

Board: Main

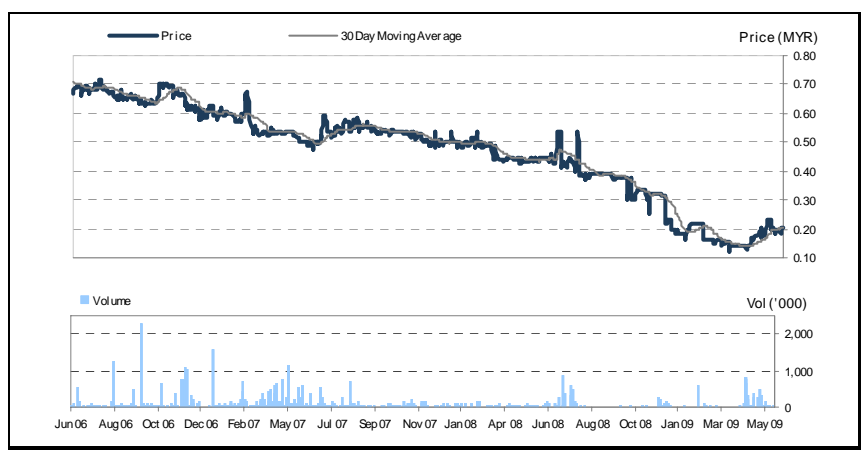
Sector: Industrial Products

GICS: Consumer Discretionary/Auto Parts & Equipment

Market Value - Total: MYR34.0 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 reported weaker-than-expected 1Q09 results with a net profit of MYR1.0 mln, reaching only 14% of our previous 2009 estimate of MYR7.2 mln.
- 1Q09 revenue declined 6% YoY to MYR103.5 mln in tandem with the 9.2% YoY fall in total industry volume. Net profit plunged by a greater 32% YoY to MYR1.0 mln due to: (i) continued losses recorded by its water meter division, which posted an operating loss of MYR1.3 mln, and (ii) amortization charge of MYR1.0 mln on intangibles.
- There was no tax charge in 1Q09 due to exemptions under pioneer status, utilization of unabsorbed capital allowances and tax losses carried forward from previous years. The group's balance sheet is backed by a NTA/share of 43 sen as of March 2009, with a net gearing of 1.2x.
- Given its soft 1Q09 results, we trim our 2009 and 2010 net profit estimates by 33% and 24% to MYR4.8 mln and MYR7.8 mln, respectively, after factoring in lower revenue and higher losses at its water meter division.
- No dividend was declared during the quarter under review.

Recommendation & Investment Risks

- We maintain our Hold recommendation but raise our 12-month target price to 23 sen (from 18 sen) after rolling over our valuation to 2010.
- We derive our target price by ascribing a target PER multiple of 5x (from 4x) against 2010 EPS (rolled over from 2009). Our target multiple is at the lower end of the PER valuation range of 5x – 9x for autoparts companies within our coverage to reflect its small capitalization and high net gearing of 1.2x.
- We expect EPMB's performance in 2009 to remain muted with its sluggish water meter business continuing to be a drag on earnings. We expect prospects in 2010 to improve on a gradual economic recovery, higher consumer spending as well as rollout of new models by its clients. Despite the improved outlook, we think the share price is close to being fairly valued with 2010 PER already at 4.3x considering its high dependence on Proton (PROH MK, MYR2.94, Sell) and Perodua and relatively weak balance sheet.
- While EPMB's net gearing of 1.2x at March 2009 increases the group's financial risks, we take comfort in its positive net operating cashflow (NOCF) generating ability. It generated a NOCF of MYR65.2 mln in 2008 and MYR7.3 mln in 1Q09, sufficient to service its debt.
- Risks to our recommendation and target price include a worse-than-expected slowdown in consumer spending and continued slow progress at its water meter division. In addition, the thinly-traded volumes could subject the stock to unusual price fluctuations, in our opinion.

Key Stock Statistics

FY Dec.	2008	2009E
Reported EPS (sen)	4.1	2.9
PER (x)	5.0	7.1
Dividend/Share (sen)	0.0	0.0
NTA/Share (MYR)	0.41	0.44
Book Value/Share (MYR)	1.29	1.32
No. of Outstanding Shares (mln)	166.0	
52-week Share Price Range (MYR)	0.12 - 0.54	
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.	2006	2007	2008	2009E
Book Value (MYR)	1.63	1.60	1.29	1.32
Cash Flow (sen)	11.5	13.2	30.7	23.3
Reported Earnings (sen)	1.2	-0.8	4.1	2.9
Dividend (sen)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	17.2	NM	5.0	7.1
P/Cash Flow (x)	1.8	1.6	0.7	0.9
P/Book Value (x)	0.1	0.1	0.2	0.2
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	1.4	-0.3	3.7	2.2
Net Gearing (%)	119.1	124.9	120.3	119.2

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Quarterly Performance

FY Dec. / MYR mln	1Q09	1Q08	% Change
Reported Revenue	103.5	110.6	-6.4
Reported Operating Profit	5.3	6.8	-22.4
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-4.5	-3.8	17.2
Reported Pre-tax Profit	1.1	1.6	-31.9
Reported Net Profit	1.0	1.5	-31.9
Reported Operating Margin (%)	5.1	6.2	-
Reported Pre-tax Margin (%)	1.1	1.5	-
Reported Net Margin (%)	1.0	1.4	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2007	2008	2009E	2010E
Reported Revenue	303.0	483.7	416.4	462.7
Reported Operating Profit	13.5	18.4	19.8	23.2
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	5.2	8.7
Effective Tax Rate (%)	NM	NM	3.0	3.0
Reported Net Profit	-0.5	7.6	4.8	7.8
Reported Operating Margin (%)	4.4	3.8	4.8	5.0
Reported Pre-tax Margin (%)	-0.4	0.9	1.2	1.9
Reported Net Margin (%)	-0.2	1.6	1.2	1.7

Source: Company data, S&P Equity Research

Standard & Poor's Equity Research Services

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	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

