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Get your facts
before you invest



BUY ↔

Target
Previous
Price

RM0.82
RM0.75
RM0.51

AUTOPARTS

EPMB is a leading tier 1 supplier of Proton and Perodua vehicles

Stock Statistics

Bloomberg Ticker	EPMB MK
Share Capital (m)	166.0
Market Cap (RMm)	84.6
52 week H L Price (RM)	0.64 0.30
3mth Avg Vol ('000)	582.9
YTD Returns	9.7
Beta (x)	1.23

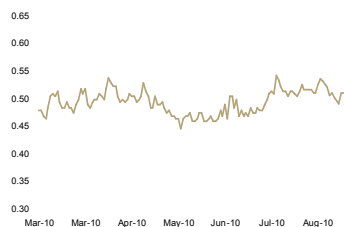
Major Shareholders (%)

Mutual Concept	38.20
Hamidon Bin Abdulloh	5.33

Share Performance (%)

Month	Absolute	Relative
1m	-0.1	-6.2
3m	8.3	-0.9
6m	8.3	-6.1
12m	65.0	40.3

6-month Share Price Performance



1HFY10 Results Review

EP Manufacturing

Charging Up For the Second Half

EPMB's annualized 1H core earnings appeared to fall short of our full-year estimates, no thanks to the higher tax expenses incurred. Nonetheless, we deem results in line in anticipation of a stronger 2H as production will be boosted by the rush in Hari Raya delivery, with additional volume to be contributed by the upcoming launch of the Waja replacement. Cost-wise, we expect EPMB to see lower tax expenses from the higher investment tax allowances going forward. As we roll over our valuations to FY11 numbers, our TP moves up to RM0.82 (from RM0.75) with our BUY call maintained.

In line with estimates. EPMB recorded a core net profit of RM1.86m on the back of revenue of RM157.31m for 2QFY10. 1HFY10 revenue was within our estimates, representing 53% of our full-year forecasts. While the annualized 1HFY10 core net profit may seem to fall short of our forecast due to higher taxation and depreciation charges, we consider EPMB's bottom-line numbers to be within our forecast as we expect 2H to be a stronger half on the back of higher margins.

Benefiting from Perodua's localization programme. In tandem with the higher TIV sales q-o-q, y-o-y and YTD, EPMB's revenue rose 4.7% q-o-q and 38.5% YTD (33% y-o-y) thanks to higher contribution from Perodua as EPMB benefitted from its localization programme. This programme has effectively increased EPMB's average revenue contribution per Perodua from RM484 (in FY09) to an estimated RM1033 per unit for FY10.

Bottom-line hit by higher taxes. While its core net profit surged 118% y-o-y, the weaker q-o-q numbers (-55% q-o-q) were attributed to the higher tax expenses incurred due to the impact of non tax-deductible expenses in the absence of any investment tax allowances filed for the quarter (there was no capex spending for 1Q FY10 vs the 2QFY10 capex of RM27m). We expect tax expenses to decline going forward due to its high capex spending. During the quarter, EPMB also made exceptional gains totaling RM3.846m, comprising a RM5.13m write-back (from the over-provisions last year on its intangible assets), which also led to an additional tax expense of RM1.28m. As a better gauge of performance, its core PBT shrank by 18.8% q-o-q (vs core net income q-o-q drop of 55%) although it was significantly better compared to last year increasing by 193% YTD due to the higher revenue base. The weaker q-o-q numbers were also caused by higher depreciation (noting that its CFO increased from RM28.3m in 1QFY10 to RM59m YTD; YTD FY09: RM16m) as its depreciation policy is based on units of activity method. The higher depreciation and amortization have effectively reduced core PBT margins by 0.68ppts although YTD margins have improved significantly by 1.41ppts due to better economies of scale achieved by its production lines.

FYE Dec (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Turnover	483.7	468.0	578.0	630.7	683.6
Core Net Profit	4.3	12.8	16.2	19.4	26.7
% chg y-o-y	NM	198.9	26.7	19.6	37.9
Core EPS (sen)	2.6	7.7	9.7	11.7	16.1
Gross DPS (sen)	0.0	1.0	2.0	2.0	2.0
Gross Dividend Yield (%)	0.0	2.0	3.9	3.9	3.9
ROE (%)	3.5	3.3	6.9	7.7	9.8
ROA (%)	1.2	1.3	2.8	3.5	4.9
PER (x)	19.8	6.6	5.2	4.4	3.2
NTA Per Share (sen)	40.8	65.3	72.0	86.4	99.3
P/NTA (x)	1.2	0.8	0.7	0.6	0.5
EV/EBITDA (x)	5.6	3.5	2.6	2.1	1.3

Results Table (RMm)

FYE Dec	2Q10	1Q10	Q-o-Q chg	YTD FY10	YTD FY09	Y-o-Y chg	Comments
Revenue	157.31	150.23	4.7%	307.54	221.98	38.5%	In line. Revenue increased q-o-q and y-o-y, thanks to higher contribution from Perodua
EBIT	7.28	7.46	-2.4%	14.74	10.36	42.2%	EBIT down q-o-q due to the higher depreciation and amortization incurred
Interest Expense	-3.65	-2.96	23.4%	-6.60	-7.59	-13.1%	
Interest Income	0.05	0.03	46.9%	0.08	0.03	172.4%	
EI	3.85	0.00	NA	3.85	0.00	NA	Exceptional gain of RM5.13m in write-backs, which also resulted in an exceptional tax of RM1.28m
PBT	7.53	4.53	66.0%	12.06	2.80	330.5%	
Core PBT	3.68	4.53	-18.8%	8.21	2.80	193.2%	
Tax	-1.64	-0.30	NM	-1.94	0.00	NM	Higher taxation as there was no investment tax allowance since there was zero capex incurred in 1Q. We expect lower taxes going forward as EPMB spent over RM24m in capex during 2Q.
MI	-0.18	-0.11	66.4%	-0.29	-0.06	396.6%	
Net Profit	5.70	4.12	38.3%	9.82	2.74	258.3%	
Core Net Profit	1.86	4.12	-55.0%	5.98	2.74	118.0%	Although annualized numbers fell short, we deem this in line as we expect better margins from the lower tax expense in 2H.
EPS (sen)	1.12	2.48	-55.0%	3.60	1.65	118.0%	
DPS (sen)	1.00	0.00	NM	1.00	0.00	NA	
EBIT margin (%)	4.63	4.96	-0.34	4.79	4.67	0.12	
PBT margin (%)	4.78	3.02	1.77	3.92	1.26	2.66	
Core PBT Margin (%)	2.34	3.02	-0.68	2.67	1.26	1.41	
Net profit margin (%)	3.62	2.74	0.88	3.19	1.24	1.96	
NTA/ Share (RM)	0.70	0.69	1.7%	0.70	0.52	33.1%	
Net Gearing (x)	0.81	0.84		0.81	1.13		

Still leaking water, but losses minimizing substantially. On the water meter side, EPMB continues to record losses although this has significantly improved compared to the corresponding half last year (YTD operating losses lower by 32%) thanks to the improved operating efficiencies achieved as production volume doubled.

Expanding into drinking water treatment in Indonesia. To recall, EPMB announced in early March that it intends to establish a cooperation agreement with the Indonesian provincial government for the proposed development of a drinking water supply treatment in Serang, Banten province, Indonesia. This 30 year concession project granted by the Serang government to EPMB's 90% held Indonesian subsidiary (of which the remainder is owned by the Serang government) will entail 2 phases with Phase One to kick start sometime end of this year (as a pilot phase) for the supply of 70 liters/second (supplying an estimated 15,000-20,000 households) and Phase 2 at a production output of 600 liters / second. Phase 2 however will depend on the successfulness of the pilot project (Phase One) and so far no time-line has been mentioned by management. Initial investment costs however will be minimal for the pilot project whereby management has guided a range of RM10-15m (for a mobile water treatment facility) over the next 1 year which will be funded by both debt and internal funds. Currently only 10% of the Serang household population has access to clean drinking water. Management guided that contribution will however be minimal over the pilot phase and according to Indonesian news reports, the Serang government will also receive a 5% royalty fee of the revenue earned on top of the 10% profit share (from the stake owned in EPMB's Indonesian subsidiary). Pending further clarification from management we have yet to factor this project into our earnings contribution as the feasibility study of the project have yet to be finalized.

Expecting a better 2H. Management guided conservatively that it expects to stage a consistent performance over the 2H as production numbers will be boosted by the rush in Hari Raya deliveries and the additional volume will be contributed by the upcoming launching of the Waja replacement which will be based on a 1.8 Campro engine, of which EPMB will be producing the Campro's intake air fuel module (IAFM). Looking forward into FY11, EPMB will see more contribution from Perodua once the new Myvi replacement comes in sometime in June-July. Cost wise, margins for the 2H are expected to be boosted by higher volume and tax incentives from the capital allowances and pioneer status from the higher profitability contributed from its IAFM manufacturing division for Proton.

Net gearing continues to improve. Thanks to the higher revenue base contributed by Perodua's localization programme and its improving cash conversion cycle, EPMB's net gearing has improved significantly from 100% in end FY09 to 80% as of 2Q. We expect the higher revenue base going forward will see its net gearing to trend lower to 62% by year end. Note that EPMB's operating cash flow has improved significantly from RM16m in 1HFY09 to RM59m YTD (from 1QFY10 of RM28m).

Maintain BUY. In anticipation of a better 2H for EPMB we continue to retain our earnings estimates. With a forecasted FY10 core EPS of 9.7sen, EPMB is only trading at 5.2x FY10 PE relative to the sector auto-parts sector PE of 7x. Valuing at the sector PE of 7x and rolling our earnings to reflect FY11 numbers as 1HFY10 closes we derive a new TP of RM0.82 (previously RM0.75) giving an upside of 60% with our BUY call maintained. Additionally the stock also offers a decent gross dividend yield of 4% at current price level. At a NTA per share of RM0.70, we see limited downside in the share price as it is trading at a P/NTA of only 0.73x versus the auto-parts sector average of 0.80x. Maintain BUY.

EARNINGS FORECAST

FYE Dec (RMm)	FY08	FY09	FY10f	FY11f	FY12f	FYE Dec (RMm)	FY08	FY09	FY10f	FY11f	FY12f
Volume						Balance Sheet					
Perodua	167,393	166,736	175,390	203,450	224,290	PPE	333.9	327.4	305.1	273.1	237.1
Proton (incl. its Exports)	160,386	173,051	207,600	227,500	243,000	Intangibles	146.8	112.6	114.7	106.8	108.8
Average Revenue Per car (Perodua) - RM	444	484	1,033	1,065	1,083	Others	3.1	5.4	5.4	5.4	5.4
Average Revenue Per car (Proton) - RM	2,027	1,619	1,355	1,281	1,287	Total Fixed Assets	483.8	445.4	425.2	385.2	351.2
Income Statement (RM'm)						Receivables	89.8	81.7	95.0	103.7	112.4
Revenue	483.7	468.0	578.0	630.7	683.6	Others	46.7	28.9	25.1	34.8	37.8
EBITDA	62.5	86.2	89.9	91.3	97.7	Cash	13.5	16.8	23.1	31.7	42.7
Depreciation & Amortization	-43.3	-58.8	-59.5	-59.3	-58.3	Total Current Assets	150.0	127.4	143.2	170.2	192.9
EBIT	19.2	27.4	30.4	31.9	39.4	Total Assets	633.8	572.7	568.4	555.4	544.1
Interest Expense	-14.2	-14.1	-8.1	-5.3	-2.8	LT Borrowings	149.2	100.1	60.1	40.1	20.1
Interest Income	0.1	0.1	0.1	0.1	0.2	Others	11.1	2.6	2.6	2.6	2.6
Profit before EI	5.0	13.4	22.4	26.8	36.7	Total LT Liabilities	160.3	102.7	62.7	42.7	22.7
EI	-0.8	-13.4	0.0	0.0	0.0	Payables	129.0	107.3	148.7	158.7	172.4
PBT	4.3	-0.1	22.4	26.8	36.7	ST Borrowings	122.4	130.9	110.0	90.0	60.0
Taxation	4.1	7.9	-5.6	-6.7	-9.2	Others	2.1	5.0	7.2	7.4	7.6
MI	-0.8	-0.6	-0.6	-0.7	-0.8	Total ST Liabilities	253.5	243.1	265.9	256.1	240.0
Net Profit	7.6	7.3	16.2	19.4	26.7	Total Liabilities	413.8	345.8	328.6	298.8	262.7
Core Net Profit	4.3	12.8	16.2	19.4	26.7	Total Shareholder's Equity	220.0	226.9	239.8	256.6	281.4
Margin (%)						Cash Flow					
EBITDA	12.9	18.4	15.5	14.5	14.3	PBT	4.3	-0.1	22.4	26.8	36.7
EBIT	4.0	5.9	5.3	5.1	5.8	Non Cash items	58.0	105.3	65.6	64.8	52.3
PBT	1.0	2.9	3.9	4.2	5.4	Net Chg in Working Capital	3.0	3.7	27.1	-13.9	-4.0
Net Profit	1.6	1.6	2.8	3.1	3.9	Others	0.0	0.7	-5.6	-6.7	-9.2
Core Net Profit	0.9	2.7	2.8	3.1	3.9	CF from Operations	65.2	109.6	109.5	70.9	75.8
Effective Tax Rate (%)	-80.8	-59.5	25.0	25.0	25.0	Net Capex	-43.6	-50.5	-30.7	-20.6	-15.7
Y-o-Y % change						Others	-22.3	0.0	0.1	0.1	0.2
Revenue	59.6	-3.2	23.5	9.1	8.4	CF from Investing	-66.0	-50.6	-30.6	-20.5	-15.5
EBITDA	99.1	38.0	4.2	1.6	7.0	Dividends Paid	-1.0	-0.3	2.9	3.3	3.3
EBIT	105.8	43.1	10.9	5.0	23.3	Net Change in Borrowings	0.4	-62.9	-68.9	-45.3	-52.8
PBT	-193.1	165.0	67.9	19.4	37.1	Others	0.0	0.0	0.0	0.0	0.0
Net Profit	-1,579.3	-3.5	121.9	19.6	37.9	CF From Financing (Outflow)	-0.6	-63.3	-66.0	-42.0	-49.5
Core Net Profit	-163.9	198.9	26.7	19.6	37.9	Net Cash Inflow	-1.4	-4.2	12.8	8.5	10.8
Per Share Data						Beg Cash	10.3	9.0	4.8	17.6	26.1
Sales / Share (RM)	2.9	2.8	3.5	3.8	4.1	Ending Cash	9.0	4.8	17.6	26.1	36.9
Core EPS (sen)	2.6	7.7	9.7	11.7	16.1	Other Restricted Cash	4.6	12.1	5.5	5.6	5.8
BV/ Share (RM)	1.29	1.33	1.41	1.51	1.65	Total Cash in Balance Sheet	13.5	16.8	23.1	31.7	42.7
NTA/ Share (sen)	40.8	65.3	72.0	86.4	99.3	FCFF	32.1	69.7	84.8	54.3	62.3
Dividend/ Share (sen)	0.0	1.0	2.0	2.0	2.0	FCFE	22.0	-3.8	9.8	5.1	7.3
FCFF/ Share (sen)	19.3	42.0	51.1	32.7	37.5	Net Cash / (Net Debt)	-258.1	-214.2	-147.1	-98.4	-37.4
FCFE/ Share (sen)	13.2	-2.3	5.9	3.1	4.4	Other Ratios					
Valuations						ROE (%)	3.5	3.3	6.9	7.7	9.8
P/ Sales (x)	0.2	0.2	0.1	0.1	0.1	ROA (%)	1.2	1.3	2.8	3.5	4.9
PER (x)	19.8	6.6	5.2	4.4	3.2	Net Gearing	120.3	96.9	62.8	39.3	13.7
P/ Book (x)	0.4	0.4	0.4	0.3	0.3	Interest Coverage	1.4	1.9	3.8	6.0	13.9
P/ NTA (x)	1.2	0.8	0.7	0.6	0.5	Dividend Payout Ratio (%)	0.0	13.0	20.5	17.2	12.4
Dividend Yield (%)	0.0	2.0	3.9	3.9	3.9						
P/ FCFF	2.6	1.2	1.0	1.6	1.4						
P/ FCFF	3.9	-22.1	8.7	16.7	11.6						
EV/EBITDA	5.6	3.5	2.6	2.1	1.3						

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Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated (NR): Stock is not within regular research coverage

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