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BUY ↔

**Target** RM0.59  
**Previous** RM0.59  
**Price** RM0.48

**LOGISTICS**

EPMB is a leading Tier-1 supplier of Proton and Perodua

**Stock Statistics**

|                        |      | EPMB MK |
|------------------------|------|---------|
| Bloomberg Ticker       |      | EPMB MK |
| Share Capital (m)      |      | 166.0   |
| Market Cap (RMm)       |      | 79.7    |
| 52 week H L Price (RM) | 0.64 | 0.12    |
| 3mth Avg Vol ('000)    |      | 2,365.3 |
| YTD Returns            |      | 3.2     |
| Beta (x)               |      | 0.69    |

**Major Shareholders (%)**

|                      |       |
|----------------------|-------|
| Mutual Concept       | 37.21 |
| DBS Asset Management | 7.01  |
| Hamid Bin Abdullah   | 5.09  |

**Share Performance (%)**

| Month | Absolute | Relative |
|-------|----------|----------|
| 1m    | -7.7     | -6.8     |
| 3m    | 11.6     | 11.6     |
| 6m    | 52.4     | 40.6     |
| 12m   | 220.0    | 125.0    |

**6-month Share Price Performance**



**FY09 Results Review**

**EP Manufacturing**

**Gearing Ahead to 2010**

EPMB's FY09 revenue and earnings came in 5.5% and 9% above our estimates and consensus. The Group's revenue and earnings for the quarter increased by 13% and 38% on the higher volume of OEM parts produced as orders picked up. Noting that the localization programme of Perodua would increase its average revenue per Perodua car to RM1033 (from RM484); we see EPMB potentially exhibiting strong top and bottom-line numbers, for which we expect a growth of 20% and 72.2% respectively in FY10 thanks to the significant reduction in its interest expense and the economies of scale achieved in its production line. Despite results being higher, we maintain our earnings with our TP retained at RM0.59. Maintain BUY.

**A great quarter.** EPMB's revenue and earnings for the full year were lower by 3% and 15% on the back of the lower volume of OEM parts supplied to both Proton and Perodua. Nonetheless, over the 4Q, as reflected from the higher demand of both Proton and Perodua cars sold, its revenue and earnings for the quarter jumped 13% and 38% q-o-q respectively (y-o-y: 6% and 8%). The improvement in its earnings was highly expected due to the better economies of scale achieved as EBIT margins notched up higher from 4.6% (in Q3) to 5%.

**Still leaking.** Its water segment remained disappointing as revenue dropped by 33% for the full year with losses fortunately cushioned to the same level in FY08 after shifting operations to Malaysia last year. We expect orders for its smart water meter to pick-up to at levels achieved back in FY07 on the back of higher government spending for the replacement of water meters; hence, we expect the division to post marginal profit in FY10.

**Improved balance sheet.** Comparably, EPMB's balance sheet has shown an improvement since last year. Interest coverage in FY09 has increased slightly to 1.5x from 1.3x with net gearing reduced from 120% to 98.3% benefiting from the improved operating efficiency and financial leverage. We expect interest expense to reduce by 33% as its debt levels are pared down further on its improved top-line. This will eventually see its net gearing reduced to 75%.

**Maintain BUY.** EPMB's essentially supplies OEM parts to automakers which are predominantly platform related, thus ensuring continuity over the long run. We like EPMB for its growing revenue base and earnings turnaround on the back of its improved balance sheet. Despite results being slightly above expectations, we continue to retain our earnings at this juncture with our TP unchanged. Our derived TP of RM0.59 is premised at 8x PE on its FY10 EPS. EPMB is considered relatively liquid to its bigger auto peers, Proton and UMW given its free float of 50%, despite the smaller market cap. In view of its strapped cash and high gearing, we do not expect any dividends over the next 3 years.

| FYE Dec (RMm)       | FY08  | FY09a | FY10f | FY11f | FY12f |
|---------------------|-------|-------|-------|-------|-------|
| Turnover            | 483.7 | 467.5 | 562.0 | 618.7 | 669.9 |
| Core Net Profit     | 7.6   | 7.1   | 12.2  | 13.3  | 16.1  |
| % chg y-o-y         | NM    | -6.5  | 72.2  | 9.7   | 20.5  |
| Consensus           |       | 6.4   | 12.1  | 13.3  |       |
| Core EPS (sen)      | 4.6   | 4.3   | 7.3   | 8.0   | 9.7   |
| Gross DPS (sen)     | -     | -     | -     | -     | -     |
| ROE (%)             | 3.5   | 3.2   | 5.2   | 5.4   | 6.1   |
| ROA (%)             | 1.2   | 1.2   | 2.0   | 2.2   | 2.7   |
| PER (x)             | 9.4   | 10.1  | 5.9   | 5.3   | 4.4   |
| NTA Per Share (sen) | 40.8  | 57.6  | 69.8  | 81.0  | 93.7  |
| P/NTA (x)           | 1.1   | 0.7   | 0.6   | 0.5   | 0.5   |
| EV/EBITDA (x)       | 5.4   | 3.7   | 3.5   | 3.2   | 2.3   |

**Results Table (RMm)**

| <b>FYE Dec</b>           | <b>4QFY09</b> | <b>3QFY09</b> | <b>Q-o-Q<br/>chg</b> | <b>FY09</b> | <b>FY08</b> | <b>Y-o-Y<br/>chg</b> | <b>Comments</b>   |
|--------------------------|---------------|---------------|----------------------|-------------|-------------|----------------------|---|
| Revenue                  | 130.20        | 115.29        | 12.9%                | 467.46      | 483.73      | -3.4%                | Slightly above expectations. Higher q-o-q attributed to the pick-up in Proton sales and also Perodua's Alza.                    |
| EBIT                     | 6.49          | 5.35          | 21.2%                | 22.81       | 22.98       | -0.7%                | EBIT improved q-o-q remarkably on better production efficiency achieved. Its Margins has notched up higher to 4.98% from 4.64%. |
| Interest<br>Expense      | -3.75         | -3.52         | 6.7%                 | -15.47      | -14.50      | 6.7%                 |   |
| Interest Income          | 0.03          | 0.02          | 57.9%                | 0.08        | 0.18        | -55.7%               |   |
| EI                       | 0.00          | 0.00          | -                    | 0.00        | 0.00        | -                    |   |
| PBT                      | 2.76          | 1.85          | 49.2%                | 7.42        | 8.65        | -14.3%               | Margin expansion has improved q-o-q PBT. However, it was still lower than last year's due to the lower top-line.                |
| Tax                      | 0.00          | 0.00          | -                    | 0.00        | 0.47        | NM                   | Pioneer tax status essentially gives it 0% tax rate. We expect this to continue until next year.                                |
| MI                       | -0.26         | -0.04         | 637.1%               | -0.35       | -0.77       | -54.0%               |   |
| Net Profit               | 2.51          | 1.82          | 37.8%                | 7.07        | 8.36        | -15.4%               | Q-o-q net profit lifted by better efficiency and zero tax rate  |
| Core Net Profit          | 2.51          | 1.82          | 37.8%                | 7.07        | 8.36        | -15.4%               |   |
| EPS (sen)                | 1.51          | 1.10          | 37.8%                | 4.26        | 5.03        | -15.4%               |   |
| DPS (sen)                | -             | -             | -                    | -           | -           | -                    |   |
| EBIT margin<br>(%)       | 4.98          | 4.64          | 0.3%                 | 4.88        | 4.75        | 0.1%                 |   |
| PBT margin<br>(%)        | 2.12          | 1.61          | 0.5%                 | 1.59        | 1.79        | -0.2%                |   |
| Net profit<br>margin (%) | 1.92          | 1.58          | 0.3%                 | 1.51        | 1.73        | -0.2%                |   |
| NTA/ Share<br>(RM)       | 0.58          | 0.55          | 5.0%                 | 0.58        | 0.41        | 41.0%                |   |

| FYE Dec (RMm)               | FY08    | FY09a   | FY10f   | FY11f   | FY12f   | FYE Dec (RMm)                  | FY08   | FY09   | FY10f  | FY11f  | FY12f |
|-----------------------------|---------|---------|---------|---------|---------|--------------------------------|--------|--------|--------|--------|-------|
| <b>Volume</b>               |         |         |         |         |         | <b>Balance Sheet</b>           |        |        |        |        |       |
| Perodua                     | 167,393 | 166,736 | 175,390 | 203,450 | 224,290 | PPE                            | 333.9  | 317.1  | 307.9  | 297.9  | 271.3 |
| Proton (incl. its Exports)  | 160,386 | 173,051 | 199,100 | 223,100 | 242,100 | Intangibles                    | 146.8  | 126.1  | 117.9  | 112.8  | 107.8 |
|                             |         |         |         |         |         | Others                         | 3.1    | 3.1    | 2.5    | 2.9    | 2.8   |
|                             |         |         |         |         |         | Total Fixed Assets             | 483.8  | 446.2  | 428.2  | 413.6  | 381.9 |
|                             |         |         |         |         |         | Receivables                    | 89.8   | 87.6   | 106.6  | 117.3  | 127.1 |
|                             |         |         |         |         |         | Others                         | 46.7   | 30.3   | 50.7   | 57.1   | 62.4  |
|                             |         |         |         |         |         | Cash                           | 13.5   | 13.2   | 14.0   | 15.3   | 17.2  |
|                             |         |         |         |         |         | Total Current Assets           | 150.0  | 131.0  | 171.2  | 189.7  | 206.7 |
|                             |         |         |         |         |         | Total Assets                   | 633.8  | 577.2  | 599.5  | 603.3  | 588.6 |
|                             |         |         |         |         |         | LT Borrowings                  | 149.2  | 100.4  | 80.0   | 70.0   | 50.0  |
|                             |         |         |         |         |         | Others                         | 11.1   | 6.8    | 8.9    | 7.9    | 8.4   |
|                             |         |         |         |         |         | Total LT Liabilities           | 160.3  | 107.2  | 88.9   | 77.9   | 58.4  |
|                             |         |         |         |         |         | Payables                       | 129.0  | 109.9  | 161.4  | 181.9  | 198.9 |
|                             |         |         |         |         |         | ST Borrowings                  | 122.4  | 130.7  | 110.0  | 90.0   | 60.0  |
|                             |         |         |         |         |         | Others                         | 2.1    | 2.2    | 1.2    | 1.3    | 1.5   |
|                             |         |         |         |         |         | Total ST Liabilities           | 253.5  | 242.7  | 272.6  | 273.2  | 260.4 |
|                             |         |         |         |         |         | Total Liabilities              | 413.8  | 349.9  | 361.5  | 351.1  | 318.9 |
|                             |         |         |         |         |         | Total Shareholder's Equity     | 220.0  | 227.3  | 237.9  | 252.2  | 269.7 |
|                             |         |         |         |         |         |                                |        |        |        |        |       |
|                             |         |         |         |         |         | <b>Cash Flow</b>               |        |        |        |        |       |
|                             |         |         |         |         |         | PBT                            | 4.3    | 7.4    | 12.6   | 14.5   | 17.8  |
|                             |         |         |         |         |         | Non Cash items                 | 58.0   | 81.6   | 61.3   | 55.6   | 58.7  |
|                             |         |         |         |         |         | Net Chg in Working Capital     | 3.0    | -5.1   | 8.7    | 0.9    | -0.8  |
|                             |         |         |         |         |         | Others                         | 0.0    | 0.0    | 0.0    | -0.7   | -1.2  |
|                             |         |         |         |         |         | CF from Operations             | 65.2   | 83.9   | 82.6   | 70.3   | 74.5  |
|                             |         |         |         |         |         | Net Capex                      | -43.6  | -41.4  | -30.7  | -30.6  | -15.6 |
|                             |         |         |         |         |         | Others                         | -22.3  | 12.9   | 0.1    | 0.1    | 0.1   |
|                             |         |         |         |         |         | CF from Investing              | -66.0  | -28.5  | -30.7  | -30.5  | -15.6 |
|                             |         |         |         |         |         | Dividends Paid                 | 0.0    | 0.0    | 0.0    | 0.0    | 0.0   |
|                             |         |         |         |         |         | Net Change in Borrowings       | 22.8   | -40.8  | -41.1  | -30.0  | -50.0 |
|                             |         |         |         |         |         | Others                         | -23.4  | -15.5  | -10.4  | -8.6   | -7.2  |
|                             |         |         |         |         |         | CF From Financing              | -0.6   | -56.3  | -51.5  | -38.6  | -57.2 |
|                             |         |         |         |         |         | Net Cash Inflow (Outflow)      | -1.4   | -0.9   | 0.4    | 1.2    | 1.7   |
|                             |         |         |         |         |         | Beg Cash                       | 10.3   | 9.0    | 8.1    | 8.5    | 9.7   |
|                             |         |         |         |         |         | Ending Cash                    | 9.0    | 8.1    | 8.5    | 9.7    | 11.4  |
|                             |         |         |         |         |         | Other Restricted Cash          | 4.6    | 5.1    | 5.5    | 5.6    | 5.8   |
|                             |         |         |         |         |         | Total Cash in Balance Sheet    | 13.5   | 13.2   | 14.0   | 15.3   | 17.2  |
|                             |         |         |         |         |         | FCFF                           | 32.1   | 54.1   | 59.6   | 46.1   | 64.2  |
|                             |         |         |         |         |         | FCFE                           | 44.4   | 1.7    | 10.8   | 9.7    | 8.8   |
|                             |         |         |         |         |         | Net Cash / (Net Debt)          | -258.1 | -217.9 | -176.0 | -144.7 | -92.8 |
|                             |         |         |         |         |         |                                |        |        |        |        |       |
|                             |         |         |         |         |         | <b>Other Ratios</b>            |        |        |        |        |       |
|                             |         |         |         |         |         | ROE (%)                        | 3.5    | 3.2    | 5.2    | 5.4    | 6.1   |
|                             |         |         |         |         |         | ROA (%)                        | 1.2    | 1.2    | 2.0    | 2.2    | 2.7   |
|                             |         |         |         |         |         | Net Gearing                    | 120.3  | 98.3   | 75.3   | 58.5   | 35.2  |
|                             |         |         |         |         |         | Interest Coverage              | 1.3    | 1.5    | 2.2    | 2.7    | 3.5   |
|                             |         |         |         |         |         | Dividend Payout Ratio          | -      | -      | -      | -      | -     |
|                             |         |         |         |         |         |                                |        |        |        |        |       |
|                             |         |         |         |         |         | <b>Income Statement (RM'm)</b> |        |        |        |        |       |
| Revenue                     | 483.7   | 467.5   | 562.0   | 618.7   | 669.9   |                                |        |        |        |        |       |
| EBITDA                      | 61.7    | 79.0    | 71.5    | 69.5    | 72.9    |                                |        |        |        |        |       |
| Depreciation & Amortization | -43.3   | -56.2   | -48.6   | -46.5   | -47.9   |                                |        |        |        |        |       |
| EBIT                        | 18.4    | 22.8    | 22.9    | 23.0    | 25.0    |                                |        |        |        |        |       |
| Interest Expense            | -14.2   | -15.5   | -10.4   | -8.6    | -7.2    |                                |        |        |        |        |       |
| Interest Income             | 0.1     | 0.1     | 0.1     | 0.1     | 0.1     |                                |        |        |        |        |       |
| EI                          | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |                                |        |        |        |        |       |
| PBT                         | 4.3     | 7.4     | 12.6    | 14.5    | 17.8    |                                |        |        |        |        |       |
| Taxation                    | 4.1     | 0.0     | 0.0     | -0.7    | -1.2    |                                |        |        |        |        |       |
| MI                          | -0.8    | -0.4    | -0.4    | -0.4    | -0.5    |                                |        |        |        |        |       |
| Net Profit                  | 7.6     | 7.1     | 12.2    | 13.3    | 16.1    |                                |        |        |        |        |       |
| Core Net Profit             | 7.6     | 7.1     | 12.2    | 13.3    | 16.1    |                                |        |        |        |        |       |
|                             |         |         |         |         |         |                                |        |        |        |        |       |
|                             |         |         |         |         |         | <b>Margin (%)</b>              |        |        |        |        |       |
| EBITDA                      | 12.8    | 16.9    | 12.7    | 11.2    | 10.9    |                                |        |        |        |        |       |
| EBIT                        | 3.8     | 4.9     | 4.1     | 3.7     | 3.7     |                                |        |        |        |        |       |
| PBT                         | 0.9     | 1.6     | 2.2     | 2.3     | 2.7     |                                |        |        |        |        |       |
| Net Profit                  | 1.6     | 1.5     | 2.2     | 2.2     | 2.4     |                                |        |        |        |        |       |
| Core Net Profit             | 1.6     | 1.5     | 2.2     | 2.2     | 2.4     |                                |        |        |        |        |       |
| Effective Tax Rate (%)      | -95.6   | 0.0     | 0.0     | 5.0     | 7.0     |                                |        |        |        |        |       |
|                             |         |         |         |         |         |                                |        |        |        |        |       |
|                             |         |         |         |         |         | <b>Y-o-Y % change</b>          |        |        |        |        |       |
| Revenue                     | 59.6    | -3.4    | 20.2    | 10.1    | 8.3     |                                |        |        |        |        |       |
| EBITDA                      | 96.6    | 28.0    | -9.4    | -2.8    | 4.9     |                                |        |        |        |        |       |
| EBIT                        | 97.3    | 24.1    | 0.4     | 0.5     | 8.6     |                                |        |        |        |        |       |
| PBT                         | NM      | 74.3    | 69.2    | 15.6    | 22.9    |                                |        |        |        |        |       |
| Net Profit                  | NM      | -6.5    | 72.2    | 9.7     | 20.5    |                                |        |        |        |        |       |
| Core Net Profit             | NM      | -6.5    | 72.2    | 9.7     | 20.5    |                                |        |        |        |        |       |
|                             |         |         |         |         |         |                                |        |        |        |        |       |
|                             |         |         |         |         |         | <b>Per Share Data</b>          |        |        |        |        |       |
| Sales / Share (RM)          | 2.9     | 2.8     | 3.4     | 3.7     | 4.0     |                                |        |        |        |        |       |
| Core EPS (sen)              | 4.6     | 4.3     | 7.3     | 8.0     | 9.7     |                                |        |        |        |        |       |
| BV/ Share (RM)              | 1.29    | 1.34    | 1.41    | 1.49    | 1.59    |                                |        |        |        |        |       |
| NTA/ Share (sen)            | 40.8    | 57.6    | 69.8    | 81.0    | 93.7    |                                |        |        |        |        |       |
| Dividend/ Share (sen)       | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |                                |        |        |        |        |       |
| FCFF/ Share (sen)           | 19.3    | 32.6    | 35.9    | 27.8    | 38.7    |                                |        |        |        |        |       |
| FCFE/ Share (sen)           | 26.7    | 1.0     | 6.5     | 5.8     | 5.3     |                                |        |        |        |        |       |
|                             |         |         |         |         |         |                                |        |        |        |        |       |
|                             |         |         |         |         |         | <b>Valuations</b>              |        |        |        |        |       |
| P/ Sales (x)                | 0.1     | 0.2     | 0.1     | 0.1     | 0.1     |                                |        |        |        |        |       |
| PER (x)                     | 9.4     | 10.1    | 5.9     | 5.3     | 4.4     |                                |        |        |        |        |       |
| P/ Book (x)                 | 0.3     | 0.3     | 0.3     | 0.3     | 0.3     |                                |        |        |        |        |       |
| P/ NTA (x)                  | 1.1     | 0.7     | 0.6     | 0.5     | 0.5     |                                |        |        |        |        |       |
| Dividend Yield (%)          | -       | -       | -       | -       | -       |                                |        |        |        |        |       |
| P/ FCFF                     | 2.2     | 1.3     | 1.2     | 1.5     | 1.1     |                                |        |        |        |        |       |
| P/ FCFE                     | 1.6     | 43.3    | 6.6     | 7.4     | 8.1     |                                |        |        |        |        |       |
| EV/EBITDA                   | 5.4     | 3.7     | 3.5     | 3.2     | 2.3     |                                |        |        |        |        |       |

**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 (NR):** Stock is not within regular research coverage

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