

EP Manufacturing

Recommendation: **BUY**

Stock Code: **7773** Bloomberg: **EPMB MK** Price: **MYR0.39** 12-Month Target Price: **MYR0.51** Date: **September 2, 2008**

Board: Main

Sector: Industrial Products

GICS: Consumer Discretionary/Auto Parts & Equipment

Market Value - Total: MYR48.5 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 1H08 results were below our expectations, with net profit of MYR4.0 mln accounting for 38% of our previous MYR10.6 mln forecast.
- 1H08 revenue rose 96% YoY to MYR231.3 mln while net profit of MYR4.0 mln was a contrast to 1H07's loss of RM6.4 mln. Management attributed the turnaround to the improved performance from the autoparts division, riding on encouraging sales of the Persona and Saga models by its key customer, Proton (PROH MK, MYR3.00, Not Ranked). Proton had earlier reported a 55% YoY increase in domestic sales volume between March and June 2008. The Persona, Saga and Gen2 (facelift version)'s engine is fitted with EPMB's Intake Air Fuel Module (IAFM), which is a new high-value component for EPMB. The group produces approximately 13,000 units of IAFMs per month currently to supply to the three Proton models.
- The encouraging results from the autoparts division were nonetheless offset by the sub-par performance from the water meter division, which incurred an operating loss of MYR1.0 mln. Sales activities were below expectations due to the slow progress in discussions with the various state governments in view of the current uncertain political climate.
- We are reducing our 2008 and 2009 net profit projections by 22% and 18% to MYR9.0 mln and MYR16.1 mln respectively, to account for the delays in the water meter business.
- No dividend was declared during the quarter under review.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	-0.8	5.4
PER (x)	NM	7.2
Dividend/Share (sen)	0.0	1.5
NTA/Share (MYR)	0.46	0.41
Book Value/Share (MYR)	1.60	1.27
No. of Outstanding Shares (mln)	124.4	
52-week Share Price Range (MYR)	0.37 - 0.56	
Major Shareholders:	%	
Mutual Concept Sdn. Bhd.	21.9	
Hamidon bin Abdullah	7.0	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We maintain our Buy recommendation on EPMB with a 12-month target price of 51 sen (unchanged).
- Our target price is derived from ascribing a target PER multiple of 5x (from 7x) to 2009 earnings (rollover from 2008) and adding a projected 2008 dividend of 1.5 sen. The target PER multiple is a 25% discount to our target multiple of 6.75x for APM Automotive Holdings (APM MK, MYR2.00, Hold) to reflect EPMB's smaller market capitalization and revenue base.
- We expect the autoparts division to continue driving earnings into 2009, underpinned by the success of its IAFM product and the continued improvements at Proton. We understand EPMB will also be supplying parts to Proton's new MPV slated for launch next year. Nonetheless, the inflationary environment, uncertain global economic outlook and dependence on national car makers remain a threat to earnings sustainability. Meanwhile, EPMB's water meter division will take a backseat until the current political situation clears, as the ongoing discussions with the various state governments to adopt the use of its smart water meters to replace the existing conventional analog water meters would remain a drag for now, in our opinion.
- Risks to our recommendation and target price include a worse-than-expected slowdown in vehicle sales given the inflationary environment and the 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.

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	1.68	1.63	1.60	1.27
Cash Flow (sen)	22.6	11.5	13.2	24.3
Reported Earnings (sen)	12.3	1.2	-0.8	5.4
Dividend (sen)	6.0	0.0	0.0	1.5
Payout Ratio (%)	46.5	0.0	0.0	27.6
PER (x)	3.2	32.8	NM	7.2
P/Cash Flow (x)	1.7	3.4	3.0	1.6
P/Book Value (x)	0.2	0.2	0.2	0.3
Dividend Yield (%)	15.4	0.0	0.0	3.8
ROE (%)	11.2	1.4	-0.3	4.4
Net Gearing (%)	67.3	119.1	124.9	125.6

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EP Manufacturing

Recommendation: **BUY**

Stock Code: 7773

Bloomberg: EPMB MK

Price: MYR0.39

12-Month Target Price: MYR0.51

Date: September 2, 2008

Quarterly Performance

FY Dec. / MYR mln	2Q08	2Q07	% Change
Reported Revenue	120.7	73.2	64.9
Reported Operating Profit	7.8	3.4	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-4.0	-5.0	-19.7
Reported Pre-tax Profit	2.9	0.1	>100
Reported Net Profit	2.5	-0.5	NM
Reported Operating Margin (%)	6.5	4.7	-
Reported Pre-tax Margin (%)	2.4	0.1	-
Reported Net Margin (%)	2.1	-0.6	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	228.5	303.0	426.7	472.9
Reported Operating Profit	11.6	13.5	28.0	36.8
Depreciation & Amortization	-15.9	-22.1	-31.3	-31.7
Net Interest Income / (Expense)	-5.2	-14.7	-16.9	-18.1
Reported Pre-tax Profit	6.4	-1.3	11.1	18.6
Effective Tax Rate (%)	28.7	NM	3.0	3.0
Reported Net Profit	2.9	-0.5	9.0	16.1
Reported Operating Margin (%)	5.1	4.4	6.6	7.8
Reported Pre-tax Margin (%)	2.8	-0.4	2.6	3.9
Reported Net Margin (%)	1.3	-0.2	2.1	3.4

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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Required Disclosures

Recommendation and Target Price History

Date	Recommendation	Target Price
13-May-08	Buy	0.51
24-Mar-08	Strong Buy	0.60

