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## 1HFY09 Results Review

# EP Manufacturing

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**NEUTRAL**

**Target** RM0.32  
**Previous** RM0.20  
**Price** RM0.32

### AUTOPARTS

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

### Stock Statistics

	EPMB EQUITY
Bloomberg Ticker	EPMB EQUITY
Share Capital (m)	165.96
Market Cap (RMm)	53.11
52 week H L Price (RM)	0.42   0.12
3mth Avg Vol ('000)	543.63
YTD Returns	0.14
Beta (x)	0.59

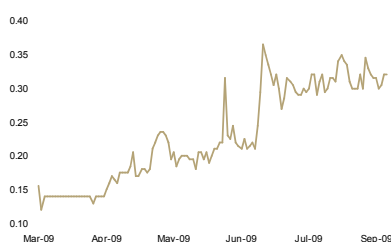
### Major Shareholders (%)

Mutual Concept	37.21
DBS Asset Management	7.01
Abdullah Hamid	5.09

### Share Performance (%)

Month	Absolute	Relative
1m	8.5	2.1
3m	68.4	46.0
6m	106.5	50.3
12m	-17.9	-25.5

### 6-month Share Price Performance



## Leakage from Water Unit

EPMB's 1HFY09 revenue and earnings of RM222m and RM2.74m respectively were in line with estimates. Revenue for the quarter grew 14.4% q-o-q while net profit surged 67% q-o-q, attributed to lower interest cost. While the 1H results were in line, we have upgraded our earnings forecast as we expect the company to perform better in the second half. We raise our earnings forecast for FY09-11 by 2.8%-7%, which also increases our TP to RM0.32 from RM0.20. However, given that the upside to our TP is limited, we downgrade the stock to a NEUTRAL.

**In line.** EPMB's 1HFY09 revenue and earnings were in line with our estimates. Revenue for the quarter grew 14.4% q-o-q (-1.9% y-o-y, -4% YTD) on the back of higher manufacturing volume and payment of price increase claims while net profit surged by 67% q-o-q (-34% y-o-y, -33.3% YTD) on lower financing expenses as well as the tax credit effect due to the pioneer status from its water meter venture. The lower financing expenses were due to the receipt of RM9.6m from Seven Trent due to the shortfall in profit.

**EBIT lower.** At the operation level, EBIT contracted by 4.4% q-o-q (-22% y-o-y, -11% YTD) due to higher raw material cost, most likely attributed to the unfavourable currency movement. This crimped EBIT margin from 5.4% to 4.5%. The loss-making water meter business also contributed to the contraction in earnings on a y-o-y basis.

**Receives acquisition cash refund from profit guarantee shortfall.** Given the shortfall in profits guaranteed by Seven Trent as part of the 3-year term agreement from the Circle Ring water meter business acquisition, the company received a cash refund (from Circle Ring's acquisition) of RM9.6m, which lowered its overall investment cost. Note that there is no impact on earnings other than the reduction in financing cost due to the repayment of borrowings. We also understand that the water business has closed its factory in the UK and is in the midst of shifting its manufacturing line to Malaysia.

**Upgrading earnings.** We have tweaked slightly upwards our earnings for FY09-FY10 by 3%-7% as we expect a better set of numbers over the remaining half on the back of the stronger demand from its auto parts manufacturing division. As such, our TP is increased from RM0.20 to RM0.32. Nonetheless, given the recent surge in its share price, our call is capped at a NEUTRAL give the limited upside to our target price. For exposure to the auto parts segment, we prefer New Hoong Fatt given its more sustainable growth and attractive dividend yield.

FYE Dec (RMm)	FY07	FY08	FY09f	FY10f	FY11f
Turnover	303.0	483.7	429.7	488.8	549.7
Net Profit	-0.5	7.6	5.4	6.3	7.4
Core Net Profit	-4.7	7.6	5.4	6.3	7.4
% chg y-o-y	NM	NM	-0.3	0.2	0.2
Core EPS (sen)	-2.8	4.6	3.3	3.8	4.5
Gross DPS (sen) *	-	*	-	-	-
Gross Dividend Yield (%)	-	-	-	-	-
ROE (%)	-0.3%	3.5%	2.5%	2.8%	3.2%
ROA (%)	-0.1%	1.2%	0.9%	1.0%	1.2%
PER (x)	NA	7.0	9.8	8.4	7.2
P/NTA (x)	0.9	0.8	0.6	0.6	0.5
EV/EBITDA (x)	10.0	5.1	5.4	4.7	4.4

Notes: \*The Company paid a single tier preference dividend of 17.5% per EPMB ICUPS and RCSPS in FY08

## Results Table (RMm)

FYE Dec (RMm)	2Q FY09	1Q FY09	Q-o-Q chg	YTD FY09	YTD FY08	Y-o-Y chg	Comments
Revenue	118.4	103.5	14.4%	222.0	231.3	-4.0%	Higher manufacturing volume and price increase claims, in line with estimates
EBIT	5.4	5.6	-4.4%	11.0	12.3	-11.1%	Margin weakness due to unfavourable currency movement
Net interest expense	-3.7	-4.5	-17.9%	-8.2	-7.8	4.4%	Substantial borrowing repayments from the profit guarantee of RM9.625m received from Seven Trent. This reduced overall interest expense
Associates	0.0	0.0	NA	0.0	0.0	NA	-
PBT before EI	1.7	1.1	49.8%	2.8	4.5	-37.9%	Positive effect due to the substantial reduction in interest expense
EI	0.0	0.0	NA	0.0	0.0	NA	-
PBT	1.7	1.1	49.8%	2.8	4.5	-37.9%	In line.
Tax	0.0	0.0	NA	0.0	-0.1	NM	0% effective tax rate given its pioneer status from the water metre business as well as the utilisation of tax credit allocated
MI	0.0	-0.1	NM	-0.1	-0.3	-83.0%	-
Reported Net Profit	1.7	1.0	67.0%	2.7	4.1	-33.3%	In line.
Core Net Profit	1.7	1.0	67.0%	2.7	4.1	-33.3%	In line.
Core EPS (sen)	10.3	6.2	67.0%	16.5	24.8	-33.3%	-
Gross DPS (sen)	0.0	0.0	NA	0.0	0.0	NA	-
EBIT Margin	4.5%	5.4%	-0.89%	4.9%	5.3%	-0.39%	Margin lower due to unfavourable currency movement and higher depreciation & amortisation expense
Net Profit margin	1.4%	1.0%	0.46%	1.2%	1.8%	-0.54%	Positive effect due to the substantial reduction in interest expense
NTA/share (RM)	0.52	0.43	23.4%	0.52	0.38	39.3%	-

**EARNINGS FORECAST**

<b>FYE Dec (RMm)</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09f</b>	<b>FY10f</b>	<b>FY11f</b>
Turnover	303.0	483.7	429.7	488.8	549.7
EBITDA	31.4	61.7	55.6	63.2	66.5
Depreciation & Amortization	-22.1	-43.3	-44.4	-45.5	-47.2
Net Finance Cost	-14.7	-14.1	-8.1	-8.1	-8.1
Exceptional Items	4.1	0.0	0.0	0.0	0.0
Associates	0.0	1.0	2.0	3.0	4.0
PBT	-1.3	4.3	3.0	9.6	11.2
Taxation	2.0	4.1	3.1	-2.5	-3.0
Minority Interest	-1.3	-0.8	-0.7	-0.7	-0.8
Net Profit	-0.5	8.6	7.4	9.3	11.4
Core Net Profit	-4.7	8.6	7.4	9.3	11.4
Core EPS (sen)	-2.8	5.2	4.5	5.6	6.9
Gross DPS (sen) *	-	*	-	-	-
<b>Margin</b>					
EBITDA	10.4%	12.8%	12.9%	12.9%	12.1%
PBT	-0.4%	0.9%	0.7%	2.0%	2.0%
Core Net Profit	-1.5%	1.8%	1.7%	1.9%	2.1%
<b>ROE</b>	-2.3%	4.0%	3.4%	4.1%	4.9%
<b>ROA</b>	-0.7%	1.4%	1.3%	1.5%	1.9%
<b>Balance Sheet</b>					
Fixed Assets	467.9	483.8	450.2	457.9	454.3
Current Assets	157.8	150.0	139.7	150.3	160.9
Total Assets	625.7	633.8	589.9	608.3	615.2
Current Liabilities	240.1	253.5	226.9	247.1	256.6
Net Current Assets	-82.3	-103.5	-87.3	-96.8	-95.7
LT Liabilities	173.7	160.3	138.4	129.7	119.0
Shareholders' Funds	200.7	214.5	220.0	226.3	233.7
Net Gearing (%)	124.2%	120.3%	110.4%	105.3%	99.9%

Notes: \* The Company paid a single tier preference dividend of 17.5% per EPMB ICUPS and RCSPS in FY08. Given the high gearing level we foresee no dividends are likely to be paid over the next 3 years

**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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