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MALAYSIA EQUITY
Investment Research
Daily News

1QFY09 Results Review

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AUTOPARTS

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EP Manufacturing

BUY	**Maintain**
Price	**RM0.18**
Target	**RM0.20**

Stock Profile/Statistics

Bloomberg Ticker	EPMB MK
KLCI	1041.24
Issued Share Capital (m)	165.96
Market Capitalisation (RMm)	29.87
52 week H | L Price (RM)	0.54| 0.12
Average Volume (3m) '000	94.50
YTD Returns (%)	0.00
Net gearing (x)	1.20
Altman Z-Score	1.02
ROCE/WACC	1.71
Beta (x)	0.48
Book Value/share (RM)	0.40

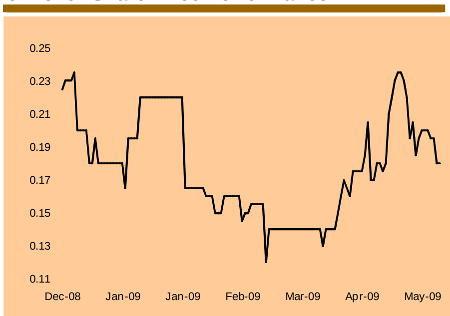
Major Shareholders (%)

Mutual Concept	37.21
Bin Abdullah Hamidon	5.09
Linden Hamidon	0.80

Share Performance (%)

Month	Absolute	Relative
1m	5.88	-1.62
3m	20.00	2.65
6m	-42.86	-52.47
12m	-59.55	-50.98

6-month Share Price Performance



Worse Than Expected

While EPMB's revenue was in line within our estimates, its Q1FY09 earnings fell far short of our estima, diving 46%, no thanks to its high gearing position on interest payments as well as losses from its water division. Given the poor showing in Q1, we are trimming our earnings forecast by 32%-35% for FY09-FY10 as we suspect that the new ventured water meter business failed to break even as revenue from the segment declined 18% y-o-y. Despite the revision in earnings, our TP is only reduced slightly to RM0.20 from RM0.23 with a BUY recommendation as we repeg our valuation multiples at 6x PE (from 5x) on 12m rolling EPS.

Poorer sales. EPMB's revenue contracted by 15.6% q-o-q and 6.4% y-o-y. The decline was partly due to the lower autoparts supplied in view of the deteriorating demand for vehicles sales, causing a sharp pullback in orders by auto-manufacturers in conjunction with the seasonal festivities. Similarly, the water segment also saw decline of as much as 18% y-o-y on the lower number of water metres sold.

Earnings down sharply. EPMB's Q1FY09 net profit declined sharply by 26% q-o-q and 32% y-o-y, missing by as much as 47% of our full year estimates when annualised. A more meaningful comparison, on the PBT level (as EPMB saw a sizeable tax credit allowance in Q4FY09), earnings were comparably better than previous quarter. The newly ventured water division suffered another set of loss. The sharp drop in earnings was caused by its highly geared position, with a net gearing of 1.18x.

Cutting estimates. Given the poor numbers in Q1 and the challenging economic environment throughout the year, we cut our earnings estimates by 32-35% over the next 2 years while our revenue assumptions are left unchanged due to its high gearing position. Going forward, we expect margins are likely to expand on new orders from the Exora thus, positioning EPMB back at efficiency levels.

TP cut to RM0.20 maintain BUY. Despite the revision in earnings, our TP is only reduced slightly to RM0.20 from RM0.23 and maintain our BUY recommendation as we repeg our valuation multiples at 6x PE (from 5x) on 12m rolling EPS of 3.35 sen.

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

FYE Dec (RMm)		FY07	FY08	FY09f	FY10f	FY11f
Revenue		303.0	483.7	429.7	446.9	549.7
Net Profit		-0.5	7.6	5.2	5.9	7.4
% y-o-y	-	-		(30.8%)	12.7%	25.3%
EPS (sen)		-0.31	4.55	3.15	3.55	4.45
Gross DPS	-	-	-	-	-	
Gross Div Yield (%)	-	-	-	-	-	
ROE	-		3.5%	2.4%	2.6%	3.2%
ROA	-		1.2%	0.8%	0.9%	1.2%
PER	-		4.0	5.7	5.1	4.0
P/NTA		0.5	0.4	0.4	0.4	0.3

KEY HIGHLIGHTS

Quarter Results Table (With exceptional item)

	1QFY09	4QFY08	% change	3MFY09	3MFY08	% change
Revenue	103.5	122.6	(15.6%)	103.5	110.6	(6.4%)
EBIT	5.6	4.4	28.1%	5.6	5.5	2.5%
Net Interest Expense	(4.5)	(3.3)	35.3%	(4.5)	(3.8)	17.2%
Associates	0.0	0.0	-	0.0	0.0	-
PBT Before EI	1.1	1.1	5.4%	1.1	1.6	(31.9%)
EI	0.0	0.0	-	-	0.0	-
PBT	1.1	1.1	5.4%	1.1	1.6	(31.9%)
Tax	0.0	0.5	(99.8%)	0.0	(0.0)	(105.0%)
MI	(0.1)	(0.2)	(50.8%)	(0.1)	(0.1)	(19.5%)
Reported Net Profit	1.0	1.4	(26.1%)	1.0	1.5	(31.9%)
Core Net Profit	1.0	1.4	(26.1%)	1.0	1.5	(31.9%)
Core EPS (sen)	0.6	0.8	(26.1%)	0.6	0.9	(31.9%)
Net DPS	.	.	-	.	.	-
EBIT Margin	5.4%	3.6%	1.8%	5.4%	4.9%	0.5%
Core Net Profit Margin	1.0%	1.1%	(0.1%)	1.0%	1.4%	(0.4%)
NTA/share (RM)	0.4	0.4	7.6%	0.4	0.3	53.6%

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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