



EP Manufacturing Berhad

Weak Margins Rein in 1Q Earnings Growth

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TP: RM0.58 (-24.2%)

Last Traded: RM0.765

Sell

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Review

- EPMB's 1QFY14 results came in below our expectation. Stripping out forex impact, core net profit of RM3.7mn accounted for only 17.1% of our full year estimates. Weaker margin from the automotive segment had negatively impacted its earnings growth. Management guided that the weak earnings was also due to changes in the sales mix for the automotive segment.
- Despite growth in revenue, core net profit plunged significantly by 38.0% YoY to RM3.7mn. Revenue increased 5.4% YoY and 5.3% QoQ to RM116.3mn. Note that EPMB has disposed its entire water business in Jan 2014 and going forward, automotive will be the only main business for the group.
- The group's EBIT margin also narrowed to 6.1% compared with 9.4% recorded a year ago.
- No dividend has been declared for the quarter under review.

Impact

- Due to lower than expected 1Q earnings results, we revise downward FY14-FY15 earnings forecasts by 15.4% - 21.3% after taking into account lower margin assumptions.

Outlook

- We expect another challenging year for EPMB mainly due to pricing pressures from customers and elevated margin risks. 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.
- Limited near-term earnings growth prospects could be another major hurdle to the group. Note that Perodua and Proton registered lower vehicle sales in 1Q. We believe the passenger vehicle market remains challenging and highly competitive as the A and B segment is crowded with plenty of fresh models. This may translate to more downward pressure on margin ahead for EPMB.
- On the other hand, we are positive on the disposal of its loss-making water business. The disposal is a positive move as the water business was not aligned to the automotive business.

Valuation

- Target price revised lower to RM0.58 after the earnings adjustment and rolled over valuation to FY15. Maintain SELL recommendation on the stock. 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)	121.8645
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	0.885/0.50
12-mth Avg Daily Vol ('000 shrs)	82
Estimated Free Float (%)	53
Beta	0.67
Major Shareholders (%)	
	Mutual Concept S/B (38.77)
	Hamidon Bin Abdullah (5.30)

Forecast Revision

	FY14	FY15
Forecast Revision (%)	(21.3)	(15.4)
Net profit (RMm)	17.2	19.2
Consensus	na	na
TA's / Consensus (%)	nm	nm
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY14	FY15
Net debt/equity (%)	63.3	66.8
CFPS (sen)	(8.1)	(1.5)
P/CFPS (x)	(9.5)	(49.5)
ROA (%)	2.5	2.6
NTA/Share (RM)	1.5	1.6
Price/NTA (x)	0.5	0.5

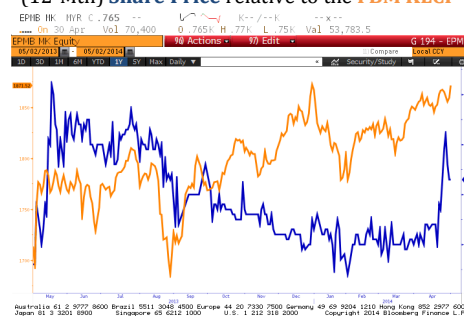
Scorecard

	% of FY	
vs TA	17	Below
vs Consensus	na	na

Share Performance (%)

Price Change	EPMB	FBM KLCI
1 mth	7.7	1.3
3 mth	10.9	3.7
6 mth	4.8	3.4
12 mth	12.5	9.0

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



Source: Bloomberg

Earnings Summary

FYE Dec 31	RM (mn)	2011	2012	2013	2014F	2015F
Revenue		578.3	522.6	452.3	499.1	512.4
EBIT		41.3	42.9	32.0	36.2	40.0
EBIT margin	(%)	7.1	8.2	7.1	7.3	7.8
Pretax profit		30.2	33.8	20.6	23.0	25.6
Net profit		38.6	29.6	16.4	17.2	19.2
Core net profit		38.6	28.3	17.4	17.2	19.2
Core EPS	(sen)	23.2	17.8	9.9	10.4	11.6
PER	(x)	3.3	4.5	7.3	7.4	6.6
DPS	(sen)	4.0	2.0	2.0	2.0	2.0
Div yield	(%)	5.2	2.6	2.6	2.6	2.6
Core ROE	(%)	13.2	8.9	5.3	5.0	5.4

1Q14 Results Analysis

FYE Dec 31	RM (mn)	1Q13	4Q13	1Q14	QOQ (%)	YoY (%)
Turnover		110.4	110.5	116.3	5.3	5.4
EBIT		10.3	4.7	7.1	49.6	(31.8)
Net Int Inc/ (exp)		(2.8)	(2.8)	(2.5)	nm	nm
Forex & EI		(0.4)	(0.1)	(0.5)	nm	nm
Pretax		7.5	1.9	4.5	>100	(39.7)
Taxation		(1.9)	1.7	(1.3)	nm	nm
MI		0.0	0.0	0.0	(43.8)	nm
Reported net profit		5.6	3.6	3.3	(8.6)	(41.7)
Core net profit		6.0	3.7	3.7	0.5	(38.0)
EBIT Margin	(%)	9.4	4.3	6.1		
Pretax Margin	(%)	6.8	1.7	3.9		
Core Net margin	(%)	5.5	3.4	3.2		
Tax Rate	(%)	25.8	(88.5)	28.4		

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