



MALAYSIA EQUITY (CBRS)

Investment Research
Daily News

AUTOPARTS

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9MFY08 Results Review

Private Circulation Only

EP Manufacturing

NEUTRAL	Maintain
Price Target	RM0.32
Target	RM0.33

Stock Profile/Statistics

Bloomberg Ticker	EPMB MK
KLCI	866.14
Issued Share Capital (m)	165.96
Market Capitalisation (RMm)	52.28
52 week H L Price (RM)	0.54 0.21
Average Volume (3m) '000	4.86
YTD Returns (%)	-0.19
Net gearing (x)	1.18
Altman Z-Score	0.56
ROCE/WACC	1.35
Beta (x)	0.31
Book Value/share (RM)	0.44

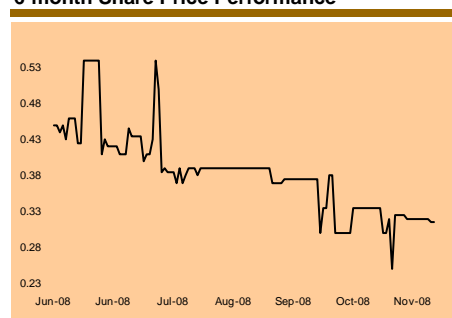
Major Shareholders (%)

Mutual Concept	37.21
Abdullah Hamidon	5.09
Nee Fong Hamidon	0.80

Share Performance (%)

Month	Absolute	Relative
1m	-5.97	-9.63
3m	-19.23	-0.18
6m	-29.21	3.02
12m	-38.24	-2.55

6-month Share Price Performance



Earnings Fall on Higher Costs

EPMB's 9MFY08 results came in 11% lower than we had earlier anticipated in our earlier estimates as 3Q showed some signs of slowing growth momentum as revenue growth moderated to 8%, a sign of diminishing TIV sales over the quarter. The company incurred higher costs as EBIT margins contracted on the lower volume generated. We are revising downwards our earnings estimates on potentially poorer margins given the lower volume, in anticipation of a bleak outlook for the auto industry. This prompts us to downgrade its TP from RM0.48 to RM0.33 and maintain our NEUTRAL recommendation.

Within expectation. EPMB's 9MFY08 revenue was in line with our forecast but its ottom-line earnings were, however, less than we had anticipated, coming in 11% lower than our earlier estimates. Revenue grew 54.5% y-o-y on the higher volume of car sales and Intake Air Fuel Module (IAFM) in Proton's Campro engines. On a q-o-q basis however, revenue growth moderated to 8%, its slowest growth since Q1FY07, a sign of slowing TIV sales during the quarter.

Lower interest expenses, zero tax boost margin. EPMB's 3QFY08 net profit declined by 4.4% y-o-y, attributed to the higher costs incurred and its continued loss making water meter venture. The Group's new venture into the manufacture of water meters remains loss making despite the 13% and 80% q-o-q growth registered in the past two quarters. This came in as a surprise as management had earlier indicated that the "Smartmeter" venture comes with a RM24m profit guarantee over the next 3 years. However, on a quarterly basis, while EBIT margin was relatively poorer compared to 2QFY08, the lower interest expense and zero tax (given its pioneer status) lifting net profit margins to 2.20% (from 2.16% in 2Q), thus improving EPMB's overall earnings to register a q-o-q growth of 9%.

Revising estimates. In anticipation of the bleak outlook for auto sales come FY09, which will be reflected by lower volume from Perodua and Toyota (catering to the export market), which comprise 22% of EPMB's total revenue, we believe earnings growth would be far lower than earlier anticipated on thinner margins on poor economies of scale in the auto parts supplied. Hence, we are revising our net profit for FY08 and FY09 to RM9.4m and RM11.5m respectively (previously RM10.5m and RM16.6m) while our revenue growth remains relatively unchanged given our decent top line growth estimates. This warrants a downgrade on EPMB's target price to RM0.33 (from RM0.48 previously), pegged at a P/E of 5X and applying a 15% discount on the low liquidity. Maintain NEUTRAL.

EP Manufacturing is a Tier 1 automotive Systems supplier to Proton, Perodua and Toyota.

FYE Dec (RMm)	FY06	FY07	FY08f	FY09f	FY10f
Turnover	228.5	303.0	458.2	473.7	503.4
Net Profit	2.9	-0.5	9.4	11.5	14.0
% chg YoY	-86%	-	-	22%	21%
EPS (sen)	2.2	-0.4	5.7	6.9	8.4
Gross DPS (sen)	3.7	0.0	0.0	0.1	0.1
Gross Div. Yield (%)	11.6	0.0	0.0	0.3	0.3
ROE (%)	1.4	-0.3	4.7	5.5	6.3
ROA (%)	0.5	-0.1	1.3	1.5	1.8
PER (x)	14.6	-	5.7	4.6	3.8
P/NTA	0.38	0.76	0.90	0.76	0.63
EV/EBITDA (x)	11.2	10.0	6.5	5.9	5.4

FYE Dec (RMm)	Q3FY08	Q2FY08	% chg	YTD FY08	YTD FY07	% chg
Revenue	129.76	120.70	7.5%	361.09	202.17	78.6%
EBIT	6.90	7.80	-11.5%	21.51	4.16	417.2%
Net Finance cost	-3.18	-4.00	-20.6%	-11.01	-10.25	7.4%
Associates	0.00	0.00	N/M	0.00	0.00	N/M
PBT before EI	3.08	2.86	7.6%	7.59	-3.26	N/M
EI	0.00	0.00	N/M	0.00	0.00	N/M
PBT	3.08	2.86	7.6%	7.59	-3.26	N/M
Tax	0.00	-0.03	N/M	-0.05	0.38	N/M
MI	-0.22	-0.23	-2.6%	-0.57	-0.48	20.2%
Reported Net Profit	2.86	2.60	9.8%	6.97	-3.36	N/M
Core Net Profit	2.86	2.60	9.8%	6.97	-3.36	N/M
EPS (sen)	1.72	1.47	17.0%	4.20	-2.03	N/M
Gross DPS (sen)	0.00	0.00	N/M	0.00	0.00	N/M
EBIT margin	5.32%	6.46%	-1.1%	5.96%	2.06%	3.9%
NTA/share (RM)	0.415	0.377	10.3%	0.42	0.63	-34.6%

FYE Dec (RMm)	FY06	FY07	FY08f	FY09f	FY10f
Turnover	228.5	303.0	458.2	473.7	503.4
EBITDA	27.6	30.1	45.6	50.5	55.2
PBT	6.4	0.4	12.2	14.7	17.6
Net Profit	2.9	-0.5	9.4	11.5	14.0
EPS (sen)	2.2	-0.4	5.7	6.9	8.4
DPS (sen)	3.7	-	-	0.1	0.1
Margin					
EBITDA	12.1%	9.9%	10.0%	10.7%	11.0%
PBT	2.8%	0.1%	2.7%	3.1%	3.5%
Net Profit	1.3%	-0.2%	2.1%	2.4%	2.8%
ROE	1.4%	-0.3%	4.7%	5.5%	6.3%
ROA	0.5%	-0.1%	1.3%	1.5%	1.8%
Balance Sheet					
Fixed Assets	399.3	497.7	515.1	509.7	503.9
Current Assets	136.4	134.4	223.6	237.6	254.6
Total Assets	535.7	632.1	738.8	747.4	758.5
Current Liabilities	144.3	217.9	349.6	356.1	361.4
Net Current Assets	-7.9	-83.5	-126.0	-118.5	-106.8
LT Liabilities	179.2	203.3	177.2	171.9	167.6
Shareholders Funds	212.2	210.9	212.0	219.3	229.5
Net Gearing	119.13	124.85	72.22	68.62	64.42

OSK Research Guide to Investment Ratings**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:** Stock is not within regular research coverage

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