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BUY ↔

Target RM0.59
Previous Price RM0.52
Price RM0.43

AUTO-PARTS

EPMB is a leading Tier-1 supplier of Proton and Perodua

Stock Statistics

	EPMB	MK Equity
Bloomberg Ticker		
Share Capital (m)		166.0
Market Cap (RMm)		71.4
52 week H L Price (RM)	0.60	0.12
3mth Avg Vol ('000)		3,855.3
YTD Returns		138.9
Beta (x)		0.64

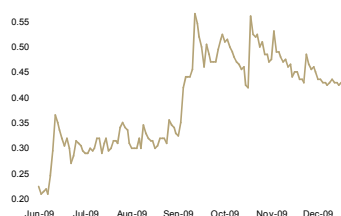
Major Shareholders (%)

Mutual Concept	37.21
DBS Asset Management	7.01
Abdullah Bin Hamid	5.09

Share Performance (%)

Month	Absolute	Relative
1m	-7.5	-6.8
3m	-2.3	-5.5
6m	104.8	69.7
12m	138.9	65.1

6-month Share Price Performance



Company Update

EP Manufacturing

Growing with Perodua

During our recent visit to EPMB, management further clarified that the new localization programmes for the Myvi and Alza which the company recently secured would substantially broaden its revenue base come 2010. With the new guidance and a slight tweak in our model, we have raised our revenue and net profit estimates by 11% and 42% respectively for FY10. We see EPMB potentially exhibiting strong bottom-line numbers, for which we expect a growth of 87.2% for FY10 on better financial leverage and the economies of scale achieved in its production line. Following the upward earnings revision, our TP is increased to RM0.59 from RM0.52 with our BUY call reaffirmed.

Counting on Perodua. We recently visited EP Manufacturing. As we stated in our last report, EP Manufacturing had recently secured a new contract from Perodua for the manufacture of the cross member structure (a structure that holds the engine) for both the Myvi and Alza after investing over RM40m-60m in dies, moulds and R&D. Previously EPMB had only secured Perodua's localization programme for the Viva's cross member, from which it collects an estimated RM700-800 per car, along with the other parts it supplies. The further localization of the Myvi and Alza would see EPMB increasing the supply of auto-parts to both models from 33 parts to 103 parts in total, almost tripling its revenue collected per Myvi from 2010 onwards.

Doubling revenue from Perodua. Given the new assumptions that we had not earlier gauged, we are substantially increasing our revenue contribution from Perodua. We estimate that revenue contribution from Perodua would increase from RM74m (as collected in FY08) to as much as RM196m in FY10 on the back of the higher average revenue per Perodua vehicle supplied (from RM477 in FY09 to RM1115 per vehicle). The growing revenue from Perodua will increase its proportionate share of EPMB's total revenue from 15%-17% in FY08-09 to over 35% from FY10 onwards.

Upbeat on the Alza. We perceive that EPMB's management is optimistic on Perodua's recently launched Alza, for which management said the demand has been encouraging as the booking period is stretched as far as 4 months. While there have been concerns over the potential cannibalization on Myvi sales, we think the impact will not be severe as vehicle sales for the Myvi have remained uninterrupted to date despite the recent launch of the Alza. Perodua anticipates that bookings could average well above 4000 units per month for FY10, beating Exora's monthly average sales to date since its launch earlier this year.

FYE Dec (RMm)	FY07	FY08	FY09f	FY10f	FY11f
Turnover	303.0	483.7	442.9	562.6	619.2
Net Profit	-0.5	7.6	6.5	12.2	13.3
Core Net Profit	-4.7	7.6	6.5	12.2	13.3
% chg y-o-y	nm	nm	-13.4	87.2	8.3
Consensus			6.5	10.3	11.2
Core EPS (sen)	-2.8	4.6	3.9	7.4	8.0
Gross DPS (sen)	-	-	-	-	-
Gross Dividend Yield (%)	-	-	-	-	-
ROE (%)	-0.3	3.5	3.0	5.2	5.4
ROA (%)	-0.1	1.2	1.1	2.0	2.1
PER (x)	-15.3	9.4	10.9	5.8	5.4
NTA Per Share (sen)	34.9	40.8	52.4	65.1	76.4
P/NTA (x)	1.2	1.1	0.8	0.7	0.6
EV/EBITDA (x)	10.6	5.4	4.6	4.1	3.6

EPMB-Proton relationship intact. We note that over the past few years, EPMB had been selectively focusing on the supply of Perodua parts in an attempt to diversify its revenue base. While no project has been pitched on Proton's side of late, we are comforted by the fact that EPMB's relationship with Proton remains intact given its long-standing relationship as a critical tier 1 auto supplier for Proton's IAFM (Internal Air Fuel Module), which is used alongside the Campro engines. Also worth noting is that EPMB has contributed in enhancing the overall performance of the engineering performance of the IAFM. Furthermore, Proton also owns a minority stake of about 4% in a JV with EPMB under the company name of PEPS-JV, which further solidifies the relationship between the two companies.

Margins on an uptrend. Operationally, securing the new supply of parts to both the Myvi and Alza would enhance the company's overall operating leverage given the better economies of scale in production. While we expect no significant change on the revenue contribution from Proton and Toyota (Middle East export market) as well as its water meter business, the doubling in revenue contribution from Perodua would potentially lead to a vast improvement in EPMB's PBT margins as well as its cash flow given its high net gearing of 120%. We are not overly concerned about its gearing position given the recently secured contract from the Myvi's new localization programme, which will subsequently be carried over to the upcoming Myvi replacement model which is slated for launch sometime in mid-2011. Furthermore, cost cutting measures going forward will also be reflected by the reduction in interest expense as EPMB pares down its debt level further of which management is targeting its net gearing ratio to hover at 50-55% by FY11. According to its debt schedule, EPMB is expected to pay off RM61m over the next 1 year. We expect EPMB's net gearing effectively trimmed to 88% and 72% for FY10-11. We have also factored in an increase in raw material prices and the bigger jobs secured for the Myvi and Alza coupled by higher staff productivity to effectively improve PBT margins to 2.31% come FY10 (from 0.88% achieved in FY08). Furthermore, management has assured us that over FY09-10, EPMB will likely continue to enjoy a zero effective tax rate given its unutilized high reinvestment allowance.

Increasing earnings once more, reaffirm BUY. We feel that the fresh guidance for 2010 from management, albeit optimistic, is justified. To some extent, we remain rather conservative, at least with our forecast numbers lower than management's guidance of more than doubling its net profit by next year (on the higher revenue contribution from Perodua) as we expect the raw material prices to creep up going forward. On the back of an upward revision in revenue of 10%-11% for FY10-11, coupled by the much improved financial operating leverage and zero effective tax over the immediate term, our earnings are hence revised upwards by 42% for FY10 and 18% for FY11. As such, on a valuation context, we have cut our PE multiplier to 8x from 10x given the higher earnings base. Estimating a forward EPS of 7.4 sen, this nudges up our target price to RM0.59 (from RM0.52), with our BUY call reaffirmed.

EARNINGS FORECAST

FYE Dec (RMm)	FY07	FY08	FY09f	FY10f	FY11f
Turnover	303.0	483.7	442.9	562.6	619.2
EBITDA	31.4	61.7	65.5	69.3	71.6
Depreciation & Amortization	-22.1	-43.3	-45.2	-45.3	-46.5
Net Finance Cost	-14.7	-14.1	-13.5	-11.0	-10.2
Exceptional Items	4.1	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0	0.0
PBT	-1.3	4.3	6.7	13.0	14.9
Taxation	2.0	4.1	0.0	0.0	-0.7
Minority Interest	-1.3	-0.8	-0.2	-0.8	-0.9
Net Profit	-0.5	7.6	6.5	12.2	13.3
Core Net Profit	-4.7	7.6	6.5	12.2	13.3
Core EPS (sen)	-2.8	4.6	3.9	7.4	8.0
Gross DPS (sen)	-	-	-	-	-
Margin (%)					
EBITDA	10.4	12.8	14.8	12.3	11.6
PBT	-0.4	0.9	1.5	2.3	2.4
Core Net Profit	-1.5	1.6	1.5	2.2	2.1
ROE (%)	-0.3	3.5	3.0	5.2	5.4
ROA (%)	-0.1	1.2	1.1	2.0	2.1
Balance Sheet					
Fixed Assets	467.9	483.8	454.1	438.7	422.5
Current Assets	157.8	150.0	144.7	184.7	200.0
Total Assets	625.7	633.8	598.8	623.4	622.6
Current Liabilities	240.1	253.5	253.2	295.0	320.8
Net Current Assets	-82.3	-103.5	-108.6	-110.3	-120.8
LT Liabilities	173.7	160.3	123.4	89.7	49.0
Shareholders' Funds	200.7	214.5	221.1	233.3	246.6
Net Gearing (%)	124.2	120.3	104.4	88.4	71.9

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: Stock is not within regular research coverage

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