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BUY ↔

Fair Value

Previous

Price

RM0.89

RM0.787

RM0.765

AUTOPARTS

EPMB is a tier 1 leading supplier of Proton and Perodua vehicles

Stock Statistics

		EPMB MK
Bloomberg Ticker		166.0
Share Capital (m)		127.0
Market Cap (RMm)		0.81 0.45
52 week H L Price (RM)		397.4
3mth Avg Vol ('000)		35.4
YTD Returns		1.47
Beta (x)		

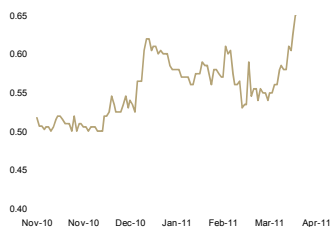
Major Shareholders (%)

Mutual Concept	37.2
Horizon Growth Fund VA	5.4
Hamidon Bin Abdullah	5.0

Share Performance (%)

Month	Absolute	Relative
1m	31.9	30.6
3m	34.2	33.0
6m	50.0	42.9
12m	59.0	31.8

6-month Share Price Performance



1QFY11 Results Review

EP Manufacturing

Bottom Up, Top Down

While EPMB's earnings were better than expected (with Q1 representing 40% of our full-year forecast) owing to the low amortization rate, we prefer to be cautious and make no changes to our PBT forecast as we see Perodua being hit by a components supply shortage. However, given the lower effective tax foreseen over the immediate to medium term, we are nudging up our bottomline earnings by some 13% for FY11-FY13 and revise upward our TP from RM0.787 to RM0.89, with our BUY call retained. EPMB still offers decent upside given its attractive valuation as the stock is still trading below its 8-9x historical forward PE. At 5.2x FY11 EPS, some 50% of its share price is made up of free cash flow. Maintain BUY.

Above expectations. EPMB registered revenue and net profit of RM125.5m and RM8.6m respectively for 1QFY11. While revenue fell 16% y-o-y (q-o-q: 5%) given the lower topline contribution arising from the slowdown in Perodua's volume in 1Q (by 4.1% y-o-y and 3.6% q-o-q) as production of the existing Myvi is expected to cease sometime end-1H, EPMB dropped a surprise with earnings soaring 109% y-o-y and 15% q-o-q, which beat our expectations as its 1Q earnings represented 40% of our full-year forecast. Management also announced a tax exempt final dividend for FY10 of 1 sen per share, bringing its full year dividend to 2 sen per share.

Margin expands, thanks to lower depreciation and amortization. Despite the lower revenue from its auto division, the segment's margins expanded as EBIT margin improved from 4.96% and 7.32% in Q1FY10 and Q4FY10 respectively to 8.68% during the quarter. While economies of scale are unlikely in the recent quarter given Perodua's lower production volume, we suspect that the margin boost at EBIT level was due to the lower amortization rate for Perodua's production line (based on unit output) as a significant portion was amortized in 2010, during which the volume sold beat initial projections. Hence, we suspect that the better EBITDA margins amid rising raw material prices could have been relatively lower than in 4QFY10 but slightly higher than 1QFY10 owing to enhanced operating efficiency. Meanwhile, a tax credit received also contributed to the improved bottom-line.

FYE Dec RMm)	FY09	FY10	FY11f	FY12f	FY13f
Turnover	468.0	587.5	612.1	693.6	735.2
Core Net Profit	12.2	20.4	24.6	30.8	28.6
% chg y-o-y	185.1	67.4	20.7	25.1	-7.2
Consensus					
Core EPS (sen)	7.3	12.3	14.8	18.5	17.2
DPS (sen) *	1.0	2.0	3.0	4.0	4.0
Dividend Yield (%)	1.3	2.6	3.9	5.2	5.2
ROE (%)	3.3	10.0	9.3	10.6	9.2
ROA (%)	1.3	4.3	4.5	5.6	5.2
PER (x)	10.4	6.2	5.2	4.1	4.4
NTA Per Share (sen)	65.3	79.9	96.4	115.0	133.5
P/NTA (x)	1.2	1.0	0.8	0.7	0.6
EV/EBITDA (x)	4.1	2.4	1.9	1.5	1.0

Results Table (RMm)

FYE Dec	1QFY11	4QFY10	% chg	3MFY11	3MFY10	% chg	Comments
Revenue	125.50	132.14	-5.0%	125.50	150.23	-16.5%	Within expectations. Lower revenue contribution on slowdown from Perodua volume
EBIT	10.89	9.67	12.6%	10.89	7.46	46.1%	Though EBIT was higher thanks to lower amortization, we suspect that EBITDA could be lower due to the lower revenue contribution from Perodua amid rising raw material prices
Interest Expense	-2.57	-2.04	25.9%	-2.57	-2.96	-13.1%	Interest expense down y-o-y
Interest Income	0.15	0.17	-12.6%	0.15	0.03	375.0%	
PBT	8.47	7.81	8.5%	8.47	4.53	86.9%	We suspect that lower amortization from Perodua's production line boosted overall PBT margin
Core PBT	8.47	7.81	8.5%	8.47	4.53	86.9%	
Tax	0.12	0.36	-65.6%	0.12	-0.30	140.5%	- Overall tax was above our expectations. We have since reduced our effective tax rate assumption to 20% from 25% in line with management guidance.
MI	0.00	-0.71	-	0.00	-0.11	100.0%	- Following the full ownership of PEPS-JV, we have slashed off minority interest from our earnings forecast.
Net Profit	8.60	7.45	15.4%	8.60	4.12	108.5%	Q1FY11 earnings represented 40% of our initial earnings forecast. We have since revised up our forecast by 13%. We maintain our stance that supply woes hitting Q2 and Q3 could impact earnings in the immediate term.
Core Net Profit	8.60	7.45	15.4%	8.60	4.12	108.5%	
EPS (sen)	5.18	4.49	15.4%	5.18	2.48	108.5%	
DPS (sen)	0.00	1.00		0.00	0.00		
EBIT margin (%)	8.68	7.32	1.36	8.68	4.96	3.71	
PBT margin (%)	6.75	5.91	0.84	6.75	3.02	3.73	
Core PBT Margin (%)	6.75	5.91	0.84	6.75	3.02	3.73	
Net profit margin (%)	6.85	5.64	1.21	6.85	2.74	4.10	
NTA/ Share (RM)	0.85	0.80		0.85	0.69		
Net Gearing (%)	69.13	64.51		69.13	83.87		

VALUATION AND RECOMMENDATION

Maintain BUY at a higher TP. Despite the better than expected Q1 earnings, we are still concerned over a potential slowdown from Perodua in Q2 and Q3 arising from an acute disruption in components supply disruption after Japan's tragic earthquake, although things could pick up in Q4 once the new Myvi is launched. After having revised our numbers earlier and downgraded autos to underweight, we feel it is too early to make any changes on operating earnings. Below the operating level, we are slashing off minority interest (as EPMB has fully acquired the remaining 4% stake from Proton Holdings) and lowering the effective tax rate from 25% to 20% in view of the favorable tax incentives EPMB will enjoy on investment allowances over the next 3 years as per management guidance. This ultimately raises our earnings by 13% for FY11-FY13 and our FV to RM0.89 from RM0.787, premised on 6x PE with our BUY call maintained. EPMB still offers a decent upside given its attractive valuation as it is still trading below its 8-9x 5-year historical forward PE. Instead, the stock is trading at 5.2x FY11 EPS, with 50% of the share price representing its free cash flow. Maintain BUY.

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