



Ahmad Maghfur Usman
+60 (3) 9207 7654
ahmad.maghfurusman@osk.com.my

BUY ↔

Target
Previous
Price

RM0.75
RM0.59
RM0.51

AUTOPARTS

EP Manufacturing is a leading Tier-1 supplier of Proton and Perodua vehicles.

Stock Statistics

	EPMB MK
Bloomberg Ticker	EPMB MK
Share Capital (m)	166.0
Market Cap (RMm)	84.6
52 week H L Price (RM)	0.64 0.64
3mth Avg Vol ('000)	796.7
YTD Returns	9.7
Beta (x)	0.82

Major Shareholders (%)

Mutual Concept	38.20
Hamidon Bin Abdulloh	5.33

Share Performance (%)

Month	Absolute	Relative
1m	4.1	0.2
3m	-1.9	-7.7
6m	-1.9	-5.9
12m	183.3	108.5

6-month Share Price Performance



1QFY10 Results Review

EP Manufacturing

Bottomline Charges up by 300%

EPMB's revenue and earnings exceeded our estimates by 7% and 35% respectively. Revenue surged 45% y-o-y (15% q-o-q) as it benefited from Perodua's localization program secured last year. On the back of stronger margins and a higher revenue base, earnings soared 300% and 64% y-o-y and q-o-q respectively. We raise EPMB's earnings forecast by 33%, 46% and 66% respectively for FY10, FY11 and FY12 respectively. We foresee the likelihood of the company paying a dividend of 2 sen this year. Pegging its 12M rolling EPS at 7x (previously 8x), we derive a higher TP of RM0.75 for EPMB, giving a 47% price upside. Our BUY call is maintained.

Bigger with Perodua. EPMB's revenue and earnings exceeded our estimates by 7% and 35% respectively on higher sales of parts and components to Perodua and Proton vehicles, which grew by 24% and 30% respectively y-o-y in Q1. Revenue jumped 45% y-o-y and 15% q-o-q while core earnings soared 300% and 64% y-o-y and q-o-q on a higher revenue base. On our 24 Dec 2009 report, "Growing with Perodua", we said that revenue per Perodua vehicle would double after the company secured Perodua's recent localization program for the Myvi and Alza. EPMB poured in RM50m last year for this program.

Margins lower at EBIT level. Despite the higher revenue base, EPMB's EBIT margin was lower q-o-q and y-o-y due to the new manufacturing lines set up for Perodua. However, we expect improved operating efficiency going forward as its labor force becomes more accustomed to the new production set-up. Margin at PBT level of 3% was the highest in the past few years (vs 2.1 in Q4FY09 and 1.1% in Q1FY09) as interest expenses fell further with its ongoing efforts to lower its net gearing. Due to the higher revenue base this year, we expect EPMB to lower its net gearing from 96% in FY09 to 62% and 39% in FY10 and FY11 respectively.

Upgrading earnings by 33%. With the higher than expected revenue and earnings, we are upgrading our revenue forecasts by some 3%-2% for FY10-FY12 while earnings are effectively raised by 33%, 46% and 66% respectively for FY10, FY11 and FY12. The substantial earnings increase was due to the high below-EBITDA exceptional items (impairment losses of RM31.2m on goodwill and negative goodwill of RM19m for the cost of its investment in Circle Ring Network) in FY09, which we did not take into consideration in our previous earnings forecast as these two exceptional items were only disclosed in EPMB's audited accounts released last week. In re-jiggering our historical numbers to take this into account, our EBITDA for FY09 is revised upwards from RM79m to RM86m, the effects of which would be carried over to the upcoming years. Our EBITDA forecast for FY10 now stands at RM89.9m.

FYE Dec (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Turnover	483.7	468.0	578.0	630.7	683.6
Core Net Profit	4.3	12.8	16.2	19.4	26.7
% chg y-o-y	NM	198.9	26.7	19.6	37.9
Core EPS (sen)	2.6	7.7	9.7	11.7	16.1
Gross DPS (sen) *	0.0	1.0	2.0	2.0	2.0
Gross Dividend Yield (%)	0.0	2.0	3.9	3.9	3.9
ROE (%)	3.5	3.3	6.9	7.7	9.8
ROA (%)	1.2	1.3	2.8	3.5	4.9
PER (x)	19.8	6.6	5.2	4.4	3.2
NTA Per Share (sen)	40.8	65.3	72.0	86.4	99.3
P/NTA (x)	1.2	0.8	0.7	0.6	0.5
EV/EBITDA (x)	5.6	3.5	2.6	2.1	1.3

Results Table (RMm)

FYE Dec	1Q10	4Q09	Q-o-Q chg	3M10	3M09	Y-o-Y chg	Comments
Revenue	150.23	130.20	15.4%	150.23	103.54	45.1%	Above expectations. Higher revenue both q-o-q and y-o-q as localization of Perodua kicks off.
EBIT	7.46	6.49	14.9%	7.46	5.61	32.9%	
Interest Expense	-2.96	-3.75	-21.3%	-2.96	-4.50	-34.4%	Above expectations by 30%. This nudges up our EBIT forecast from RM22.9m to RM30.4m
Interest Income	0.03	0.03	6.7%	0.03	0.02	113.3%	
EI	0.00	0.00	NA	0.00	0.00	NA	
PBT	4.53	2.76	64.0%	4.53	1.12	304.0%	
Tax	-0.30	0.00	NM	-0.30	0.00	NM	
MI	-0.11	-0.26	-57.4%	-0.11	-0.10	15.8%	
Net Profit	4.12	2.51	64.5%	4.12	1.03	301.4%	
Core Net Profit	4.12	2.51	64.5%	4.12	1.03	301.4%	Above expectations by 35%. We have revised upwards our forecast by 33%, 46% and 66% respectively for FY10, FY11 and FY12
EPS (sen)	2.48	1.51	64.5%	2.48	0.62	301.4%	
DPS (sen)	0.00	0.01	NM	0.00	0.00	NA	
EBIT margin (%)	4.96	4.98	-0.02	4.96	5.42	-0.45	EBIT margin came in lower due to the new manufacturing line. However, we expect operating efficiencies to improve moving forward as its labor force becomes more accustomed to the new production set-up.
PBT margin (%)	3.02	2.12	0.89	3.02	1.08	1.93	Higher on lower interest expense
Net profit margin (%)	2.74	1.92	0.82	2.74	0.99	1.75	
NTA/ Share (RM)	0.69	0.65	5.3%	0.69	0.43	61.5%	

VALUATION AND RECOMMENDATION

BUY, at higher TP. Premised on 7x PE (previously 8x), which is in line with the auto-part peer average, we are raising our TP to RM0.75 (from RM0.59) based on its 12M rolling EPS, with our BUY recommendation unchanged. Due to the higher revenue and earnings base, we see a likelihood of EPMB paying a higher dividend – of 2 sen - over the next 3 years (1 sen for FY09). Our TP provides a 47% upside.

OSK Research											
FYE Dec (RMm)	FY08	FY09	FY10f	FY11f	FY12f	FYE Dec (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Volume						Balance Sheet					
Perodua	167,393	166,736	175,390	203,450	224,290	PPE	333.9	327.4	305.1	273.1	237.1
Proton (incl. its Exports)	160,386	173,051	207,600	227,500	243,000	Intangibles	146.8	112.6	114.7	106.8	108.8
Average Revenue Per car (Perodua) - RM	444	484	1,033	1,065	1,083	Others	3.1	5.4	5.4	5.4	5.4
Average Revenue Per car (Proton) - RM	2,027	1,619	1,355	1,281	1,287	Total Fixed Assets	483.8	445.4	425.2	385.2	351.2
Income Statement (RM'm)						Receivables	89.8	81.7	95.0	103.7	112.4
Revenue	483.7	468.0	578.0	630.7	683.6	Others	46.7	28.9	25.1	34.8	37.8
EBITDA	62.5	86.2	89.9	91.3	97.7	Cash	13.5	16.8	23.1	31.7	42.7
Depreciation & Amortization	-43.3	-58.8	-59.5	-59.3	-58.3	Total Current Assets	150.0	127.4	143.2	170.2	192.9
EBIT	19.2	27.4	30.4	31.9	39.4	Total Assets	633.8	572.7	568.4	555.4	544.1
Interest Expense	-14.2	-14.1	-8.1	-5.3	-2.8	LT Borrowings	149.2	100.1	60.1	40.1	20.1
Interest Income	0.1	0.1	0.1	0.1	0.2	Others	11.1	2.6	2.6	2.6	2.6
Profit before EI	5.0	13.4	22.4	26.8	36.7	Total LT Liabilities	160.3	102.7	62.7	42.7	22.7
EI	-0.8	-13.4	0.0	0.0	0.0	Payables	129.0	107.3	148.7	158.7	172.4
PBT	4.3	-0.1	22.4	26.8	36.7	ST Borrowings	122.4	130.9	110.0	90.0	60.0
Taxation	4.1	7.9	-5.6	-6.7	-9.2	Others	2.1	5.0	7.2	7.4	7.6
MI	-0.8	-0.6	-0.6	-0.7	-0.8	Total ST Liabilities	253.5	243.1	265.9	256.1	240.0
Net Profit	7.6	7.3	16.2	19.4	26.7	Total Liabilities	413.8	345.8	328.6	298.8	262.7
Core Net Profit	4.3	12.8	16.2	19.4	26.7	Total Shareholder's Equity	220.0	226.9	239.8	256.6	281.4
Margin (%)						Cash Flow					
EBITDA	12.9	18.4	15.5	14.5	14.3	PBT	4.3	-0.1	22.4	26.8	36.7
EBIT	4.0	5.9	5.3	5.1	5.8	Non Cash items	58.0	105.3	65.6	64.8	52.3
PBT	1.0	2.9	3.9	4.2	5.4	Net Chg in Working Capital	3.0	3.7	27.1	-13.9	-4.0
Net Profit	1.6	1.6	2.8	3.1	3.9	Others	0.0	0.7	-5.6	-6.7	-9.2
Core Net Profit	0.9	2.7	2.8	3.1	3.9	CF from Operations	65.2	109.6	109.5	70.9	75.8
Effective Tax Rate (%)	-80.8	-59.5	25.0	25.0	25.0	Net Capex	-43.6	-50.5	-30.7	-20.6	-15.7
Y-o-Y % change						Others	-22.3	0.0	0.1	0.1	0.2
Revenue	59.6	-3.2	23.5	9.1	8.4	CF from Investing	-66.0	-50.6	-30.6	-20.5	-15.5
EBITDA	99.1	38.0	4.2	1.6	7.0	Dividends Paid	-1.0	-0.3	2.9	3.3	3.3
EBIT	105.8	43.1	10.9	5.0	23.3	Net Change in Borrowings	0.4	-62.9	-68.9	-45.3	-52.8
PBT	-193.1	165.0	67.9	19.4	37.1	Others	0.0	0.0	0.0	0.0	0.0
Net Profit	-1,579.3	-3.5	121.9	19.6	37.9	CF From Financing	-0.6	-63.3	-66.0	-42.0	-49.5
Core Net Profit	-163.9	198.9	26.7	19.6	37.9	Net Cash Inflow (Outflow)	-1.4	-4.2	12.8	8.5	10.8
Per Share Data						Beg Cash	10.3	9.0	4.8	17.6	26.1
Sales / Share (RM)	2.9	2.8	3.5	3.8	4.1	Ending Cash	9.0	4.8	17.6	26.1	36.9
Core EPS (sen)	2.6	7.7	9.7	11.7	16.1	Other Restricted Cash	4.6	12.1	5.5	5.6	5.8
BV/ Share (RM)	1.29	1.33	1.41	1.51	1.65	Total Cash in Balance Sheet	13.5	16.8	23.1	31.7	42.7
NTA/ Share (sen)	40.8	65.3	72.0	86.4	99.3	FCFF	32.1	69.7	84.8	54.3	62.3
Dividend/ Share (sen)	0.0	1.0	2.0	2.0	2.0	FCFE	22.0	-3.8	9.8	5.1	7.3
FCFF/ Share (sen)	19.3	42.0	51.1	32.7	37.5	Net Cash / (Net Debt)	-258.1	-214.2	-147.1	-98.4	-37.4
FCFE/ Share (sen)	13.2	-2.3	5.9	3.1	4.4	Other Ratios					
Valuations						ROE (%)	3.5	3.3	6.9	7.7	9.8
P/ Sales (x)	0.2	0.2	0.1	0.1	0.1	ROA (%)	1.2	1.3	2.8	3.5	4.9
PER (x)	19.8	6.6	5.2	4.4	3.2	Net Gearing	120.3	96.9	62.8	39.3	13.7
P/ Book (x)	0.4	0.4	0.4	0.3	0.3	Interest Coverage	1.4	1.9	3.8	6.0	13.9
P/ NTA (x)	1.2	0.8	0.7	0.6	0.5	Dividend Payout Ratio (%)	0.0	13.0	20.5	17.2	12.4
Dividend Yield (%)	0.0	2.0	3.9	3.9	3.9						
P/ FCFF	2.6	1.2	1.0	1.6	1.4						
P/ FCFF	3.9	-22.1	8.7	16.7	11.6						
EV/EBITDA	5.6	3.5	2.6	2.1	1.3						

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

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

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

All research is based on material compiled from data considered to be reliable at the time of writing. However, information and opinions expressed will be subject to change at short notice, and no part of this report is to be construed as an offer or solicitation of an offer to transact any securities or financial instruments whether referred to herein or otherwise. We do not accept any liability directly or indirectly that may arise from investment decision-making based on this report. The company, its directors, officers, employees and/or connected persons may periodically hold an interest and/or underwriting commitments in the securities mentioned.

Distribution in Singapore

This research report produced by OSK Research Sdn Bhd is distributed in Singapore only to "Institutional Investors", "Expert Investors" or "Accredited Investors" as defined in the Securities and Futures Act, CAP. 289 of Singapore. If you are not an "Institutional Investor", "Expert Investor" or "Accredited Investor", this research report is not intended for you and you should disregard this research report in its entirety. In respect of any matters arising from, or in connection with, this research report, you are to contact our Singapore Office, DMG & Partners Securities Pte Ltd ("DMG").

All Rights Reserved. No part of this publication may be used or re-produced without expressed permission from OSK Research.
Published and printed by :-

OSK RESEARCH SDN. BHD. (206591-V)

(A wholly-owned subsidiary of OSK Investment Bank Berhad)



Chris Eng

Kuala Lumpur	Hong Kong	Singapore	Jakarta	Shanghai
Malaysia Research Office OSK Research Sdn. Bhd. 6 th Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	Hong Kong Office OSK Securities Hong Kong Ltd. 12 th Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	Singapore Office DMG & Partners Securities Pte. Ltd. 20 Raffles Place #22-01 Ocean Towers Singapore 048620 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211	Jakarta Office PT OSK Nusadana Securities Indonesia Plaza Lippo, 14 th Floor, Jln. Jend. Sudirman Kav 25, Jakarta 12920 Indonesia Tel : +(6221) 520 4599 Fax : +(6221) 520 4598	Shanghai Office OSK (China) Investment Advisory Co. Ltd. Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633