



EP Manufacturing Berhad

Lacklustre 1Q13 Result

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TP: RM0.67 (-5%)

Last Traded: RM0.705

Sell

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Review

- EPMB's 1Q13 reported core net profit amounted to RM6.0mn (-16.6% YoY, -16.9% QoQ) on the back of lower revenue of RM110.4mn, a drop of 19.8% YoY and 17.1% QoQ.
- Revenue was down YoY due to lower sales order from Proton. Note that for 1Q13, Proton's TIV was down by 2.3% to 34.3k units (1Q12: 35.1k units). Effective tax rate was also higher at 26% as compared to 17% in the previous corresponding year. This is due to expiry of pioneer status on 31 December 2012.
- EBITDA margin was down to 16% from 22%, which we believe attributable to lower sales volume. EBIT margin, however, was still maintained at 9.4% as compared to previous corresponding year. This was attributable to lower depreciation and amortisation to RM7.8mn from RM18mn due to completion of amortisation for models exceeding two years old.
- Loss before tax from the water business also widened to RM581k from RM465k in 1Q12. This was partly due to lower revenue of RM129k from RM6.4mn.
- Sequentially, the drop in earnings was mainly due to lower sales order from Perodua. Perodua TIV was down by 2.3% QoQ from 46.7k units from 49.7k units. Net finance costs were also higher at RM2.8mn (previously RM1.9mn) due to increase in total borrowings to RM216.9mn (previously RM208.8mn).

Impact

- We cut our earnings estimates for FY13/14/15 by about 19% to 21% respectively after taking into consideration 1Q13 results. This is achieved mainly by reducing our revenue per car set as well as the sales volume to be on the conservative end. We also increase our tax rate assumption to 20% due the expiry of the pioneer status.

Outlook

- Margin is likely to remain under pressure. While the company is focused on ways to improve production efficiency and reduce wastage, this could be offset by cost-down initiatives by both Proton and Perodua. We remain conservative in our view and assume flattish EBIT margin.
- We reiterate our view that the proposed acquisition of MEX will remain status quo, given the sensitivity of the issue ahead of the impending general election. This assumption underpins our earnings projection, which has yet to take into account the impact of the acquisition.

Share Information

Bloomberg Code	EPMB MK
Stock Code	7773
Listing	Main Market
Share Cap (m)	159.3
Market Cap (RMm)	111.5
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	0.88/0.65
12-mth Avg Daily Vol ('000 shrs)	41.514
Estimated Free Float (%)	56
Beta	0.92
Major Shareholders (%)	
	Mutual Concept S/B (38.76)
	Hamidon Bin Abdullah (5.30)

Forecast Revision

	FY13	FY14
Forecast Revision (%)	-18.9	-20.1
Net profit (RMm)	26.1	27.8
Consensus	na	na
TA's / Consensus (%)	nm	nm
Previous Rating	Sell (downgraded)	

Financial Indicators

	FY13	FY14
Net debt/equity (%)	47.2	45.1
CFPS (sen)	(4.5)	(3.2)
P/CFPS (x)	(15.4)	(21.6)
ROA (%)	4.1	4.0
NTA/Share (RM)	2.1	2.2
Price/NTA (x)	0.3	0.3

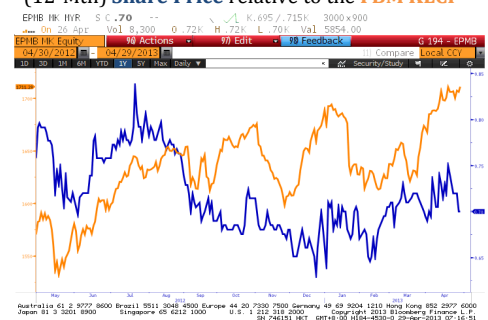
Scorecard

	% of FY	
vs TA	17	Below
vs Consensus	na	na

Share Performance (%)

Price Change	EPMB	FBM KLCI
1 mth	0.7	2.4
3 mth	(2.1)	4.5
6 mth	(4.8)	2.3
12 mth	(12.5)	9.2

(12-Mth) Share Price relative to the FBM KLCI



Source: Bloomberg

Valuation

- We roll forward our valuation based year to FY14 and arrived at a new target price of RM0.67 (previously RM0.78) based on unchanged target PER of 4x. While we view that valuation was undemanding, we foresee earnings growth to be lacklustre. In addition, we are also concerned that the acquisition of MEX would have a negative impact in the short to medium term. As such, we are downgrading our recommendation to SELL from HOLD previously.

Earnings Summary

FYE Dec		2011	2012	2013E	2014F	2015F
Revenue		578.3	522.6	519.7	522.4	528.4
EBITDA		41.3	43.2	43.7	45.4	47.6
EBITDA margin	(%)	7.1	8.3	8.4	8.7	9.0
Pretax profit		30.2	33.1	32.7	34.8	37.3
Net profit		38.6	29.4	26.1	27.8	29.8
Core net profit		38.6	29.4	26.1	27.8	29.8
EPS	(sen)	23.2	17.7	15.8	16.8	18.0
Core EPS - FD	(sen)	23.2	17.7	15.8	16.8	18.0
Core EPS growth	(%)	47.8	(23.8)	(11.1)	6.5	7.2
PER	(x)	3.0	4.0	4.5	4.2	3.9
Cash GDPS	(sen)	4.0	2.0	2.0	2.0	2.0
Div yield	(%)	5.7	2.8	2.8	2.8	2.8
Core ROE	(%)	14.4	9.7	8.0	7.6	7.5

1Q13 Results Analysis

YE Dec 31		1Q12	4Q12	1Q13	QOQ%	YoY%
Turnover		137.7	133.2	110.4	(17.1)	(19.8)
EBIT		13.0	9.2	10.3	12.6	(20.1)
Net Int Inc/ (exp)		(2.4)	(1.9)	(2.8)	45.9	15.6
Pretax		10.5	7.3	7.5	3.7	(28.4)
Taxation		(1.8)	(0.4)	(1.9)	362.4	6.5
MI		0.0	(0.1)	0.0	(117.0)	(62.2)
Reported net profit		8.7	6.7	5.6	(16.8)	(35.8)
Core net profit		7.2	7.3	6.0	(16.9)	(16.7)
Core EPS	(sen)	4.5	4.6	3.8	(16.9)	(16.6)
GDPS	(sen)	0.0	1.0	0.0		
EBIT Margin	(%)	9.4	6.9	9.4		
Pretax Margin	(%)	7.6	5.5	6.8		
Tax Rate	(%)	17.3	5.8	25.8		

Source: Announcement, TA Securities

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