

Company Update

EP MANUFACTURING (RM0.67)

NOT RATED

Not much excitement

STOCK&SHAREHOLDERS'DATA		COMPANYVISIT-EARNINGS(nil);REC(nil)					
Bloomberg Code	: EPMBMK	YE31 Dec	2003	2004	2005f	2006F	2007F
Reuters Code	: EPMB.KL						
KLCI	: 905.41						
Market Capitalisation	: RM82.13m	Pretax Profit (RMm)	24.6	23.8	25.6	27.5	29.0
Issued Capital	: 122.6m	Net Profit (RMm)	11.8	18.2	19.3	21.1	22.6
		%Revision			-	-	-
Free Float (est)	: 42.1%	Consensus Net Profit (RMm)			ra	ra	ra
Range 12 mths	: RM0.51-RM0.85	Issued Cap(m shares)	122.0	122.0	122.0	122.0	122.0
Daily turnover (3 mth)	: RM0.04m	EPS(sen)	9.6	14.9	15.8	17.3	18.5
Relative Performance	: 1-mth -1.5%	EPS Growth(%)	-	54.8	6.2	9.3	6.7
	: 3-mth +0.5%	FDEPS(sen)	5.8	9.0	9.6	10.5	11.2
	: 12-mth -18.1%	CFPS(sen)	24.8	29.0	31.4	33.7	35.7
Major Shareholders	:	Gross DPS(sen)	3.5	4.0	5.0	5.0	5.0
Mutual Concept	: 21.6%	NTA Share (RM)	1.15	1.41	1.30	1.50	1.64
A.A.Assets Nominees	: 4.4%	FDPER(x)	11.5	7.4	7.0	6.4	6.0
Hamidon Abdullah	: 3.4%	P/CF(x)	2.7	2.3	2.1	2.0	1.9
		Yield (%)	5.6	6.0	7.5	7.5	7.5
		P/NTA(x)	0.6	0.5	0.5	0.4	0.4
		ROE(%)	15.8	14.4	14.5	15.1	14.2

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The NAP framework has included several incentives which benefit not only car manufacturers and assemblers but also auto-parts manufacturers. We have visited several auto-parts companies to see which among the many would benefit from the policy. We believe EP Manufacturing, a tier 1 supplier for Proton and Perodua, is one of them given that the group dedicates about 7% of its revenue on R&D activities. In addition, the group was also involved in the manufacturing of the Gen.2 when it was still prototyped. However, most auto-parts players are still heavily dependant on Proton and Perodua. EPMB is no exception. Thus, going forward, we are not anticipating strong growth in revenue given that Perodua is not expected to roll-out a new model this year, while Proton, after the SRM, is not expected to come out with a new model at least in the next 1-2 years. On a positive note, at current price, EPMB offers an attractive dividend yield of 7.5%.

Outlook and Development

The National Automotive Policy ("NAP") framework listed several incentives which would benefit autoparts manufactures. These are:

- Provision of incentives to components and parts manufacturers through co-operation projects and support for the global supply program.
- Provision of training grants and provision of research & development grants for R&D activities such as designing, prototyping, product development and improvement.

EP Manufacturing Bhd ("EPMB") allocates about 7% of its revenue on R&D. On average it spends about of RM20m on R&D. Its R&D activities include designing and prototyping. EPMB was one of the autoparts manufacturers involved in the manufacturing of the Gen.2 when it was still prototyped. The group also participated with Proton for the testing and durability of the parts, in order to meet noise and braking requirements.

Provides training to employees. In order to remain competitive in the industry, the group provides continuous training to its employees to upgrade them on new technology and to change the mindset of employees to keep abreast with developments in the industry.

Yet, not expecting subsidies from government. However, from our meeting with management, we gather that it is not dependant or expects any more subsidies from the NAP. The group would only be focusing on its own business and expansion.

Enjoys tax rebate. At present, the group is already enjoying tax rebates with its pioneer status for the development of the modular system. Apart from that, the group is also given concessions to bring in Bosch parts from overseas.

EPMB has a technical alliance with Bosch. Bosch is the world's No.2 automotive supplier to Original Equipment Manufacturers ("OEM") for various technology items. Among Bosh products that are licensed to EPMB are the brake systems, fuel injection system and duplex system.

Recently, EPMB increased its stake in PEPS-JV to 90% from 80%. PEPS-JV is the group's main subsidiary after EP-Polymers. The remaining 10% is still held by Proton Holdings. PEPs-JV handles the manufacturing of all metal stamping parts, like suspension parts, structural parts and trailing arms.

Previously, PEPS-JV used to supply piece-by-piece components. Now, PEPS-JV has moved into the assembly and supply of modular parts. Modular parts are integrated modules that are made up of an assembly of smaller components.

The modular parts are supplied to Proton and Perodua for their newer models - Gen.2, Savvy and the Satria replacement model ("SRM"). Thus, although production volume is smaller compared to Proton's older modes (Wira, Waja, Iswara), on a per model basis, the group generates more revenue from the modular parts compared to supplying individual components.

EPMB is in talks with Proton on other modules which it could work on in a partnership with Bosch. Aside from braking systems, Bosch's other strengths include other high technology items like engine management systems, air intake manifolds, steering systems and auto transmission.

Phasing out its bicycles operations. Also, due to its focus and development of modular systems, EPMB would soon phase out its bicycles manufacturing operations. EPMB was the manufacturer for the Proton bicycles. Its UK outfit which is part of its bicycle operation has ceased operation. EP-X BICYCLES North America will soon follow suit.

Investment Considerations

Proton and Perodua would continue to be its main contributors. EPMB's main revenue contributors are Proton (59% of group revenue) and Perodua (17%). The remaining 24% of revenue are made up of exports and other automotive companies such as Honda, Suzuki and MTB. Going forward, at least in the medium term, we believe the contribution mix from its customers would be similar.

EPMB supplies components for all Proton models. It is the main supplier of corner modules and fuel tanks modules for the Gen.2 and braking system for Gen.2 and the SRM.

Perodua is not expected to roll-out any new model in 2006. Meanwhile, apart from the SRM, we are not anticipating Proton to roll-out any new models in the next couple of years. Without a technical collaboration with a foreign partner, Proton would normally require an average of 2 years to produce a new model.

To expand overseas? In order to reduce its dependence on local manufacturers, EMPB is looking to expand and extent its operations overseas. Amongst the said countries are Thailand and China. In the case of China, management is looking at opportunities to source components. However, these expansion plans are still at an initial stage and limited details are disclosed.

For comparison, other players in the industry have already set-up plants in neighbouring countries. Ingress has already set up 2 plants in Thailand (Rayong and Ayutthaya).

Financial Outlook

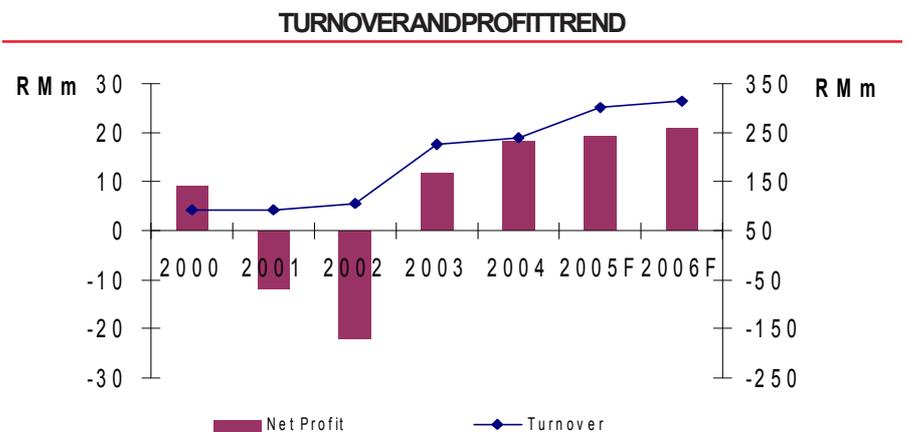
For FY ending December 2006, the group is projecting revenue growth of 5% to reach RM 315m. This is on the back of its supply to Proton's existing models and the expected SRM and Perodua's existing and new models. Going forward, we believe growth is rather unexciting given its reliance on local manufacturers. For 2006, we projected a TIV growth of 5.5% to reach 570k units.

The group is expected to register a bigger net profit growth of 9% to reach RM21m in FY06. The group enjoys net profit margin of about 7%-8%.

Low tax rate. In 2004, the group was granted pioneer status for 5 years. Prior to that, it enjoyed reinvestment allowances. Thus, the group will enjoy lower tax rate until 2009. We have assumed 5% tax rate for FY06.

Offers 7.5% dividend yield. The group has a 30% dividend policy. We have assumed a 5 sen dividend per share for FY06. At current price, the stock offers an attractive yield of 7.5% for FY06.

Fairly valued. At current price, EPMB is trading at PER of 6.4x its CY06 FD EPS of 10.5x. We believe the current price of the stock is fair given that the industry average is about 7x.



Source: Company and AmResearch estimates

Business background

EP Manufacturing (“EPMB”) is one of the 21 tier 1 vendors in Malaysia supplying body parts to local automotive manufacturers. The group manufactures automotive chassis, body parts and lamps.

In order to qualify as a Tier 1 vendor, the vendor needs to own its plants and has sufficient capacity to expand, quality certification for its products, financial strength to expand and R&D capabilities.

Products supplied. Among the products supplied by EPMB are corner modules, fuel tank and parking brake lever, braking systems and suspension. The group also provides plastic products like lamps, and bumpers.

Modular Products are parts delivered to the vehicle assembly plant as complete systems in modules instead of individual components. Being a modular vendor, EPMB is responsible for the development, validation, supply and management of all the component parts and sub-vendors in its module.

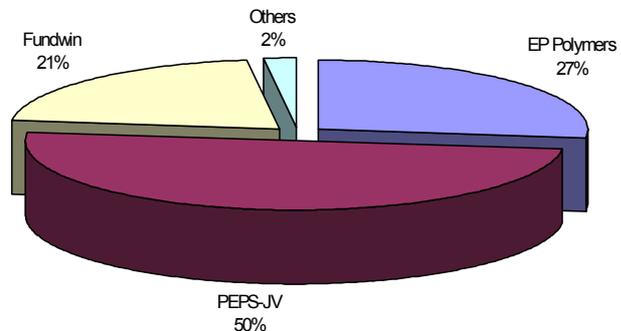
Quality Standards. EPMB’s products received ISO/TS 16949:2002 standard certification in September 2003. Its products are audited every 6 months by the awarding agency, the UK-based Vehicle Certification Agency (“VCA”).

GROUP BUSINESS ACTIVITIES

Name of company	Business Activities	Products
PEPS-JV (M) Sdn Bhd	Manufacture and supply	Chassis parts & brakes
EP Polymers (M) Sdn Bhd	Manufacture, fabrication and supply plastics components and body parts	
EP Moulds & Dies (M) Sdn Bhd	Manufacture, production and supply	Tools & jigs
EPMB (Australia) Pty Ltd	Engineering, design, prototyping, engineering and testing	Bicycles & body parts
EPMB (UK) Ltd	Marketing and distribution	“EP-X” Bicycles
EP-X bicycles North America, Inc	Marketing and distribution	“EP-X” Bicycles
Fundwin	Manufacture, distribution and export	“EP-X” Bicycles and body parts
Wiracash Holdings	Manufacture and supply	Lamps & allied product

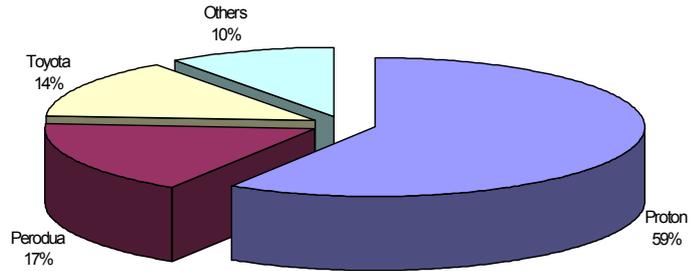
Source: Company

REVENUE CONTRIBUTION BY SUBSIDIARIES



Source: Company

REVENUE CONTRIBUTION BY CUSTOMERS



Source: Company

COMPARATIVE VALUATIONS

Stocks	Price (RM)	Market Cap (RMm)	Estimate Yield (%)	Estimate EPS (sen)	PER (x)	BV/share
APMAutomotive	2.42	487.87	4.98	0.33	7.4	2.396
Delloyd ventures	2.16	191.92	4.63	0.33	6.5	2.449
Ingress	0.965	74.11	8.25	0.15	6.4	2.31
Hirotake	1.05	89.90	7.62	0.13	8.3	1.62
EP Manufacturing	0.67	82.13	7.52	0.11	6.4	1.372

Source: Bloomberg

