

Ahmad Maghfur Usman  
+60 (3) 9207 7654  
ahmad.maghfurusman@my.oskgroup.com

## 1HFY12 Results Review

# EP Manufacturing

### TRADING BUY ↔

Fair Value **RM0.940**  
Previous Price **RM0.940**  
Price **RM0.785**

#### 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	130.3
52 week H   L Price	1.12   0.63
3mth Avg Vol (000)	63.7
YTD Returns	1.3
Beta (x)	1.01

Shariah Compliant YES

#### Major Shareholders (%)

Mutual Concept	37.21
Hamidon Bin Abdullah	5.09
EP Manufacturing	4.0

#### Share Performance (%)

Month	Absolute	Relative
1m	-5.4	-6.7
3m	6.6	-0.5
6m	-12.0	-18.2
12m	9.9	-8.0

#### 6-month Share Price Performance



## Running Out of Time

EPMB's 1H earnings came in weaker at RM15.7m, on the back of lower revenue due to deteriorating sales from Proton. However, with Proton ramping up sales amid declining inventory pile coupled with seasonal festivals in 2H, we expect a better performance from EPMB in 2H. Meanwhile, the company has requested for a time extension for the Maju Expressway (MEX) acquisition as it has yet to receive the Government's approval. We maintain our TRADING BUY and FV of RM0.94, which is based on a sum-of-the-parts valuation.

**Hit by Proton, but results in line.** EPMB's 1H earnings of RM15.7m were weaker by 38% y-o-y (-19% q-o-q and -21% YTD) on the back of lower revenue as a result of deteriorating sales from Proton. Production came in weaker during the period, following the stringent lending guidelines implemented early this year. As 1H's earnings accounted for 46% of our full year forecast for EPMB, we deem results to be in line with our estimate. Note that we have incorporated a substantial interest cost to finance the MEX acquisition. As such, we are estimating a profit of RM33m from just its auto division, which, after factoring in the interest cost, will result in a net profit of RM15.2m for the group in FY12.

**A better 2H.** With Proton ramping up sales amid declining inventory pile coupled with seasonal festivals in 2H, we anticipate a better performance for EPMB then. Revenue from its water division is also growing at an encouraging pace, up 60% YTD, as its bottomline losses have narrowed substantially from RM2.3m to RM0.6m. The higher volume will ultimately improve overall efficiency and consequently, its bottomline.

**MEX acquisition still pending.** EPMB has requested for a time extension to fulfill the conditions precedent of the Acquisition Agreement and is currently in the midst of negotiating with MEX concessionaire Maju Expressway SB to finalise the extension to the cut-off date. It remains to be seen whether the Government will approve the controversial deal given the commercial sensitivity and public flak.

**Maintain TRADING BUY.** Our FV of RM0.94 is based on the sum-of-parts method as illustrated below.

Figure 1: Sum of parts

FV of EPMB at a lower PE of 4x from 5x due to risk based on FY12 EPS (m)	81.77
DCF value of MEX (WACC of 11.1%)	1613.06
Net Debt (m)	-1502.68
Equity Value of EPMB (m)	192.16
Number of shares issued (m) (diluted share base from 50m new shares)	204.42
FV per share (RM)	0.94

FYE Dec (RMm)	FY10	FY11	FY12f	FY13f	FY14f
Revenue	587.5	577.1	698.9	835.5	890.6
Core Net Profit	25.7	39.4	15.2	20.4	32.4
% chg y-o-y	-35.30%	53.3%	-61.3%	34.1%	58.7%
Consensus			26.1	30.3	32.4
EPS (sen) *	12.6	19.3	7.5	10.0	15.9
DPS (sen) *	2.0	2.0	0.0	2.0	2.0
Dividend yield (%)	2.5	2.5	0.0	2.5	2.5
ROE (%)	10.6	13.8	4.5	5.7	8.4
ROA (%)	4.4	6.9	0.6	0.9	1.5
PER (x)	6.4	4.2	10.7	8.0	5.0
BV/share (RM) *	1.2	1.3	1.5	1.8	2.0
P/BV (x)	0.7	0.6	0.5	0.5	0.4
EV/EBITDA	2.3	1.8	12.0	11.6	10.4

\*Number of shares based on enlarged share base (of 204.42m) upon MEX acquisition.

## Results Table (RMm)

	2QFY11	1QFY12	2QFY12	Q-o-Q	Y-o-Y	1HFY11	1HFY12	YTD	Remarks
Revenue	140.5	137.7	124.6	-9%	-11%	266.0	262.3	-1%	Lower, due to a drop in production from Proton
Operating expenses	-111.6	-109.7	-103.8	-5%	-7%	-210.8	-213.5	1%	
Other income	0.9	2.9	1.3	-55%	47%	1.6	4.2	163%	
<b>EBITDA</b>	<b>29.8</b>	<b>30.9</b>	<b>22.1</b>	<b>-28%</b>	<b>-26%</b>	<b>56.9</b>	<b>53.0</b>	<b>-7%</b>	<b>Poor economies of scale from lower volume churned</b>
Depreciation and amortization	-15.8	-17.9	-11.8	-34%	-25%	-32.0	-29.7	-7%	
Operating income	14.0	13.0	10.3	-21%	-27%	24.9	23.3	-7%	
Finance costs	-2.5	-2.5	-2.4	-4%	-3%	-4.9	-4.9	0%	
Interest income	0.2	0.1	0.1	79%	-22%	0.3	0.2	-37%	
Net finance costs	-2.3	-2.4	-2.3	-6%	-1%	-4.7	-4.7	0%	
<b>PBT</b>	<b>11.7</b>	<b>10.6</b>	<b>8.0</b>	<b>-24%</b>	<b>-32%</b>	<b>20.2</b>	<b>18.6</b>	<b>-8%</b>	
Tax	-0.4	-1.8	-0.9	-49%	119%	-0.3	-2.7	816%	
<b>PAT</b>	<b>11.3</b>	<b>8.7</b>	<b>7.1</b>	<b>-19%</b>	<b>-37%</b>	<b>19.9</b>	<b>15.8</b>	<b>-20%</b>	
MI	0.0	0.0	0.0	-11%		0.0	-0.1		
<b>PATAMI</b>	<b>11.3</b>	<b>8.7</b>	<b>7.0</b>	<b>-19%</b>	<b>-38%</b>	<b>19.9</b>	<b>15.7</b>	<b>-21%</b>	<b>Within estimates, accounting for 46% of our forecast for EPMB</b>
EPS (sen)	6.8	5.2	4.2	-19%	-38%	12.0	9.5	-21%	
DPS (sen)	1								
EBITDA Margin (%)	21.2	22.4	17.8	-4.7	-3.5	21.4	20.2	-1.2	Margin takes a pinch on lower volume
PATAMI Margin (%)	8.0	6.3	5.6	-0.7	-2.4	7.5	6.0	-1.5	
NTA per Share (RM)	0.94	1.22	1.30			0.94	1.30		

**EARNINGS FORECAST**

<b>FYE Dec (RM'm)</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12f</b>	<b>FY13f</b>	<b>FY14f</b>
Revenue	587.5	577.1	698.9	835.5	890.6
EBIT	38.0	41.0	60.1	122.0	136.7
PBT	32.5	29.6	18.0	24.2	43.3
EI	-	1.3	-	-	-
Net Profit	25.7	38.1	15.2	20.4	32.4
Core Net Income	25.7	39.4	15.2	20.4	32.4
EPS (sen)	12.6	19.3	7.5	10.0	15.9
DPS (sen)	2.0	2.0	0.0	2.0	2.0
Margin					
EBITDA	21.2%	21.6%	19.2%	16.7%	16.4%
EBIT	6.5%	7.1%	8.6%	14.6%	15.4%
PBT	5.5%	5.1%	2.6%	2.9%	4.9%
Core Net Profit	4.4%	6.8%	2.2%	2.4%	3.6%
ROE	10.6%	13.8%	4.5%	5.7%	8.4%
ROA	4.4%	6.9%	0.6%	0.9%	1.5%
Balance Sheet					
Fixed Asset	405.6	356.1	2011.4	1941.1	1870.8
Current Asset	180.3	194.2	338.3	302.2	322.7
Total Assets	585.8	550.3	2349.7	2243.3	2193.5
Current Liabilities	241.8	201.0	379.4	342.9	347.2
Net current liabilities	-61.6	-6.8	-41.1	-40.7	-24.5
LT Liabilities	80.5	73.8	1629.5	1543.2	1460.8
Shareholder's funds	243.5	275.5	340.7	357.1	385.5
Net Gearing	64%	33%	435%	416%	360%

**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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Kuala Lumpur	Hong Kong	Singapore
<b>Malaysia Research Office</b> OSK Research Sdn. Bhd. 6 <sup>th</sup> Floor, Plaza OSK Jalan Ampang 50450 Kuala Lumpur Malaysia Tel : +(60) 3 9207 7688 Fax : +(60) 3 2175 3202	<b>OSK Securities Hong Kong Ltd.</b> 12 <sup>th</sup> Floor, World-Wide House 19 Des Voeux Road Central, Hong Kong Tel : +(852) 2525 1118 Fax : +(852) 2810 0908	<b>DMG &amp; Partners Securities Pte. Ltd.</b> 10 Collyer Quay #09-08 Ocean Financial Centre Singapore 049315 Tel : +(65) 6533 1818 Fax : +(65) 6532 6211
Jakarta	Shanghai	Phnom Penh
<b>PT OSK Nusadana Securities Indonesia</b> Plaza CIMB Niaga, 14 <sup>th</sup> Floor, Jl. Jend. Sudirman Kav. 25, Jakarta Selatan 12920 Indonesia Tel : (6221) 2598 6888 Fax : (6221) 2598 6777	<b>OSK (China) Investment Advisory Co. Ltd.</b> Room 6506, Plaza 66 No.1266, West Nan Jing Road 200040 Shanghai China Tel : +(8621) 6288 9611 Fax : +(8621) 6288 9633	<b>OSK Indochina Securities Limited</b> No. 1-3, Street 271, Sangkat Toeuk Thla, Khan Sen Sok, Phnom Penh, Cambodia Tel: (855) 23 969 161 Fax: (855) 23 969 171
Bangkok		
<b>OSK Securities (Thailand) PCL</b> 10 <sup>th</sup> Floor ,Sathorn Square Office Tower, 98, North Sathorn Road,Silom, Bangrak, Bangkok 10500 Thailand Tel: +(66) 862 9999 Fax : +(66) 108 0999		