



MALAYSIA EQUITY
Investment Research
Daily News

STEEL

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Stock Profile/Statistics

Bloomberg Ticker	EONM MK
KLCI	Equity 1261.82
Issued Share Capital (m)	171.17
Market Capitalisation (RMm)	150.63
52 week H L Price (RM)	1.35 0.67
Average Volume (3m) '000	60.56
YTD Returns (%)	-0.13
Net gearing (x)	0.38
Altman Z-Score	2.28
ROCE/WACC	0.95
Beta (x)	1.07
Book Value/share (RM)	1.38

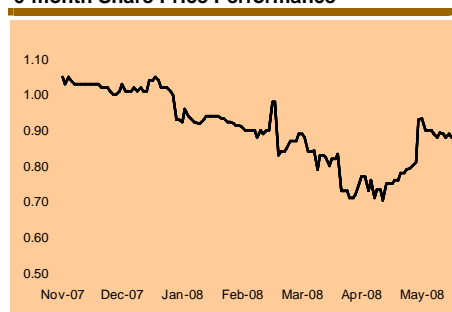
Major Shareholders (%)

Goh Cheng Huat	15.4
Goh Kee Seng	1.6
Pachi Mogd Desa	1.5

Share Performance (%)

Month	Absolute	Relative
1m	26.24	19.36
3m	1.14	5.18
6m	-15.24	-8.72
12m	24.39	26.57

6-month Share Price Performance



1QFY08 Results Review

Private Circulation Only

Eonmetall

NEUTRAL	Maintain
Price	RM0.88
Target	RM0.97

Seeds sown for a better future

Despite Eonmetall's 1QFY08 results came in well below our expectation, we are maintaining our earnings estimates incorporating higher contributions from mechanical machinery equipment (MME) and secondary flat steel (SFS) division as well as JV at Dubai. With that, we maintain our NEUTRAL recommendation but revised up our 12-months target price to RM0.97 after rolling over to FY09 earnings and incorporating 20% discount to our latest steel sector PER of 10x.

Weaker sales to blame? Eonmetall's annualized net profit and revenue were 57% and 27.7% below our estimates. Though revenue was 33.8% higher y-o-y, the numbers were 15.1% lower than the preceding quarter mainly attributed to lower delivery by MME division on festivity in 1Q. On top of that, the higher overhead cost also resulted to MME division posting operating losses of RM0.3m. SFS division recorded flattish sales q-o-q. Nevertheless, associates in Dubai, United Arab Emirates showed an encouraging growth in profit contribution to RM1.3m.

More machine delivery in 2H? Given that MME division sales are traditionally weaker in 1H as customers usually make enquiries at this period (refer Figure 1), we are hopeful that the delivery may pickup in 2H. On top of that, the handover of its palm solvent extraction plant (PFOP) to its first customer last year suggest more orders from palm oil players especially with the upsurge of CPO price. The company also managed to secure second order from Kim Loong Resources Bhd after the first handover that expect to be delivered by end of FY08.

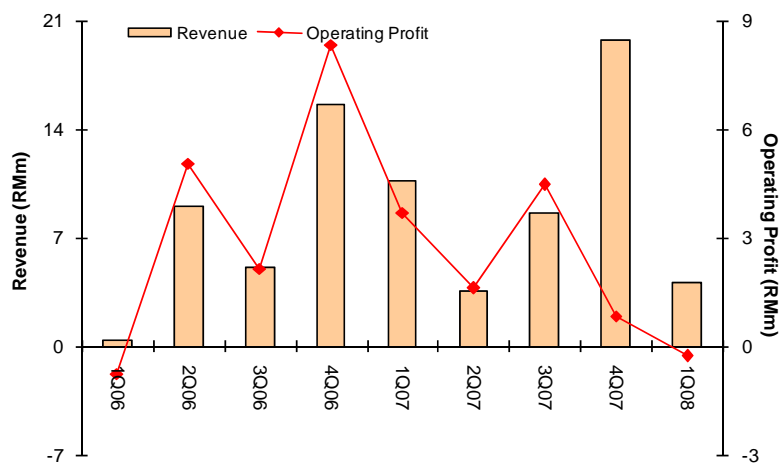
Flat rolling license obtained. The management has alluded to that it has recently secured licenses for cold rolled coil (CRC) and galvanized iron (GI). With these, we expect Eonmetall may commission both production lines as soon as in 3QFY08 thus offer new income stream to the company as well as cost saving for its downstream operation.

Riding on Middle East boom... Eonmetall has seen encouraging contributions from its JV in Dubai with growth of 18% y-o-y. With orders book valuing at ~RM60m, we are expecting more than half of those orders to be recognized in FY08. Despite only a 30% stake in the JV, the outlook for district cooling business will be robust especially in the Middle East supported by burgeoning oil & gas industry following the up surge of oil prices >US\$130/barrel that suggest booming construction activities.

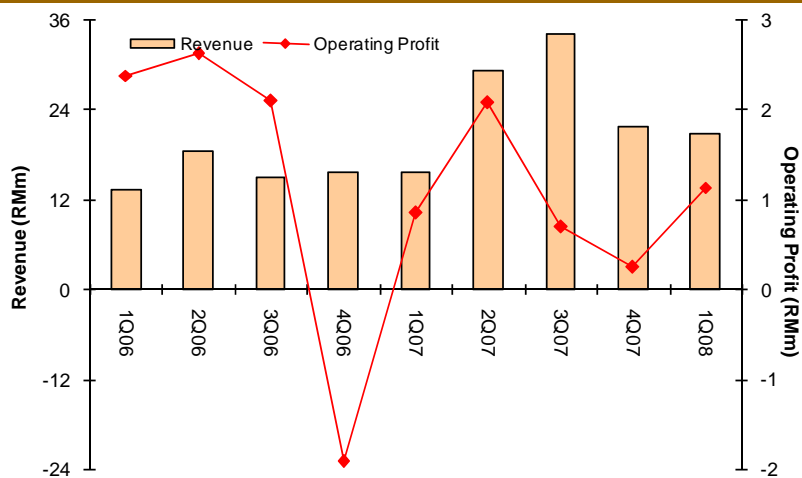
FYE Dec (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	70.0	93.9	140.4	194.7	230.7
Core Net Profit	14.7	14.3	11.7	17.7	20.8
% chg YoY	9.6	(3.0)	(18.0)	51.1	17.3
Consensus Net Profit	-	-	-	16.0	20.7
EPS (sen)	8.9	8.7	6.9	10.4	12.2
Gross DPS (sen)	3.3	3.5	3.5	4.2	4.9
Gross Div. Yield (%)	3.8	3.9	3.9	4.8	5.6
PER (x)	9.9	10.2	12.8	8.5	7.2
P/BV (x)	1.7	1.4	1.3	1.2	1.0
EV/EBITDA (x)	8.1	7.6	11.5	8.2	7.4
ROE (%)	20.8	15.2	10.7	14.3	15.1
ROA (%)	25.0	10.8	6.9	8.4	8.8

EARNINGS FORECAST**Quarter Results Table**

FYE Dec (RMm)	1QFY08	4QFY07	% chg	YTD FY08	YTD FY07	% chg
Turnover	35.2	41.4	-15.1%	35.2	26.3	33.8%
EBITDA	2.0	(0.2)	-1085.9%	2.0	5.4	-63.0%
Depreciation	(0.8)	(0.8)	0.0%	(0.8)	(1.2)	-31.7%
Net interest expense	(0.6)	(1.5)	-59.4%	(0.6)	(0.5)	12.5%
Associates	1.3	1.5	-17.3%	1.3	0.0	#DIV/0!
PBT	1.9	(1.0)	-290.7%	1.9	3.7	-49.9%
Tax	0.0	1.3	-96.5%	0.0	(0.3)	-113.6%
MI	0.0	0.0	#DIV/0!	0.0	0.0	#DIV/0!
Net Profit	1.9	0.4	439.8%	1.9	3.4	-43.5%
EPS (sen)	1.1	0.2		1.1	2.0	
Gross DPS (sen)	0.0	3.4		0.0	0.0	
EBITDA margin	5.7%	-0.5%		5.7%	20.5%	

Figure 1: Eonmetall MME division: 1) Revenue 2) Net Profit

Source: Company data

Figure 2: Eonmetall SFS division: 1) Revenue 2) Net Profit

Source: Company data

OSK Research Guide to Investment Ratings**Buy:** Share price may exceed 10% over the next 12 months**Trading Buy:** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain**Neutral:** Share price may fall within the range of +/- 10% over the next 12 months**Take Profit:** Target price has been attained. Look to accumulate at lower levels**Sell:** Share price may fall by more than 10% over the next 12 months**Not Rated:** Stock is not within regular research coverage

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