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MALAYSIA EQUITY
Investment Research
Daily

1HFY11 Results Review

EP Manufacturing

Delivering on Performance

EPMB reported higher than expected earnings owing to lower taxation. The group continued to deliver commendable earnings growth, with 2Q PBT revving up 38% q-o-q, 32.7% y-o-y and 51.1% YTD, thanks to the significant improvements in operating efficiency at its stamping line. We see EPMB maintaining its production delivery in 2H, and see further earnings growth for FY12 as production of the Persona replacement kicks off. We maintain our earnings estimates as 1H PBT remains largely in line, and in anticipation of higher taxation come 2H. Our FV is retained at RM1.38, pegged at 7x FY11 EPS, with our BUY call maintained.

BUY ⇄

Fair Value **RM1.38**
Previous **RM1.38**
Price **RM0.75**

AUTOPARTS

EPMB is a leading Tier-1 supplier of Proton and Perodua.

Stock Statistics

Bloomberg Ticker	EPMB MK
Share Capital (m)	166.0
Market Cap	124.5
52 week H L Price	1.13 0.49
3mth Avg Vol (000)	434.3
YTD Returns	32.7
Beta (x)	1.13

Major Shareholders (%)

Mutual Concept	37.21
Horizon Growth Fund VA	5.24
Hamidon Bin Abdullah	5.09
Shareholder4	
Shareholder5	

Share Performance (%)

Month	Absolute	Relative
1m	-14.5	-12.1
3m	-28.7	-26.5
6m	35.1	27.5
12m	49.5	35.6

6-month Share Price Performance



PBT within; lower taxes beef up bottomline. EPMB reported a 1H net profit of RM19.86m on revenue of RM266.04m, representing 42% and 63% of our full-year forecasts. While its topline missed our estimates due to lower production of parts for Perodua (caused by autoparts supply shortage), its bottomline exceeded our estimates. The higher than forecast bottomline was largely due to lower than expected tax, while at the PBT level, its 1H PBT was largely in line with our forecast, representing 51% of our full year forecast.

Better numbers on higher Perodua volume. EPMB's 2Q revenue grew 12% q-o-q on higher production deliveries of Perodua parts as the new Myvi commenced production. However, due to lower contribution from the Alza and Viva sparked by the supply crisis that hit Japanese auto-manufacturers, its topline was lower y-o-y and YTD by 10.7% and 13.5% respectively.

Margins improve on efficiency gains. As EPMB is in its second year of stamping production for Perodua, the tier 1 autoparts supplier saw a significant improvement in operation efficiency across the board. Consequently, PBT widened by 38% q-o-q, 32.7% y-o-y and 51.1% YTD. Coupled by lower depreciation and amortization expenses (as much of this had been expensed out earlier in the year), its overall EBIT margins expanded from 5.2% in 1HFY10 to 9.36% in 1HFY11. As a result of higher plant utilization during the quarter vs the previous quarter, EBIT margins also improved q-o-q by 1.29-ppts to 9.8%. As we have reiterated earlier, EPMB experienced minimal impact from the severe supply disruption as the company had received advanced orders for body parts stamping for the new Myvi.

FYE Dec (RM'm)	FY09	FY10	FY11f	FY12f	FY13f
Turnover	468.0	587.5	628.9	676.4	703.8
Core Net Profit	39.7	26.5	31.6	43.3	48.1
% chg y-o-y	824.4	-33.4	19.3	37.0	11.2
Consensus			-	-	-
Core EPS (sen)	24.8	16.5	19.7	27.0	30.0
DPS (sen) *	1.0	2.0	4.0	5.0	5.0
Dividend Yield (%)	1.3	2.7	5.3	6.7	6.7
ROE (%)	17.5	10.9	11.7	14.1	13.9
ROA (%)	6.9	4.7	5.7	7.7	8.4
PER (x)	3.0	4.5	3.8	2.8	2.5
NTA Per Share (RM)	0.71	0.83	1.03	1.29	1.60
P/NTA (x)	1.1	0.9	0.7	0.6	0.5
EV/EBITDA (x)	3.3	2.2	1.7	1.2	0.6

Results Table (RMm)**Results Table (RMm)**

FYE Dec	Q2FY11	Q1FY11	Q-o-Q chg	Q2FY10	Y-o-Y chg	1HFY11	1HFY10	Y-o-Y chg	Comments
Revenue	140.55	125.50	12.0%	157.31	-10.7%	266.04	307.54	-13.5%	Below; but we make no changes to our topline as we anticipate higher volume delivered to Perodua come 2H. Q-o-q picked up on delivery of new Myvi stamping parts
EBIT	14.01	10.89	28.7%	8.56	63.7%	24.90	16.02	55.5%	Margins saw a tremendous improvement from significantly better efficiency at its stamping line, coupled by the lower depreciation and amortization expense.
Interest Expense	-2.48	-2.57	-3.3%	-3.65	-31.9%	-5.05	-6.60	-23.5%	
Interest Income	0.16	0.15	6.6%	0.05	244.7%	0.31	0.08	297.5%	
EI	0.00	0.00		0.00		0.00	0.00		
PBT	11.69	8.47	38.0%	8.81	32.7%	20.16	13.34	51.1%	In line
Core PBT	11.69	8.47	38.0%	8.81	32.7%	20.16	13.34	51.1%	In line
Tax	-0.42	0.12	-445.9%	-2.93	-85.6%	-0.30	-3.23	-90.7%	Lower but we expect 2H to see higher taxation as this was the case last year too.
MI	0.00	0.00		-0.18		0.00	-0.29	-100.0%	
Net Profit	11.27	8.60	31.1%	5.70	97.6%	19.86	9.82	102.2%	Exceeded our estimates due to lower than expected taxation. We make no changes into our earnings forecast.
Core Net Profit	11.27	8.60	31.1%	5.70	97.6%	19.86	9.82	102.2%	
EPS (sen)	7.0	5.3	31.2%	3.5	98.6%	12.3	6.1	103.2%	
DPS (sen)	1.0	0.0		1.0	0.0%	1.0	1.0	0.0%	
EBIT margin (%)	9.97	8.68	1.29	5.44	4.53	9.36	5.21	4.15	
PBT margin (%)	8.32	6.75	1.57	5.60	2.72	7.58	4.34	3.24	
Core PBT Margin (%)	8.32	6.75	1.57	5.60	2.72	7.58	4.34	3.24	
Net profit margin (%)	8.02	6.85	1.17	3.62	4.39	7.47	3.19	4.27	
NTA/ Share (RM)	0.97	0.88		0.72		0.97	0.72		
Net Gearing (%)	56.14	69.13		81.42		56.14	81.42		Gearing continues to improve.

Outlook to continue to be favorable. We anticipate EPMB to continue to maintain its production delivery in 2H and looking forward, the company should see next year's revenue continue to grow on higher contribution from Proton as it kick-starts delivery if the new Persona's replacement parts. Margins are also set to improve further on lower raw material costs.

Maintain earnings and BUY recommendation. We maintain our earnings estimates, noting that its PBT remains largely in line. While taxation in 1H was lower than we anticipated, we believe that EPMB would still incur higher tax in 2H, as was the case last year. Our FV on the counter remains unchanged at RM1.38, with our multiples pegged at 7x FY11 EPS, in line with its 5-year forward PE historical average. EPMB is attractively valued currently at 3.8x and 2.8x respectively for FY11 and FY12. Maintain BUY.

EARNINGS FORECAST

FYE Dec (RMm)	FY09	FY10	FY11f	FY12f	FY13f
Turnover	468.0	587.5	628.9	676.4	703.8
EBITDA	105.2	125.5	128.8	134.2	139.4
EBIT	46.4	43.8	43.0	56.4	61.3
EI	-32.5	-0.8	0.0	0.0	0.0
Core PBT	32.4	33.3	39.5	54.1	60.1
PBT	-0.1	32.5	39.5	54.1	60.1
Net Profit	7.3	25.7	31.6	43.3	48.1
Core Net Profit	39.7	26.5	31.6	43.3	48.1
EPS (sen)	24.8	16.5	19.7	27.0	30.0
DPS (sen)	1.0	2.0	4.0	5.0	5.0
Margin					
EBITDA (%)	22.5	21.4	20.5	19.8	19.8
Core PBT (%)	6.9	5.7	6.3	8.0	8.5
Core Net Profit (%)	8.5	4.5	5.0	6.4	6.8
ROE (%)	17.5	10.9	11.7	14.1	13.9
ROA (%)	6.9	4.7	5.7	7.7	8.4
Balance Sheet					
Fixed Assets	445.4	405.6	342.9	311.4	267.1
Current Assets	127.4	160.3	209.3	248.5	302.5
Total Assets	572.7	565.8	552.1	559.8	569.6
Current Liabilities	243.1	241.8	222.7	212.5	203.1
Net Current Assets	-115.7	-81.6	-13.4	36.0	99.5
LT Liabilities	102.7	80.5	59.2	41.1	20.1
Shareholders' Funds	226.9	243.5	270.2	306.3	346.4
Net Gearing (%)	96.9	64.5	36.3	13.1	Net Cash

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 (NR): Stock is not within regular research coverage

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