	-	-	-	-	Others	213.4	232.2	138.8	128.8	114.9
Profit before tax	3.0	14.2	(31.6)	(5.7)	21.7	Assets	635.7	709.3	666.0	669.8	673.6
Tax	(0.6)	(3.1)	(9.3)	1.7	(6.3)	Debts	82.4	81.6	113.3	103.3	93.3
Net profit	2.3	11.1	(40.9)	(4.0)	15.4	Payables	152.7	176.5	124.0	134.0	137.5
Minority interest	-	-	-	-	-	Others	9.7	8.1	27.0	34.8	29.8
Core earnings	2.3	11.1	(40.9)	(4.0)	15.4	Liabilities	244.9	266.2	264.2	272.0	260.5
Diluted core earnings	-	-	-	(3.5)	15.9	Shareholder's equity	390.8	443.2	401.8	397.7	413.1
Exceptional items	-	-	-	-	-	Minority interest	-	-	-	-	-
Reported earnings	2.3	11.1	(40.9)	(4.0)	15.4	Equity	390.8	443.2	401.8	397.7	413.1
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)	(5.7)	21.7	Core EPS (sen)	0.2	0.8	(2.9)	(0.3)	1.1
Depreciation & amortisation	26.5	22.9	16.4	17.2	12.7	Diluted Core EPS (sen)	-	-	-	(0.2)	0.9
Changes in working capital	31.3	32.1	27.3	26.0	1.5	P/E (x)	109.4	23.0	-	-	16.6
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	-	19.0
Taxation	(15.3)	(10.8)	(3.9)	1.4	(5.4)	DPS (sen)	-	-	-	-	-
Others	-	-	-	-	-	Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Operating cash flow	(27.2)	(1.9)	(30.7)	(21.7)	15.3	BVPS (RM)	0.28	0.31	0.28	0.28	0.29
Net capex	(2.3)	(0.3)	8.0	(9.6)	(2.8)	P/B (x)	0.7	0.6	0.6	0.6	0.6
Others	-	-	-	-	-	EBITDA margin	7.8%	9.6%	-3.0%	3.5%	10.0%
Investing cash flow	12.5	(3.7)	2.5	(8.1)	(10.9)	EBIT margin	1.2%	4.0%	-7.8%	-0.6%	6.6%
Changes in borrowings	8.7	(2.8)	(2.8)	33.9	(10.0)	PBT margin	0.7%	3.4%	-8.6%	-1.4%	5.8%
Issuance of shares	-	-	-	-	-	PAT margin	0.6%	2.6%	-11.2%	-1.0%	4.1%
Dividends paid	(6.7)	-	-	-	-	Core PAT margin	0.6%	2.6%	-11.2%	-1.0%	4.1%
Others	-	-	-	-	-	ROE	0.6%	2.5%	-10.2%	-1.0%	3.7%
Financing cash flow	(3.3)	31.7	28.0	6.4	(3.3)	ROA	0.4%	1.6%	-6.1%	-0.6%	2.3%
Net cash flow	(18.0)	26.1	(0.3)	(23.4)	1.2	Net gearing	14.8%	6.6%	15.3%	18.8%	15.4%
Forex	-	-	-	-	-						
Others	-	-	-	-	-						
Beginning cash	40.1	22.1	48.3	47.8	24.3						
Ending cash	22.1	48.3	47.8	24.3	25.5						

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