

Econpile Holdings Bhd

Outlook turning stable, but valuations are stretched

Summary

- Econpile Holdings Bhd's (ECONBHD) long-term prospects appear to be on the recovery trend after experiencing a year to forget in FY22f. Recall that in 3QFY23 net loss narrowed to -RM0.2m vs. net loss of -RM1.3m recorded in 2QFY23. After 7 consecutive quarters in the red, we reckon that the group is poised to return to the black moving into FY24.
- The expected recovery will be supported by the improved orderbook replenishment during FY22 at RM223.0m against FY21 at RM155.6m. While projects secured since FY21 were relatively small scale (less than RM50.0m each), we expect larger works to be revealed only at 4QFY23 or in 1HFY24. This is in anticipation with the conclusion of the state elections, awards of construction packages under the mega infrastructure projects may accelerate post Budget 2024.
- We reckon that the alleviation of acute labour shortage will allow ECONBHD to participate in multiple projects simultaneously. In the meantime, the normalising of building material prices also bodes well for margins improvement. Still, we expect margins to remain at single digit, given that inflationary pressure (higher labour costs and building material prices remains on the higher end against pre-Covid-19 level) remains at large.
- For now, ECONBHD, will be kept busy with an outstanding orderbook of c. RM400.0m that represents an unbilled orderbook-to-cover ratio at 1.1x against FY22 revenue of RM366.6m. This is expected to sustain revenue visibility throughout the next 18 months.
- While trading activities improved in recent months in anticipation that the construction sector may shift into higher gear, we reckon that valuations are fairly stretched with the group trading at prospective FY24f PER of 26.7x. This is higher against the Bursa Malaysia construction sector that is trading at forward PER of 14.8x and 12.3x in 2023f and 2024f respectively.
- Therefore, we are ceasing coverage on ECONBHD due to reallocation of internal resources. Our last recommendation on ECONBHD was **SELL** with a fair value at RM0.16. The fair value was derived by ascribing a target PER of 15.0x to its FY24f EPS of 1.1 sen.

Ceasing Coverage Note

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SELL

Share price	RM0.29
Target price	-
Previous TP	RM0.16
Capital upside	-44.8%
Dividend return	-
Total return	-44.8%

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)	411.1
52W High/Low	0.30/0.13
Est. Free float	42.8%
Beta (x)	0.9
3-mth avg vol ('000)	7,880.4
Shariah compliant	Yes

Major shareholders

	%
The Cheng Eng	24.7
Pang Sar	19.5
EPF	8.4

Share price vs. KLCI (%)

Hist. return	1M	3M	12M
Absolute	16.0	56.8	75.8
Relative	16.5	52.3	82.6

Earnings snapshot

FYE (Jun)	FY22	FY23f	FY24f
PATMI (m)	-40.9	-4.0	15.4
EPS (sen)	-2.9	-0.3	1.1
P/E (x)	-	-	26.7

Relative performance chart



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)	Debits	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)	176.3	37.0	-	-	26.7
Share of JV profits	-	-	-	-	-	Diluted P/E (x)	-	-	-	-	30.6
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)	1.1	0.9	1.0	1.0	1.0
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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As of **Monday, 28 Aug, 2023**, the analyst(s), Kenneth Leong, 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