



EP Manufacturing Berhad

Margin Issue

TP: RM0.87 (+11%)

Last Traded: RM0.785

Hold

THIS REPORT IS STRICTLY FOR INTERNAL CIRCULATION ONLY*

TA Research Team Coverage	+603-2072-1277 ext:1626	liwong@ta.com.my	www.taonline.com.my
---------------------------	-------------------------	------------------	---------------------

Review

- 2Q12 results came in below our expectations mainly due to weak margin. Net profit declined by 19.7% QoQ and 38.0% YoY to RM7.0mn. The lower net profit was partly due to lower revenue (QoQ: -9.5%, YoY: -11.3%). EBIT meanwhile declined by a larger 21.2% QoQ and 26.9% YoY respectively to RM10.2mn. We understand that 2Q12 operating cost was slightly higher due to deferred charges on tooling cost recovery. All in, 1H12 revenue declined by 1.4% YoY to RM262.3mn but net profit declined by 21.3% YoY to RM15.6mn. The bigger percentage drop in net profit was attributable to, 1) lower average EBIT margin (8.8% vs. 9.4% in 1H11), and 2) higher effective tax rate (14.9% vs. 1.5% in 1H11).
- Automotive segment's revenue in the 1H12 declined by 3.6% YoY to RM247.7mn. During the period, sales of national cars increased by a marginal 0.7% YoY. We suspect the lower revenue was due to lower sales to Proton. EBIT margin narrowed to 10.4% compared with 11.2% in the corresponding period last year.
- The water segment meanwhile continued to show improvement. Sales jumped by 60.8% YoY to RM14.6mn, thanks to the higher economies of scale and cost cutting measures implemented by the management. Operating loss reduced to RM0.6mn in 1H12 vs. RM2.3mn loss in 1Q11.
- No dividend declared in 2Q12. In comparison, a 1 sen/share dividend was declared in 2Q11.

Impact

- FY12 and FY13 earnings forecasts trimmed by 8.6% and 9.2% respectively to take into account the weaker than expected margin. We have also assumed the group will not pay any dividend in FY12/14 since capital preservation likely to prevail arising from the acquisition of MEX.

Outlook

- The proposed acquisition of MEX is still pending the relevant regulatory approvals. At this juncture, we think status quo will remain given the sensitivity of issue ahead of the impending general election. This assumption underpins our earnings projection, which has yet to take into account the impact of the acquisition. EPMB announced yesterday that it is seeking extension to the conditions precedent to the acquisition and in the midst of negotiation with MEX's vendor to extend the cut-off date.

Share Information

Bloomberg Code	EPMB MK
Stock Code	7773
Listing	Main Market
Share Cap (mn)	166
Market Cap (RMmn)	130
Par Value	1.00
52-wk Hi/Lo (RM)	1.12/0.63
12-mth Avg Daily Vol ('000 shrs)	204
Estimated Free Float (%)	53
Beta	1.01
Major Shareholders (%)	
	Mutual Concept S/B (37.21)
	Hamidon b. Abdullah (5.09)

Forecast Revision

	FY12	FY13
Forecast Revision (%)	-8.6	-9.2
Net profit (RMm)	33.7	36.0
Consensus	na	na
TA's / Consensus (%)	nm	nm
Previous Rating	Buy (maintained)	

Financial Indicators

	FY12	FY13
Net debt/equity (%)	18.1	4.4
CFPS (sen)	27.3	30.7
P/CFPS (x)	2.9	2.6
ROA (%)	5.9	5.8
NTA/Share (RM)	1.9	2.1
Price/ NTA (x)	0.4	0.4

Scorecard

	% of FY	
vs TA	42.4	Below
vs Consensus	na	na

Share Performance (%)

Price Change	EPMB	FBM KLCI
1 mth	(5.4)	1.4
3 mth	4.7	5.2
6 mth	(14.2)	4.9
12 mth	4.7	13.8

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



Source: Bloomberg

Valuation

- We rollover valuation base year to FY13 and adjusted lower target price on the stock to RM0.87 (RM0.89 previously). EPMB remains as Hold. The negative short to medium term impact on balance sheet and earnings arising from the acquisition of MEX remains our key concern.

Earnings Summary

FYE Dec (RMmn)		2010	2011	2012E	2013F	2014F
Revenue		587.5	577.1	594.7	625.3	683.4
EBITDA		120.4	124.9	130.2	135.8	142.6
EBITDA margin	(%)	25.8	21.8	22.0	21.8	21.0
Pretax profit		32.5	29.6	35.5	37.9	43.3
Net profit		26.1	38.1	33.7	36.0	41.1
Core net profit		26.1	38.1	33.7	36.0	41.1
EPS	(sen)	15.7	22.9	20.3	21.7	24.8
Core EPS - FD	(sen)	15.7	22.9	20.3	21.7	24.8
Core EPS growth	(%)	279.9	45.9	(11.4)	6.8	14.2
PER	(x)	5.0	3.4	3.9	3.6	3.2
Cash GDPS	(sen)	1.0	2.0	0.0	0.0	0.0
Div yield	(%)	1.3	2.5	0.0	0.0	0.0
Core ROE	(%)	11.2	14.7	11.5	11.0	10.6

2Q12 Results Analysis

YE Dec 31 (RMmn)		2Q11	1Q12	2Q12	QOQ%	YoY%	1H11	2H12
Turnover		140.5	137.7	124.6	(9.5)	(11.3)	266.0	262.3
EBIT		14.0	13.0	10.2	(21.2)	(26.9)	24.9	23.2
Net Int Inc/ (exp)		(2.3)	(2.4)	(2.3)	nm	nm	(4.7)	(4.7)
Pretax		11.7	10.6	7.9	(24.7)	(32.0)	20.2	18.5
Taxation		(0.4)	(1.8)	(0.9)	nm	nm	(0.3)	(2.7)
MI		0.0	(0.0)	(0.0)	nm	nm	0.0	(0.1)
Reported net profit		11.3	8.7	7.0	(19.7)	(38.0)	19.9	15.6
Core net profit		11.3	8.7	7.0	(19.7)	(38.0)	19.9	15.6
Core EPS	(sen)	6.8	5.2	4.2	(19.7)	(38.0)	12.0	9.4
GDPS	(sen)	1.0	0.0	0.0			1.0	0.0
EBIT Margin	(%)	10.0	9.4	8.2			9.4	8.8
Pretax Margin	(%)	8.3	7.7	6.4			7.6	7.0
Tax Rate	(%)	3.6	17.3	11.7			1.5	14.9

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