



AmInvestment Bank

Company report

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EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

MANUFACTURING

22 Feb 2017

Earnings double in FY16

BUY

(Maintained)

Rationale for report: Company results

Price	RM0.64
Fair Value	RM0.78
52-week High/Low	RM0.96/RM0.25

Key Changes

Fair value	↔
EPS	↔

YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	105.6	120.9	129.3	137.9
Core net profit (RM mil)	12.5	16.6	18.3	20.3
FD Core EPS (sen)	7.3	9.7	10.7	11.9
FD Core EPS growth (%)	101.8	33.3	10.2	11.2
Consensus Net Profit (RM mil)	-	16.6	18.3	-
DPS (sen)	2.5	2.5	2.5	2.5
PE (x)	8.8	6.6	6.0	5.4
EV/EBITDA (x)	8.3	6.7	5.7	4.8
Div yield (%)	3.8	3.9	3.9	3.9
ROE (%)	8.2	10.2	10.4	10.7
Net Gearing (%)	41.0	30.7	20.7	11.0

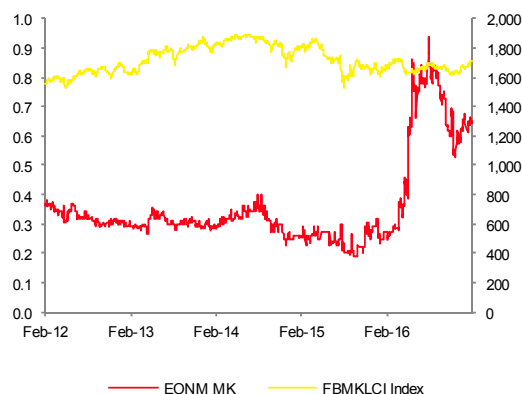
Stock and Financial Data

Shares Outstanding (million)	171.2
Market Cap (RMmil)	109.5
Book Value (RM/share)	0.91
P/BV (x)	0.7
ROE (%)	8.2
Net Gearing (%)	41.0

Major Shareholders Dato' Goh Cheng Huat (66.7%)

Free Float	33.1
Avg Daily Value (RMmil)	0.6

Price performance	3mth	6mth	12mth
Absolute (%)	(1.5)	(31.6)	137.0
Relative (%)	(6.1)	(32.3)	132.6



Investment Highlights

- We maintain our BUY call, forecasts and FV of RM0.78 despite Eonmetall's FY16 results coming in 14% below our forecast and the consensus estimates. Our FV is based on 8x FY17F EPS of 9.7sen, 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 FY16 net profit missed expectations due to a RM3.2mil net loss in 4Q following: (1) a spike in prices of hot-rolled coils, the input in the production of cold-rolled coils in end-2016; (2) a higher-than-expected provision for 2016 staff bonus; and (3) a negative adjustment to inventory following a recent stock-taking exercise. We are more inclined to see these as one-off items and as such we are keeping our FY17F and FY18F forecasts. Overall, FY16 net profit doubled from a year ago thanks to lumpy profits recognised from the progress billings from several palm-pressed fibre oil extraction (PFOE) plants under construction.
- We understand that Eonmetall is currently in negotiation with a publicly listed company to build several PFOE plants on a build-operate-transfer (BOT) basis. It is also in talks with an existing client (a government agency) for the order of its second PFOE plant, and a new customer (a publicly listed plantation company) for the contract of its first ever PFOE plant.
- Eonmetall owns the patents in Malaysia, Indonesia and India to a solvent extraction technology for residual oil from mesocarp fibre of the palm oil fruit (as well as kernel cake), which Eonmetall commercialises in the form of PFOE plants (as well as palm kernel oil extraction or PKOE plants). Typically, the "screw press" process in a conventional palm oil mill only manages to extract 94-95% of total oil content of the mesocarp of the oil palm fruit, with the balance 5-6% remaining in the mesocarp fibre. Eonmetall's patented solvent-based oil extraction technology extracts the residual oil in the mesocarp fibre, boosting total recoverable oil content by an additional 3-4%.
- We 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 insourcing of inputs (steel products and metalwork machinery) used in the fabrication of these plants. Generally, steel products, metalwork machinery and oil extraction plants, each contributes about a third to Eonmetall's group earnings.

EXHIBIT 1: RESULTS SUMMARY

YE Dec (RMmil)	FY16 1Q	FY16 2Q	FY16 3Q	FY16 4Q	QoQ Chg	FY15 12M	FY16 12M	YoY Chg
Turnover	32.9	26.6	17.1	29.0	70%	79.7	105.6	33%
Machinery/Plants	20.5	9.4	0.1	9.4	>100%	16.4	39.5	>100%
Steel Products	12.4	16.6	16.7	19.6	17%	62.2	65.4	5%
Others	0.0	0.5	0.3	0.0	nm	1.1	0.8	(24%)
EBIT	12.3	4.8	1.1	(2.4)	nm	8.9	15.9	78%
Net inc/(exp)	(0.8)	(0.7)	(0.7)	(0.9)	28%	(3.3)	(3.2)	(4%)
Associates	0.0	0.0	0.0	0.0	nm	0.0	0.0	nm
Pretax profit	11.5	4.1	0.4	(3.3)	nm	5.6	12.7	>100%
Machinery/Plants	9.4	0.6	(2.3)	0.6	nm	(1.5)	8.3	nm
Steel Products	2.9	3.8	3.8	(3.1)	nm	8.1	7.3	(9%)
Others	(0.7)	(0.3)	(1.1)	(0.8)	nm	(1.0)	(2.9)	nm
Taxation	(0.1)	(0.1)	(0.2)	0.1	nm	0.6	(0.2)	nm
Minority interest	0.0	(0.0)	0.0	(0.0)	nm	(0.0)	(0.0)	nm
Net profit	11.4	4.0	0.2	(3.2)	nm	6.2	12.5	>100%
EPS (sen)	6.8	2.4	0.1	(1.9)	nm	3.7	7.4	>100%
		0.0						
EBIT margin	37%	18%	6%	(8%)	(15%)	11%	15%	4%
Pretax margin	35%	15%	2%	(11%)	(14%)	7%	12%	5%
Effective tax rate	1%	2%	39%	4%	(36%)	(11%)	2%	13%

Source: Bursa Malaysia

EXHIBIT 2: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	79.7	105.6	120.9	129.3	137.9
EBITDA	12.9	20.8	24.1	25.8	27.5
Depreciation/Amortisation	(4.0)	(5.0)	(5.0)	(5.0)	(5.0)
Operating income (EBIT)	8.9	15.9	19.1	20.8	22.5
Other income & associates	-	-	-	-	-
Net interest	(3.3)	(3.2)	(1.2)	(0.9)	(0.6)
Exceptional items	-	-	-	-	-
Pretax profit	5.6	12.7	17.9	19.9	21.9
Taxation	0.6	(0.2)	(1.3)	(1.6)	(1.6)
Minorities/pref dividends	-	-	-	-	-
Net profit	6.2	12.5	16.6	18.3	20.3
Core net profit	6.2	12.5	16.6	18.3	20.3
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	102.2	95.6	95.6	95.6	95.7
Intangible assets	-	-	-	-	-
Other long-term assets	32.9	32.6	32.6	32.6	32.6
Total non-current assets	135.0	128.2	128.2	128.2	128.3
Cash & equivalent	2.1	2.6	14.9	28.9	45.0
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	121.5	135.5	151.6
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	182.9	199.0
Minority interests	0.3	0.3	0.3	0.3	-
BV/share (RM)	0.87	0.91	0.99	1.07	1.16
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	5.6	12.7	17.9	19.9	21.9
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)	(1.0)
Cash flow from operations	3.9	0.5	22.8	24.2	25.9
Capital expenditure	(5.2)	(4.4)	(5.0)	(5.0)	(5.0)
Net investments & sale of fixed assets	2.7	-	-	-	-
Others	(0.1)	5.8	-	-	-
Cash flow from investing	(2.5)	1.3	(5.0)	(5.0)	(5.0)
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)	13.5	14.9	16.6
Net cash/(debt) b/f	(4.3)	(3.1)	(8.4)	3.9	17.9
Net cash/(debt) c/f	(3.1)	(5.2)	5.1	18.8	34.6
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	23.7	32.6	14.4	7.0	6.6
EBITDA growth (%)	143.0	62.1	15.4	7.2	6.8
Pretax margin (%)	7.0	12.0	14.8	15.4	15.9
Net profit margin (%)	7.8	11.8	13.7	14.2	14.8
Interest cover (x)	2.7	5.0	16.4	23.2	37.8
Effective tax rate (%)	11.0	1.7	7.3	8.0	7.3
Dividend payout (%)	-	33.8	25.8	23.4	21.0
Debtors turnover (days)	147	144	136	127	119
Stock turnover (days)	219	195	186	174	163
Creditors turnover (days)	60	53	35	33	31

Source: Company, AmlInvestment Bank Bhd estimates

EXHIBIT 3: PB BAND CHART

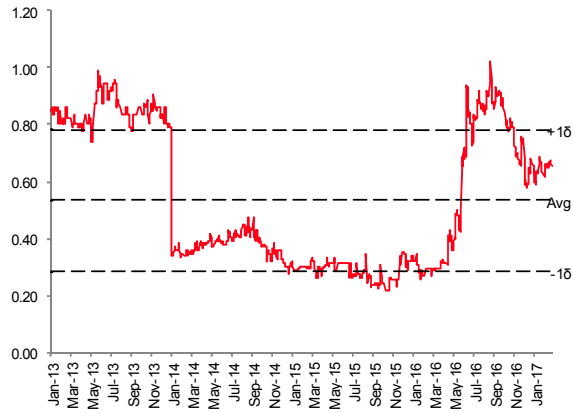
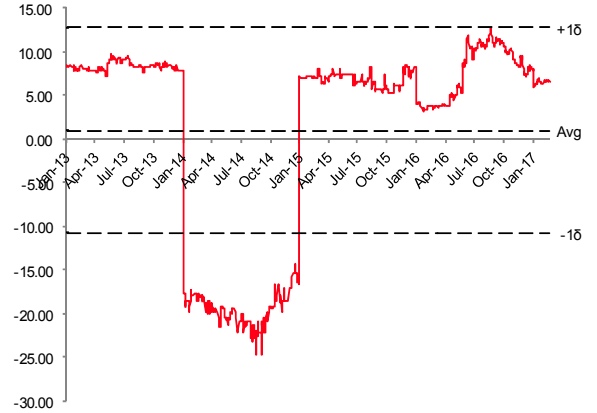


EXHIBIT 4: PE BAND CHART



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