

28 November 2024

Econpile Holdings (ECON MK)

Back In The Black; Keep BUY

- **Keep BUY, new MYR0.56 TP from MYR0.60, 38% upside.** 1QFY25 (Jun) core net profit of MYR0.32m fell short of both our and Street's full-year estimates of MYR7m and MYR14m – as our initial revenue and margin estimates were too optimistic. However, Econpile Holdings has returned to profitability after six consecutive quarters of losses. We remain positive on Econpile's track record in infrastructure jobs vs other piling contractors – in addition to undemanding valuation, as the stock's FY25F P/BV of 1.7x is below its 10-year mean.
- **Results review.** ECON's revenue declined by 33.5% YoY, no thanks to the lower progress billings following the completion of projects in Cambodia. Nonetheless, GPM improved by 4ppts YoY, driven by higher contributions from better-margin projects, with legacy projects mostly at their tail-end. QoQ, the group recorded a core profit of MYR0.3m from a core loss of MYR5.7m in 4QFY24 due lower administrative expenses on a provision made for receivables related to a client in receivership.
- **ECON's outstanding orderbook** stood at MYR483m as at end 1QFY25 (1.2x cover ratio) vs MYR417m a year ago. YTD-Oct 2024 new job wins stood at MYR166m – this includes piling works for condominiums, and mixed development commercial buildings. We anticipate the positive momentum in private construction jobs to continue, with residential properties' overhang down 13.8% YoY in 1HCY24 – indicating improved demand in the property market. Additionally, we view ECON as a beneficiary from upcoming infrastructure rollouts, given its solid track record in railway- and highway-related projects (Figure 2). Potential rerating catalysts include faster-than-expected approvals or rollouts of the Penang Light Rail Transit (LRT) and Sungai Klang Link projects (worth MYR300-500m; total project costs: MYR8-10bn).
- **Forecasts.** As earnings missed estimates, we slash FY25F-27F bottomline by 11.9%, 13.1%, and 9.7% by moderating margins assumptions and reducing our FY25F job replenishment assumption to MYR600m from MYR800m previously on potential delays anticipated. While our FY25F-27F earnings reflect a growth vs core losses incurred during FY22-24, our projections have yet to match levels seen in FY18, when core earnings were at MYR87m, which warrants us to continue adopting a P/BV valuation method.
- **Post earnings adjustments,** we derive a new MYR0.56 TP that is still pegged to a 2.5x target P/BV. We view this target P/BV (+0.7SD from its 10-year mean) as justified, reflecting ECON's role as a subcontractor of big-ticket projects such as Mass Rapid Transit 2 (MYR180m) and LRT3 (MYR208.7m). A 6% ESG discount is also baked in.
- **Downside risks:** Slower-than-expected roll-out of mega infrastructure projects and volatile material prices.

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	376	418	488	613	653
Recurring net profit (MYRm)	(21)	(23)	6	13	16
Recurring net profit growth (%)	(50.9)	8.1	-	107.7	25.4
Recurring P/E (x)	na	na	93.06	44.80	35.73
P/B (x)	1.5	1.6	1.7	1.6	1.6
P/CF (x)	na	43.63	22.84	36.82	174.13
Dividend Yield (%)	na	na	na	na	na
EV/EBITDA (x)	493.78	na	29.39	21.75	19.18
Return on average equity (%)	(4.0)	(6.7)	1.8	3.7	4.5
Net debt to equity (%)	17.3	18.4	15.1	12.7	13.6

Source: Company data, RHB

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Buy (Maintained)

Target Price (Return): MYR0.56 (38.1%)
Price (Market Cap): MYR0.41 (USD129m)
ESG score: 2.7 (out of 4)
Avg Daily Turnover (MYR/USD) 1.10m/0.26m

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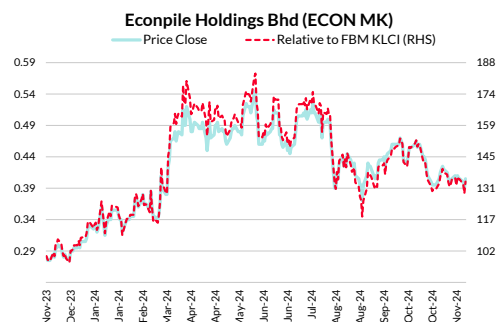


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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	32.8	(1.2)	2.5	(25.0)	47.3
Relative	22.5	(0.3)	5.4	(24.1)	36.5
52-wk Price low/high (MYR)				0.28	–0.55



Source: Bloomberg

Overall ESG Score: 2.7 (out of 4)

E: GOOD

ECON's water conservation efforts include rainwater harvesting and water recycling. It also minimises any water run-off and monitors water quality prior to the discharge of water to drainages, in accordance with the Department of Environment's regulatory requirements.

S: GOOD

The company achieved approximately 4.7m man hours without loss-time injury, and maintained zero fatalities in the financial year. All reported cases are reviewed, and measures put in place to minimise the chances of future occurrences.

G: GOOD

50% of ECON's board members are independent, with full disclosure on director remuneration, which includes salaries and bonuses on a named basis. The company has an external investor relations team and holds investor meetings regularly, embodying good transparency and disclosure practices.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

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Financial Exhibits

Asia	Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Malaysia	Recurring EPS	(0.01)	(0.02)	0.00	0.01	0.01
Construction & Engineering	BVPS	0.27	0.25	0.24	0.25	0.26
Econpile Holdings	Return on average equity (%)	(4.0)	(6.7)	1.8	3.7	4.5
ECON MK						
Buy						
Valuation basis	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
2.5x FY25F P/BV	Recurring P/E (x)	na	na	93.06	44.80	35.73
	P/B (x)	1.5	1.6	1.7	1.6	1.6
	FCF Yield (%)	(0.9)	0.8	3.5	1.8	(0.3)
	EV/EBITDA (x)	493.78	na	29.39	21.75	19.18
	EV/EBIT (x)	na	na	51.18	30.08	25.42
Key drivers	Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Our revenue forecasts are most sensitive to changes in the implementation of various mega infrastructure as well as property development projects in Malaysia.	Total turnover	376	418	488	613	653
	Gross profit	6	8	27	37	42
	EBITDA	1	(9)	21	28	33
	Depreciation and amortisation	(8)	(5)	(9)	(8)	(8)
	Operating profit	(7)	(14)	12	21	25
	Net interest	(4)	(5)	(4)	(4)	(4)
	Pre-tax profit	(11)	(20)	8	16	21
	Taxation	(5)	(6)	(2)	(4)	(5)
	Reported net profit	(16)	(25)	6	13	16
	Recurring net profit	(21)	(23)	6	13	16
Key risks	Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
i. Slower-than-expected rollout of mega infrastructure projects;	Change in working capital	(0.3)	24.4	5.4	(9.2)	(24.7)
ii. Volatile material prices	Cash flow from operations	(2.8)	13.2	25.1	15.6	3.3
	Capex	(2.2)	(8.6)	(5.0)	(5.0)	(5.0)
	Cash flow from investing activities	2.1	(6.7)	(5.0)	(5.0)	(5.0)
	Cash flow from financing activities	(6.5)	25.4	(12.5)	(11.1)	(10.9)
	Cash at beginning of period	51.9	45.2	77.3	84.9	84.4
	Net change in cash	(7.1)	31.9	7.6	(0.5)	(12.6)
	Ending balance cash	45.1	77.2	84.9	84.4	71.7
Company Profile	Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
ECON is a piling and foundation specialist in Malaysia providing piling solutions and foundation works, which includes earth retaining systems, earthworks, substructure and basement construction works. The company has a full range of piling (bored piling, driven piles and jack-in piles) and foundation works.	Total cash and equivalents	45	77	85	84	72
	Tangible fixed assets	34	43	39	37	34
	Total assets	658	662	726	786	812
	Short-term debt	92	126	121	116	111
	Total long-term debt	20	17	14	12	10
	Total liabilities	272	300	389	436	446
	Total equity	386	361	337	350	366
	Total liabilities & equity	658	662	726	786	812
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	2.6	11.1	16.9	25.5	6.6
	Recurrent EPS growth (%)	(50.9)	8.1	0.0	107.7	25.4
	Gross margin (%)	1.7	1.9	5.6	6.0	6.4
	Operating EBITDA margin (%)	0.3	(2.2)	4.4	4.6	5.0
	Net profit margin (%)	(4.2)	(6.0)	1.3	2.1	2.5
	Capex/sales (%)	0.6	2.1	1.0	0.8	0.8
	Interest cover (x)	(1.50)	(2.24)	2.17	3.87	4.87

Source: Company data, RHB

Results At Glance

Figure 1: Results review

FYE June (MYRm)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	Comments
Revenue	120.6	87.6	80.1	-8.6%	-33.6%	Revenue declined due to slower construction activities with Cambodia projects nearing completion.
Gross Profit	2.5	4.9	4.8	-2.3%	87.5%	
GP margin (%)	2.1	5.6	6.0			
EBITDA	0.5	(3.8)	3.0	>100%	>100%	
EBITDA margin (%)	0.4	(4.3)	3.7			
Depreciation	(1.2)	(1.7)	(1.5)	15.5%	-19.6%	
EBIT	(0.7)	(5.5)	1.5	>100%	>100%	
EBIT margin (%)	(0.6)	(6.3)	1.9			
Interest Income	0.3	0.3	0.5	59.3%	85.1%	
Interest Expense	(1.4)	(1.8)	(1.8)	-1.1%	-25.9%	
El/Others	0.7	(3.4)	(0.1)	96.3%	(>100%)	
Reported PBT	(1.9)	(6.9)	0.2	>100%	>100%	
Tax	(1.3)	(2.2)	(0.1)	97.7%	96.1%	
Effective tax rate (%)	(71.2)	(32.3)	21.5			
Net Profit	(3.2)	(9.2)	0.2	>100%	>100%	
Core Profit	(3.9)	(5.7)	0.3	>100%	>100%	Results missed both our and consensus' expectations.
Core net margin (%)	(3.2)	(6.5)	0.4			

Source: Company data, RHB

Figure 2: Railway-related packages awarded to ECON – a preferred choice by railway contractors

Type of works	Value (MYRm)	Year of award	Duration
Bored piled works for the construction and completion of the viaduct guideway and other associated works from Persiaran Dagang to Jinjang under Package V202 – awarded by Ahmad Zaki Resources (AZR MK, NR) for Mass Rapid Transit 2 (MRT2).	43.5	21 Oct 2016	24 months
Construction and completion of a diaphragm wall at Kampung Baru North Station under a subcontract by Mujur Minat for MRT2.	92.5	27 Mar 2017	15 months
Undertake bored piling and general infrastructure works for the construction and completion of Light Rail Transit Line 3 – awarded by Gabungan Strategik.	208.7	16 Nov 2017	34 months
Preliminary test pile work, bored piling and pile cap works for the Electrified Double Track from Gemas to Johor Bahru - Section 3 – bridges – awarded by Syarikat Pembinaan Yeoh Tiong Lay.	34.1	29 Aug 2018	4 months
Design, construction and completion of the reinforced concrete box tunnel works for the construction of Hospital Kuala Lumpur Station for MRT2 – awarded by MMC-Gamuda KVMRT JV.	44.7	19 Mar 2019	25 months
Package 2A comprising the construction and piling work at the Immigration, Custom and Quarantine Complex (ICQC) for Rapid Transit System Link (RTS Link) between Johor Bahru and Singapore – awarded by Ekovest Construction	40.0	29 Aug 2022	13 months

Source: Company data

Emissions And ESG

Trend analysis

Scope 1 greenhouse gas (GHG) emissions recorded a 16% decrease compared to FY23 from the shift in operational focus from machinery-intensive works to more labour-intensive tasks – this is as demand for heavy equipment decreased. Increase in Scope 2 GHG emissions is due to higher electricity consumption.

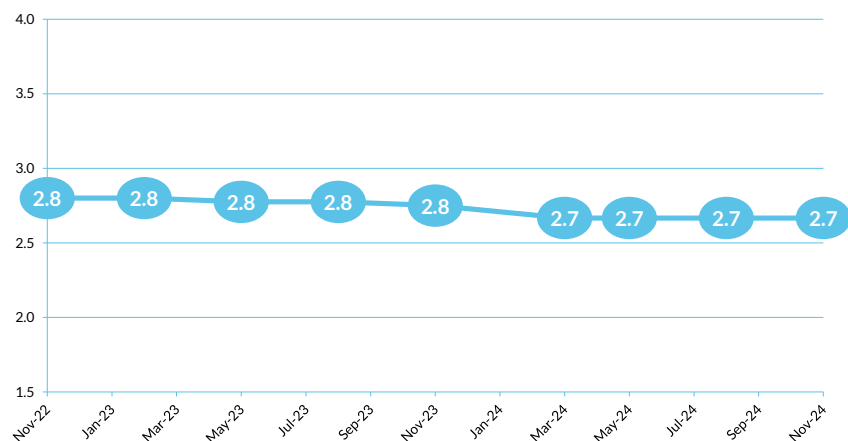
Emissions (tCO ₂ e)	Jun-22	Jun-23	Jun-24
Scope 1	9,973	11,272	9,466
Scope 2	448	544	727
Scope 3	-	-	-
Total emissions	10,421	11,816	10,193

Source: Company data, RHB

Latest ESG-Related Developments

- **ECON actively maintained ISO 14001:2015** Environmental Management System and monitor the quality of air, noise, water discharges and vibration levels at selected project sites to ensure compliance with regulatory limits as well as contractual requirements.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-08-30	Buy	0.6	0.4
2024-05-30	Buy	0.7	0.5
2024-03-24	Buy	0.7	0.5
2024-03-15	Buy	0.5	0.5
2024-02-29	Sell	0.3	0.3
2023-11-30	Sell	0.1	0.3
2023-08-30	Sell	0.1	0.3
2023-05-25	Sell	0.1	0.2
2023-04-12	Sell	0.2	0.2
2023-02-24	Sell	0.2	0.2
2022-11-29	Neutral	0.2	0.2
2022-08-30	Neutral	0.2	0.2
2022-05-26	Neutral	0.2	0.2
2022-03-29	Neutral	0.3	0.3
2022-02-23	Neutral	0.3	0.3

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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