



AmInvestment Bank

## Company report

## EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

23 Feb 2018

FY17 net profit still grows 35% YoY, despite a soft 4Q

**BUY**

(Maintained)

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Rationale for report: Company results

Price	RM0.78
Fair Value	RM0.92
52-week High/Low	RM0.87/RM0.54

**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	-
DPS (sen)	2.3	2.3	2.3	2.3
PE (x)	9.0	6.7	4.7	4.6
EV/EBITDA (x)	5.2	6.4	4.7	4.4
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)	132.7
Book Value (RM/share)	0.08
P/BV (x)	10.1
ROE (%)	21.9
Net Gearing (%)	66.8

Major Shareholders Dato' Goh Cheng Huat (66.7%)

Free Float	33.1
Avg Daily Value (RMmil)	0.5

Price performance	3mth	6mth	12mth
Absolute (%)	(4.3)	(2.5)	30.3
Relative (%)	(11.1)	(6.8)	19.9



— EONM MK — FBMKLCI Index

**Investment Highlights**

- We maintain our BUY call, forecasts and FV of RM0.92 based on 8x FY18F EPS of 11.5sen, at a discount to the manufacturing sector's average 1-year forward PE of 10-11x to reflect Eonmetall's relatively small market capitalisation of less than RM150mil.
- Eonmetall's FY17 core net profit of RM16.2mil (excluding forex loss of RM2.5mil in 4QFY17 and RM5.0mil gains from acquiring a bio-coal plant at a discounted price in Q317) missed both our forecast and consensus estimates by 10%. We believe the variance against our forecast came largely from unfavourable movements in input costs for steel products during 4QFY17, resulting in a net loss of RM1.3mil during the quarter. We believe the loss was one-off in nature, and hence we maintain our FY18-19F forecasts.
- The company's FY17 turnover increased 25% YoY boosted by higher sales recognition from both machinery and equipment (M&E) and the steel product segment.
- Similarly, its FY17 core net profit rose by 35% on the back of stronger revenue recognition from its M&E and steel segments, as well improved margins primarily from its M&E segment.
- Eonmetall's earnings visibility is strong. The company 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 operations 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: RESULTS SUMMARY

YE Dec (RMmil)	FY17 1Q	FY17 2Q	FY17 3Q	FY17 4Q	QoQ Chg	FY16 12M	FY17 12M	YoY Chg
<b>Net Revenue</b>	<b>33.0</b>	<b>27.7</b>	<b>28.9</b>	<b>42.3</b>	<b>47%</b>	<b>105.6</b>	<b>131.9</b>	<b>25%</b>
Machinery & Equipment	13.8	11.5	4.5	16.0	256%	39.5	45.8	16%
Steel Product & Trading	19.3	15.6	24.4	26.2	8%	65.4	85.4	31%
Property Investment Holding & Others	0.0	0.6	0.0	0.1	840%	0.8	0.7	(10%)
<b>EBIT</b>	<b>7.4</b>	<b>6.8</b>	<b>4.3</b>	<b>3.0</b>	<b>(31%)</b>	<b>15.9</b>	<b>21.5</b>	<b>36%</b>
Machinery & Equipment	4.6	3.9	0.8	4.2	403%	9.8	13.5	37%
Steel Product & Trading	3.5	3.7	4.5	(1.4)	(131%)	8.6	10.3	19%
Property Investment Holding & Others	(0.6)	(0.7)	(1.0)	0.2	116%	(2.5)	(2.2)	13%
<b>Interest Income/ (Expense)</b>	<b>(0.9)</b>	<b>(1.0)</b>	<b>(1.1)</b>	<b>(1.1)</b>	<b>(5%)</b>	<b>(3.2)</b>	<b>(4.1)</b>	<b>(28%)</b>
<b>Share of JV</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>	<b>NIL</b>	<b>-</b>	<b>(0.1)</b>	<b>NIL</b>
<b>Elimination</b>	<b>-</b>	<b>-</b>	<b>5.0</b>	<b>(2.5)</b>	<b>(150%)</b>	<b>-</b>	<b>2.5</b>	<b>NIL</b>
<b>PBT</b>	<b>6.5</b>	<b>5.9</b>	<b>8.2</b>	<b>(0.7)</b>	<b>(108%)</b>	<b>12.7</b>	<b>19.9</b>	<b>57%</b>
<b>Taxation</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.4)</b>	<b>(0.6)</b>	<b>(57%)</b>	<b>(0.7)</b>	<b>(1.2)</b>	<b>(72%)</b>
Minority Interest	0.0	(0.0)	(0.0)	(0.0)	(300%)	(0.0)	(0.0)	80%
<b>Net profit</b>	<b>6.3</b>	<b>5.8</b>	<b>7.9</b>	<b>(1.3)</b>	<b>(116%)</b>	<b>12.0</b>	<b>18.7</b>	<b>56%</b>
<b>Core net profit</b>	<b>6.3</b>	<b>5.8</b>	<b>2.9</b>	<b>1.2</b>	<b>(58%)</b>	<b>12.0</b>	<b>16.2</b>	<b>35%</b>

Source: AmInvestment Bank Bhd, Company

## EXHIBIT 2: 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	-	-	-
<b>Pretax profit</b>	<b>12.7</b>	<b>19.9</b>	<b>23.6</b>	<b>33.7</b>	<b>36.1</b>
Taxation	(0.2)	(1.2)	(2.0)	(2.5)	(4.7)
Minorities/pref dividends	-	-	-	-	-
<b>Net profit</b>	<b>12.5</b>	<b>18.7</b>	<b>21.7</b>	<b>31.2</b>	<b>31.4</b>
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
<b>Total non-current assets</b>	<b>128.2</b>	<b>24.1</b>	<b>168.0</b>	<b>192.5</b>	<b>216.8</b>
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
<b>Total current assets</b>	<b>109.2</b>	<b>(9.6)</b>	<b>113.1</b>	<b>115.5</b>	<b>118.4</b>
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
<b>Total current liabilities</b>	<b>68.9</b>	<b>-</b>	<b>68.9</b>	<b>68.9</b>	<b>68.9</b>
Long-term borrowings	10.3	-	10.3	10.3	10.3
Other long-term liabilities	1.4	-	1.4	1.4	1.4
<b>Total long-term liabilities</b>	<b>11.7</b>	<b>-</b>	<b>11.7</b>	<b>11.7</b>	<b>11.7</b>
<b>Shareholders' funds</b>	<b>156.5</b>	<b>14.4</b>	<b>200.2</b>	<b>227.1</b>	<b>254.2</b>
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)
<b>Cash flow from operations</b>	<b>0.5</b>	<b>28.6</b>	<b>28.0</b>	<b>37.8</b>	<b>37.6</b>
Capital expenditure	(4.4)	(30.0)	(30.0)	(30.0)	(30.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	5.8	-	-	-	-
<b>Cash flow from investing</b>	<b>1.3</b>	<b>(30.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>	<b>(30.0)</b>
Debt raised/(repaid)	4.0	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(4.2)	(4.3)	(4.3)	(4.3)	(4.3)
Others	(3.2)	-	-	-	-
<b>Cash flow from financing</b>	<b>(3.5)</b>	<b>(4.3)</b>	<b>(4.3)</b>	<b>(4.3)</b>	<b>(4.3)</b>
<b>Net cash flow</b>	<b>(1.7)</b>	<b>(5.6)</b>	<b>(6.3)</b>	<b>3.5</b>	<b>3.4</b>
<b>Net cash/(debt) b/f</b>	<b>(3.1)</b>	<b>-</b>	<b>2.9</b>	<b>(4.5)</b>	<b>(2.1)</b>
<b>Net cash/(debt) c/f</b>	<b>(5.2)</b>	<b>(5.6)</b>	<b>(3.4)</b>	<b>(0.9)</b>	<b>1.2</b>
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, AmlInvestment Bank Bhd estimates

EXHIBIT 3: PB BAND CHART

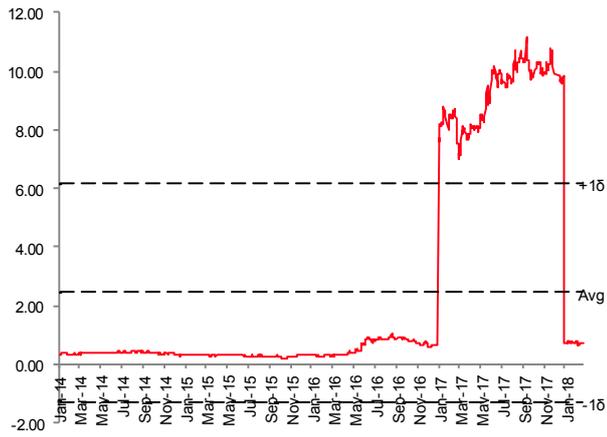
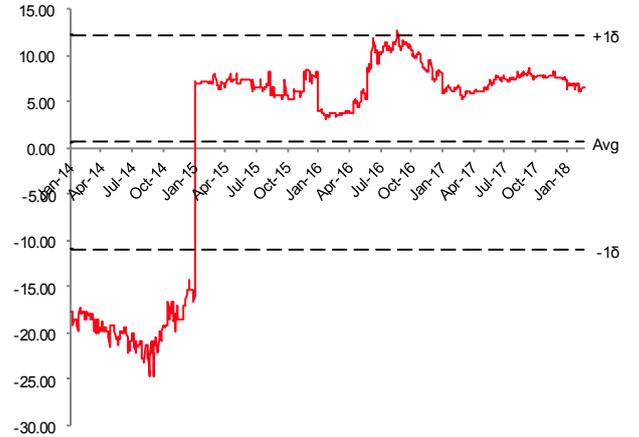


EXHIBIT 4: PE BAND CHART



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