



EP Manufacturing Berhad

FY13 Earnings Below Expectations

TP: RM0.66 (-7.0%)

Last Traded: RM0.71

Sell

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

Angeline Chin Swee Tyng

+603-2167-9611

angelinechin@ta.com.my

www.taonline.com.my

Review

- EPMB's FY13 earnings came in below our expectations. Core net profit of RM17.4mn accounted only 88% of our full year estimates.
- Stripping out forex impact, FY13 core net profit plunged 38.3% YoY on the back of 13.4% drop in revenue. Revenue from automotive and water segment dropped 11% and 97%, respectively.
- The weak results were mainly due to lower earnings from both automotive and water segment, although the impact was partially offset by lower depreciation and amortisation (-35.9%). EBIT margin also narrowed to 7.0% (vs. 8.2% for FY12).
- 4Q13 core net profit dropped 10.3% QoQ to RM3.7mn on the back of weak topline growth. On YoY comparison, it has dropped significantly by 49.8%.
- Revenue from automotive segment dropped 16.7% YoY to RM110.3mn while revenue from the water segment decreased by 97.7% YoY to a mere RM0.2mn (vs. RM0.9mn in 4QFY12). PBT from automotive segment decreased by 52.7% to RM6.2mn. Meanwhile, pretax losses from water segment narrowed to RM4.3mn compared to RM6.4mn in 1Q12.
- The group has declared a 2nd interim single tier dividend of 1 sen/share, bringing the total full year dividend to 2 sen/share.

Impact

- FY14-FY15 earnings forecasts were revised downward by 5.4% - 4.9%, to take into account lower sales from automotive segment and interest income.

Outlook

- FY14 remains a challenging year for EPMB, in our view. 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 believe that the liberalisation of the local automotive industry by establishing the Car Price Reduction Framework (to reduce car prices by 20%-30% in 5 years time) could elevate margin.
- 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

- Our target price lowered to RM0.66 (previously RM0.70) after the earnings adjustment and based on unchanged target PER of 5x. We maintain SELL recommendation on the stock. The group is expected to commence supply of auto-parts to Honda this 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)	113.1
Par Value (RM)	1.00
52-wk Hi/Lo (RM)	0.827/0.50
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

	FY14	FY15
Forecast Revision (%)	(5.4)	(4.9)
Net profit (RMm)	21.9	22.7
Consensus	na	na
TA's / Consensus (%)	nm	nm
Previous Rating	Sell (Maintained)	

Financial Indicators

	FY14	FY15
Net debt/equity (%)	55.7	54.4
CFPS (sen)	(7.4)	(4.7)
P/CFPS (x)	(9.6)	(15.1)
ROA (%)	3.1	3.1
NTA/Share (RM)	2.1	2.2
Price/NTA (x)	0.3	0.3

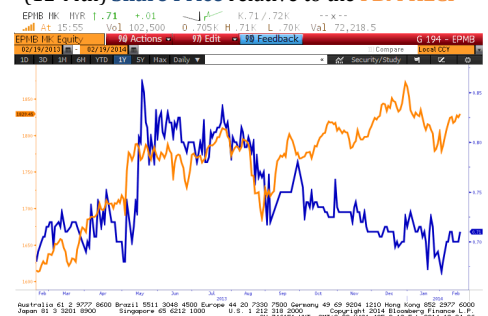
Scorecard

	% of FY	
vs TA	88	Below
vs Consensus	na	na

Share Performance (%)

Price Change	EPMB	FBM KLCI
1 mth	0.0	0.9
3 mth	(2.7)	1.2
6 mth	(11.3)	2.9
12 mth	4.4	13.3

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



Source: Bloomberg

Earnings Summary

FYE Dec 31	RM (mn)	FY11	FY12	FY13	FY14F	FY15F
Revenue		578.3	522.6	452.3	499.7	513.0
EBIT		41.3	43.2	42.9	31.7	42.1
EBIT margin	(%)	7.1	8.2	7.0	8.2	8.2
Pretax profit		30.2	33.8	20.6	29.2	30.3
Net profit		38.6	29.6	16.4	21.9	22.7
Core net profit		38.6	28.3	17.4	21.9	22.7
EPS	(sen)	23.2	17.8	9.8	13.2	13.7
PER	(x)	3.1	4.0	7.2	5.4	5.2
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	5.1	6.3	6.1

4Q13 Results Analysis

FYE Dec 31	RM (mn)	4Q12	3Q13	4Q13	QOQ (%)	YoY (%)	FY12	FY13	YOY (%)
Turnover		133.2	116.2	110.5	(4.9)	(17.1)	522.6	452.3	(13.4)
EBIT		9.8	7.6	4.7	(38.1)	(51.7)	42.9	31.7	(26.1)
Net finance cost		(1.8)	(2.6)	(2.8)	(8.9)	(57.8)	(9.1)	(11.1)	(22.8)
Pretax		8.0	5.0	1.9	(62.5)	(76.4)	33.8	20.6	(39.2)
Taxation		(1.0)	(1.4)	1.7	nm	nm	(4.3)	(4.3)	(0.4)
MI		(0.1)	0.0	0.0	77.8	nm	0.0	0.1	>100
Reported net profit		6.9	3.6	3.6	(1.9)	(48.1)	29.6	16.4	(44.5)
Core net profit		7.4	4.1	3.7	(10.3)	(49.8)	28.3	17.4	(38.4)
Core EPS	(sen)	4.6	2.6	2.3	(10.3)	(49.8)	17.8	10.9	(38.3)
GDPS	(sen)	1.0	1.0	1.0			2.0	2.0	
EBIT Margin	(%)	7.3	6.6	4.3			8.2	7.0	
Pretax Margin	(%)	6.0	4.3	1.7			6.5	4.6	
Tax Rate	(%)	12.2	27.7	(88.5)			12.6	20.7	

Source: Bursa Announcement, TA Securities

Disclaimer

The information in this report has been obtained from sources believed to be reliable. Its accuracy and/ or completeness is not guaranteed and opinions are subject to change without notice. This report is for information only and not to be construed as a solicitation for contracts. We accept no liability for any direct or indirect loss arising from the use of this document. We, our associates, directors, employees may have an interest in the securities and/or companies mentioned herein.

This report has been prepared by TA SECURITIES HOLDINGS BERHAD for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and will be compensated to undertake the scheme. TA SECURITIES HOLDINGS BERHAD has produced this report independent of any influence from the CBRS or the subject company.

For more information about CBRS and other research reports, please visit Bursa Malaysia's website at:
<http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>

for TA SECURITIES HOLDINGS BERHAD^(14948-M)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)
 Kaladher Govindan – Head of Research