

EP Manufacturing

Recommendation: **BUY**

Stock Code: **7773**

Bloomberg: **EPMB MK**

Price: **MYR0.48**

12-Month Target Price: **MYR0.55**

Date: **March 2, 2010**

Board: Main

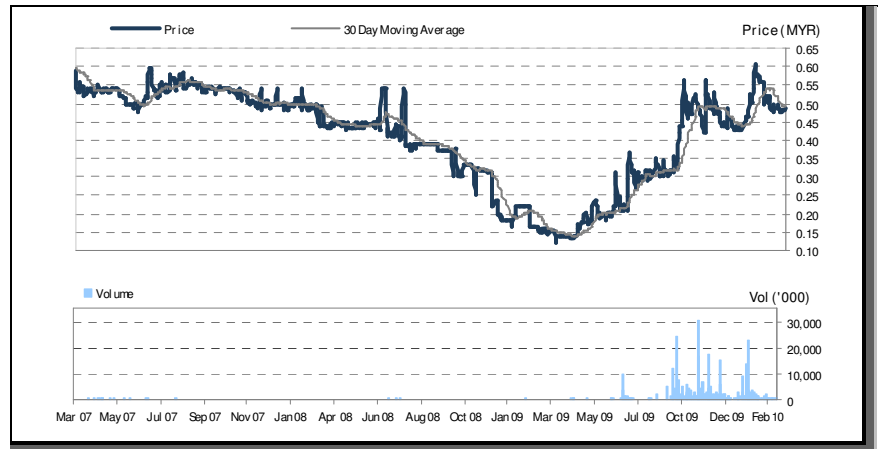
Sector: Industrial Products

GICS: Consumer Discretionary/Auto Parts & Equipment

Market Value - Total: MYR80.5 mln

Summary: Main Market-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

- 4Q09 results surprised with a stronger-than-expected performance. Net profit during the quarter soared +38% QoQ to MYR2.5 mln, pushing 2009 net profit to MYR7.1 mln, which was 10% ahead of our projection. The deviation was largely due to higher-than-expected contributions from the automotive division.
- 2009 revenue and net profit were 3% and 7% lower YoY, largely in tandem with the 2% YoY decline in total industry volume (TIV). The automotive division remains the anchor driver at EPMB, contributing 98% of turnover and 100% of operating profit. There was no turnaround at the water division yet, having registered an MYR6-mln loss in 2009.
- After a slow start in 1Q09, EPMB has been recording steady net profit growth for the past three consecutive quarters. 4Q09, in particular, was a robust quarter, boosted by the maiden contribution from EPMB's supplies for the Perodua Alza model. Response to the Alza model has been encouraging, with 21,500 orders received so far since its launch in November 2009. This certainly bodes well for EPMB's earnings. We retain our 2010 net profit estimate of MYR11.9 mln for now, which projects a 68% YoY growth on higher automotive contribution. We also introduce our 2011 profit estimates.
- After a three-year hiatus, EPMB resumed its dividend payout, with the board recommending a final dividend of 1 sen less 25% tax for 2009.

Recommendation & Investment Risks

- We maintain our Buy recommendation on EPMB with a higher 12-month target price of 55 (from 50 sen).
- Our target price is derived by ascribing a target PER multiple of 7.5x (from 7x) on 2010 earnings, inclusive of a projected dividend. The target multiple used is within the valuation range of 6x-11x for autoparts companies under our coverage. The higher target multiple reflects higher peer valuations and improved earnings visibility.
- We remain upbeat on EPMB's prospects. Earnings growth catalysts include: (i) the expected higher TIV in 2010 along with the recovery in consumer discretionary spending, (ii) significant contribution from the well-received Perodua Alza, for which EPMB supplies high-value parts, and (iii) better performance at the water meter arm. We understand from management that sales are rising at the water meter business, and the target is to break even in 2010. Meanwhile, the group's net gearing is also gradually improving, falling to 1.0x end-December 2009 from 1.2x a year earlier. We believe its current 6.8x 2010 PER is undemanding, considering its prospective earnings growth in 2010.
- Risks to our recommendation and target price include lower-than-expected auto sales and continued slow progress at its water meter division.

Key Stock Statistics

FY Dec.	2009	2010E
Reported EPS (sen)	4.3	7.2
PER (x)	11.4	6.8
Dividend/Share (sen)	1.0	1.0
NTA/Share (MYR)	0.58	0.69
Book Value/Share (MYR)	1.34	1.41
No. of Outstanding Shares (mln)	166.0	
52-week Share Price Range (MYR)	0.12 - 0.61	
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.	2007	2008	2009	2010E
Book Value (MYR)	1.60	1.29	1.34	1.41
Cash Flow (sen)	13.2	30.7	24.7	29.0
Reported Earnings (sen)	-0.8	4.1	4.3	7.2
Dividend (sen)	0.0	0.0	1.0	1.0
Payout Ratio (%)	0.0	0.0	17.6	13.9
PER (x)	NM	11.9	11.4	6.8
P/Cash Flow (x)	3.7	1.6	2.0	1.7
P/Book Value (x)	0.3	0.4	0.4	0.3
Dividend Yield (%)	0.0	0.0	2.1	2.1
ROE (%)	-0.3	3.7	3.2	5.2
Net Gearing (%)	124.9	120.3	98.3	96.5

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EP Manufacturing

Recommendation: **BUY**

Stock Code: 7773

Bloomberg: EPMB MK

Price: MYR0.48

12-Month Target Price: MYR0.55

Date: March 2, 2010

Quarterly Performance

FY Dec. / MYR mln	4Q09	4Q08	% Change
Reported Revenue	130.2	122.6	6.2
Reported Operating Profit	6.1	3.3	88.0
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.7	-3.3	12.3
Reported Pre-tax Profit	2.8	1.1	>100
Reported Net Profit	2.5	1.4	80.4
Reported Operating Margin (%)	4.7	2.7	-
Reported Pre-tax Margin (%)	2.1	0.9	-
Reported Net Margin (%)	1.9	1.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2008	2009	2010E	2011E
Reported Revenue	483.7	467.5	518.8	547.5
Reported Operating Profit	18.4	23.0	25.0	26.9
Depreciation & Amortization	-43.3	-33.9	-36.2	-35.7
Net Interest Income / (Expense)	-14.1	-15.4	-12.6	-12.0
Reported Pre-tax Profit	4.3	7.4	12.5	14.8
Effective Tax Rate (%)	NM	NM	3.0	3.0
Reported Net Profit	7.6	7.1	11.9	14.2
Reported Operating Margin (%)	3.8	4.9	4.8	4.9
Reported Pre-tax Margin (%)	0.9	1.6	2.4	2.7
Reported Net Margin (%)	1.6	1.5	2.3	2.6

Source: Company data, S&P Equity Research

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Glossary

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	Buy	0.55
30-Nov-09	Buy	0.50
2-Sep-09	Hold	0.35
2-Jun-09	Hold	0.23
2-Mar-09	Hold	0.18
1-Dec-08	Hold	0.32
13-May-08	Buy	0.51
24-Mar-08	Strong Buy	0.60

