

Recommendation: **HOLD**

Stock Code: 7773

Bloomberg: EPMB MK

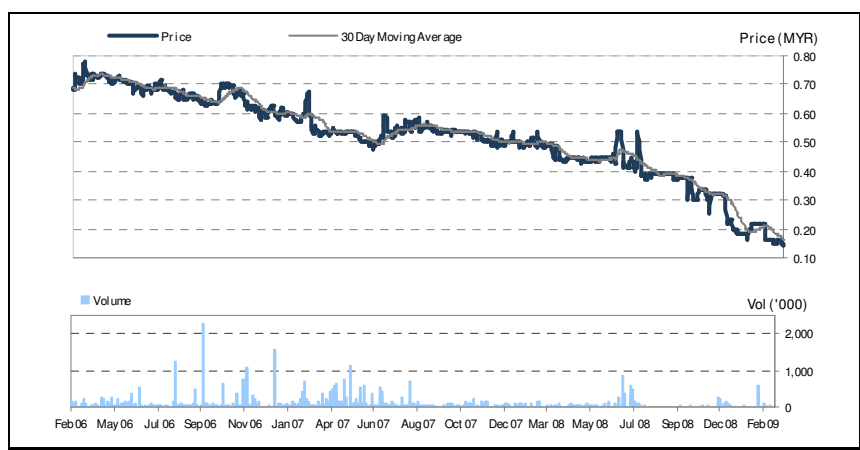
Price: MYR0.15

12-Month Target Price: MYR0.18

Date: March 2, 2009

**Board:** Main**Sector:** Industrial Products**GICS:** Consumer Discretionary/Auto Parts & Equipment**Market Value - Total:** MYR24.9 mln

**Summary:** Main-board listed EP Manufacturing (EPMB) is a Tier-1 autoparts vendor to both Proton and Perodua. It also supplies to Toyota in the Middle East. Through its technical collaboration with Bosch, the group focuses on the supply of higher value modular components. In late 2007, EPMB diversified into the electronic water meter business.

**Analyst:** Alexander Chia, ACA

## Results Review & Earnings Outlook

- EPMB's results were broadly within our expectations, with 2008 net profit of MYR8.4 mln reaching 95% of our estimates.
- 4Q08 revenue was up 22% YoY to MYR122.6 mln on the back of higher contribution from both its automotive and water meter divisions. Net profit however, declined 51% to MYR1.4 mln due to higher amortization charge and losses at the water meter business which offset profits from the automotive division.
- 2008 revenue at its automotive division rose 59% YoY due to encouraging sales of its Intake Air Fuel Module (IAFM) and increase in vehicle sales, which also saw the division's operating margin improve to 7.5% from 4.0%. Revenue from water meter business too, was 61% higher YoY. Consequently, group revenue surged 60% YoY to MYR483.7 mln.
- EPMB returned to the black in 2008 with a net profit of MYR8.4 mln compared with a loss of MYR0.5 mln in 2007, attributable to robust performance of its automotive business. The water meter division however remained loss-making as sales were slower than expected.
- As consumers hold back spending in the present slow economy, we trim our 2009 net profit estimate by 20% to MYR7.2 mln after factoring in lower vehicles sales in 2009, with the water meter business looking set for another year of losses. We also introduce our 2010 projections.

## Recommendation & Investment Risks

- We maintain a Hold recommendation on EPMB but reduce our 12-month target price to 18 sen (from 32 sen) in tandem with our lower 2009 estimates.
- Our target price continues to peg EPMB's 2009 EPS to a target PER multiple of 4x (from 5x). The lower target PER multiple is in line with the lower automotive peer valuations.
- EPMB's outlook in 2009 is challenging, with its automotive earnings expected to be affected by cautious consumer spending in the ongoing volatile economy, while the water meter division shows little sign of turnaround. EPMB, in our opinion, is close to being fairly valued based on the absence of major growth drivers. Net gearing of 1.2x too increases its financial risks in the present environment though this is mitigated by its positive net operating cash flow (NOCF) generating ability. It generated a NOCF of MY60.0 mln in 2008. Its balance sheet is also backed by a NTA/share of 40 sen as at December 2008.
- No dividend was declared during the quarter under review.
- Risks to our recommendation and target price include a worse-than-expected slowdown in consumer spending and continued slow progress at its water meter division. In addition, the thinly-traded volumes could subject the stock to unusual price fluctuation, in our opinion.

### Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	5.0	4.4
PER (x)	3.0	3.4
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.40	0.45
Book Value/Share (MYR)	1.29	1.35
No. of Outstanding Shares (mln)	166.0	
52-week Share Price Range (MYR)	0.15 - 0.54	
Major Shareholders:	%	
Mutual Concept Sdn. Bhd.	38.2	
Hamidon bin Abdullah	5.2	

\*Stock deemed Shariah compliant by the Securities Commission.

### Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.63	1.60	1.29	1.35
Cash Flow (sen)	11.5	13.2	5.0	24.8
Reported Earnings (sen)	1.2	-0.8	5.0	4.4
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	12.6	NM	3.0	3.4
P/Cash Flow (x)	1.3	1.1	3.0	0.6
P/Book Value (x)	0.1	0.1	0.1	0.1
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	1.4	-0.3	4.0	3.3
Net Gearing (%)	119.1	124.9	123.0	114.5

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**Quarterly Performance**

FY Dec. / MYR mln	4Q08	4Q07	% Change
Reported Revenue	122.6	100.9	21.6
Reported Operating Profit	3.3	6.0	-45.9
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.3	-4.6	-27.6
Reported Pre-tax Profit	1.1	3.6	-70.8
Reported Net Profit	1.4	2.9	-51.3
Reported Operating Margin (%)	2.7	6.0	-
Reported Pre-tax Margin (%)	0.9	3.6	-
Reported Net Margin (%)	1.1	2.8	-

Source: Company data

**Profit & Loss**

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	303.0	483.7	456.1	484.8
Reported Operating Profit	13.5	24.8	22.0	24.7
Depreciation & Amortization	-22.1	0.0	-33.9	-36.2
Net Interest Income / (Expense)	-14.7	-14.3	-13.5	-13.2
Reported Pre-tax Profit	-1.3	8.7	8.5	11.5
Effective Tax Rate (%)	NM	NM	3.0	3.0
Reported Net Profit	-0.5	8.4	7.2	10.2
Reported Operating Margin (%)	4.4	5.1	4.8	5.1
Reported Pre-tax Margin (%)	-0.4	1.8	1.9	2.4
Reported Net Margin (%)	-0.2	1.7	1.6	2.1

Source: Company data, S&amp;P Equity Research

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**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

**S&P 12 Month Target Price** – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Shariah-compliant stock** - As defined by the Shariah Advisory Council of Malaysia's Securities Commission

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**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Hold	0.18
1-Dec-08	Hold	0.32
13-May-08	Buy	0.51
24-Mar-08	Strong Buy	0.60

