

Board: Main

Sector: Industrial Products

GICS: Consumer Discretionary/Auto Parts & Equipment

Market Value - Total: MYR52.3 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

- EPMB's 2Q09 results surpassed our expectations with 1H09 net profit of MYR2.7 mln reaching 56% of our previous 2009 estimate.
- The deviation was attributed to better-than-expected sales from the automotive division and absence of a tax charge in 1H09.
- Lower contributions were seen at both the automotive and water meter divisions that pushed 1H09 revenue 4% lower YoY to MYR222.0 mln. Meanwhile the higher-than-proportionate decline in net profit (-33% YoY) was attributed to weaker MYR/JPY exchange rate, which depreciated over 20% in 1H09 vs 1H08, as well as losses suffered at the water meter division.
- EPMB did not make any provision for taxation in 1H09 due to its pioneer tax status, utilization of unabsorbed capital allowances and availability tax losses from previous years.
- Despite EPMB's weaker YoY performance, we are raising our 2009 and 2010 net profit estimates by 23% and 11% respectively, in expectation of higher automotive sales going forward. This is in line with the recent upward revision of the 2009 total industry volume (TIV) forecast to 500,000 units (from 480,000) by the Malaysia Automotive Association.
- No dividend was declared during the quarter under review (2Q08: nil).

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	4.1	3.6
PER (x)	7.7	8.8
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.41	0.55
Book Value/Share (MYR)	1.29	1.33
No. of Outstanding Shares (mln)	166.0	
52-week Share Price Range (MYR)	0.12 - 0.39	
Major Shareholders:	%	
Mutual Concept Sdn. Bhd.	38.2	
Hamidon bin Abdullah	5.2	

*Stock deemed Shariah compliant by the Securities Commission.

Recommendation & Investment Risks

- We maintain our Hold recommendation on EPMB but raise our 12-month target price to 35 sen (from 23 sen).
- We ascribe a target PER multiple of 7x (from 5x) on 2010 earnings to derive our target price. The higher multiple used reflects the improving prospects at EPMB's automotive division, and is within the valuation range of between 5.5x-9x for autoparts companies under our coverage.
- We anticipate a more robust performance for EPMB going forward underpinned by improving economic outlook and consumer confidence. New models such as the Proton Exora as well as the yet-to-be-launched MPV by Perodua should continue to stoke buyers' interest. EPMB is involved in supplying autoparts to these two models. Nevertheless, the loss-making water meter division remains a concern. Until the division turns around, it will continue to drag the group's earnings down.
- Risks to our recommendation and target price include lower-than-expected auto sales and continued slow progress at its water meter division. In addition, the thinly-traded volumes may subject the stock to share price volatility, in our opinion.

Per Share Data

FY Dec.	2006	2007	2008	2009E
Book Value (MYR)	1.63	1.60	1.29	1.33
Cash Flow (sen)	11.5	13.2	30.7	24.0
Reported Earnings (sen)	1.2	-0.8	4.1	3.6
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	26.5	NM	7.7	8.8
P/Cash Flow (x)	2.7	2.4	1.0	1.3
P/Book Value (x)	0.2	0.2	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	1.4	-0.3	3.7	2.7
Net Gearing (%)	119.1	124.9	120.3	110.6

Quarterly Performance

FY Dec. / MYR mln	2Q09	2Q08	% Change
Reported Revenue	118.4	120.7	-1.9
Reported Operating Profit	5.4	7.8	-31.3
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.7	-4.0	-7.9
Reported Pre-tax Profit	1.7	2.9	-41.3
Reported Net Profit	1.7	2.6	-33.3
Reported Operating Margin (%)	4.5	6.5	-
Reported Pre-tax Margin (%)	1.4	2.4	-
Reported Net Margin (%)	1.4	2.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	303.0	483.7	443.4	465.4
Reported Operating Profit	13.5	18.4	20.8	23.6
Depreciation & Amortization	-22.1	-43.3	-33.9	-36.2
Net Interest Income / (Expense)	-14.7	-14.1	-14.6	-14.5
Reported Pre-tax Profit	-1.3	4.3	6.1	9.0
Effective Tax Rate (%)	NM	NM	0.0	3.0
Reported Net Profit	-0.5	7.6	5.9	8.4
Reported Operating Margin (%)	4.4	3.8	4.7	5.1
Reported Pre-tax Margin (%)	-0.4	0.9	1.4	1.9
Reported Net Margin (%)	-0.2	1.6	1.3	1.8

Source: Company data, S&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.

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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	0.35
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

