

STEEL

Machine Master

Stock Profile/Statistics

Bloomberg Ticker	EONM MK
Issued Share Capital (m)	165.63
Market Capitalisation (RMm)	115.94
52 week H L Price (RM)	0.88 0.43
Average Volume (3m) '000	498.46
YTD Returns (%)	0.04
Net gearing (x)	0.19
Altman Z-Score	3.47
ROCE/WACC	1.56
Beta (x)	-
Book Value/share (RM)	0.53

Major Shareholders (%)

Eonmetall Corporation SB	50.94
Dato' Goh Cheng Huat	15.85

Share Performance (%)

Month	Absolute	Relative
1m	-7.29	-13.40
3m	6.06	-6.75
6m	17.98	-8.25
12m	40.00	3.35

6-month Share Price Performance
INVESTMENT MERITS

- ❖ Leading MME in S.E.A
- ❖ Future growth to be driven by new plant and capacity expansion.
- ❖ Expanding overseas presence via vertical integration with potential JV with Indonesia, UAE and Namibia partners.
- ❖ Moving upstream by expanding CRC line and installing GI line will boost revenue and bottomline.
- ❖ On-going product development and aggressive marketing to improve competitiveness.

COMPANY PROFILE

Eonmetall history can be traced back since early 1990, with the establishment of Eonmetall Industries Sdn. Bhd. by Dato' Goh Cheng Huat. The company involves in the manufacturing of steel products predominantly on secondary flat steel products and steel storage system, machinery and equipment (MME) and provision of IT solutions. To-date, the company has successfully patented various manufacturing processes or products. The IT solutions division concentrates in developing "front end and back end" solution for most manufacturing companies and is synergistic to its MME division for factory automation projects. Eonmetall exports more than 70% of its product to countries namely the Middle East, Africa, Asia and Asia Pacific, Europe and North America. The company was listed on second board of Bursa Malaysia on 26 July 2005 and was recently promoted to the main board.

KEY HIGHLIGHTS

Focus on niche products. Eonmetall produces a wide range of secondary flat steel products such as slotted angle, conduit pipe, purlins, filter mesh, heavy duty racking system etc and forms a major revenue contributor to the company, contributing approximately 67% of total revenue in FY06. More than 90% of the company's machineries are designed internally via the MME division, hence cheaper CAPEX and also the flexibility for making minor modifications to meet clients' requirements.

New plant – new boost. The company is currently commissioning a new factory within the vicinity of its existing plant in Penang. Eonmetall will move the secondary flat steel production line to the new plant and expects to add new capacity from 36,400 tpy to 58,400 tpy. The removal of the existing line is expected to provide additional space for its MME division that is facing space constrain currently with capacity cap at 50 units per year (new capacity will improve it to 80 units per year). With commercial commissioning by 2QFY07, we are likely to see substantial growth in earnings going forward. On top of that, Eonmetall is set to further expand its capacity by building another plant with a build up area of 28,000 m² scheduled for completion by FY08.

Expansion via vertical integration. Eonmetall is conducting a feasibility study to set up a strategic alliance to produce secondary flat steel plant in Indonesia. The JV is expected to benefit Eonmetall to supply machinery as well as supplying raw materials to the new JV company. Eonmetall also planning to venture into UAE and Namibia to produce cold rolled coil (CRC), pipe and hollow section in order to increase its presence in the region as well as generating more export sales for its products.

Moving upstream. The company is also upgrading and installing new manufacturing facilities to move upstream. Currently, Eonmetall has capacity of 80,000 tpy for CRC and is installing a new line to up the capacity to 160,000 tpy by 2HFY07. Apart from internal usage, the additional capacity will be sold to its existing clients. Apart from that, Eonmetall is also installing a new galvanizing iron (GI) line for internal usage and for its export markets as well. Meanwhile, the company is planning to produce pre-painted galvanized iron (PPGI) by FY08. We believe this value added coil is expected to significantly boost revenue of the company as well as improving bottomline and enhance competitiveness.

COMPANY REPORT CARD

ROE. Based on the impending catalysts ahead, we think the company is heading on a right path to record attractive double digit ROE going forward.

Management. Eonmetall management is led by Dato' Goh Cheng Huat that has extensive knowledge and experience in steel industry of more than 20 years. Under his strong leadership, the success of Eonmetall is assured.

Dividend. The company did not declare any dividend for FY06, instead rewarded its shareholders with a 2:1 bonus issue. Given the positive news flow ahead, we believe Eonmetall will pay a decent gross dividend yielding 6.4% for FY07.

RECOMMENDATION

With the company's expansion now nearing to completion, we rate Eonmetall a BUY with a 12-month target price tagged at RM0.85 or 22.1% upside. The fair value is derived from a composition of peer PER and peer P/B on FY07 figures. Couple with a potential attractive dividend yield of 6.4% the stock may likely deliver a 12-month total return of 28.5%.

Income Statement (RMm)

FYE 31 Dec	FY04	FY05	FY06	FY07F
Turnover	78.4	70.0	93.9	141.4
Growth (%)	58.9	(10.8)	34.1	50.6
EBITDA	20.1	19.6	22.7	28.2
Pretax	16.1	15.0	16.5	19.8
Net Earnings	13.4	14.7	14.3	17.8
EPS (sen)	8.1	8.9	8.7	10.8
Growth (%)	14.5	9.6	(3.0)	24.2
NTA/Share (RM)	0.33	0.53	0.62	0.70
Gross Div (sen)	0.0	10.0	0.0	4.5
Div Yield (%)	0.0	1428.6	0.0	640.5
PER (x)	8.6	7.8	8.1	6.5
P/NTA (x)	2.10	1.33	1.13	1.00
Net Cash/Share	0.00	(0.05)	(0.13)	(0.25)

Balance Sheet (RMm)

FYE 31 Dec	FY03	FY04	FY05	FY06
Fixed Assets	-	-	47.8	70.9
Current Assets	-	-	70.2	75.7
Current Liabilities	-	-	(23.1)	(31.1)
Others	-	-	0.0	0.0
Total	-	-	94.9	155.5
Share capital	-	-	55.0	55.0
Reserves	-	-	31.8	46.8
Shareholder Fund	-	-	86.8	101.8
LT Liabilities	-	-	8.1	13.8
Others	-	-	0.0	0.0
Total	-	-	94.9	155.5
Gross Debt	-	-	19.3	28.9
Net Cash/ (Debt)	-	-	(8.1)	(21.6)

Cash Flow Statement (RMm)

FYE 31 Dec	FY04	FY05	FY06
Cash Flow from Ops	-	(5.0)	16.7
Cash Flow from Investing	-	(1.5)	(27.3)
Cash Flow from Financing	-	17.0	4.6
Net Increase in Cash	-	10.4	6.1
Cash at Beginning of Year	-	0.0	10.4
Other Changes	-	0.0	0.0
Cash at End of Year	-	10.4	4.4