

EP Manufacturing

Recommendation: **HOLD**

Stock Code: 7773 Bloomberg: EPMB MK Price: MYR0.32 12-Month Target Price: MYR0.32 Date: December 1, 2008

Board: Main

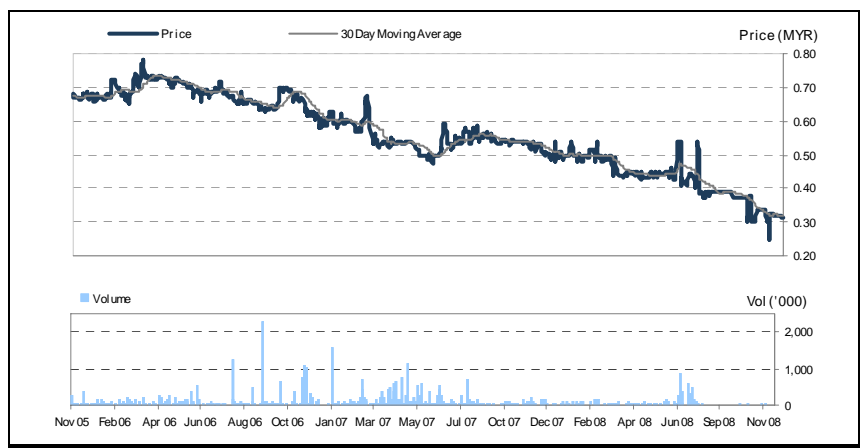
Sector: Industrial Products

GICS: Consumer Discretionary/Auto Parts & Equipment

Market Value - Total: MYR52.3 mln

Summary: Main-board listed EP Manufacturing (EPMB) is a Tier-1 autoparts vendor to both Proton and Perodua. It also supplies to Toyota in the Middle East. Through its technical collaboration with Bosch, the group focuses on the supply of higher value modular components. In late 2007, EPMB diversified into the electronic water meter business.

Analyst: Alexander Chia, ACA



Results Review & Earnings Outlook

- EPMB's 3Q08 results were broadly within our expectations, with 9M08 net profit of MYR7.0 mln reaching 78% of our 2008 forecast of MYR9.0 mln.
- 3Q08 revenue rose 55% YoY to MYR129.8 mln due to higher sales of vehicles and Intake Air Fuel Module (IAFM) (which is fitted in Proton's (PROH MK, MYR1.86, Hold) Campro engines), as well as sales from the water meter division which started in 2008. However, despite higher revenue and gross margin from the IAFM product, net profit was 4% lower YoY to MYR2.9 mln, offset by the loss-making water meter division.
- Improved automotive sales in 2008 pushed 9M08 revenue 79% higher YoY to MYR361.1 mln. Meanwhile, 9M08 net profit of MYR9.0 mln was a contrast from the loss of MYR3.4 mln in 9M07, which was affected by the lower vehicle sales in 2007.
- The water meter division performed below management expectations, incurring an operating loss of approximately MYR4.0 mln in 9M08. We understand the negotiation progress with the various state governments has been slow under the uncertain political climate.
- We are maintaining our 2008 net profit projection, but lowering our 2009 net profit estimate by 39% to MYR9.8 mln after adjusting our assumptions on expectations for lower consumer discretionary spending which would dampen vehicle sales, and lower contributions from the water meter business.

Recommendation & Investment Risks

- We are lowering our recommendation on EPMB to Hold (from Buy) with a reduced 12-month target price of 32 sen (from 50 sen) in tandem with our reduced 2009 earnings estimate.
- Our target price continues to peg EPMB's 2009 EPS to a target PER multiple of 5x (unchanged), including a projected dividend. The target PER multiple is in line with the valuation used for the automotive companies under our coverage.
- EPMB's performance in 9M08 has been a commendable turnaround from the MYR0.5 mln loss recorded in 2007, thanks to the healthy growth in the domestic vehicle sales. Outlook in 2009 however, will be more challenging with the economic slowdown and expected cutback in consumer discretionary spending.
- Risks to our recommendation and target price include a worse-than-expected slowdown in consumer spending and continued slow progress at its water meter division. In addition, the thinly traded volumes could subject the stock to unusual price fluctuation, in our opinion.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	-0.8	5.4
PER (x)	NM	5.8
Dividend/Share (sen)	0.0	2.0
NTA/Share (MYR)	0.46	0.43
Book Value/Share (MYR)	1.60	1.29
No. of Outstanding Shares (mln)	166.0	
52-week Share Price Range (MYR)	0.25 - 0.54	
Major Shareholders:	%	
Mutual Concept Sdn. Bhd.	38.2	
Hamidon bin Abdullah	5.2	

*Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	1.68	1.63	1.60	1.29
Cash Flow (sen)	22.6	11.5	13.2	24.3
Reported Earnings (sen)	12.3	1.2	-0.8	5.4
Dividend (sen)	6.0	0.0	0.0	2.0
Payout Ratio (%)	46.5	0.0	0.0	36.8
PER (x)	2.6	26.5	NM	5.8
P/Cash Flow (x)	1.4	2.7	2.4	1.3
P/Book Value (x)	0.2	0.2	0.2	0.2
Dividend Yield (%)	19.0	0.0	0.0	6.3
ROE (%)	11.2	1.4	-0.3	4.4
Net Gearing (%)	67.3	119.1	124.9	123.1

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Quarterly Performance

FY Dec. / MYR mln	3Q08	3Q07	% Change
Reported Revenue	129.8	84.0	54.5
Reported Operating Profit	6.9	5.7	20.7
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.2	-3.5	-10.3
Reported Pre-tax Profit	3.1	3.2	-4.7
Reported Net Profit	2.9	3.0	-4.4
Reported Operating Margin (%)	5.3	6.8	-
Reported Pre-tax Margin (%)	2.4	3.8	-
Reported Net Margin (%)	2.2	3.6	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	228.5	303.0	446.7	459.1
Reported Operating Profit	11.6	13.5	28.0	29.2
Depreciation & Amortization	-15.9	-22.1	-31.3	-31.7
Net Interest Income / (Expense)	-5.2	-14.7	-16.9	-18.1
Reported Pre-tax Profit	6.4	-1.3	11.1	11.1
Effective Tax Rate (%)	28.7	NM	3.0	3.0
Reported Net Profit	2.9	-0.5	9.0	9.8
Reported Operating Margin (%)	5.1	4.4	6.3	6.4
Reported Pre-tax Margin (%)	2.8	-0.4	2.5	2.4
Reported Net Margin (%)	1.3	-0.2	2.0	2.1

Source: Company data, S&P Equity Research

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Buy: Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

Hold: Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

Sell: Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Hold	0.32
13-May-08	Buy	0.51
24-Mar-08	Strong Buy	0.60

