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(Formerly known as Malaysian International Merchant Bankers Berhad)

Equity Research
Company Update

Eonmetall Group Bhd

24 Oct 2007

KDN: PP/10837/3/2008

BUY

Target Price	RM1.30
Previous Target Price	RM1.08
Price @ 23 October 2007	RM0.975
Upside To Target	33.3%

Stock Codes

MASA	EMETALL / 7217
Bloomberg	EONM MK

Stock & Market Data

KLCI @ 22 Oct 2007	1,357.33
Listing	Main Board
Sector	Industrial Products
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	166.0 mn
Market Capitalisation	RM161.9 mn
YTD Chg In Share Price	+47.73%
52-week Hi/Lo	RM1.35/ RM0.563
3M Average Volume	0.22 mn
Estimated Free Float	38%
Majority Shareholders	
	Eonmetall Corp Sdn Bhd (50.9%)
	Dato' Goh Cheng Huat (15.9%)

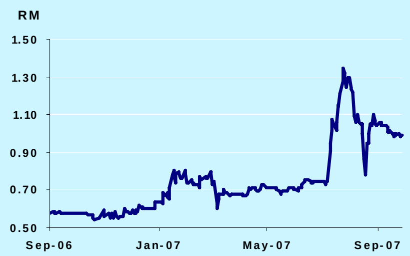
Key Indicators @ FY06

ROA	9.7%
ROE	14.0%
Net Debt/Equity	0.2x
Price/NTA	1.2x

Share Performance

	1mth	3mth	12mth
Absolute	-2.5%	-23.8%	77.9%
vs. KLCI	-5.4%	-22.5%	28.8%

Share Price Performance Chart



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Solvent Extraction Comes to Palm Oil

The CPO mill fabrication business will take off as a commissioning of Kim Loong Resources' solvent extraction plant (SEP) nears, as pilot run test ends. 2 other plants will be commissioned by 1H08. With orders doubling for the Dubai district cooling business, steel demand picking up locally and internationally, the African JVs set to take off and the Indonesian JV to follow, Eonmetall's share prices are looking to close the gap with our previous target price. Meanwhile we have upgraded our target price to RM1.30 but this just partially reflects what we believe is the stock's eventual potential upon its highest margin projects coming to fruition.

- **High margin but lumpy machinery sales hit a slow patch in 2Q07 after a strong 1Q07.** Revenues were up only 18.7% vs 92.8% YoY in 1Q-07. With less machineries sales, PBT fell 60.1% and earnings fell 31.5%YoY. But a pick up looms ahead.
- **SEP sales can potentially take off sharply in FY08/09 amidst high CPO prices.** With the commissioning of the Kim Loong and 2 other SEPs in Johor, enquiries are coming in from plantation companies keen to raise extraction rates. We expect orders build up to 10 plants p.a. (RM60 mn sales) by FY09.
- **Ahead, supply of steel machinery from Malaysia** to JVs to pick up. RM6.2 mn in Namibia machinery deliveries will follow in 1H08. Machinery sales to Indonesia of RM25.5mn will be added on finalisation of the JV in 1H08. Eonmetall has first right of refusal to supply of steel coils to those JVs, eventually boosting its steel coil exports. The Sudan plant can be expected to be ready in late 3Q08. A contribution to revenues of RM10mn in FY08 is possible but not assumed in forecasts.
- **30% owned Dubai district cooling venture set up in 2Q07, reported order book has doubled to RM60 mn from RM30.0mn.** With oil revenues at record levels, construction activities in boomtown Dubai now reach a frenzy.
- **RM1.30 Target Price** based on 1.45x forecast Price/NTA per share for FY08 of 89.7 sen. This is a premium to the mean NTA valuation multiple of 1.2X derived from the mean of a pool of listed companies in the steel industry. The capital goods fabrication industry enjoys superior margins and deserves a premium valuation. FY08 PER is still very attractive at 6.4x.

Investment Statistics

YE 31 Dec (RM mn)	2005	2006	2007F	2008F
Net Profit	26.23	14.29	21.15	25.39
Growth	96%	-46%	48%	20%
Consensus	-	-	-	-
EPS (sen)	15.81	8.61	12.75	15.30
DPS (sen)	5.0	2.5	5.0	5.0
NTA/Share (RM)	52.32	61.34	74.22	89.67
Net Cash/(Debt)	-8.14	-21.63	-26.63	-27.17
Net Debt/Equity	0.09x	0.21x	0.22x	0.18x
PER	6.17	11.32	7.65	6.37
Dividend Yield	5.1%	2.6%	5.1%	5.1%
ROE	30%	14%	17%	17%
ROA	22%	10%	12%	13%
P/NTA	1.86	1.59	1.31	1.09
EV/EBITDA	5.78	8.02	6.03	5.08

1.0 Why we continue to favour Eonmetall

1.1 Homegrown industrial machineries fabricator

Steel Eonmetall's range of in-house manufactured metalwork machinery and industrial process machinery undertake some of the main processes in steel fabrication, such as rolling, slitting, shearing, punching, stamping and forming metal into parts and products. In-house expertise in the manufacture of metalwork machinery, and overhead cranes enables the group to save on the cost of machinery and equipment for use in the production of steel products. It is also easier to upgrade or perform maintenance on the machinery and equipment.

Solvent Extraction Plant Eonmetall has adapted solvent (hexane) extraction technology presently the main process for extracting soy-oil from crushed beans to draw additional oil from FFBs already crushed for oil using conventional steam/crushing processes. Eonmetall is in the final stages of commissioning its maiden pilot SEP for Kim Loong by Nov07. The commissioning of 2 more pilot plants in 1Q07 for other 2 other clients will follow this.

District Cooling Beginning Jun07, Eonmetall made a foray into the manufacture of district cooling systems (large scale centralised air-conditioning systems) for building complexes via a 30% stake in a consortium operating in construction boomtown Dubai. The consortium owns US district cooling fabrication company Coolrich District Cooling Services LLC. Coolrich is licensed to use a US patented polymer pipes coating technology in the manufacture of district cooling pipes.

1.2 Growth drivers provide earnings visibility into end 2008

Machinery sales supplement steel products fabrication and such sales offer high margins averaging 49%. The group was originally a specialist in the design and manufacture of steel processing equipment. Sales of machinery is a high margin business offering 40-49% operating margins, but although sales are in a rising trend, but they tend to be lumpy. Machinery sales have in the recent years accounted for about 32% of group operating profits. In FY06, its share even rose to 76%. These are being supplied to the JV projects as Eonmetall's capital contribution to JV projects. The approximate timeline for these projects are:

Timeline	JV	Cost of equipment required
3Q07:	Namibia (20%)	RM6.0mn(Eonmetall share RM1.2mn, delivery 1Q08)
4Q07:	Indonesia (30%)	RM22mn (agreement for RM35mn JV being finalised)
1Q08:	Sudan (pending)	(JV products plant plus 5K ton/month galvanising)
2Q08:	Zambia (firm)	(under negotiation)

The Namibian JV shareholder agreement has already been firmed up and is pending confirmation of tax incentives and implementation details. A tentative timeline is an order by the JV for steel processing machinery valued at ~RM6.2mn in 1Q08. Management anticipated an 18-month payback period for the Namibian JV.

The much larger 30%-owned Indonesian JV is pending finalisation of valuation of equipment to be supplied before a shareholders' agreement is signed. Management envisages an order of as much as RM25.5mn in secondary steel machineries eventually.

The Sudan galvanising plant has been held up pending a management decision on whether or not to also participate in a downstream secondary products JV plant at the invitation of a local associate, which wants access to capital goods.

Another order associated with a Zambian JV is confirmed and pending announcement within the next 3 months.

Each steel-processing machine costs approximately USD450,000 (RM1.55 mn). All in, we expect the high margin supply of machineries segment to see a surge in orders in FY08, with sales of at least RM47mn based only on the current order book and likely sales on JVs with signed shareholder agreements. At present, the company has the capacity to fabricate about 80 units of machines per annum, up from 50 units p.a. following the Sg Bakap plant expansion completed in Jun07.

With each JV finalised, steel products orders will be boosted as Eonmetall incorporates first right of refusal to supply steel at market prices in each JV agreement.

Solvent Extraction Plant The current order book is just RM14 mn, to last until 1H08. We are excited about prospects for the fabrication of equipment for the palm oil milling using its solvent extraction plant (SEP) and (future plans for) oleo-chemical processing machinery. Following early and enthusiastic response to a Press announcement on the impending commissioning of the first unit of Eonmetall's SEP, management expects orders for 10 units of the SEP in FY08 priced at RM6 mn each to be placed. Based on mills statistics, management estimates the plantations industry can absorb a total of 106 units of SEPs in Malaysia and a further 89 units in Indonesia (total potential market size by value: RM1.17 bn), if plantations owners can be persuaded of the benefits.

To retain effective control over the technology, and provide a stream of recurrent earnings, management is contemplating SEP sales arrangements structured in the form of JVs in collaboration with plantation companies.

The economics of the SEP: an update

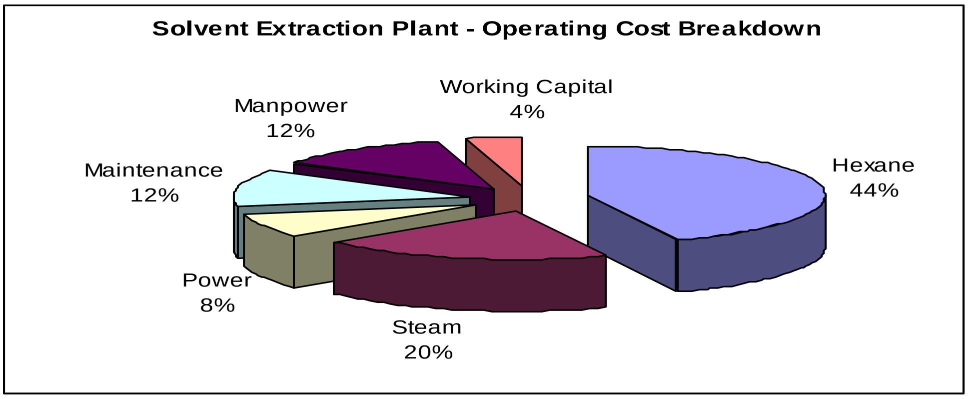
The SEP (patent pending in Malaysia and in Indonesia) processes the palm fibre left over after processing of palm mesocarp by conventional crude palm oil mills. This constitutes about 15% by weight of the original FFBs. The SEP is able to extract 4% by fibre weight in palm oil. This means that SEPs can add 0.6% by original weight of FFB in palm oil. The value of this additional output can be valued based on current CPO prices at RM2,500/ton as follows:

Value of palm oil extracted/ton fibre processed:	*4% X RM2,500*	*= RM100*
Operating Cost/ton of fibre processed	*:*	*RM 25*
Contribution per ton of fibre processed	*:*	*RM 75*
SEP capacity	*: 30 tons/hr*	
Annual capacity (8-hr shift, 300 days p.a.)	*: 72,000 tons/annum*	
Contribution	*: RM75 X 72,000*	*= RM5.4 mn*
Payback period	*: 13.3 months*	

As can be deduced from the above, the higher the price of CPO, the shorter the payback period. Based on current CPO prices, this can be as short as 13-14 months, making the SEP an attractive value proposition for plantation companies. In addition, crude palm oil extracted using SEPs are higher in Vitamin E and Vitamin E precursors (carotenoids).

Source: "Recovered Oil from Palm-Pressed Fiber: A Good Source of Natural Carotenoids, Vitamin E, and Sterols" Palm Oil Research Institute of Malaysia.

Figure 1 Solvent Extraction Plant Operating Cost Breakdown



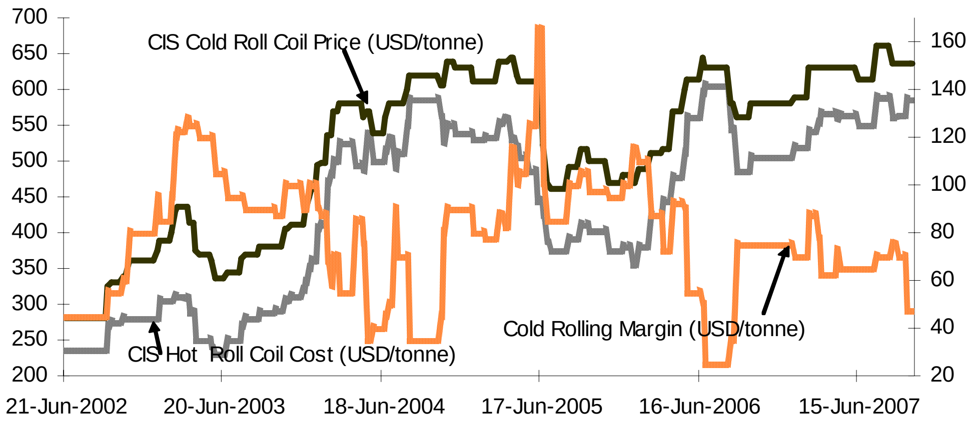
Source: Eonmetall Group

District Cooling The venture is operating on temporary premises in Dubai until power is connected to its fabricating site at end of Nov07. It will deploy USD3 mn in machinery supplied by the US polymer pipe coating technology provider including a small RM1 mn in pipe making equipment supply by Eonmetall. Its initial order book of RM30 mn has doubled to about RM60 mn currently. Net margins based on sales in Dubai's tax-free environment stands at about 20-25%. Amongst projects being tendered for is a SGD80 mn district-cooling portion of Genting Berhad's Sentosa Integrated Resorts project. We have not assumed a successful bid in our forecasts.

Steel products contributed to 75.8% of total revenue in 1H07. The group processes imported hot roll coils (HRCs), passing them through a cold roll milling process into thinner sheets that are then further processed into secondary flat products such as galvanised steel coils. The group's in-house designed and manufactured machines offer a competitive advantage with the ability to roll coils thinner (down to 0.17 mm) and broader coils (1,250 mm) than competitors can. Thin sheets offer savings where structural strength is less of a key quality and broader sheets give its products greater flexibility of applications.

Cold roll coil milling margins have been eroded gradually in recent weeks, to below USD50/ton, its traditional range being between USD50-USD100/ton. This was on market disruptions following China's removal of export rebates on steel and the imposition of export taxes of between 5-15%.

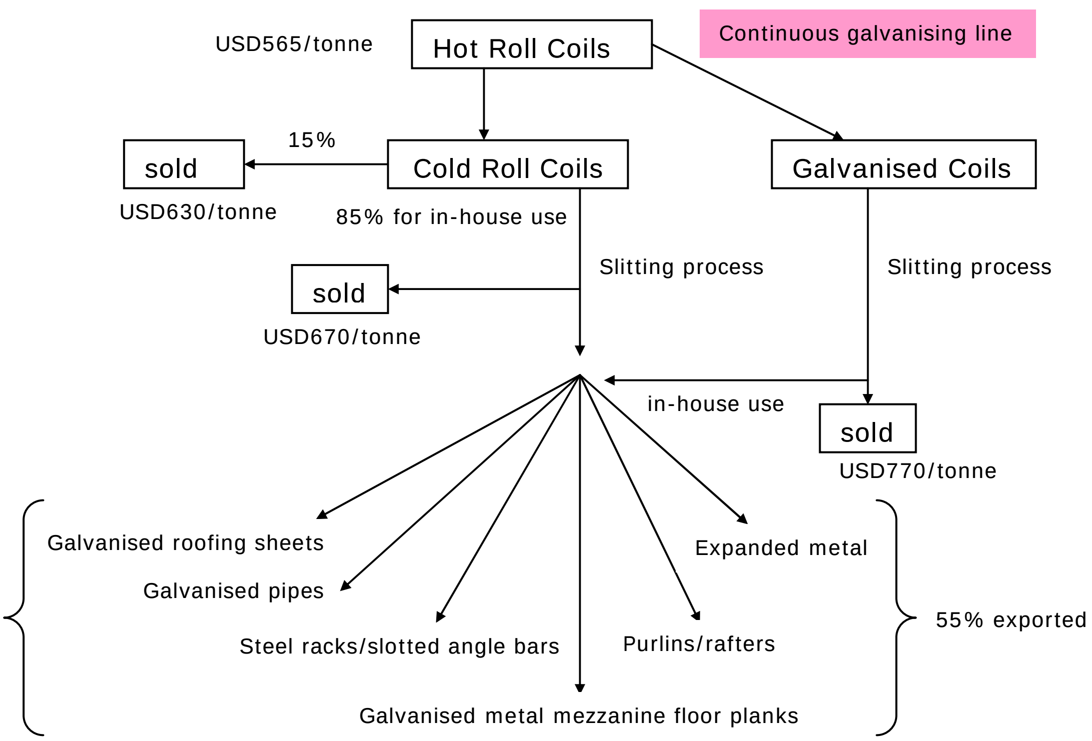
Figure 2 Cold Roll Coil Processing Margins



To protect margins, Eonmetall's new focus is an in-house designed/fabricated continuous galvanising machine making galvanised steel sheets that find wide in wall cladding and roofing applications in Africa. Eonmetall manufactures galvanised steel coils in a continuous process using in-house designed/fabricated machinery, enabling high-speed processing at 300m/min.

About 60% of its final steel products are exported. The fastest growing markets are China, Vietnam, Indonesia, the Philippines, and Saudi Arabia. ASEAN countries are amongst 4 of the world's top 15 net steel importing countries, Thailand (10.4 mn tons p.a.), Indonesia (4.3 mn tons p.a.), Vietnam, (4.5 mn tons p.a.) and the Philippines (2.6 mn tons p.a.) *(Source: International Iron & Steel Institute).*

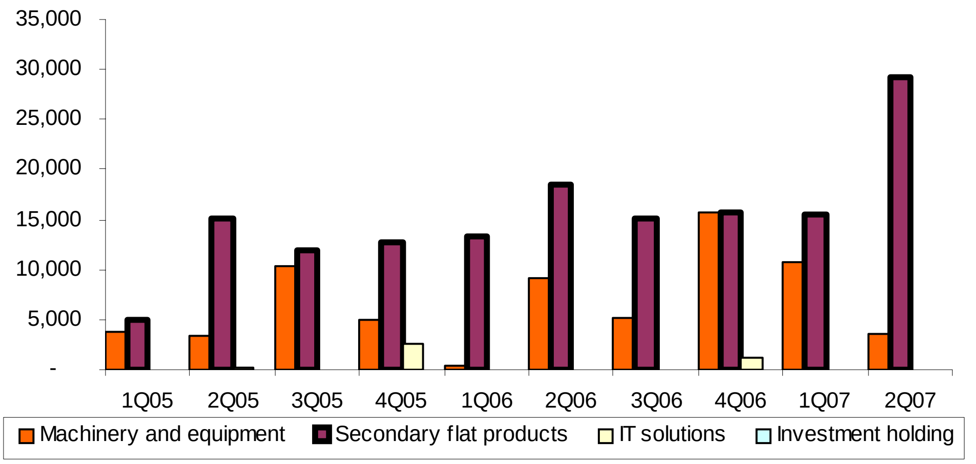
Figure 3 EONMETALL Steel Products Processing Flow



Domestic Capacity Expansion Net of direct operating costs, steel products offer lower average operating margins of about 11%. But for stability in its revenue stream, Eonmetall will still beef up its steel products sales and expand sales mainly in the export markets but also locally.

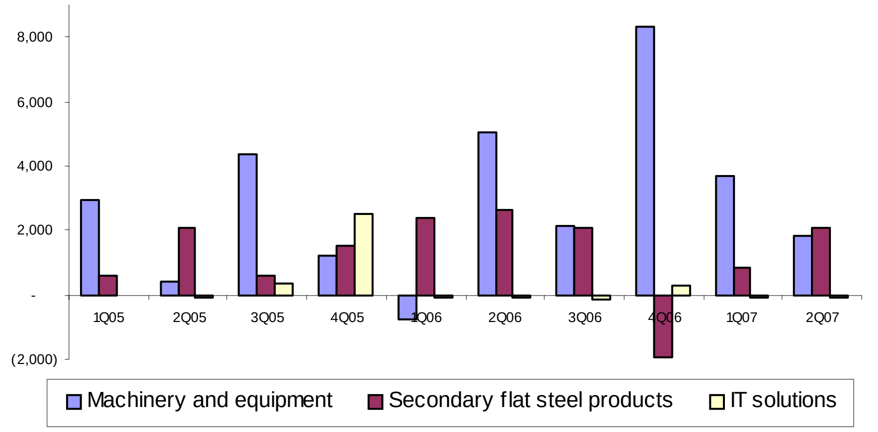
Galvanised corrugated sheet production operate at below 50% of capacity, but capacity utilisation was already above 70% or approaching capacity ceiling for practical purposes, in respect of expanded metal, pipes, angles and steel storage systems. Expanded metal products offer better margins of 15%. Eonmetall is already a leading manufacturer of expanded steel filter mesh in the region.

Figure 6 - Revenue by Segment (RM 000s)



A capacity expansion programme was implemented in 1Q07 to meet planned growth. Phase 1 of the capacity expansion programme involved an investment of RM25mn in land and building sited on half of a 30-acre plot of land it acquired in Penang. With the increase in available shop floor space, Eonmetall's metal-making machinery capacity rose from 50 units p.a. to 80 units p.a. Machinery was added costing RM15 mn, more than half of which was manufactured by Eonmetall itself. Flat steel products capacity was raised from 36,400 tons p.a. to 58,400 tons p.a., a rise of 60%, but the bulk of the big export push awaits the setting up of JVs overseas, which carry first right of refusal to supply steel products such as CRC.

Figure 7 Operating Profit by Segment (000s)



Phase 2 of the expansion to be implemented in 2008 will involve an investment of another RM15 mn in a factory building to cover 7 acres and another RM15-20 mn in machinery. This will include a new pre-painted galvanising line designed and fabricated in-house. The new line is targeted for a 20% contribution to group sales, with 60% of production exported. Pre-painted galvanised sheets are used in the building industry and in development projects.

Some of the additional space will also be allocated towards warehousing finished goods. New products may also be introduced in conjunction with a new overseas business line described in a later section.

Steel Market Outlook in Brief

Our expectations for a gradual improvement in average HRC prices past mid-07 has been borne out, leading to HRC stock holding gains but CRC prices have yet to follow suit immediately as anticipatory stock-ups now allow inventory rundown to cushion the impact of higher prices. However, demand should hold up relatively well in most markets in the region over the next few months, providing the scope for eventual CRC price increases. In China, significant capacity additions (especially wide strip mills) will come on stream soon. Following cuts in the VAT export rebate, the excess capacity factor did not exert downward price pressures in the international markets. Chinese exports dropped to the late 2006 levels in Asia and other markets as offers are reduced.

The impact on Eonmetall is negative as its margins as determined by the HRC-CRC spread narrows from the more common USD65/tonne range, but we expect this is only temporarily so. Galvanising margins are unaffected. Eonmetall's stock holdings of about 10,000 tons of HRCs, is buffering margins and as long as price changes are not of a very rapid nature, the effect is small, with price level effects at the HRC level passed on to end-products gradually, with some lag.

2.0 Valuation

2Q07 net profit was 31.5% lower on the back of an 18.7% improvement in revenues following the completion of a large capacity upgrade in Jun07. Until revenue growth picks up to the extent the utilisation rate picks up to more than 60%, margins are likely to stay lower than the average for FY06. Lower margins were also a result of lower sales of machinery and equipment. But as indicated, higher margin machinery sales are set to pick up strongly in the next 2 years, including SEP and machinery sales to JVs set up overseas.

On our forecast earnings, Eonmetall's NTA per share for FY08 is expected to reach 89.7 sen, leaving the stock currently valued at 1.09x price to NTA. The group is involved both machinery and the steel products manufacturing industry. Our preferred valuation multiple using the price to NTA valuation of 1.45X is at a premium to the 1.2x derived from the mean of a pool of listed companies involved in both the steel industry and the machinery industry. Our 12-month target price valuation we now ascribe to the share is RM1.30.

At RM0.975, the PER multiple is still only 6.4X prospective FY08 earnings. We believe this earnings multiple is a very attractive valuation despite the volatile nature of earnings for the machineries business.

Quarter Ended (FYE 31st Dec)	**3M Jun-06**	**3M Mar-07**	**3M Jun-07**	**% chg YoY**	**% chg QoQ**	**9M Jun-06**	**9M Jun-07**	**% chg YoY**
Revenue	27.6	26.3	32.8	18.7%	24.7%	41.3	59.1	43.2%
Operating profit	7.0	4.2	3.7	-48.1%	-13.9%	8.5	7.9	-6.9%
Interest expense	-0.4	-0.5	-1.0	152.5%	84.9%	-1.1	-1.5	36.8%
Interest income	0.02	0.001	0.002	-91.7%	100.0%	0.1	0.0	-95.7%
Profit before tax	6.7	3.7	2.7	-60.1%	-28.2%	7.4	6.4	-14.4%
Tax expense	1.2	-0.3	2.7	130.5%	-902.1%	1.0	2.4	147.4%
Profit after tax	7.8	3.4	5.4	-31.5%	59.6%	8.4	8.7	4.2%
Attributable to shareholders	7.8	3.4	5.4	-31.5%	59.6%	8.4	8.7	4.2%
Effective Tax Rate	-17.7%	9.1%	-102.0%			-12.9%	-37.3%	

Balance Sheet

YE 31 Dec (RM mn)	2005	2006	2007F	2008F
Fixed Assets	47.72	70.84	81.46	93.68
Intangible Assets	-	-	-	-
Other Fixed Assets	0.03	0.06	0.06	0.06
Inventories	31.21	37.50	45.00	54.00
Receivables	24.92	27.54	33.05	39.66
Other Current Assets	2.95	4.44	5.10	5.36
Cash	11.17	7.28	5.18	7.82
Total Assets	118.00	147.66	169.86	200.58
Payables	6.40	10.28	11.31	10.74
ST Borrowings	2.71	7.09	7.79	8.57
Other ST Liability	5.42	6.70	3.61	6.08
LT Borrowings	16.59	21.83	24.01	26.42
Other LT Liability	0.06	0.00	0.00	0.00
Minority Interest	-	-	-	-
Net Assets	**86.80**	**101.77**	**123.13**	**148.77**
Share Capital	55.00	55.00	55.00	55.00
Reserves	31.80	46.77	68.13	93.77
Shareholders' Fund	**86.80**	**101.77**	**123.13**	**148.77**

Cashflow Statement

YE 31 Dec (RM mn)	2005	2006	2007F	2008F
PBT	26.49	16.54	24.63	29.57
Depreciation	3.18	4.33	4.06	4.26
Associates	-	-	-	-
Exceptional	-11.85	-	-	-
Taxation	-2.06	-0.85	-1.46	-1.16
Chg In Working Capital	-22.68	-6.71	-7.04	-7.75
Others	1.90	3.42	3.19	3.31
Operating Cash-flow	**-5.03**	**16.72**	**23.38**	**28.22**
Capex	-1.71	-27.38	-23.27	-24.43
Investment	0.01	-0.03	-0.03	-0.03
Others	0.12	0.18	0.15	0.16
Investing Cash-flow	**-1.58**	**-27.22**	**-23.15**	**-24.30**
Chg In Debts	2.38	7.48	2.75	3.02
Interest Paid	-1.66	-2.92	-3.42	-4.93
Dividends Paid To Majority	-3.96	-	-	-
Share Issue	20.22	-	0.51	-
Other	-	-	-	-
Financing Cash-flow	**16.98**	**4.57**	**-0.16**	**-1.91**
Net Cashflow	10.37	-5.94	0.07	2.01
Beginning Cash	0.00	10.37	4.43	4.50
Ending Cash	**10.37**	**4.43**	**4.50**	**6.51**
- Money Mkt Instruments	-	-	-	-
- Cash	10.37	4.43	4.50	6.51
Free Cashflow	**-6.74**	**-10.66**	**0.11**	**3.79**

Income Statement

YE 31 Dec (RM mn)	2005	2006	2007F	2008F
Turnover	**70.01**	**93.89**	**121.94**	**150.00**
EBITDA	**31.32**	**23.78**	**32.11**	**38.76**
Depreciation	-3.18	-4.33	-4.06	-4.26
Operating Profit	**28.15**	**19.45**	**28.05**	**34.50**
Int. & Other Income	-	-	-	-
Interest Expense	-1.66	-2.92	-3.42	-4.93
Associate	-	-	-	-
Exceptional Items	-	-	-	-
PBT	**26.49**	**16.54**	**24.63**	**29.57**
Taxation	-0.26	-2.25	-3.48	-4.18
Minority Interest	-	-	-	-
Net Profit	**26.23**	**14.29**	**21.15**	**25.39**

Financial Data & Ratios

YE 31 Dec (RM mn)	2005	2006	2007F	2008F
Growth				
Turnover	-11%	34%	30%	23%
EBITDA	57%	-24%	35%	21%
Operating Profit	62%	-31%	44%	23%
PBT	65%	-38%	49%	20%
Net Profit	96%	-46%	48%	20%
Profitability				
EBITDA	45%	25%	26%	26%
Operating Profit	40%	21%	23%	23%
PBT	38%	18%	20%	20%
Net Profit	37%	15%	17%	17%
Effective Tax Rate	1%	14%	14%	14%
ROA	22%	10%	12%	13%
ROE	30%	14%	17%	17%
DuPont Analysis				
Net Margin	37%	15%	17%	17%
Total Assets Turnover	0.59	0.64	0.72	0.75
Financial Leverage Multiple	1.36	1.45	1.38	1.35
ROE	30%	14%	17%	17%
Leverage				
Total Debt/Total Asset	0.16x	0.20x	0.19x	0.17x
Total Debt/Equity	0.22x	0.28x	0.26x	0.24x
Net Cash/(Debt)	-8.14	-21.63	-26.63	-27.17
Net Debt/Equity	0.09x	0.21x	0.22x	0.18x
Valuations				
EPS (sen)	15.81	8.61	12.75	15.30
DPS (sen)	5.00	2.50	5.00	5.00
NTA (RM)	52.32	61.34	74.22	89.67
PER	6.17	11.32	7.65	6.37
Dividend Yield	5.1%	2.6%	5.1%	5.1%
P/NTA	1.86	1.59	1.31	1.09
EV/EBITDA	5.78	8.02	6.03	5.08

Source: MIMB estimates

Definition of Investment Ratings

Stock ratings used in this report are defined as follows:

BUY	Share price expected to appreciate more than 15% over a 12-month period
TRADING BUY	Share price expected to appreciate 10% or more within a 3- to 6-month period
NEUTRAL	Share price expected to be within +/- 15% over a 12-month period
TAKE PROFIT	Target price reached, may accumulate if share price drops more than 15% below target price
SELL	Share price expected to depreciate more than 15% over a 12-month period
NOT RATED	MIMB does not provide research coverage or rating for this company

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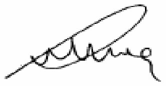

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