



AmInvestment Bank

Company report

EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

24 Nov 2017

On a growth path

BUY

(Maintained)

AmInvestment Bank

www.amesecurities.com.my

03-2036 2250

Rationale for report: Company results

Price RM0.82
Fair Value RM0.92
52-week High/Low RM0.87/RM0.51

Key Changes

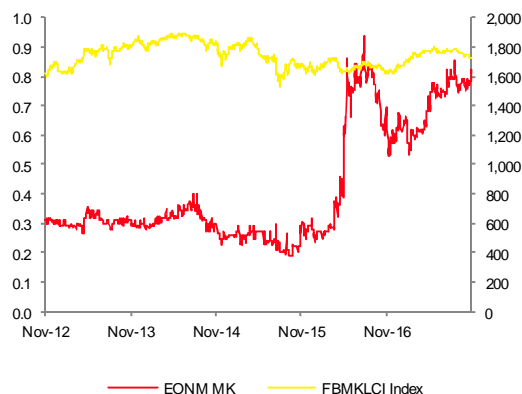
Fair value
EPS

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	105.6	122.9	139.8	210.2
Core net profit (RM mil)	12.5	18.0	21.7	31.2
FD Core EPS (sen)	7.3	10.5	12.7	18.2
FD Core EPS growth (%)	101.8	44.4	20.4	43.8
Consensus Net Profit (RM mil)	-	16.6	20.7	30.9
DPS (sen)	2.5	2.5	2.5	2.5
PE (x)	11.2	7.8	6.4	4.5
EV/EBITDA (x)	10.4	8.1	7.1	5.2
Div yield (%)	3.0	3.1	3.1	3.1
ROE (%)	8.2	10.6	11.3	14.6
Net Gearing (%)	41.0	28.9	30.1	25.5

Stock and Financial Data

Shares Outstanding (million)	171.2
Market Cap (RMmil)	139.5
Book Value (RM/share)	0.91
P/BV (x)	0.9
ROE (%)	8.2
Net Gearing (%)	41.0
Major Shareholders	Dato' Goh Cheng Huat (66.7%)

Free Float	30.1		
Avg Daily Value (RMmil)	0.8		
Price performance	3mth	6mth	12mth
Absolute (%)	3.2	15.6	19.9
Relative (%)	6.3	18.7	13.5



Investment Highlights

- We raise our FY17-19F net profit forecasts by 8%, 5% and 1% respectively, but lower our FY17-19F EPS forecasts by 1%, 5% and 8% respectively, and FV by 5% to RM0.92 (from RM0.97) to reflect the dilution from new shares. We maintain our BUY call.
- Eonmetall's 9MFY17 core net profit of RM15mil (excluding RM5mil gains from acquiring a bio-coal plant at a discounted price) beat expectations at 83% of both our full-year forecast and full-year consensus. We believe the variance against our forecast came largely from the better-than-expected sales from steel products (i.e. cold rolled coils and steel racking systems), and stronger margins realised from metalwork machines and the EPCC and maintenance contracts of solvent oil extraction plants.
- 9MFY17 core net profit decreased by 4% YoY largely due to the high base a year ago. Recall, 9MFY16 net profit was inflated by an exceptionally strong 1QFY16 (a quarterly net profit of RM11.4mil) due to lumpy profits recognised from the EPCC of solvent oil extraction plants.
- The upgrade in our net profit forecasts is to reflect stronger top-line performance from steel products, coupled with better margins from metalwork machines and the EPCC and maintenance contracts of solvent extraction plants. On the other hand, the downgrade in our EPS forecasts is to reflect the dilution arising from the expected increase in Eonmetall's paid-up capital from 171mil shares to 188mil shares, based on its proposed private placement of 10% or 17mil new shares at an issue price of RM0.74/share.
- Eonmetall's earnings visibility remains good. It is currently in the final stage of negotiation with a public-listed company for the construction of several solvent oil extraction plants on a build-operate-transfer (BOT) basis and expects to deliver the plants as early 1HFY18. In addition, Eonmetall may secure additional two plants on an outright purchase basis which are expected to be delivered as early 1HFY18. Also, Eonmetall's newly-formed subsidiary Constructor Asia Sdn Bhd (CASB) is expected to commence operation as early as 2HFY18 with estimated annual revenue of RM50mil. CASB will be granted the licensing rights by Constructor to manufacture and distribute steel racking solution within the Asia Pacific region ex-Middle East.
- We 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.

EXHIBIT 1: RESULT SUMMARY

YE Dec (RMmil)	FY17 1Q	FY17 2Q	FY17 3Q	QoQ Chg	FY16 9M	FY17 9M	YoY Chg
Net Revenue	33.0	27.7	28.9	4%	76.6	89.6	17%
Machinery & Equipment	13.8	11.5	4.5	(61%)	30.0	29.8	(1%)
Steel Product & Trading	19.3	15.6	24.4	56%	45.8	59.2	29%
Property Investment Holding & Others	0.0	0.6	0.0	(97%)	0.8	0.6	(27%)
EBIT	7.4	6.8	4.3	(36%)	18.3	18.6	2%
Machinery & Equipment	4.6	3.9	0.8	(78%)	8.8	9.3	6%
Steel Product & Trading	3.5	3.7	4.5	22%	11.3	11.7	3%
Property Investment Holding & Others	(0.6)	(0.7)	(1.0)	(36%)	(1.8)	(2.4)	(28%)
Interest Income/ (Expense)	(0.9)	(1.0)	(1.1)	(9%)	(2.3)	(3.0)	(31%)
Elimination	0.0	0.0	5.0	NIL	0.0	5.0	NIL
PBT	6.5	5.9	8.2	41%	16.0	20.6	29%
Taxation	(0.2)	(0.1)	(0.4)	(292%)	(0.3)	(0.6)	(93%)
Minority Interest	0.0	(0.0)	(0.0)	67%	(0.0)	(0.0)	(300%)
Net profit	6.3	5.8	7.9	36%	15.7	19.9	27%
Core net profit	6.3	5.8	2.9	(49%)	15.7	15.0	(4%)

Source: Company, AmInvestment Bank Bhd

EXHIBIT 2: PB BAND CHART



EXHIBIT 3: PE BAND CHART

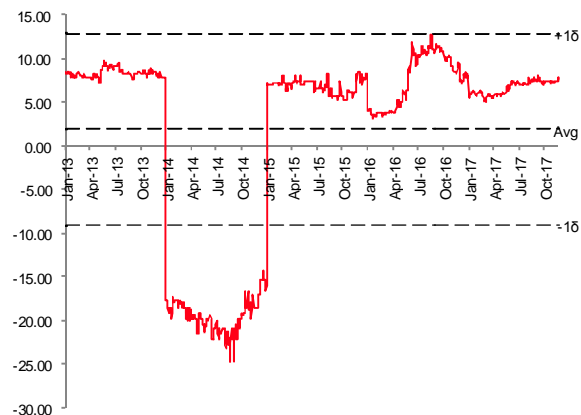


EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	79.7	105.6	122.9	139.8	210.2
EBITDA	12.9	20.8	25.4	30.0	40.4
Depreciation/Amortisation	(4.0)	(5.0)	(5.0)	(5.2)	(5.5)
Operating income (EBIT)	8.9	15.9	20.5	24.8	34.9
Other income & associates	-	-	-	-	-
Net interest	(3.3)	(3.2)	(1.2)	(1.1)	(1.2)
Exceptional items	-	-	-	-	-
Pretax profit	5.6	12.7	19.3	23.6	33.7
Taxation	0.6	(0.2)	(1.3)	(2.0)	(2.5)
Minorities/pref dividends	-	-	-	-	-
Net profit	6.2	12.5	18.0	21.7	31.2
Core net profit	6.2	12.5	18.0	21.7	31.2
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	102.2	95.6	110.6	135.4	159.9
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	168.0	192.5
Cash & equivalent	2.1	2.6	13.9	6.5	8.9
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	120.5	113.1	115.5
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	182.8	200.2	227.1
Minority interests	0.3	0.3	0.3	0.3	-
BV/share (RM)	0.87	0.91	1.07	1.17	1.33
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	5.6	12.7	19.3	23.6	33.7
Depreciation/Amortisation	4.0	5.0	5.0	5.2	5.5
Net change in working capital	7.9	(23.4)	-	-	-
Others	(13.5)	6.2	(0.1)	(0.8)	(1.4)
Cash flow from operations	3.9	0.5	24.1	28.0	37.8
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)	-	-	12.6	-	-
Dividends paid	-	(4.2)	(4.3)	(4.3)	(4.3)
Others	(3.8)	(3.2)	-	-	-
Cash flow from financing	0.8	(3.5)	8.3	(4.3)	(4.3)
Net cash flow	2.2	(1.7)	12.4	(6.3)	3.5
Net cash/(debt) b/f	(4.3)	(3.1)	(8.4)	2.9	(4.5)
Net cash/(debt) c/f	(3.1)	(5.2)	4.1	(3.4)	(0.9)
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	23.7	32.6	16.3	13.8	50.3
EBITDA growth (%)	143.0	62.1	22.0	17.8	34.6
Pretax margin (%)	7.0	12.0	15.7	16.9	16.0
Net profit margin (%)	7.8	11.8	14.6	15.5	14.8
Interest cover (x)	2.7	5.0	17.5	21.9	29.5
Effective tax rate (%)	11.0	1.7	6.7	8.3	7.5
Dividend payout (%)	-	33.8	23.8	19.7	13.7
Debtors turnover (days)	147	144	133	117	78
Stock turnover (days)	219	195	183	160	107
Creditors turnover (days)	60	53	35	30	20

Source: Company, AmInvestment Bank Bhd estimates

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