



EP Manufacturing Berhad

Margin Under Pressure

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TP: RM0.70 (-1.4%)

Last Traded: RM0.71

Sell

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Review

- EPMB reported another disappointing set of results. 3Q13 earnings came in below our expectations due mainly to, i) lower sales growth from automotive and water segment, and ii) margin contraction.
- Stripping out forex impact, 3Q13 core net profit increased 31.9% QoQ to RM4.1mn on the back of flat revenue growth. Nonetheless, on YoY comparison, core net profit has dropped significantly by 41.0%.
- Cumulatively, 9M13 core net profit of RM13.7mn accounted only 63% of our full year estimate.
- 9M13's core net profit plunged 34.3% YoY on the back of 12.2% drop in revenue due to lower earnings from both automotive and water segment, although the impact was partially offset by lower depreciation and amortisation (-38.0%). EBIT margin also narrowed to 7.9% (vs. 8.5% for 9MFY12).
- Revenue from automotive segment dropped 8.5% YoY to RM341.5mn while revenue from the water segment too decreased by 97.7% YoY to a mere RM0.4mn (vs. RM16.4mn in 9M12). PBT from automotive segment decreased by 32.4% to RM19.9mn. Meanwhile, pretax losses from water segment narrowed by 3 times (RM3.6mn in 9M12 to RM1.2mn in 9M13).
- On top of that, effective tax rate was also higher at 31.7% versus 12.8% in the previous year, mainly due to expiry of pioneer status on 31 December 2012.

Impact

- FY13-FY15 earnings forecasts were revised downward by 0.3% - 8.4%, to take into account the margin compression, as well as higher finance cost.

Outlook

- We believe margin is likely to remain under pressure going forward. 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.
- Moreover, we believe the passenger vehicle market remains challenging and highly competitive, especially in the A and B-segment. This translates into more downward pressure on margin ahead.

Valuation

- Maintained our TP at RM0.70 based on unchanged target PER of 5x. The stock still lack of near-term positive catalysts. We maintain SELL recommendation on the stock. The group is expected to commence supply of auto-parts to Honda next year. That diversification is positive although we think it will take time for EPMB to build a sustainable client base in the non-national segment. Potential re-rating catalysts for the stock include i) stronger than expected sales volume from Proton and Perodua, ii) improved margin, and iii) significant pick up in new contract awards.

Share Information

Bloomberg Code	EPMB MK
Stock Code	7773
Listing	Main Market
Share Cap (m)	159.3
Market Cap (RMm)	113.103
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	0.885/0.50
12-mth Avg Daily Vol ('000 shrs)	77
Estimated Free Float (%)	53
Beta	0.55
Major Shareholders (%)	
	Mutual Concept S/B (38.77)
	Hamidon Bin Abdullah (5.30)

Forecast Revision

	FY13	FY14
Forecast Revision (%)	(8.4)	(0.6)
Net profit (RMm)	19.8	23.1
Consensus	na	na
TA's / Consensus (%)	nm	nm
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY13	FY14
Net debt/equity (%)	50.0	43.7
CFPS (sen)	(8.3)	6.4
P/CFPS (x)	(8.5)	11.0
ROA (%)	3.1	3.4
NTA/Share (RM)	2.0	2.2
Price/NTA (x)	0.4	0.3

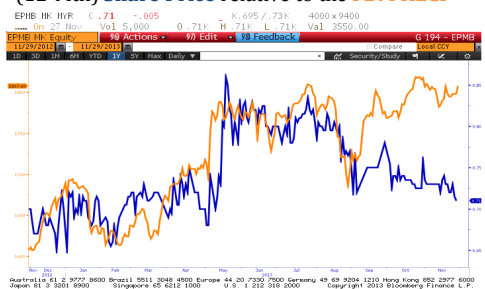
Scorecard

	% of FY	
vs TA	63	Below
vs Consensus	na	na

Share Performance (%)

Price Change	EPMB	FBM KLCI
1 mth	(2.1)	(0.6)
3 mth	(7.2)	7.2
6 mth	(10.7)	1.8
12 mth	2.9	12.6

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



Source: Bloomberg

Earnings Summary

FYE Dec 31	RM (mn)	FY11	FY12	FY13F	FY14F	FY15F
Revenue		578.3	522.6	468.0	505.9	513.3
EBIT		41.3	43.2	39.3	41.5	42.1
EBIT margin	(%)	7.1	8.3	8.4	8.2	8.2
Pretax profit		30.2	33.1	28.3	30.8	31.8
Net profit		38.6	29.4	19.8	23.1	23.9
Core net profit		38.6	29.4	19.8	23.1	23.9
EPS	(sen)	23.2	17.7	12.0	13.9	14.4
Core EPS	(sen)	23.2	17.7	12.0	13.9	14.4
Core EPS growth	(%)	47.8	(23.8)	(32.5)	16.6	3.2
PER	(x)	3.1	4.0	5.9	5.1	4.9
Cash GDPS	(sen)	4.0	2.0	2.0	2.0	2.0
Div yield	(%)	5.6	2.8	2.8	2.8	2.8
Core ROE	(%)	14.4	9.7	6.1	6.5	6.3

3Q13 Results Analysis

FYE Dec 31	RM (mn)	3Q12	2Q13	3Q13	QOQ (%)	YoY (%)	9M12	9M13	YOY (%)
Turnover		127.0	115.3	116.2	0.8	(8.6)	389.4	341.8	(12.2)
EBIT		9.9	9.0	7.6	(15.4)	(23.2)	33.1	27.0	(18.5)
Net finance cost		(2.5)	(2.9)	(2.6)	nm	nm	(7.3)	(8.3)	nm
Pretax		7.4	6.2	5.0	(18.4)	(32.2)	25.9	18.7	(27.7)
Taxation		(0.6)	(2.6)	(1.4)	nm	nm	(3.3)	(5.9)	nm
MI		0.0	0.0	0.0	(5.3)	(18.2)	0.1	0.1	(49.5)
Reported net profit		6.9	3.6	3.6	2.1	(46.9)	22.7	12.8	(43.4)
Core net profit		7.0	3.1	4.1	31.9	(41.0)	20.9	13.7	(34.3)
Core EPS	(sen)	4.4	2.0	2.6	31.9	(41.0)	13.1	8.6	(34.3)
GDPS	(sen)	1.0	-	1.0			1.0	1.0	
EBIT Margin	(%)	7.8	7.8	6.6			8.5	7.9	
Pretax Margin	(%)	5.8	5.3	4.3			6.6	5.5	
Tax Rate	(%)	7.5	42.2	27.7			12.8	31.7	

Source: Bursa Announcement, TA Securities

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