



AmInvestment Bank

Company report

EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

08 Nov 2017

OEM steel racking manufacturer in the making

BUY

(Maintained)

AmInvestment Bank

www.amesecurities.com.my

03-2036 2250

Rationale for report: Company update

Investment Highlights

Price RM0.77
Fair Value RM0.97
52-week High/Low RM0.87/RM0.51

Key Changes

Fair value ⇄
EPS ⓘ

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	105.6	120.9	137.8	208.2
Core net profit (RM mil)	12.5	16.6	20.7	30.9
FD Core EPS (sen)	7.3	9.7	12.1	18.0
FD Core EPS growth (%)	101.8	33.3	24.6	49.2
Consensus Net Profit (RM mil)	-	16.6	20.7	26.1
DPS (sen)	2.5	2.5	2.5	2.5
PE (x)	10.5	7.9	6.3	4.2
EV/EBITDA (x)	9.4	8.2	7.3	5.4
Div yield (%)	3.2	3.3	3.3	3.3
ROE (%)	8.2	10.2	11.7	15.6
Net Gearing (%)	41.0	39.6	40.7	34.9

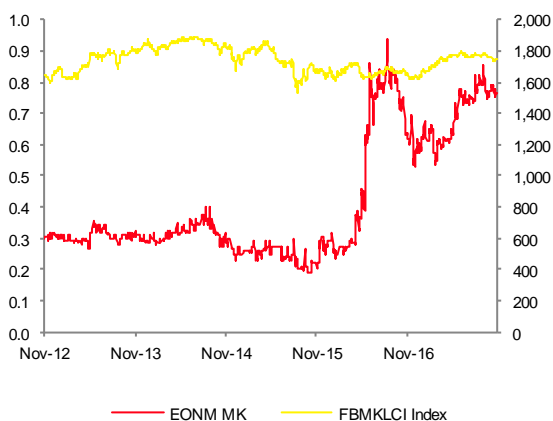
Stock and Financial Data

Shares Outstanding (million) 171.2
Market Cap (RMmil) 130.9
Book Value (RM/share) 0.91
P/BV (x) 0.8
ROE (%) 8.2
Net Gearing (%) 41.0

Major Shareholders Dato' Goh Cheng Huat (66.7%)

Free Float 33.1
Avg Daily Value (RMmil) 1.2

Price performance	3mth	6mth	12mth
Absolute (%)	3.4	17.7	21.4
Relative (%)	5.3	19.1	14.9



- We maintain our BUY and FV of RM0.97 but raise our FY19F earnings by 18% (earnings for FY17F & FY18F remain unchanged), following a recent meeting with Eonmetall Group. Our FV is based on 8x FY18F EPS of 12.1 sen, a discount to the manufacturing sector's average 1-year forward PE of 10-11x to reflect Eonmetall's relatively small market capitalization of less than RM150mil.

- Our FY19F earnings upgrade forecast is premised upon the positive development in Eonmetall. For machinery and equipment, Eonmetall is currently in the final stage of negotiation with a public-listed company for the construction of several PFOE plants on a build-operate-transfer (BOT) basis and expect to deliver the PFOE plants as early 1HFY18. In addition, Eonmetall may secure additional two PFOE plants on an outright purchase basis which are expected to be delivered as early 1HFY18.

- In addition, Eonmetall's steel and trading division earnings are expected to grow stronger in 2HFY18 through its steel racking business. The newly formed subsidiary of Eonmetall, Constructor Asia Sdn Bhd (CASB) was incorporated recently to become contract manufacturer and distributor of the steel racking solution (within the Asia Pacific region ex-Middle East) under the product flagship of Constructor from Europe. While Constructor products are predominantly focused on the Europe and Middle East regions, Constructor plans to expand its racking solution business to the Asia Pacific region via collaboration with CASB, whereby Constructor would confer licensing rights to CASB to manufacture and distribute its products. CASB is expected to begin its operation as early as 2HFY18 with an estimated annual revenue of RM50mil.

- Eonmetall's plans for overseas expansion are progressing well whereby: 1) a JV for steel racking manufacturing plant in Bangladesh to cater for steel racking products in the MENA & South Asia regions will commence by 1HFY18; and 2) a JV for steel processing plant in the UAE to cater for downstream steel products in MENA region will commence by 1HFY18.

- Nevertheless, Eonmetall guided for a subdued quarter in 3QFY17 due to the lower sales recognition from its machinery and equipment (i.e. metalwork machine and solvent plant) and steel and trading (i.e. steel racking). Notwithstanding that, we believe Eonmetall would deliver resilient earnings in FY17F as its 1HFY17 net profit came in at 73% due to lumpy billings.

- We also like Eonmetall for the growing acceptance by palm oil millers in Malaysia and Indonesia for its oil extraction plants. Eonmetall enjoys good margins for these oil extraction 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.

EXHIBIT 1: PB BAND CHART

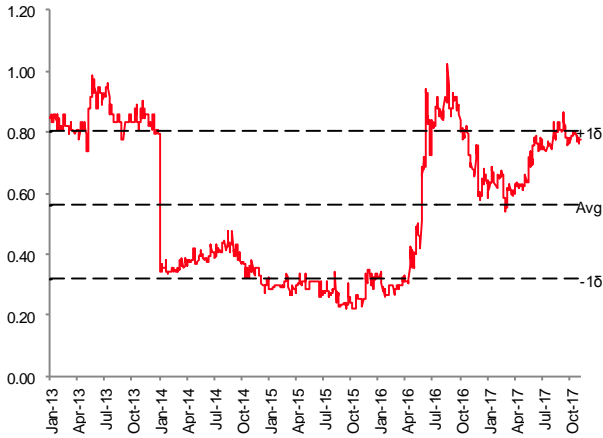


EXHIBIT 2: PE BAND CHART

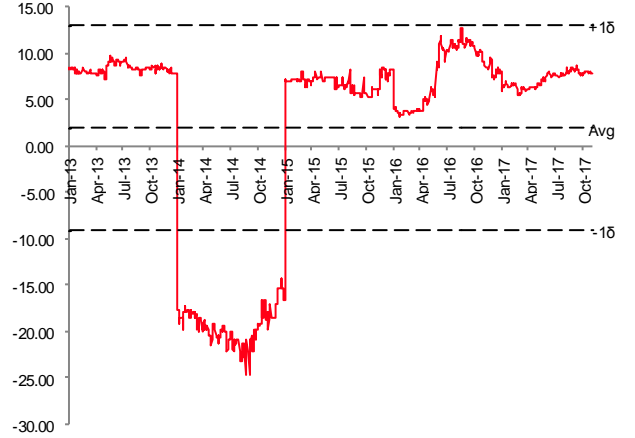


EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	79.7	105.6	120.9	137.8	208.2
EBITDA	12.9	20.8	24.1	28.2	38.0
Depreciation/Amortisation	(4.0)	(5.0)	(5.0)	(5.0)	(5.0)
Operating income (EBIT)	8.9	15.9	19.1	23.2	33.0
Other income & associates	-	-	-	-	-
Net interest	(3.3)	(3.2)	(1.2)	(0.9)	(0.5)
Exceptional items	-	-	-	-	-
Pretax profit	5.6	12.7	17.9	22.3	32.5
Taxation	0.6	(0.2)	(1.3)	(1.6)	(1.6)
Minorities/pref dividends	-	-	-	-	-
Net profit	6.2	12.5	16.6	20.7	30.9
Core net profit	6.2	12.5	16.6	20.7	30.9
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	102.2	95.6	110.6	135.6	160.7
Intangible assets	-	-	-	-	-
Other long-term assets	32.9	32.6	32.6	32.6	32.6
Total non-current assets	135.0	128.2	143.2	168.2	193.3
Cash & equivalent	2.1	2.6	(0.1)	(8.7)	(7.1)
Stock	51.4	61.5	61.5	61.5	61.5
Trade debtors	38.6	44.9	44.9	44.9	44.9
Other current assets	0.3	0.2	0.2	0.2	0.2
Total current assets	92.4	109.2	106.5	97.9	99.5
Trade creditors	18.8	11.6	11.6	11.6	11.6
Short-term borrowings	46.4	56.5	56.5	56.5	56.5
Other current liabilities	0.1	0.7	0.7	0.7	0.7
Total current liabilities	65.3	68.9	68.9	68.9	68.9
Long-term borrowings	10.7	10.3	10.3	10.3	10.3
Other long-term liabilities	2.4	1.4	1.4	1.4	1.4
Total long-term liabilities	13.1	11.7	11.7	11.7	11.7
Shareholders' funds	148.7	156.5	168.9	185.3	211.9
Minority interests	0.3	0.3	0.3	0.3	-
BV/share (RM)	0.87	0.91	0.99	1.08	1.24
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	5.6	12.7	17.9	22.3	32.5
Depreciation/Amortisation	4.0	5.0	5.0	5.0	5.0
Net change in working capital	7.9	(23.4)	-	-	-
Others	(13.5)	6.2	(0.1)	(0.7)	(1.1)
Cash flow from operations	3.9	0.5	22.8	26.6	36.4
Capital expenditure	(5.2)	(4.4)	(20.0)	(30.0)	(30.0)
Net investments & sale of fixed assets	2.7	-	-	-	-
Others	(0.1)	5.8	-	-	-
Cash flow from investing	(2.5)	1.3	(20.0)	(30.0)	(30.0)
Debt raised/(repaid)	4.6	4.0	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(4.2)	(4.3)	(4.3)	(4.3)
Others	(3.8)	(3.2)	-	-	-
Cash flow from financing	0.8	(3.5)	(4.3)	(4.3)	(4.3)
Net cash flow	2.2	(1.7)	(1.5)	(7.7)	2.1
Net cash/(debt) b/f	(4.3)	(3.1)	(8.4)	(11.1)	(19.7)
Net cash/(debt) c/f	(3.1)	(5.2)	(9.9)	(18.8)	(17.6)
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	23.7	32.6	14.4	14.0	51.1
EBITDA growth (%)	143.0	62.1	15.4	17.1	34.8
Pretax margin (%)	7.0	12.0	14.8	16.2	15.6
Net profit margin (%)	7.8	11.8	13.7	15.0	14.8
Interest cover (x)	2.7	5.0	16.4	26.5	67.2
Effective tax rate (%)	11.0	1.7	7.3	7.2	4.9
Dividend payout (%)	-	33.8	25.8	20.7	13.9
Debtors turnover (days)	147	144	136	119	79
Stock turnover (days)	219	195	186	163	108
Creditors turnover (days)	60	53	35	31	20

Source: Company, AmlInvestment Bank Bhd estimates

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