



MALAYSIA EQUITY(CBRS)

Investment Research

Daily News

AUTOPARTS

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Stock Profile/Statistics

Bloomberg Ticker	EPMB MK
KLCI	890.67
Issued Share Capital (m)	165.96
Market Capitalisation (RMm)	24.89
52 week H L Price (RM)	0.54 0.14
Average Volume (3m) '000	38.10
YTD Returns (%)	-0.03
Net gearing (x)	1.18
Altman Z-Score	1.09
ROCE/WACC	1.86
Beta (x)	0.30
Book Value/share (RM)	0.44

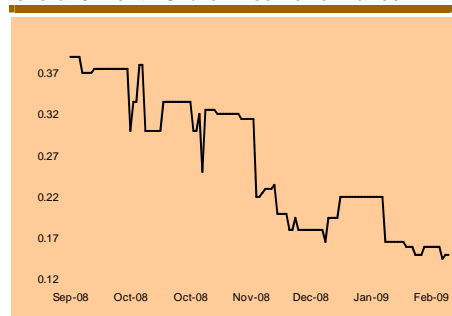
Major Shareholders (%)

Mutual Concept	37.21
Bin Abdullah Hamidon	5.09
Linden Hamidon	0.80

Share Performance (%)

Month	Absolute	Relative
1m	-9.09	-9.73
3m	-52.38	-35.26
6m	-61.54	-53.06
12m	-69.07	-52.87

overall6-month Share Price Performance



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

FY08 Results Review

Private Circulation Only

EP Manufacturing

BUY	Upgrade
Price	RM0.15
Target	RM0.23

Not Spared

EPMB's revenue came in within estimates, but due to higher costs incurred in the second half, has caused its net profit to fall short by 10% from our estimates. The 5.5% drop in revenue over the quarter marked an early sign of the ailing auto industry as TIV declined by 12.5% in Q4. Projecting a tougher year amid a 14% drop in TIV for '09, we cut our revenue estimates by 9% and 11% respectively. Subsequently reducing our earnings by 33-34% for FY09 and FY10. Pegged a 5x PE on a 12 month rolling EPS we reduce our TP to RM0.24 (from RM0.33) with a BUY (from NEUTRAL) given the recent plunge in its share price.

Sparked by higher costs. EPMB's FY08 results (q-o-q: -51.3%, y-o-y: 51.2%, FY08: >100%) fell short by 10% from estimates, despite revenue (q-o-q: 5.5%, y-o-y: 21.6%, FY08: 60%) being spot on due to higher costs incurred during the 2H. While revenue merely suffered a q-o-q contraction of 5.5%, EBIT stumbled by 53% on the rising raw material prices as well as currency exposure. Poor economies of scale on lower orders from the auto industry further exacerbated the pressure on its profitability margins as EBIT margins contracted from 5.3% in Q3 to 2.7% in Q4.

Cutting on estimates. While we do expect raw material prices over the next quarter, we are more wary on EPMB's dependence on supply orders from auto manufacturers. As we project TIV to contract by 14% in '09, we expect a challenging year ahead on poor operating efficiency reflected to the lower volume. As of Jan '09, Proton, Perodua and Toyota showed a poor start with volume plunging by 4.4%, 4.8% and 39.4%. Given such, we project EPMB's revenue to contract by 11% after a 9% downward revision from our earlier assumptions. Likewise, earnings would be depressed on lower margins ('08 profit margin: 1.7% vs '09 profit margin 1.6%) leading to a decline of 8% y-o-y following a 33-34% cut on our earnings estimates.

Upgrade to BUY. Citing its low margin amid the bleak auto-industry ahead; we reduce our TP to **RM0.24** (from RM0.33) which we have pegged our 12 month rolling EPS of 4.85sen. Nonetheless, given the recent plunge in share price from 30sen to 15sen, with an upside potential of 60%; we upgrade our call from NEUTRAL to **BUY**.

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Revenue	228.5	303.0	483.7	429.7	446.9
Net Profit	2.9	-0.5	8.4	7.7	9.1
% YoY	-8.6	-118	nm	-8.3	18.1
EPS (sen)	1.73	-0.31	5.03	4.64	5.50
Gross DPS (sen)	3.7	-	-	-	3.5
Gross Div. Yield (%)	2.5	-	-	-	2.3
ROE	1.42%	-0.26%	3.92%	3.25%	4.12%
ROA	0.54%	-0.08%	1.31%	1.26%	1.35%
PER (x)	8.66	-48.72	2.98	3.24	2.73
P/NTA	0.38	0.44	0.22	0.21	0.20

Quarter Results Table (With exceptional item)						
FYE Dec (RMm)	4Q08	3Q08	% chg	YTD FY08	YTD FY09	% chg
Revenue	122.64	129.76	-5.5%	483.73	303.02	59.6%
EBIT	3.27	6.90	-52.6%	24.78	10.20	143.0%
Finance Cost	-3.32	-3.18	4.3%	-14.32	-14.83	-3.4%
Associates	-	-	na	-	-	na
PBT Before EI	1.06	3.08	-65.5%	8.65	0.39	2129.9%
EI	-	-	nm	-	-	nm
PBT	1.06	3.08	-65.5%	8.65	0.39	2129.9%
Tax	0.52	0.00	nm	0.47	0.38	24.8%
MI	-0.19	-0.22	-13.8%	-0.77	-1.27	-39.9%
Reported Net Profit	1.39	2.86	-51.4%	8.36	-0.51	nm
Core Net Profit	1.39	2.86	-51.4%	8.36	-0.51	nm
EPS (sen)	0.84	1.72	-51.2%	5.03	-0.31	nm
EBIT Margin	0.03	0.05	-2.7%	0.05	0.03	1.8%
NTA/Share	39.52	41.53	-4.8%	39.52	34.22	15.5%

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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