



TA SECURITIES

A MEMBER OF THE TA GROUP

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RESULT UPDATE

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FBM KLCI: 1,437.99

EP Manufacturing Berhad

Going Strong

Wednesday, November 23, 2011

TP: RM1.03 (+35%)

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: RM130.0mn
Current Price: RM0.765
Market/ Sector: Main / Industrial Products
Stock Code: 7773

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Key Stock Statistics

FYE December		2011E	2012F
EPS	(sen)	22.6	20.6
PER	(x)	3.3	3.6
Gross div/ share	(sen)	3.0	3.0
NTA/share	(RM)	1.1	1.3
Book value/ share	(RM)	1.1	1.3
Issued capital	(mn shares)	166.0	166.0
52 weeks share price range	(RM)	1.13/0.50	

Per Share Data

FYE December		2009	2010	2011E	2012F
Book Value	(RM)	0.7	0.8	1.1	1.3
Cash Flow	(sen)	2.9	15.9	28.1	38.4
Earnings	(sen)	4.1	15.7	22.6	20.6
Dividend	(sen)	1.0	3.0	3.0	3.0
Payout Ratio		0.2	0.2	0.1	0.1
PER (x)	(x)	18.1	4.8	3.3	3.6
P/ Cash Flow	(x)	2.9	15.9	28.1	38.4
P/ Book Value	(x)	1.1	0.9	0.7	0.6
Dividend Yield	(%)	1.3	4.0	4.0	4.0
ROE	(%)	3.2	11.2	14.4	11.7
Net Gearing	(%)	1.0	0.6	0.4	0.3

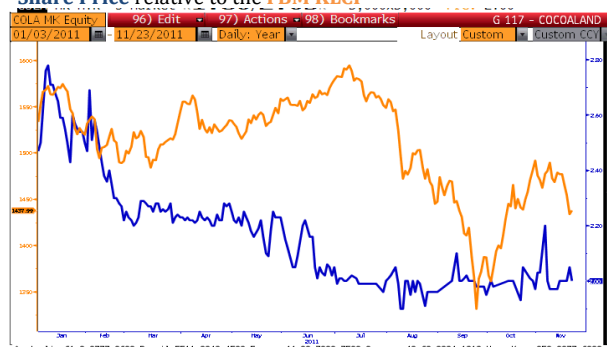
P&L Analysis (RMmn)

FYE December	2009	2010	2011E	2012F
Revenue	468.0	587.5	534.6	594.2
Operating Profit	72.8	124.7	133.0	135.4
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	34.5	35.9
Effective Tax Rate (%)	>100.0	19.6	(8.7)	5.0
Net Profit	6.9	26.1	37.5	34.1
Operating Margin (%)	15.0	25.8	24.9	22.8
Pre-tax Margin (%)	(0.0)	5.5	6.5	6.0
Net-Margin (%)	1.5	4.4	7.0	5.7

Balance Sheet (RMmn)

FYE December	2009	2010	2011E	2012F
Non-Current Assets	445.3	405.6	400.6	394.4
Current Assets	127.4	160.3	184.7	207.1
Total Assets	572.7	565.8	585.2	601.5
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	277.3	307.6

Share Price relative to the FBM KLCI



Source: Bloomberg

1. 3Q2011 Result Highlights/ Review

P&L Analysis (RMmn)

YE Dec	3Q10	2Q11	3Q11	%QoQ	%YOY
Revenue	147.8	140.5	142.2	1.2	(3.8)
Operating Profit	10.8	13.1	9.0	(31.1)	(16.6)
Interest Exp	(1.9)	(2.3)	(2.8)	nm	nm
Other income	1.5	0.9	1.4	54.6	(8.1)
PBT	10.5	11.7	7.6	(34.6)	(27.1)
Tax	(3.5)	(0.4)	2.3	nm	nm
MI	(0.0)	0.0	0.0	nm	nm
Net Profit	7.0	11.3	10.0	(11.6)	42.9
EPS	(sen)	4.2	7.0	6.2	(11.4)
DPS	(sen)	0.0	1.0	1.0	

Operating Mrg (%)	7.3	9.3	6.4
PBT Mrg (%)	7.1	8.3	5.4
Net Mgn (%)	4.7	8.0	7.0
Eff. Tax rate (%)	33.2	3.6	-30.2

YE Dec	9MFY10	9MFY11	% YoY	
Revenue	455.3	408.2	(10.3)	
PBT	23.8	27.8	16.7	
Net Profit	16.8	29.8	77.6	
EPS	(sen)	10.4	18.6	79.0
DPS	(sen)	1.0	2.0	nm

3Q11 net profit increased by 42.9% YoY but contracted 11.6% QoQ to RM10.0mn. The YoY increase was largely attributable to RM2.3mn in net tax write back, thanks to investment tax allowances and overprovision of deferred tax of prior year. Operating profit on the other hand declined on both QoQ (-31.1%) and YoY (-16.6%). The YoY decline was due to lower sales volume and we suspect, higher input cost (op. margin narrowed 0.9 p.p.).

For the 9MFY11, net profit increased by a substantial 77.6% YoY to RM29.8mn, beating both ours as well as consensus expectations. This was despite a 10.3% YoY contraction in revenue to RM408.2mn, in line with the lower TIV for the period.

Operating profit rose 6.3% YoY to RM32.4mn due mainly to margin expansion (7.9% vs. 6.7% in 9MFY10). Management attributed the margin expansion to improved operational efficiency in the automotive segment. The water segment however continues to disappoint. It incurred a higher operating loss of RM5.5mn (9MFY10: RM4.5mn) as the segment struggles to achieve economies of scale. Meanwhile, note that the larger increase in net profit was also contributed by lower net interest cost, increased non-operating income as well as net tax write back in 3Q11.

2. Recent Developments

The launch of Myvi is expected to continue driving sales in 4Q11. The broadly positive review for the replacement Myvi bodes well for the group since EPMB's revenue per car set had increased by 4x, in line with the greater upstream localisation policy by Perodua. As manufacturing bottleneck for the replacement Myvi normalises, we expect EPMB's sales to improve as well. Immediate downside risk could stem from slowing economy and negative consumers' sentiment, which may impact car sales ahead.

3. Earnings Outlook

We raise FY11 and FY12 earnings forecasts by 17.9% and 5.0% respectively. FY11 revenue estimate revised upward by 3.9% due to better than expected sales YTD. We have also assumed higher average margin and adjusted effective tax rate (FY11), in line with the 9MFY11 results. Note that the revision in tax rate accounts for bulk of the huge upgrade in FY11 earnings estimate.

4. Key Investment Risk

Key investment risk factors, 1) high dependant on local brands (Proton and Perodua accounts for 70% of total sales), 2) cost cutting measures by buyers negatively impacting margin, 3) risk of a slowing economy impacting TIV, and 4) margin volatility resulting from sharp fluctuation in input costs.

5. Valuation & Recommendation

Target price on the stock upgraded to RM1.03, in line with the earnings revision. Target PER remains unchanged at 5x, derived after attaching about 30% discount to the average 8x PER for the automotive sector. The discount is reflective of its smaller market cap and margin risk. The group has a RM76.2mn cash pile as at the end of 3Q11. We understand that capital management is not a priority at this moment. Management appears to be preserving cash to fund future capacity expansions, which could further boost long term earnings growth sustainability, in our view. Maintain EPMB as Buy.

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