



AmInvestment Bank

Company report

EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

5 Oct 2018

Secures *BOOT* deal with Felda for six PFOE plants**BUY**

(Maintained)

AmInvestment Bank

www.amequities.com.my

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Rationale for report: Company update

Price	RM0.50
Fair Value	RM0.92
52-week High/Low	RM0.87/RM0.43

Key Changes

Fair value	↕
EPS	↕

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	131.9	139.8	210.2	216.5
Core net profit (RM mil)	16.2	21.7	31.2	31.4
FD Core EPS (sen)	8.6	11.5	16.6	16.7
FD Core EPS growth (%)	18.4	33.6	43.8	0.8
Consensus Net Profit (RM mil)	-	21.7	31.2	31.4
DPS (sen)	2.3	2.3	2.3	2.3
PE (x)	5.8	4.3	3.0	3.0
EV/EBITDA (x)	3.5	4.9	3.6	3.3
Div yield (%)	2.9	2.9	2.9	2.9
ROE (%)	21.9	20.2	14.6	13.0
Net Gearing (%)	66.8	30.1	25.5	21.7

Stock and Financial Data

Shares Outstanding (million)	171.2
Market Cap (RMmil)	85.6
Book Value (RM/share)	0.08
P/BV (x)	6.5
ROE (%)	21.9
Net Gearing (%)	66.8
Major Shareholders	Dato' Goh Cheng Huat (66.7%)

Free Float	33.1
Avg Daily Value (RMmil)	0.2

Price performance	3mth	6mth	12mth
Absolute (%)	4.2	(15.3)	(35.1)
Relative (%)	(1.7)	(14.0)	(36.1)



— EONM MK — FBMKLCI Index

Investment Highlights

- We maintain our BUY call, forecasts and FV of RM0.92 based on 8x FY18F EPS of 11.5 sen. This is at a discount to the manufacturing sector's average 1-year forward PE of 10-11x to reflect Eonmetall's relatively small market capitalisation.
- Eonmetall has entered into a build-operate-own-transfer (BOOT) arrangement with Felda Palm Industries Sdn Bhd (Felda Palm), a 72%-owned subsidiary of FGV. The arrangement entails Eonmetall to construct, commission, operate and maintain a palm fibre oil extraction (PFOE) plant each alongside six Felda Palm's existing palm oil mills on a profit-sharing basis over 10 years. Upon successful implementation of these six PFOE plants, the same arrangement may be extended to another four palm oil mills owned by Felda Palm.
- We are positive on the latest development. Eonmetall has effectively delivered what it guided, i.e. concluding a major deal with a major planter involving the investment in several PFOE plants on a concession basis. Eonmetall will get two bites at the cherry: (1) profits from fabrication of the plants; and (2) recurring profits from the sale of the residual palm oil extracted over 10 years. We are keeping our forecasts which have reflected this.
- We continue to like Eonmetall for the growing acceptance by palm oil millers in Malaysia and Indonesia for its solvent oil extraction plants. Eonmetall enjoys good margins for these plants in the absence of competition, coupled with the in-sourcing of inputs (steel products and metalwork machinery) used in the fabrication of these plants.
- The next phase of growth for its solvent oil extraction plant business could come from the introduction of the concession model. The model is attractive to palm oil mill owners as it requires minimal capital outlay from them as Eonmetall will fund the construction cost of the solvent oil extraction plant in exchange for profit sharing.

EXHIBIT 1: PB BAND CHART

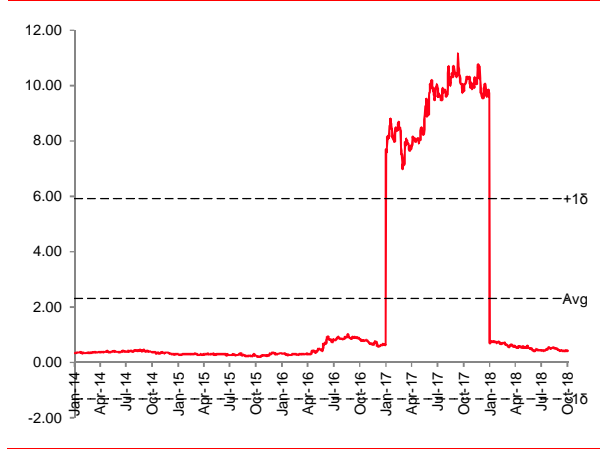


EXHIBIT 2: PE BAND CHART

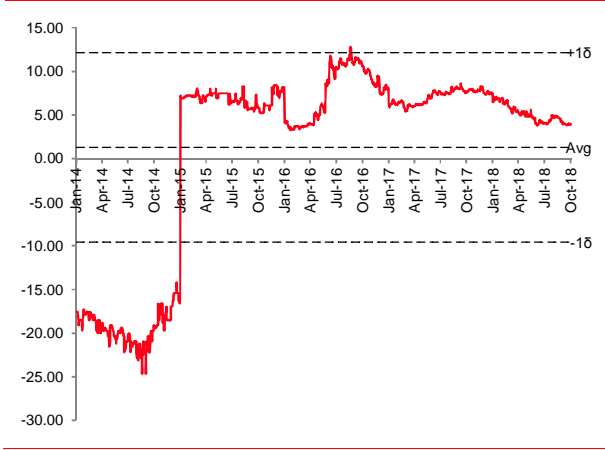


EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	105.6	131.9	139.8	210.2	216.5
EBITDA	20.8	27.5	30.0	40.4	42.3
Depreciation/Amortisation	(5.0)	(5.9)	(5.2)	(5.5)	(5.8)
Operating income (EBIT)	15.9	21.6	24.8	34.9	36.6
Other income & associates	-	(0.1)	-	-	-
Net interest	(3.2)	(4.1)	(1.1)	(1.2)	(0.5)
Exceptional items	-	2.5	-	-	-
Pretax profit	12.7	19.9	23.6	33.7	36.1
Taxation	(0.2)	(1.2)	(2.0)	(2.5)	(4.7)
Minorities/pref dividends	-	-	-	-	-
Net profit	12.5	18.7	21.7	31.2	31.4
Core net profit	12.5	16.2	21.7	31.2	31.4
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	95.6	24.1	135.4	159.9	184.1
Intangible assets	-	-	-	-	-
Other long-term assets	32.6	-	32.6	32.6	32.6
Total non-current assets	128.2	24.1	168.0	192.5	216.8
Cash & equivalent	2.6	(9.6)	6.5	8.9	11.8
Stock	61.5	-	61.5	61.5	61.5
Trade debtors	44.9	-	44.9	44.9	44.9
Other current assets	0.2	-	0.2	0.2	0.2
Total current assets	109.2	(9.6)	113.1	115.5	118.4
Trade creditors	11.6	-	11.6	11.6	11.6
Short-term borrowings	56.5	-	56.5	56.5	56.5
Other current liabilities	0.7	-	0.7	0.7	0.7
Total current liabilities	68.9	-	68.9	68.9	68.9
Long-term borrowings	10.3	-	10.3	10.3	10.3
Other long-term liabilities	1.4	-	1.4	1.4	1.4
Total long-term liabilities	11.7	-	11.7	11.7	11.7
Shareholders' funds	156.5	14.4	200.2	227.1	254.2
Minority interests	0.3	-	0.3	0.3	0.3
BV/share (RM)	0.91	0.08	1.06	1.21	1.35
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	12.7	19.9	23.6	33.7	36.1
Depreciation/Amortisation	5.0	5.9	5.2	5.5	5.8
Net change in working capital	(23.4)	-	-	-	-
Others	6.2	2.8	(0.8)	(1.4)	(4.2)
Cash flow from operations	0.5	28.6	28.0	37.8	37.6
Capital expenditure	(4.4)	(30.0)	(30.0)	(30.0)	(30.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	5.8	-	-	-	-
Cash flow from investing	1.3	(30.0)	(30.0)	(30.0)	(30.0)
Debt raised/(repaid)	4.0	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(4.2)	(4.3)	(4.3)	(4.3)	(4.3)
Others	(3.2)	-	-	-	-
Cash flow from financing	(3.5)	(4.3)	(4.3)	(4.3)	(4.3)
Net cash flow	(1.7)	(5.6)	(6.3)	3.5	3.4
Net cash/(debt) b/f	(3.1)	-	2.9	(4.5)	(2.1)
Net cash/(debt) c/f	(5.2)	(5.6)	(3.4)	(0.9)	1.2
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	32.6	24.9	6.0	50.3	3.0
EBITDA growth (%)	62.1	32.0	8.9	34.6	4.9
Pretax margin (%)	12.0	15.1	16.9	16.0	16.7
Net profit margin (%)	11.8	14.2	15.5	14.8	14.5
Interest cover (x)	5.0	5.3	21.9	29.5	74.5
Effective tax rate (%)	1.7	6.1	8.3	7.5	13.0
Dividend payout (%)	33.8	22.9	19.7	13.7	13.6
Debtors turnover (days)	144	62	59	78	76
Stock turnover (days)	195	85	80	107	104
Creditors turnover (days)	53	16	15	20	20

Source: Company, AmInvestment Bank Bhd estimates

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