

EP Manufacturing

Recommendation: **BUY**

Stock Code: 7773

Bloomberg: EPMB MK

Price: MYR0.45

12-Month Target Price: MYR0.51

Date: May 13, 2008

Board: Main

Sector: Industrial Products

GICS: Consumer Discretionary/Auto Parts & Equipment

Market Value - Total: MYR56.0 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 posted a net profit MYR1.5 mln in 1Q08, compared to a loss of MYR5.9 mln in 1Q07. The 1Q08 net profit, which accounted for 11% of our projections, was below our expectations.
- 1Q08 revenue increased 146% YoY to MYR110.6 mln, buoyed by higher car sales volume, especially Proton which is seeing brisk sales for its Saga and Persona models. In addition, EPMB's new high-value component, Intake Air Fuel Module (IAFM), commenced production in Jan. 2008 and has begun contributing to group revenue.
- Net profit, however, was dampened by the slower-than-expected progress at its water meter division. The change of state governments to Pakatan Rakyat from Barisan Nasional in Selangor, Penang, Kedah and Perak has affected EPMB's efforts in promoting the use of its SmartMeters™.
- We expect 2Q08 to improve as the automotive division continues to ramp up production. However, we believe the bulk of earnings will come in during 2H08 when production is at the optimal level. For the water meter business, we believe the performance this year will be subdued.
- In view of the above, we have trimmed our net profit projection by 15% in 2008 and 10% in 2009 to MYR11.8 mln and MYR20.6 mln, respectively.
- No dividend was declared for the quarter under review.

Recommendation & Investment Risks

- In tandem with our reduced net profit projection, we lower both our 12-month target price to 51 sen (from 60 sen) and recommendation to Buy (from Strong Buy).
- Our target price is derived by pegging EPMB's revised 2008 EPS of 7.1 sen to a target PER of 7x (unchanged), plus an estimate of 1.5 sen dividend.
- EPMB continues to expand its automotive business and the recent signing of license and transfer technology agreement with Bosch on May 6 further extends its strategic partnerships with the Bosch group. Under the agreement, Bosch will provide EPMB with the technical know-how to manufacture complete starter motors and generators. This enables EPMB to derive another new revenue stream and push its exports sales higher. EPMB management said it has already received orders from two European OEMs in Thailand and expects to commence delivery by early 2009.
- EPMB's automotive division is moving in the right direction and outlook remains fairly positive amid the challenging operating environment. Meanwhile, its water meter business remains a drag for now. However, should it succeed in overcoming the obstacles, EPMB would certainly see a major boost to earnings.
- Risks to our recommendation and target price include production disruptions at Proton which would delay deliveries, changes in the regulatory policies which may adversely affect EPMB, and continued slow progress at its water meter division.

Key Stock Statistics

FY Dec.	2007	2008E
Reported EPS (sen)	-0.2	7.1
PER (x)	NM	6.3
Dividend/Share (sen)	0.0	1.5
NTA/Share (MYR)	0.44	0.41
Book Value/Share (MYR)	1.60	1.28
No. of Outstanding Shares (mln)	124.4	
52-week Share Price Range (MYR)	0.43 - 0.60	
Major Shareholders:	%	
Mutual Concept Sdn. Bhd.	21.9	
Hamidon bin Abdullah	7.0	

*Stock deemed Shariah compliant by the Securities Commission.

Per Share Data

FY Dec.	2005	2006	2007	2008E
Book Value (MYR)	1.68	1.63	1.60	1.28
Cash Flow (sen)	22.6	11.5	11.8	20.6
Reported Earnings (sen)	12.3	1.2	-0.2	7.1
Dividend (sen)	6.0	0.0	0.0	1.5
Payout Ratio (%)	46.5	0.0	0.0	21.1
PER (x)	3.7	37.8	NM	6.3
P/Cash Flow (x)	2.0	3.9	3.8	2.2
P/Book Value (x)	0.3	0.3	0.3	0.4
Dividend Yield (%)	13.3	0.0	0.0	3.3
ROE (%)	11.2	1.4	-0.3	5.7
Net Gearing (%)	67.3	119.1	124.9	128.2

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Quarterly Performance

FY Dec. / MYR mln	1Q08	1Q07	% Change
Reported Revenue	110.6	45.0	>100
Reported Operating Profit	6.8	-5.0	NM
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	-3.8	-1.7	>100
Reported Pre-tax Profit	1.6	-6.6	NM
Reported Net Profit	1.5	-5.9	NM
Reported Operating Margin (%)	6.2	-11.1	-
Reported Pre-tax Margin (%)	1.5	-14.6	-
Reported Net Margin (%)	1.4	-13.1	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2006	2007	2008E	2009E
Reported Revenue	228.5	303.0	385.9	440.6
Reported Operating Profit	11.6	15.2	30.0	40.1
Depreciation & Amortization	-15.9	-19.7	-22.3	-24.4
Net Interest Income / (Expense)	-5.2	-14.8	-16.3	-17.1
Reported Pre-tax Profit	6.4	0.4	13.7	23.0
Effective Tax Rate (%)	28.7	NM	3.0	3.0
Reported Net Profit	2.9	-0.5	11.8	20.6
Reported Operating Margin (%)	5.1	5.0	7.8	9.1
Reported Pre-tax Margin (%)	2.8	0.1	3.6	5.2
Reported Net Margin (%)	1.3	-0.2	3.1	4.7

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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For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Desmond Ch'ng or Ching Wah Tam.

Recommendation and Target Price History

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

