



TA SECURITIES

A MEMBER OF THE TA GROUP

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RESULTS UPDATE

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FBM KLCI: 1,569.65

EP Manufacturing Berhad

Thursday, March 01, 2012

On Auto-mode

TP: RM1.11 (+21%)

Business Summary : Supplier of modular assemblies, safety and critical components and smart water meter systems.
Major Shareholders (%) : Mutual Concept Sdn Bhd (37.21)
 : Hamidon Bin Abdullah (5.28%)
Company Website : www.epmb.com.my
IR Contact : ZJ Advisory Sdn Bhd (603 2032 2328)

Recommendation: Buy
Market Capitalisation: RM151.9mn
Current Price: RM0.915
Market/ Sector: Main / Industrial Products
Stock Code: 7773

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Key Stock Statistics

FYE December	2012F	2013F
EPS (sen)	22.2	24.2
PER (x)	4.1	3.8
Gross div/ share (sen)	2.0	2.0
NTA/share (RM)	1.3	1.6
Book value/ share (RM)	1.87	2.09
Issued capital (mn shares)	166.0	166.0
52 weeks share price range (RM)	1.13/0.53	

Per Share Data

FYE December	2010	2011	2012E	2013F
Book Value (RM)	1.47	1.66	1.87	2.09
Cash Flow (sen)	13.0	27.6	27.7	31.7
Earnings (sen)	15.7	22.9	22.2	24.2
Dividend (sen)	1.0	2.0	2.0	2.0
Payout Ratio	6.4	8.7	9.0	8.3
PER (x)	5.8	4.0	4.1	3.8
P/ Cash Flow (x)	7.0	3.3	3.3	2.9
P/ Book Value (x)	0.6	0.6	0.5	0.4
Dividend Yield (%)	1.1	2.2	2.2	2.2
ROE (%)	11.2	14.7	12.6	12.2
Net Gearing (%)	64.3	33.2	17.9	3.7

P&L Analysis (RMmn)

FYE December	2010	2011	2012E	2013F
Revenue	587.5	577.1	594.2	628.4
Operating Profit	124.7	125.8	135.6	142.4
Depreciation	(74.9)	(74.9)	(76.2)	(78.5)
Interest Expenses	(10.6)	(12.2)	(11.5)	(12.6)
Pre-tax Profit	32.5	29.6	38.8	42.3
Effective Tax Rate (%)	19.6	nm	5.0	5.0
Net Profit	26.1	38.1	36.9	40.2
Operating Margin (%)	25.8	21.8	22.8	22.7
Pre-tax Margin (%)	5.5	5.1	6.5	6.7
Net-Margin (%)	4.4	6.6	6.2	6.4

1. 4Q2011 Result Highlights/ Review

P&L Analysis (RMmn)

YE Dec	4Q10	3Q11	4Q11	QoQ (%)	YoY (%)
Revenue	132.1	142.2	168.9	1.2	(3.8)
Operating Profit	11.9	9.0	3.9	(31.1)	(16.6)
Interest Exp	(1.9)	(2.8)	(3.4)	nm	nm
Other income	(2.2)	1.4	1.3	54.6	(8.1)
PBT	7.8	7.6	1.8	(34.6)	(27.1)
Tax	0.4	2.3	6.4	nm	nm
MI	(0.7)	0.0	0.0	nm	nm
Net Profit	7.4	10.0	8.3	(11.6)	42.9
EPS (sen)	4.5	6.0	5.0	(11.6)	42.8
DPS (sen)	0.0	1.0	0.0	nm	0.0

Operating Mrg (%)	9.0	6.4	2.3
PBT Mrg (%)	5.9	5.4	1.1
Net Mgn (%)	5.6	7.0	4.9
Eff. Tax rate (%)	nm	nm	nm

YE Dec	FY10	FY11	YoY (%)
Revenue	587.5	577.1	(1.8)
PBT	32.5	29.6	(8.7)
Net Profit	25.7	38.1	48.2
EPS (sen)	10.4	18.6	79.0
DPS (sen)	1.0	2.0	-

2. Recent Developments

FY11 earnings reported earnings jumped 48.2% YoY to RM38.1mn mainly attributable to reversal of deferred tax liabilities and recognition of deferred taxation totaling RM6.5mn in 4Q11 (FY11: RM9.5mn) vs. 19.6% effective tax rate in the preceding year. PBT on the other hand decreased 8.7% YoY to RM29.6mn and was below our estimate. Operational headlines were within our expectations but earnings were negatively impacted by higher than expected amortisation of goodwill (RM9.1mn vs. RM2.5mn in FY10) and interest cost.

Both operating segments posted better results in FY11. The automotive segment's revenue declined by 1.0% YoY to RM559.1mn attributable to the disruption in supply chain caused by the earthquake in Japan and floods in Thailand. Operating profit however increased by 1.1% YoY due to better average margin (10.3% vs. 9.6% in FY10), thanks to new models that commanded premium margin.

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



Source: Bloomberg

The water segment meanwhile reported lower operating loss of RM6.5mn vs. RM8.6mn in the preceding year. Sales continue to decline (-21.3% YoY) due to weak demand but the impact was offset by cost cutting initiatives implemented by the management. We understand that operation at the factory was scaled down to reduce overhead cost.

2. Earnings Outlook

We raise our FY12 earnings estimates by approximately 4% to RM36.9mn. The upward revision is to reflect better than expected margin at the automotive segment as well as cost savings measures at the water segment. We also introduce FY13 earnings forecast of RM40.2mn, implying a YoY EPS growth of 8.9%.

3. Key Investment Risk

Key risk factors are, 1) high dependency to national marques, 2) stricter loan approval guidelines negatively impacting vehicle sales, 3) margin compression arising from stiff competition and cost cutting measures implemented by Proton/Perodua, and 4) significant structural reform from the revised NAP (scheduled for release by June 2012) that could adversely impact domestic auto parts manufacturers.

4. Valuation & Recommendation

We raise target price on EPMB to RM1.11 to reflect the higher FY12 earnings forecast. Target PER remains at 5x. We continue to like EPMB for its attractive valuations and potential earnings upside from new contracts win in FY12. Cash hoard as at end of the FY11 amounted to RM72.3mn which could be deployed to capacity expansion or alternatively, capital management via more active share buyback. Maintain EPMB as Buy.

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