MIMB INVESTMENT BANK
A MEMBER OF EON BANK GROUP
(Formerly known as Malaysian International Merchant Bankers Berhad)

Equity Research
Initiating Coverage

Eonmetall Group Bhd

25 Jun 2007

KDN: PP/10837/3/2008

BUY

Fair Value	RM1.08
Price @ 22 June 2007	RM0.75
Upside To Target	44%

Stock Codes

MASA	EMETALL / 7217
Bloomberg	EONM MK

Stock & Market Data

KLCI @ 30 May 2007	1386.67
Listing	Main Board
Sector	Industrial Products
Syariah Compliance	Yes
Par Value	RM0.50
Issued Shares	165.9 mn
Market Capitalisation	RM124.4 mn
YTD Chg In Share Price	+24.0%
52-week Hi/Lo	RM0.88 / RM0.43
3M Average Volume	0.2 mn
Estimated Free Float	35%
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	8.5%	10.1%	24.0%
vs. KLCI	5.7%	-1.5%	-19.4%

Share Price Performance Chart

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Key Player in Nascent Capital Goods Industry

- **Growth at super low prices** This small cap steel and process equipment manufacturer offers growth at super-low valuations that is a legacy of its listing on the Second Board. Combining in-house engineering skills with process control software expertise, we think it has the potential to match market favourite CB Industrial Products in the palm oil mill fabrication business in the long term. Valuation at 5.8X PER vs 48% growth. We initiate coverage with a **BUY**.
- **Wide range of products & machineries** catering to a wide range of local and overseas users reduces vulnerability arising from cyclical forces in the steel industry and offers it flexibility in positioning products based on market demand. Machinery sales enjoy 49% margins and contribution is set to rise over time. Sales of MDF plant undergoing R&D holds great promise.
- **Emerging international capital goods player:** 45 foreign customers (and rising) from 27 countries. Exports to reach 70% of revenues in FY07, up from 63% last year. 200 local customers also form a stable and growing domestic customer base. It is setting up 2 large steel products projects in Africa (1 JV and the other wholly-owned) and one JV in Indonesia within a year. JV projects also involve installing its steel processing equipment, and Eonmetall enjoys the first right of refusal in the supply of raw materials.
- **Establishing a toehold in the district cooling and Oil and Gas industry** via new JV in Dubai, via wholly owned subsidiary, Eonmetall Petro-Chem (M) Sdn Bhd. District cooling equipment and pipes manufacturing for O & G industry to follow.
- **RM1.08 Target Price** is based on 1.45x forecast Price/NTA per share for FY2007 of 74.2 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.

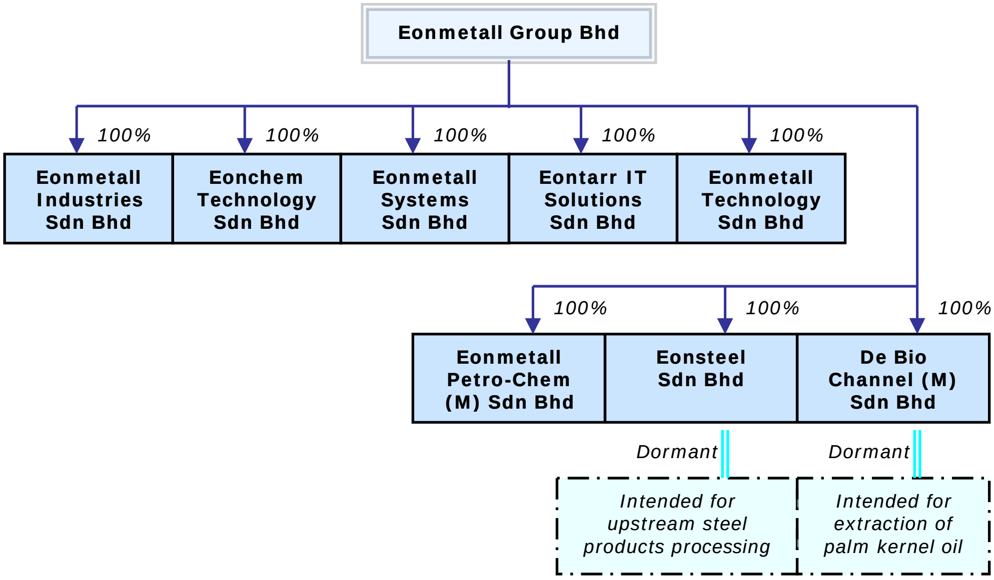
Investment Statistics

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 (sen)	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	4.71x	8.65x	5.84x	4.87x
Dividend Yield	6.90%	3.45%	6.90%	6.90%
ROE	30%	14%	17%	17%
ROA	22%	10%	12%	13%
P/NTA	1.42x	1.21x	1.00x	0.83x
EV/EBITDA	4.21x	6.11x	4.68x	3.89x

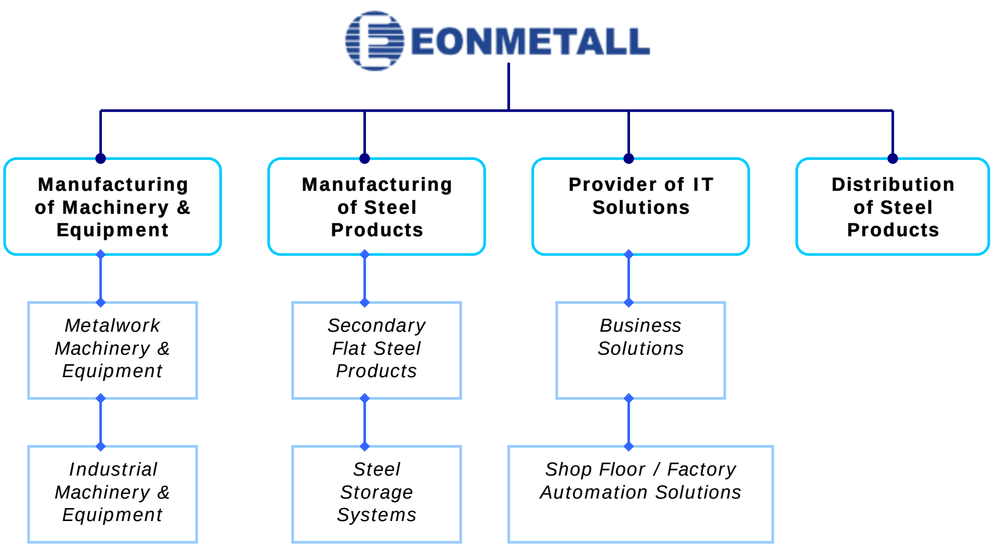
1.0 BUSINESS OVERVIEW

Incorporated in Oct-03, the Eonmetall Group Berhad is an investment holding company whilst its subsidiaries are involved in the manufacturing of secondary flat steel products and steel storage systems, metalwork machinery and equipment, industrial process machinery and equipment, and provision of information technology (IT) solutions including software development, and distribution activities. The group's IT activities are mainly geared towards industrial process control software, including control of machines the group designs and develops on its own. Eonmetall has 17 years of experience as a manufacturer of steel products with a good track record.

Figure 1 Group Structure



Products & Services



2.0 What we like about Eonmetall

The Eonmetall range of metalwork machinery and industrial process machinery includes machinery that perform steps in steel fabrication, such as rolling, slitting, shearing, punching, stamping and forming metal into parts and products. In-house manufactured metalwork machinery is used to manufacture various secondary flat steel products.

Wherever possible, machinery sales supplement steel products fabrication. Capital goods equipment fabrication offers superior margins of 50%. In industrial process machinery, the group specialises in the design and manufacture of steel processing equipment and equipment for the manufacture of palm oil and oleochemical processing machinery specifically for its (patent pending) solvent extraction plant (SEP). It also just made an entry into the manufacture of district cooling systems (large scale centralised air-conditioners) for township or district. Finally, fabrication of medium density fibreboard (MDF) equipment that can use fibres from empty palm fruits as base raw materials is also being planned. In-house expertise in the manufacture of metalwork machinery 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.

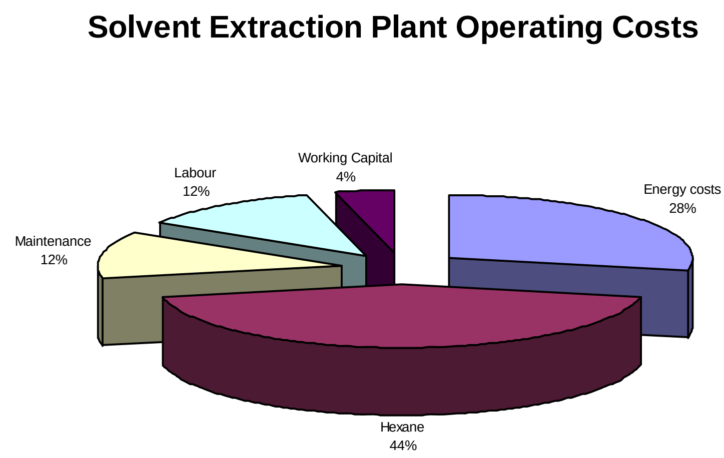
2.1 The next CB Industrial Product?

SEPs will be of great interest to plantation companies

A SEP does not replace the traditional mill. It is an extraction plant that uses a non-reactive solvent (n-hexane) mixed with milled “empty” fruit bunches to extract the residual oil from the processed fibres of the oil palm fruit in a series of additional steps after the traditional milling process. Where processed fibres are currently discarded without further processing, they now generate revenues.

The solvent is removed from the solvent-fruit mix (miscella) by heat. The solvent is volatile and evaporates at relatively lower temperatures. It is re-extracted via evaporation under warm temperature conditions in a low pressure environment and then recycled using condensation in a follow-up process. High recovery rates (for the relatively expensive hexane), is the key to a successful operation of such a plant. Hexane inevitably lost in the extraction process forms 44% of operating costs for a SEP.

Figure 2 Operating Costs for Solvent Extraction Plant



SEPs offer distinct advantages such as:

- Continuous operation
- Low oil residue in extracted meal
- Low power and steam consumption
- Low sediment in the extracted oil
- Mechanical simplicity

Does the use of solvents pose a health issue?

Despite acceptance that the toxicity level of hexane is low, doubts may remain. For temperate region oilseeds, solvent extraction is the process overwhelmingly relied upon for extracting oil from low oil content seeds e.g. soybean, rapeseed, sunflower, and corn. The method offers higher throughput and yield than possible using mechanical processes and is hence cheaper.

The processing of palm fruit fibre in SEPs is undertaken at steam temperatures under partial vacuum conditions, under which evaporation of all the volatile hexane should be complete. When further processed into cooking oil, the refining process involving heating to temperatures of 260°C under partial vacuum again and this virtually ensures no volatile hexane can remain even as a trace contaminant.

A potential drawing point of solvent-extracted palm oil is that the oil extracted boasts high tocotrienols (a part of the Vitamin E family) content. To avert potential health issues, oil extracted from solvent extraction methods can also be positioned as primarily aimed for industrial use, such as for production of biodiesel, oleochemicals, cosmetics, etc.

The Economics of a SEP

Using a SEP, an approximate additional yield of 4% of the weight of FFBs can be extracted from the original oil palm fruit. Currently, the national average for OER (Oil Extraction Rate) is about 20.2%.

At a CPO price of RM2,400/tonne, a 4% boost to the OER of 20.2% translates into additional revenues of RM96/tonne of FFB (fresh fruit bunches) processed under current extraction rates. Marginal revenues of RM96/tonne compares favourably with marginal costs of RM25/tonne. This can be achieved with an investment in a SEP amounting to RM4 mn. Operating at a capacity of 15 tonnes/hour; the payback period for a SEP plant is between 1.5 to 2 years. The design for commissioned plants allows a range of capacities of between 8 tonnes to 30 tonnes.

For a large plantation player like Kuala Lumpur Kepong with an annual FFB output of 2,422,487 tonnes in FYE Sep-06 for example, a boost to the OER of a magnitude of 4% will translate into additional annual profits of RM172 mn annually at RM2,400/tonne, and this makes a compelling case for an investment in efficiency-boosting SEP plants. Millers processing third party FFBs will be able make an additional margin from an efficiency-boosting SEP added as an adjunct to their existing mills.

Currently, a pilot plant has been installed in Kim Loong Resources' plantation in Johor Bahru. Kim Loong appears to be making the pursuit of industry-beating OERs a corporate objective. Its Keningau plant boasts national recognition as the most efficient mill operator in Malaysia, with an OER of 25.22%. The SEP plant should be ready for commercial operation within 2007, with ongoing R&D efforts mainly aimed at boosting recovery rates for hexane. Orders for 2 other plants have been received.

Prospects Look Up Further Out

We believe that as palm oil becomes expensive, and as land for planting becomes increasingly difficult and expensive to acquire, plantation companies will increasingly seek to maximise the OER using technology like the SEP. The capex for each plant is low, at RM4mn and interest amongst plantation companies can be expected to run high. Initially, Eonmetall will have the capacity to fabricate 4-5 plants annually only.

Eonmetall aims to take advantage of an expected wave of interest from plantation companies to form JVs with plantation companies in the operation of SEPs. Operating JVs will allow:-

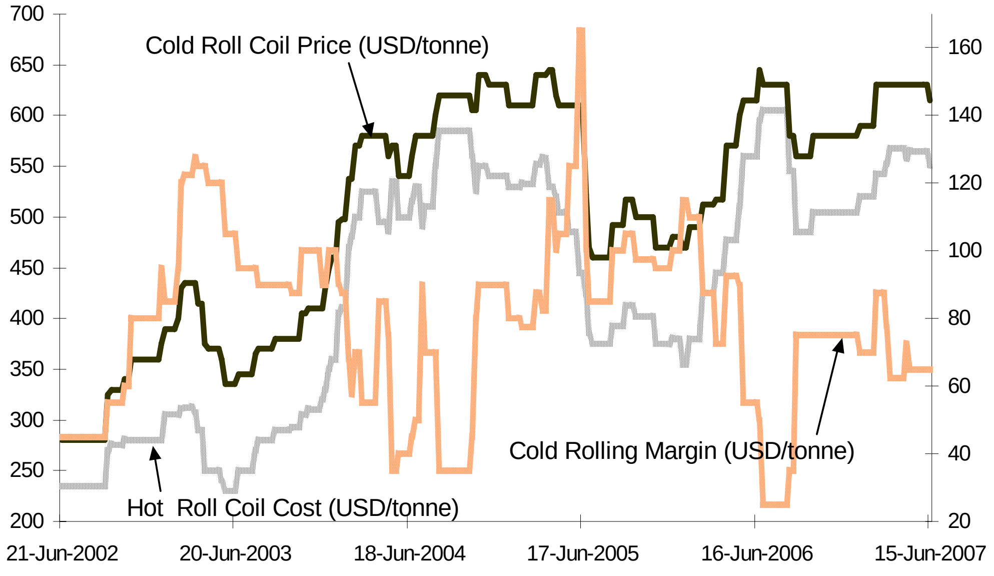
1) control of intellectual property embedded in the technology
2) offers recurrent earnings.

2.2 Flat Steel Products and Steel Coils Processing Equipment

Eonmetall's steel products are the largest revenue contributors in FY2006 with 67% contribution of total revenue. The group currently processes mainly imported hot roll coils (HRCs) passing the HRCs through a cold roll milling process into thinner sheets that are then further processed into secondary flat products such as galvanised steel coils. One of the group's capabilities that afford it a degree of competitive advantage is its ability to roll coils thinner (down to 0.17 mm) than competitors can, using machines it designed and manufactured itself. Thin sheets save on material cost where structural strength is less of a key quality and broader sheets give its products greater flexibility of applications. It is also able to manufacture galvanised steel coils in a continuous process, hence high speed at 300m/min. These are also achieved using in-house designed and self-fabricated machinery.

Other than rolling machines, Eonmetall makes continuous galvanising machines, automatic powder coating equipment, forming machines, expanded metal machines, coils shearing or slitting machine and cold rolling machine.

Figure 3 Cold Roll Coil Processing Margins



The fabrication of in-house equipment has allowed Eonmetall to venture further downstream; processing cold roll coils into painted galvanised sheets thus further adding value to steel products produced by the group. Eonmetall is the leading C-purlins manufacturer to the local market. Coil products can be sold as cladding material for warehouses and commercial complexes. Eonmetall supplied the distinctive blue painted galvanised structural wall cladding sheets to IKEA for its Ikano Power Centre outlet.

Other secondary flat steel end products are steel storage systems, galvanised conduit pipes, slotted angle, C-purlins, metal mezzanine planks, expanded metal for use as filter mesh, and so on. For steel storage systems, Eonmetall manufactures both heavy duty racking system and light duty racking system.

About 55% of its final steel products are exported to Middle-East countries like Saudi Arabia, Lebanon, Yemen and UAE, Southeast Asian countries like Singapore, Vietnam, the Philippines, Indonesia and Brunei, and East Asian countries like China, Taiwan and Hong Kong, Western countries like the US, Ireland, Belgium and Sweden, and African countries like Sudan and Senegal. The fastest growing market is mainly in the Middle East and African countries. Sales to Lebanon were interrupted in 2006 by an Israeli blockade.

Figure 4 Flat Steel Products Processing Flow

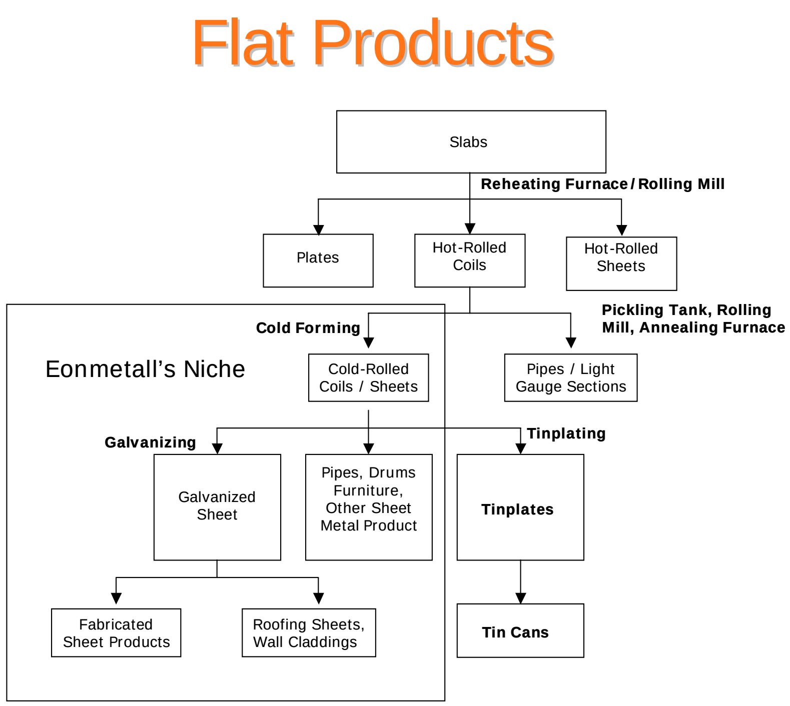
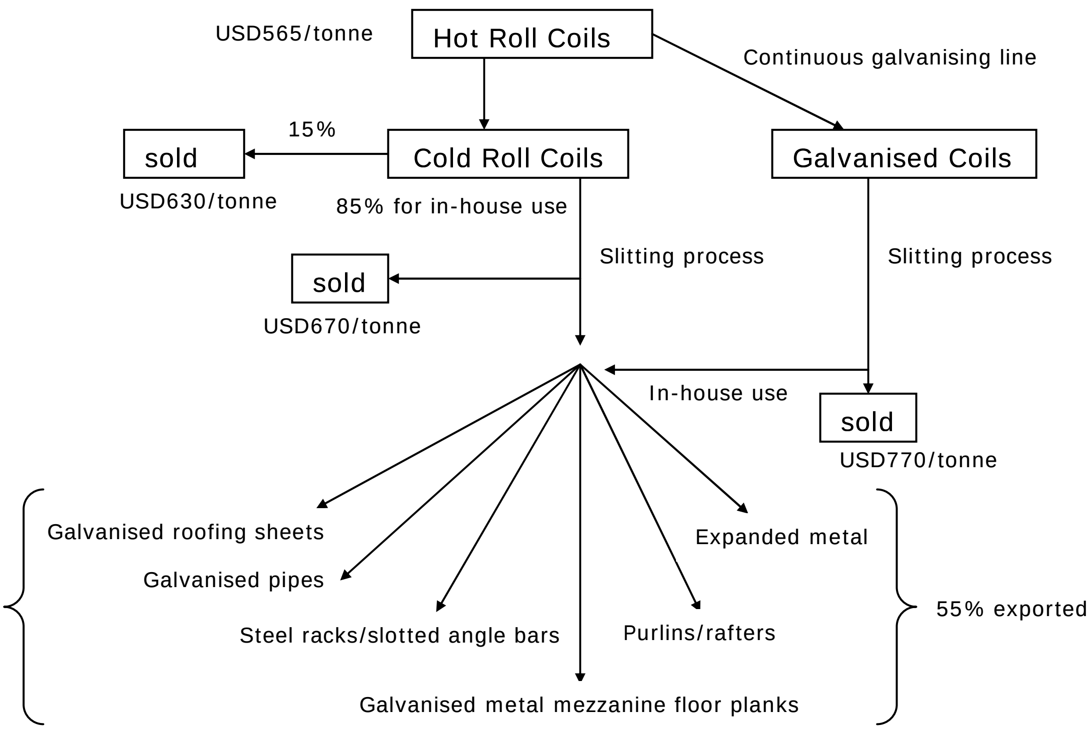


Figure 5 EONMETALL Steel Products Processing Flow



Eonmetall imports its raw material mainly from China. Eonmetall has at least 5 years of business relationships with most of its top suppliers. Imports of HRCs to supply domestic needs is tightly controlled by way of Approved Permits (APs) and subject to duties in order to protect the 2.5 mn tonnes HRC facility commissioned by Megasteel in Banting. APs for imports of HRCs are generally only allowed for processing destined for re-exports. Consequently, HRCs supplied by Megasteel historically cost between USD50-USD100/tonne more than in international markets. However, the selling prices for finished flat steel products are not controlled.

Domestic Competitors

There are around 130 operators in the secondary flat steel products industry locally with each specialised in a different range of products; hence the competitive intensity will depend on the product category involved. The total cold rolling capacity in Malaysia stands at 730,000 tonnes p.a.

Domestic Capacity Expansion

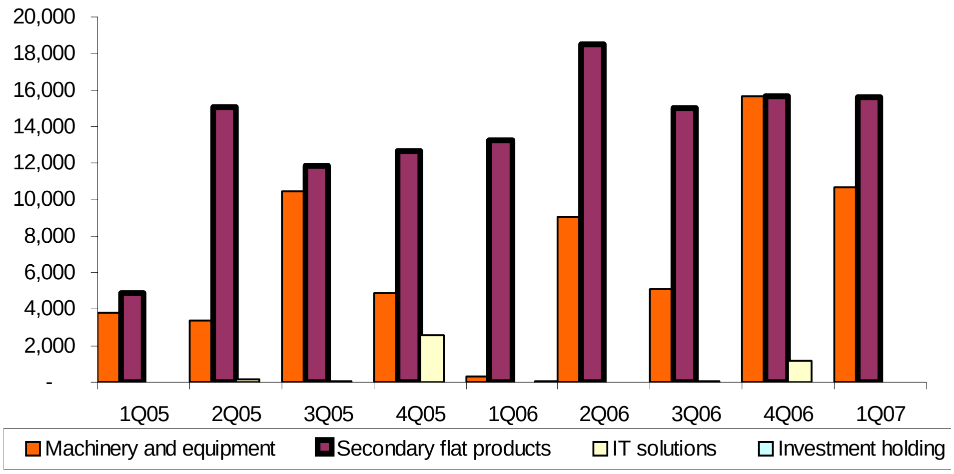
Sales of machinery is a high margin business offering 40-49% operating margins, but although sales are in a rising trend, but they tend to be lumpy. Machinery sales have in the recent years accounted for about 32% of group operating profits. In FY06, its share even rose to 76%. In comparison, net of direct operating costs, steel products offer lower operating margins of about 11%. Still, for stability in its revenue stream, Eonmetall aims to beef up its steel products sales and expand sales mainly in the export markets but also locally.

Other than the galvanised corrugated sheets and C-purlins lines (a relatively new product only introduced in FY04), which operate at below 50% of capacity, capacity utilisation was already way 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% and this is a direct incentive to step up production. Eonmetall is already a leading manufacturer of expanded steel filter mesh in the region.

In the ASEAN neighbourhood are 4 of the world's top 15 net steel importing countries, Thailand (10.4 mn tonnes p.a.), Indonesia (4.3 mn tonnes annually), Vietnam, (4.5 mn tonnes annually) and the Philippines (2.6 mn tonnes annually) (Source: International Iron & Steel Institute).

Malaysia's positioning amongst Foreign Direct Investors promoting itself to as operational HQ for procurement and distribution for the region is paying off and Eonmetall's sales of C-purlins, rack systems, and angle bars as well as painted galvanised steel sheets as well as automated warehousing IT solutions now under development (targeted for FY08) are well-positioned to meet the associated demand from the burgeoning regional warehousing and distribution trade.

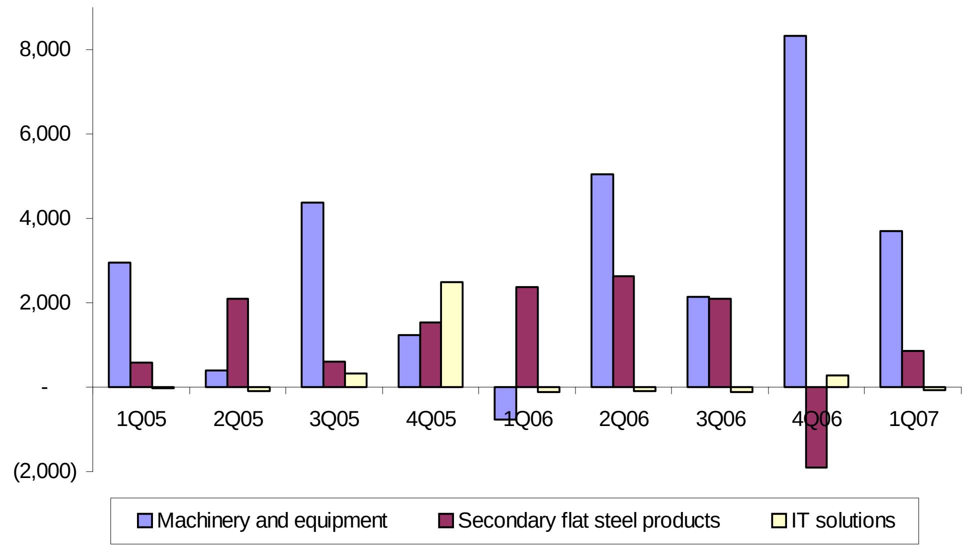
Figure 6 Revenue by Segment (RM 000s)



In view of production constraints in specific product areas, a capacity expansion programme was implemented in 1Q07 to meet planned growth. Phase 1 of the capacity expansion programme saw an investment of RM25mn in land and building sited on half of a 30 acre plot of land it acquired in Penang. Machinery added RM15mn in costs, mainly are manufactured by Eonmetall itself. Flat steel products capacity was raised from 36,400 tonnes p.a. to 58,400 tonnes p.a., a rise of 60%.

With the increase in available shop floor space, Eonmetall's metal-making machinery capacity will also rise from 50 units p.a. to 80 units p.a. This is in preparation for a push in the export markets that the group aims to embark on. The exports portion of sales is expected to rise to over 60% in FY07. Each steel processing machinery cost approximately USD250,000 (RM862,000).

Figure 7 Operating Profit by Segment (000s)



Phase 2 of the expansion 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.

Parallel overseas expansion

In a parallel move, Eonmetall is aiming to establish plants directly overseas in countries to tap demand growth where it is greatest. The investments will be in countries where Eonmetall has had previous export experience. These investments will include investments by way of own-fabricated machines. The increase in machinery fabrication capacity prepares Eonmetall for this. Malaysia enjoys a favourable niche in the international machineries fabrication business because of its low cost as compared to Europe with analogous quality, hence cost-effectiveness.

Sudan

The first stop is a wholly-owned plant in Sudan aimed for completion in 1QFY08. The investment will entail USD10 mn in machinery to be supplied from Eonmetall's Penang plant. African countries now account for 19% of Eonmetall's sales. The apparent steel consumption of finished steel products in countries excluding Egypt and South Africa is set to rise a strong 7.3% (0.8 mn tonnes) in 2007. Africa is a steel deficit continent, consuming 1.8% of the world's steel but accounting for 1.5% by output therefore importing 13.5 mn tonnes of steel annually from outside Africa. Currently, the biggest steel suppliers to African countries are CIS countries, followed by the European Union, and other European countries (Source: International Iron & Steel Institute), but Asian countries are set to make inroads.

According to Eonmetall, who have previously constructed a steel processing plant on a turnkey basis for a client there, the domestic market for cold roll coils, galvanised steel coils structural steel and other flat products in Sudan is startlingly large as the economy booms following high oil prices. Most buildings, including temporary residential shelters are constructed of structural steel and lightweight galvanised steel corrugated sheets because there is no ready supply of structural timber for construction work.

Namibia
The 20%-owned JV plant is targeted for completion in 2Q08 will involve machinery supplied from the Penang plant costing USD5 mn. The plant will manufacture cold roll coils, pipes and hollow sections, and other flat steel products. Eonmetall will enjoy first right of refusal to supply raw materials to the plant.

Indonesia
Indonesia is the 7th largest net steel products importer in the world at 4.3 mn tonnes in 2005. Eonmetall is moving to position itself in the Indonesian market by way of a 20%-owned JV with a local partner in 1Q08. Eonmetall will supply machineries valued at USD5 mn in the project, and the supply of the machines will form its equity contribution in the JV. As with the Namibia plant, Eonmetall will enjoy first right of refusal to supply raw materials to the plant.

Steel Market Outlook

We forecast a gradual improvement in average flat products prices up to mid-07 of the year. Demand should hold up relatively well in most markets in the region over the next few months, providing the scope for further price increases. In China, significant capacity additions (especially wide strip mills) will come on stream soon. Following cuts in the VAT export rebate, the capacity factor will exert price pressures in the Chinese market this summer. Exports are likely to drop to the late 2006 level in Asia and other markets. There are already signs that international export offers are being reduced.

Consequently, in the second half of 2007 there may be a reduction in prices of most flat products in the international markets. The impact on Eonmetall is markedly less, as its margins are mainly determined by the HRC-CRC spread, which is expected to remain in the USD65/tonne range, and the galvanising margin, which can be similarly unaffected. The hit to Eonmetall's profits comes from drops in the value of its stock holdings of about 10,000 tonnes of HRCs, but as long as price changes are not of a dramatic or very rapid nature, the effect is small, as price level effects at the HRC level are passed on to end-products more gradually, with some lag.

2.3 District Cooling Systems

A district cooling system is a centralized cooling plant that generates chilled water for use in space and process cooling e.g. for air-conditioning requirements of multiple buildings through a network of underground pipes. The central cooling plant eliminates the need for separate systems in individual buildings.

It has 3 main components:
1) A central plant - cooling equipment, power generation and thermal storage.
2) The distribution piping network, the most expensive portion of the system and needs to be well-designed to optimize its use.
3) The consumer system comprised of air handling units and chilled water piping in the building.

District cooling systems are applicable in areas with a large concentration of cooling loads, such as industrial complexes, densely populated urban areas and high density building clusters. As the central plant of district cooling systems is large, there will be economies of scale and higher thermal efficiency as compared to that of many isolated small systems. A large plant available in a number of capacity ranges can be operated to match the combined cooling load. In addition, there is no need for individual building owners to employ operations and maintenance personnel for chiller plants. Usable space in the building would increase as large rooms for housing the cooling systems are not needed.

Co-generation converts fuel into both thermal energy (steam, hot water or hot air, or a combination of the three), and electrical energy using power plants that are smaller and designed to emit fewer pollutants. Using co-generation district cooling systems, building owners benefit from system reliability, energy efficiency, environmental-friendliness, optimization of space and better building aesthetics. Savings in capital investment and lower operating cost can result.

Eonmetall via 100-owned subsidiary, Eonmetall Petro-Chem (EMPC) is venturing into district cooling systems and the chemical flushing business. EMPC set up a 30% owned JV Eonmetall Global Composites LLC with 4 business partners who have expertise in the industry. EGC-LLC will be involved in the manufacturing of metal products and composites products (new polymer coating technology manufactured under license from a US company), electro mechanical contracting and testing, chemical flushing and maintenance of district cooling systems. It will also invest directly into the oil and gas business activities in the Middle-east.

EGC-LLC will acquire the entire issued capital of Coolrich District Cooling Services LLC for a cash consideration of AED4.5mn. Coolrich is a co-generation district cooling systems specialist serving the residential and commercial sectors in the UAE. District cooling systems keep buildings cool against the warm weather in the country. Coolrich's completed jobs include the Dubai Investment Park, Dubai Festival City, the Dubai International Financial Centre and the Grand Mosque Abu Dhabi. Operating margins are about 20% of turnover.

Coolrich's order-book stands at about AED30.0mn (1AED = ~ RM0.92). The Gulf Cooperative Council area market is estimated to be worth approximately AED6bn annually, growing annually at a rate of more than 60% over the next few years.

Eonmetall can meet the supply of pipes, fittings, machinery and equipment such as heat exchange systems for use by district cooling systems. The JV has leased a plot of land at the Dubai Industrial Park to set up a plant for producing the pipes and insulation material. With the facility and infrastructure, Eonmetall will also be able to produce oil & gas pipes for the Gulf area countries. The JV supercedes earlier plans to set up a steel manufacturing plant in Dubai to cater to the buoyant construction sector. However, plans made earlier to set up a USD8 mn plant to produce CRCs and secondary flat products may still be eventually carried out after FY08.

2.4 IT Solutions

Eonmetall also develops IT solutions for internal use as well as for external customers. Among systems that the group develops includes enterprise resource planning (ERP) system, control shop floor automation system and customised software development. The group's capability to develop in-house IT solutions is advantageous as it offers costs saving and value added to its base of 34 customers in West and East Malaysia.

The EES Factory Automation system allows manufacturers to bridge the gap between real-time operations systems and transactions-based core business systems.

The EES-MES system allows manufacturers to optimise on-line, the management of resources such as people, equipment and inventory.

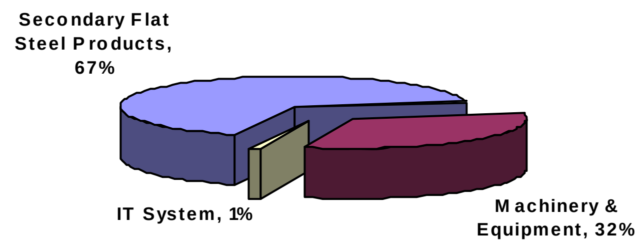
The EES-SCADA/HMI is a client-server architecture based system that enables corporations to migrate to a plant-wide monitoring and control system by collecting data using as wide range of shop floor devices, integrate/aggregate the data into a visual system and allows sharing of information with third parties, such as for remote trouble-shooting. It features alarm-routing, blocking capabilities, equipment use optimisation, dynamic process trending, and statistical process control.

2.5 MDF Plant

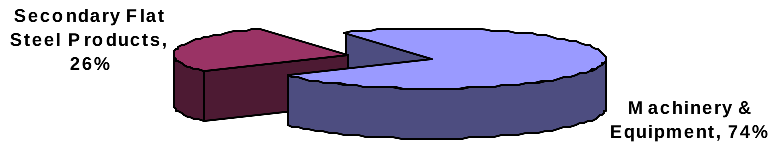
By FY08, Eonmetall aims to launch its range of MDF (medium density fibreboard) equipment. The equipment currently under R&D will allow the conversion of empty fruit bunch fibres produced as a result of the palm oil milling process into a wood substitute panel product. Given the soaring costs of wood, the prospects are increasing for growing reliability on wood substitutes such as MDF. Prices of 12-18 mm MDF in the international markets, at USD320/m3 is already almost 50% higher than 2 years ago, and MDF manufacturing using de-oiled palm fruit fibres offers much higher value added than simply consigning the de-oiled fibres to the mill furnace.

Consequently, we believe that when the Eonmetall MDF plant does come to the market, it will be very well received indeed.

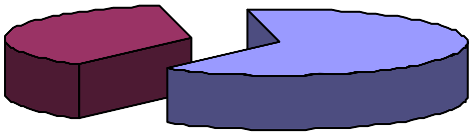
FY2006 Revenue Breakdown



FY2006 Operating Profit Breakdown



FY2006 Geographical Markets Breakdown



3.0 Tax free profits and dividends

Another plus point on the internal cost savings it offers to Eonmetall is the 10 years pioneer status tax incentives that the group currently enjoys in respect of profits on rolling mill machinery and parts thereof for iron and steel industry, process system for recovery of residual palm oil from palm fibre, powder coating line machine, galvanising line machine and prepainted galvanising line machine for metal surface coating treatment or coating industry. The group also enjoys pioneer status for machinery and equipment for the edible oils, pharmaceutical, chemical and oleochemical industries. Eonmetall's IT business also enjoys MSC status with approval on the tax free period has been obtained for extension of another 5 years.

Eonmetall recommended a first and final dividend of 2.5 sen or 5% tax exempt in respect of FY2006, which was approved by the shareholders during the annual general meeting on May 2007. The tax-exempt dividend offers a dividend yield of 3.4% based on the share price of RM0.725.

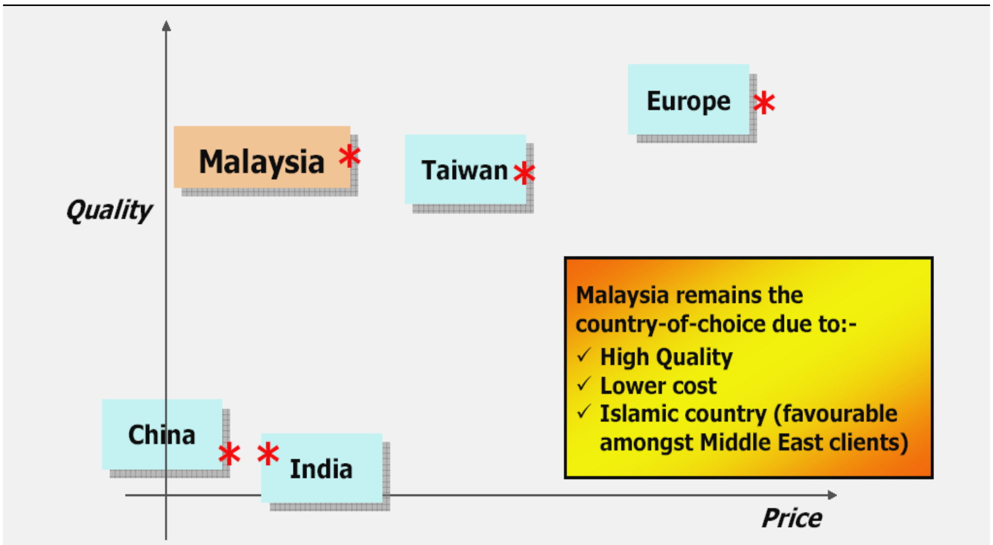
4.0 Competition

The group has an extensive customer base of around 200 local customers, and 45 foreign customers spread over 27 countries. About half of the top 15 customers of Eonmetall have had business relationships of 5 years or more with the company.

Locally, there are about 20 companies involved in the manufacturing of industrial processing machinery and 6 in the manufacturing of metalworking machinery. Domestic competition among these operators is moderate as each manufacturer usually specialises in equipment for specific industries. Heavy manufacturing equipment manufacturers enjoy better margins (40-49%) than semiconductor equipment manufacturers (12-13%).

However, the group faces stiffer competition from overseas operators in the machinery and equipment industry, particularly from Taiwan, Europe, India and China. This is because Malaysia is still by far a net importer of machinery and equipment. Nevertheless according to Eonmetall, Malaysia benefits from offering better quality than China and India but at a lower cost compared to Taiwan and Europe. As an Islamic country, Malaysia enjoys more favour amongst Middle East clients.

Figure 8 Competitive Position of Malaysian Machineries Manufacturers



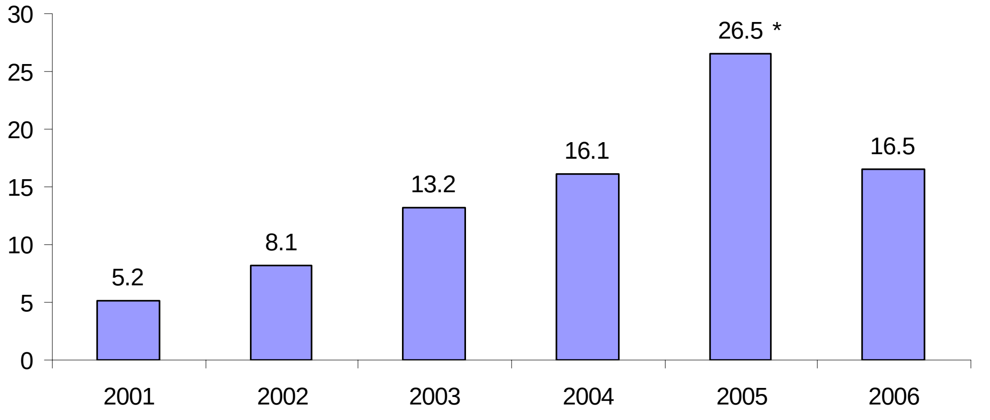
Malaysia's flat steel products market consumed about 3.7 mn tonnes of metal in 2005, shared amongst 130 operators. In 2005, Eonmetall produced 34,000 tonnes of secondary flat steel products, suggesting the local market should be sufficiently large for all existing 130 operators.

In 2004, the market for the manufacturing of metalworking machinery industry is estimated at RM2.6bn based on apparent consumption. The imports of machinery and equipment in 2004 as a whole amounted to RM32.9 bn while export was RM15.6 bn, indicating a significant a trade imbalance in respect of machinery imports versus exports.

5.0 Valuation

Net profit was lower in FY2006 in contrast to a 34.1% improvement in revenue. The higher revenue was a result of higher sales of machinery and equipment, secondary flat steel and other related products. But profits declined in FY2006 compared to FY2005 profit because FY2005 profits were inclusive of a negative goodwill recognised of RM11.9 mn.

Figure 9 Pre-tax Profits 2001-2006



** includes RM11.9 mn in negative goodwill*
Source: Company Prospectus and Annual Reports

Eonmetall's NTA per share for FY07 is forecasted to reach 74.22 sen, leaving the stock valued at 1.0x 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 ascribe to the share is RM1.08.

At RM1.08, the PER multiple is still only 8.5X prospective FY07 earnings. We believe this earning multiple is a very conservative valuation despite the cyclical nature of the steel industry.

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**

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**

Cash-flow 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 Cash-flow	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 Market Instruments	-	-	-	-
- Cash	10.37	4.43	4.50	6.51
Free Cash-flow	**-6.74**	**-10.66**	**0.11**	**3.79**

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	4.71x	8.65x	5.84x	4.87x
Dividend Yield	6.90%	3.45%	6.90%	6.90%
P/NTA	1.42x	1.21x	1.00x	0.83x
EV/EBITDA	4.21x	6.11x	4.68x	3.89x

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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