

Company report

EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

26 May 2017

A strong start to FY17

BUY

AmInvestment Bank

www.amsecurities.com 03-2036 2250

Major Shareholders

Avg Daily Value (RMmil)

Free Float

Rationale for report: Company results

DUI

(Maintained)

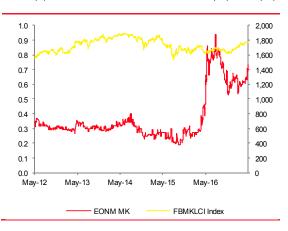
RM0.68 Price Fair Value RM0.78 RM0.96/RM0.51 52-week High/Low **Key Changes** Fair value \Leftrightarrow ⇔ YE to Dec FY16 FY17F FY18F FY19F Revenue (RM mil) 105.6 120.9 129.3 137.9 Core net profit (RM mil) 125 20.3 16.6 18.3 FD Core EPS (sen) 7.3 9.7 10.7 11.9 FD Core EPS growth (%) 101.8 33.3 11.2 10.2 Consensus Net Profit (RM mil) 16.6 18.3 20.3 DPS (sen) 2.5 2.5 2.5 2.5 9.3 7.0 5.7 PE (x) 6.4 EV/EBITDA (x) 8.7 7.0 6.0 5.0 Div yield (%) 3.8 3.9 3.9 3.9 10.7 ROE (%) 10.2 10.4 8.2 Net Gearing (%) 41.0 30.7 20.7 11.0 Stock and Financial Data 171 2 Shares Outstanding (million) Market Cap (RMmil) 116.4 Book Value (RM/share) 0 91 P/BV (x) 0.7 **ROE (%)** 8.2 Net Gearing (%)

Price performance	3mth	6mth	12mth
Absolute (%)	18.3	(1.4)	7 9
Relative (%)	13.2	(9.6)	(0.8)

33.1

0.4

Dato' Goh Cheng Huat (66.7%)



Investment Highlights

- We maintain our BUY call, forecasts and FV of RM0.78 based on 8x FY17F EPS of 9.7 sen, at a discount to the manufacturing sector's average 1-year forward PE of 10-11x to reflect Eonmetall Group's (EG) relatively small market capitalisation of less than RM150mil.
- EG's 1QFY17 net profit came in at 38% of our and consensus full-year forecasts respectively. However, we consider the results within expectations as EG's quarterly earnings could be volatile due to lumpy profits recognised from palm fibre oil extraction (PFOE) plant projects, depending on progress.
- EG reported net profit of RM6.3mil in 1QFY17 as compared to RM11.4mil for 1QFY16 and net loss of RM3.2mil in 4QFY16 due to:
 - Machinery & Equipment division (including PFOE plant project) This segment recorded revenue of RM13.8mil as compared to RM20.5mil for 1QFY16 and RM9.4mil for 4QFY16. 1QFY16 was an exceptionally strong quarter, while 4Q16 was a washout.
 - Steel Product & Trading division Revenue rose by 56% YoY and marginally dropped QoQ by 2%. However, PBT for 1QFY17 was lower YoY due to the low margin generated from the flat steel coil processing business.
- We believe earnings will continue to improve further in the coming quarters of FY17 mainly from the Machinery and Equipment division. This is due to the current ongoing negotiation between EG and 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.
- We like EG for the growing acceptance by palm oil millers in Malaysia and Indonesia for its oil extraction plants. EG 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, contribute about a third to EG group earnings each.

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YE Dec	FY16	RESULT SU FY17	QoQ	FY16	FY17	YoY
(RMmil)	4Q	1Q	Chg	3M	3M	Chg
Net Revenue	29.0	33.0	14%	32.9	33.0	0%
Machinery & Equipment	9.4	13.8	46%	20.5	13.8	(33%)
Steel Product & Trading	19.6	19.3	(2%)	12.4	19.3	56%
Property Investment Holding & Others	0.0	0.0	NIL	0.0	0.0	NIL
Interest Income/ (Expense)	0.1	(0.2)	(248%)	(0.1)	(0.2)	66%
PBT	(3.3)	6.5	296%	11.5	6.5	(44%)
Machinery & Equipment	0.6	4.2	579%	9.4	4.2	(55%)
Steel Product & Trading	(3.1)	2.9	191%	2.9	2.9	(0%)
Property Investment Holding & Others	(0.8)	(0.6)	23%	(0.7)	(0.6)	18%
Taxation	0.1	(0.2)	(248%)	(0.1)	(0.2)	(66%)
Non-controlling interest	(0.0)	0.0	(100%)	(0.0)	0.0	(100%)
Net profit	(3.2)	6.3	297%	11.4	6.3	(45%)
Basic/Diluted EPS (sen)	(1.9)	3.7	298%	6.8	3.7	(45%)
Pretax margin	(11%)	20%	272%	35%	20%	(44%)
Effective tax rate	NIL	3%	NIL	1%	3%	196%

Source: AmInvestment Bank Bhd, Company

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evenue BITDA epreciation/Amortisation berating income (EBIT) her income & associates et interest toceptional items	79.7 12.9 (4.0) 8.9	FY16 105.6 20.8	FY17F 120.9	FY18F	FY19F
BITDA epreciation/Amortisation perating income (EBIT) her income & associates et interest	12.9 (4.0) 8.9	20.8	120.9	100.0	
epreciation/Amortisation perating income (EBIT) her income & associates et interest	(4.0) 8.9			129.3	137.9
perating income (EBIT) her income & associates et interest	`8.9 -		24.1	25.8	27.5
perating income (EBIT) her income & associates et interest	`8.9 -	(5.0)	(5.0)	(5.0)	(5.0)
her income & associates et interest	- (2.2)	15.9	19.1	20.8	22.5
et interest	(2.2)	-	-		
	(3.3)	(3.2)	(1.2)	(0.9)	(0.6)
	(0.0)	(0.2)	(1.2)	(0.7)	(0.0)
etax profit	5.6	12.7	17.9	19.9	21.9
etax profit	0.6	(0.2)	(1.3)	(1.6)	(1.6)
norities/pref dividends	0.0	(0.2)	(1.5)	(1.0)	(1.0)
et profit	6.2	12.5	16.6	18.3	20.3
pre net profit	6.2	12.5	16.6	18.3	20.3
ne nei proni	0.2	12.3	10.0	10.3	20.3
alance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
xed assets	102.2	95.6	95.6	95.6	95.7
angible assets		-	-	-	-
her long-term assets	32.9	32.6	32.6	32.6	32.6
otal non-current assets	135.0	128.2	128.2	128.2	128.3
ash & equivalent	2.1	2.6	14.9	28.9	45.0
ock	51.4	61.5	61.5	61.5	61.5
ade debtors	38.6	44.9	44.9	44.9	44.9
her current assets	0.3	0.2	0.2	0.2	0.2
otal current assets	92.4	109.2	121.5	135.5	151.6
ade creditors	18.8	11.6	11.6	11.6	11.6
nort-term borrowings	46.4	56.5	56.5	56.5	56.5
her current liabilities	0.1	0.7	0.7	0.7	0.7
otal current liabilities	65.3	68.9	68.9	68.9	68.9
ing-term borrowings	10.7	10.3	10.3	10.3	10.3
her long-term liabilities	2.4	1.4	1.4	1.4	1.4
otal long-term liabilities	13.1	11.7	11.7	11.7	11.7
nareholders' funds	148.7	156.5	168.9	182.9	199.0
nority interests	0.3	0.3	0.3	0.3	177.0
//share (RM)	0.87	0.91	0.99	1.07	1.16
ash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
etax profit	5.6	12.7	17.9	19.9	21.9
epreciation/Amortisation	4.0	5.0	5.0	5.0	5.0
et change in working capital	7.9	(23.4)	_	_	-
hers	(13.5)	6.2	(0.1)	(0.7)	(1.0)
ash flow from operations	3.9	0.5	22.8	24.2	25.9
apital expenditure	(5.2)	(4.4)	(5.0)	(5.0)	(5.0)
et investments & sale of fixed assets	2.7	(,	(0.0)	(0.0)	(0.0)
hers	(0.1)	5.8	_	_	
ash flow from investing	(2.5)	1.3	(5.0)	(5.0)	(5.0)
ebt raised/(repaid)	4.6	4.0	(3.0)	(3.0)	(3.0)
quity raised/(repaid)	4.0	4.0			
vidends paid	-	(4.2)	(4.3)	(4.3)	(4.3)
hers	(3.8)	(3.2)	(4.3)	(4.3)	(4.3)
	, ,		(4.2)	(4.2)	(4.2)
ash flow from financing	0.8	(3.5)	(4.3)	(4.3)	(4.3)
et cash flow	2.2	(1.7)	13.5	14.9	16.6
et cash/(debt) b/f et cash/(debt) c/f	(4.3) (3.1)	(3.1) (5.2)	(8.4) 5.1	3.9 18.8	17.9 34.6
ey Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
evenue growth (%)	23.7	32.6	14.4	7.0	6.6
BITDA growth (%)	143.0	62.1	15.4	7.0	6.8
etax margin (%)	7.0	12.0	14.8	15.4	15.9
et profit margin (%)	7.8	11.8	13.7	14.2	14.8
terest cover (x)	2.7	5.0	16.4	23.2	37.8
fective tax rate (%)	11.0	1.7	7.3	8.0	7.3
vidend payout (%)	4.77	33.8	25.8	23.4	21.0
ebtors turnover (days)	147	144	136	127	119
ock turnover (days)	219	195	186	174	163
editors turnover (days)	60	53	35	33	31

Source: Company, AmInvestment Bank Bhd estimates

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EXHIBIT 3: PB BAND CHART



EXHIBIT 4: PE BAND CHART



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