



TA SECURITIES

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RESULTUPDATE

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FBM KLCI: 1,483.98

EP Manufacturing Berhad

Unaffected By Weak Car Sales

Monday, August 22, 2011

TP: RM1.17(+56%)

Business Summary :Supplier of modular assemblies, safety and critical components and smart water meter systems.
Major Shareholders (%) :Mutual Concept Sdn Bhd (38.63%)
 :Hamidon Bin Abdullah (5.28%)
Company Website :www.epmb.com.my
IR Contact : ZJ Advisory Sdn Bhd (603 2032 2328)

Recommendation: Buy
Market Capitalisation (RMmn): RM124.5
Current Price: RM0.75
Market/ Sector: Main / Industrial Products
Stock Code: 7773

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Key Stock Statistics

FYE December		2011E	2012F
EPS	(sen)	19.2	19.6
PER	(x)	3.9	3.8
Gross div/ share	(sen)	3.0	3.0
NTA/share	(RM)	1.0	1.2
Book value/ share	(RM)	1.6	1.8
Issued capital	(mn shares)	166.0	166.0
52 weeks share price range	(RM)	1.13/0.485	

Per Share Data

FYE December		2009	2010	2011E	2012F
Book Value	(RM)	1.4	1.5	1.6	1.8
Cash Flow	(sen)	2.9	15.9	24.7	34.0
Earnings	(sen)	4.1	15.7	19.2	19.6
Dividend	(sen)	1.0	3.0	3.0	3.0
Payout Ratio		0.2	0.2	0.2	0.2
PER (x)	(x)	18.1	4.8	3.9	3.8
P/ Cash Flow	(x)	2.9	15.9	24.7	34.0
P/ Book Value	(x)	0.5	0.5	0.5	0.4
Dividend Yield	(%)	1.3	4.0	4.0	4.0
ROE	(%)	3.2	11.2	12.4	11.4
Net Gearing	(%)	1.0	0.6	0.4	0.3

P&L Analysis (RM mil)

FYE December	2009	2010	2011E	2012F
Revenue	468.0	587.5	515.1	574.8
Operating Profit	72.8	124.7	131.1	133.9
Depreciation	-50.2	-74.9	-79.1	-82.0
Interest Expenses	-14.1	-10.6	-10.5	-9.3
Pre-tax Profit	-0.1	32.5	32.6	34.5
Effective Tax Rate (%)	>100.0	19.6	2.5	5.8
Net Profit	6.9	26.1	31.8	32.5
Operating Margin (%)	15.0	25.8	25.5	23.3
Pre-tax Margin (%)	0.0	5.5	6.3	6.0
Net-Margin (%)	1.5	4.4	6.2	5.6

Balance Sheet (RM'mn)

FYE December	2009	2010	2011E	2012F
Non-Current Assets	445.3	405.6	400.6	394.4
Current Assets	127.4	160.3	179.0	199.8
Total Assets	572.7	565.8	579.5	594.2
Non-Current Liabilities	102.7	80.5	70.5	60.5
Current Liabilities	243.1	241.8	237.5	233.4
Share capital	166.0	166.0	166.0	166.0
Shareholders Funds	226.9	243.5	271.6	300.3

1. 2Q2012 Result Highlights/ Review

P&L Analysis (RM mil)

YE Dec	2Q10	1Q11	2Q11	QoQ (%)	YoY (%)	
Revenue	157.3	125.5	140.5	12.0	-10.7	
Operating Profit	13.3	10.2	13.1	28.7	-1.3	
Interest Exp	-3.6	-2.4	-2.3	-3.9	-35.5	
Other income	-0.8	0.9	1.1	23.7	-226.7	
PBT	8.8	8.5	11.7	38.0	32.7	
Tax	-2.9	0.1	-0.4	-445.9	-85.6	
MI	-0.2	0.0	0.0	nm	nm	
Net Profit	5.7	8.6	11.3	31.1	97.6	
EPS	(sen)	3.5	5.3	7.0	31.1	103.5
DPS	(sen)	1.0	0.0	1.0	nm	0.0
Operating Mrg (%)	8.4	8.1	9.3	1.2	0.9	
PBT Mrg (%)	5.6	6.8	8.3	1.6	2.7	
Net Mgn (%)	3.6	6.8	8.0	1.2	4.4	
Eff. Tax rate (%)	33.2	-1.4	3.6	5.1	-29.6	

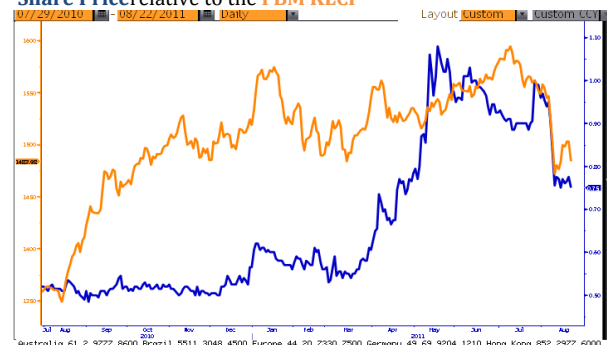
YE Dec	6M10	6M11	YoY (%)	
Revenue	307.5	266.0	-13.5	
PBT	13.3	20.2	51.1	
Net Profit	9.8	19.9	102.2	
EPS	(sen)	6.1	12.3	103.0
DPS	(sen)	1.0	1.0	0.0

EP Manufacturing (EPMB) posted a strong 2Q11 earnings performance which beat analyst estimates. 1H11 earnings of RM19.9mn accounted for 71% of our full-year forecasts and 67% of consensus estimates. The variance was largely due to margin improvement on the back of several cost cutting measures and lower effective tax rate.

1H11 net profit surged more than 100% despite the drop in revenue. This was largely due to: 1) certain non-recurring charges in the preceding year corresponding period; and 2) lower effective tax rate due to the reversal of deferred tax liabilities arising from the amortization of water segment intangible assets.

QoQ, 2Q11 earnings rose 31% on the back of a 12% increase in revenue, coupled with the improvement in margin.

Share Pricerelative to the FBM KLCI



Source: Bloomberg

2. Recent Developments

We expect EPMB to be shielded from the lacklustre performance of the auto industry, thanks to pent up demand for new Myvi model. Moving forward, we believe the risk of OPR hikes has diminished given the global economic uncertainties. As such, we see less tendency for the HP rate to rise in the near future. In term of the imposition of "safeguard duty" requested by Megasteel, the impact to EPMB could be significant if it is unable to pass on this to its clients, Proton and Perodua.

3. Earnings Outlook

We raise our FY11 earnings higher by 14% while maintain our FY12-13 earnings estimates to account for lower-than-expected operating expenditure and tax rate. We expect 2H11 earnings to be weaker than 1H11 due to electricity tariff hike in June-11.

4. Competitive Analysis

Figure 6: Peer Comparison Table

Company Name	Share Price (RM)	Market Cap (RM'mn)	FY12 EPS (sen)	FY12 PER (x)
New Hoong Fatt Holdings Berhad	2.26	169.9	46.0	4.9
Delloyd Ventures Berhad	3.59	352.4	56.0	6.4
APM automotive Holdings Berhad	4.90	987.8	73.8	6.6
Average		503.4	58.6	6.0

(Source: Bloomberg)

EPMB's current trading PE of 3.8x is substantially lower than market average of 6.0x. This indicates that EMPB is undervalued.

5. Key Investment Risk

We view EPMB to be in a very strategic business position. However, we also acknowledge that the dependency on the two main car manufacturers may pose a threat should the barrier of entry be breached by new suppliers who manage to offer the same products as EPMB. If either Proton or Perodua decide to switch to another manufacturer, this would have a great detrimental effect on EPMB.

6. Valuation & Recommendation

Valuation wise, we value EPMB at RM1.17/share, based on 6x FY12 EPS, which is at a discount of 33% to our target PER of 9x for the automotive sector. We believe this is justifiable due to its smaller market capitalization as compared to car manufacturers. Given the upside potential of 17%, we recommend a **Buy** on EPMB.

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