



AmInvestment Bank

Company report

EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

18 July 2017

Strong earnings growth remains visible

BUY

(Maintained)

AmInvestment Bank

ww.amesecurities.com.my

03-2036 2250

Rationale for report: Company update

Price RM0.73
Fair Value RM0.97
52-week High/Low RM0.96/RM0.51

Key Changes

Fair value ⓘ
EPS ⓘ

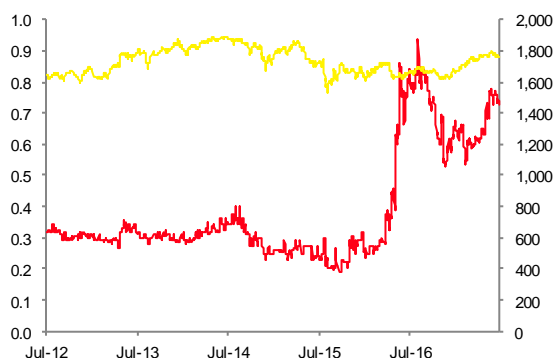
YE to Dec	FY16	FY17F	FY18F	FY19F
Revenue (RM mil)	105.6	120.9	137.8	158.2
Core net profit (RM mil)	12.5	16.6	20.7	26.1
FD Core EPS (sen)	7.3	9.7	12.1	15.3
FD Core EPS growth (%)	101.8	33.3	24.6	26.2
Consensus Net Profit (RM mil)	-	16.6	18.3	20.3
DPS (sen)	2.5	2.5	2.5	2.5
PE (x)	10.0	7.5	6.0	4.7
EV/EBITDA (x)	9.0	7.3	5.7	4.1
Div yield (%)	3.4	3.4	3.4	3.4
ROE (%)	8.2	10.2	11.6	13.0
Net Gearing (%)	41.0	30.7	18.9	6.3

Stock and Financial Data

Shares Outstanding (million)	171.2
Market Cap (RMmil)	124.1
Book Value (RM/share)	0.91
P/BV (x)	0.8
ROE (%)	8.2
Net Gearing (%)	41.0
Major Shareholders	Dato' Goh Cheng Huat (66.7%)

Free Float 33.1
Avg Daily Value (RMmil) 0.7

Price performance	3mth	6mth	12mth
Absolute (%)	18.9	7.4	(13.7)
Relative (%)	17.4	1.8	(17.9)



— EONM MK — FBMKLCI Index

Investment Highlights

- We raise our FY18-19F net profit forecast for Eonmetall Group (EG) by 13% and 28% respectively, and upgrade our FV to RM0.97 by 24% from RM0.78. This is based on 8x FY18F EPS of 12.1 sen, which is 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. We maintain our BUY call.
- The earnings upgrade in FY18 and FY19 is to reflect the revenue recognition from the following:
 1. **Solvent extraction plant (SEP)** – EG offers the sale of SEP to palm oil mills via outright sales and BOT/JV. Currently, EG is in negotiation with a public listed company to build several palm-pressed fibre oil extraction (PFOE) plants on a BOT basis and is expected to finalise the arrangement in 2H17. In addition, EG is making inroads into Indonesia, offering its SEP to the palm oil mills on either a BOT or JV basis.
 2. **Product and capacity expansion** – EG has increased its production capacity for manufacturing of downstream steel products by 100% to 30k tonnes p.a. and machinery & equipment (M&E) by 60% to 80 units p.a. The downstream products include hypermarket racks, new boltless, racking with galvanised materials, furniture racks and livestock (broiler/breeder), while the M&E product is deformed bar.
 3. **Diversification and overseas expansion** – EG plans to expand its business to overseas due to exceptional growth. EG plans to penetrate into these markets via: 1) JV for steel processing plant in the UAE (2HFY17) to cater to the demand of downstream steel products in the Middle East and North Africa (MENA) region; and 2) JV for steel racking manufacturing plant in the UAE (2HFY17) and Bangladesh (1HFY18), to cater to the demand in MENA and South Asia region.
- 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 in-sourcing of inputs (steel products and metalwork machinery) used in the fabrication of these plants. Generally, steel products, metalwork machinery and oil extraction plants each contribute about a third to EG group earnings.

BUSINESS OVERVIEW

Eonmetall Group's (EG) business is divided into three core divisions, which are: 1) Steel and Trading Division (Exhibit 1) which produces steel products such as cold-rolled coils (CRC), galvanised coils, slotted angles and steel racking system; 2) Machinery and Equipment Division (Exhibit 2) which produces metalwork machinery such as cold rolling mills, metal forming machines and continuous galvanizing lines; and 3) engineering, procurement, construction and commissioning (EPCC) works on solvent oil extraction plants.

EXHIBIT 1: STEEL & TRADING DIVISION



Source: Company, AmlInvestment Bank Bhd

❑ Steel and Trading Division

The Steel and Trading Division has been the core contributor to the company's top line, accounting for ~75% for the past 5 years. It produces flat steel and downstream flat steel products (Exhibit 3), and exports it to overseas markets including the UAE, Saudi Arabia, Singapore, Bangladesh and Sri Lanka. EG's steel product offerings include c-purlins, slotted angles, expanded metal, coils and sheets and steel storage system. This segment commands higher margins due to in-house savings, which comprise production capabilities to process to final steel downstream finished products and the internal sourcing of metalwork machinery, thus reducing capital costs and enhancing margins.

Near-term plans include to expand its overseas business, including to the UAE and Bangladesh, where EG plans to set up steel processing plant and steel racking facilities. This strategy enables it to penetrate into South Asia as well the Middle East and North Africa regions which exhibit strong demand in steel products and steel racking solutions.

EXHIBIT 2: MACHINERY & EQUIPMENT DIVISION



Source: Company, AmlInvestment Bank Bhd

❑ Metalwork Machinery Division

Being the leading metalwork machinery fabricator, the MME products are designed and fabricated in-house to manufacture various steel products. Among types of MME products are expanded metal, roll forming, flattening, rolling mill, powder coating, levelling, slotting angle, galvanizing, cold rolling mill and many more. EG continues to be the preferred metalwork machinery manufacturer as it provides high quality and affordable metalwork machinery.

❑ Solvent Extraction Plant

Currently, EG is the leading design innovator and fabricator of patented solvent extraction plant (SEP) for palm mesocarp fibre and palm kernel cake. The SEP technology is able to recover about 80% of the residual oil in the mesocarp fibre and has registered patents in Malaysia, Indonesia and India. The innovation has attracted a number of palm oil industry customers from both public-listed and private-owned companies as well government-linked companies. Currently, there are 18 SEP plants that have been constructed and commissioned both in Malaysia and Indonesia. Opportunity growth is bright in this sector taking into consideration of over 1,500 palm oil mills.

EG has been in talks with several interested parties including with a publicly listed company to build several palm-pressed fibre oil extraction (PFOE) plants on a build-operate-transfer (BOT) basis that is expected to be

finalised in 2H17. In addition, EG is making inroads into Indonesia to offer its SEP to the palm oil mills on either a BOT or JV basis.

EXHIBIT 3: SOLVENT EXTRACTION PLANT



Source: Company, AmlInvestment Bank Bhd

□ *EG's future aspiration*

Moving forward, EG aspires to become a mid-cap listed issuer on the local bourse through the following:

1. Expanding into overseas market and setting up plant facilities within the region;
2. Establishing more vertical integration through JV's that can enhance the group's machinery and equipment capabilities;
3. Expanding downstream businesses through the application of its steel products to various industries;
4. Becoming an operator in palm oil-related plants via build-operate-transfer (BOT) and joint venture (JV) models.

EXHIBIT 4: PB BAND CHART

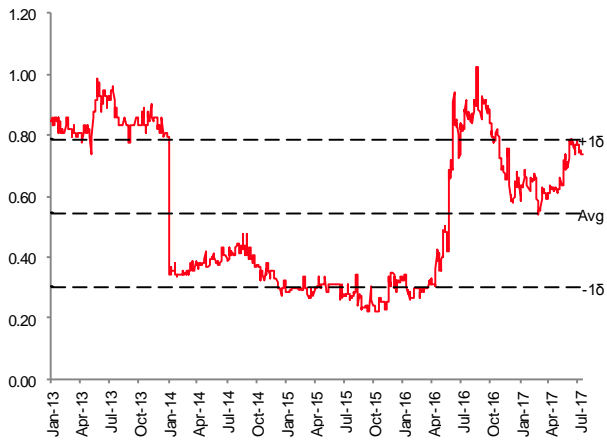


EXHIBIT 5: PE BAND CHART

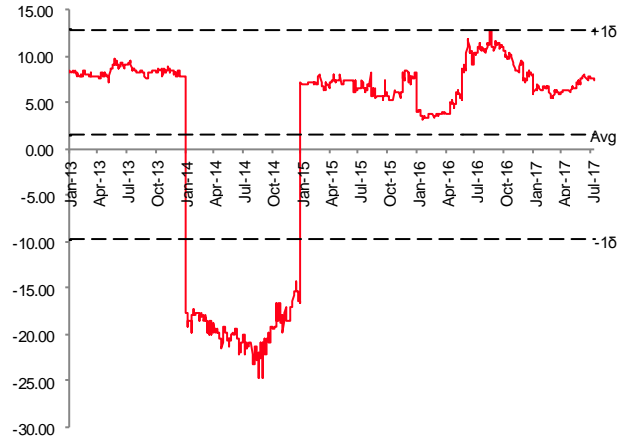


EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue	79.7	105.6	120.9	137.8	158.2
EBITDA	12.9	20.8	24.1	28.2	33.2
Depreciation/Amortisation	(4.0)	(5.0)	(5.0)	(5.0)	(5.0)
Operating income (EBIT)	8.9	15.9	19.1	23.2	28.2
Other income & associates	-	-	-	-	-
Net interest	(3.3)	(3.2)	(1.2)	(0.9)	(0.5)
Exceptional items	-	-	-	-	-
Pretax profit	5.6	12.7	17.9	22.3	27.7
Taxation	0.6	(0.2)	(1.3)	(1.6)	(1.6)
Minorities/pref dividends	-	-	-	-	-
Net profit	6.2	12.5	16.6	20.7	26.1
Core net profit	6.2	12.5	16.6	20.7	26.1
Balance Sheet (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Fixed assets	102.2	95.6	95.6	95.6	95.7
Intangible assets	-	-	-	-	-
Other long-term assets	32.9	32.6	32.6	32.6	32.6
Total non-current assets	135.0	128.2	128.2	128.2	128.3
Cash & equivalent	2.1	2.6	14.9	31.3	53.2
Stock	51.4	61.5	61.5	61.5	61.5
Trade debtors	38.6	44.9	44.9	44.9	44.9
Other current assets	0.3	0.2	0.2	0.2	0.2
Total current assets	92.4	109.2	121.5	137.9	159.8
Trade creditors	18.8	11.6	11.6	11.6	11.6
Short-term borrowings	46.4	56.5	56.5	56.5	56.5
Other current liabilities	0.1	0.7	0.7	0.7	0.7
Total current liabilities	65.3	68.9	68.9	68.9	68.9
Long-term borrowings	10.7	10.3	10.3	10.3	10.3
Other long-term liabilities	2.4	1.4	1.4	1.4	1.4
Total long-term liabilities	13.1	11.7	11.7	11.7	11.7
Shareholders' funds	148.7	156.5	168.9	187.7	214.6
Minority interests	0.3	0.3	0.3	0.3	-
BV/share (RM)	0.87	0.91	0.99	1.10	1.25
Cash Flow (RMmil, YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Pretax profit	5.6	12.7	17.9	22.3	27.7
Depreciation/Amortisation	4.0	5.0	5.0	5.0	5.0
Net change in working capital	7.9	(23.4)	-	-	-
Others	(13.5)	6.2	(0.1)	(0.7)	(1.1)
Cash flow from operations	3.9	0.5	22.8	26.6	31.6
Capital expenditure	(5.2)	(4.4)	(5.0)	(5.0)	(5.0)
Net investments & sale of fixed assets	2.7	-	-	-	-
Others	(0.1)	5.8	-	-	-
Cash flow from investing	(2.5)	1.3	(5.0)	(5.0)	(5.0)
Debt raised/(repaid)	4.6	4.0	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	(4.2)	(4.3)	(4.3)	(4.3)
Others	(3.8)	(3.2)	-	-	-
Cash flow from financing	0.8	(3.5)	(4.3)	(4.3)	(4.3)
Net cash flow	2.2	(1.7)	13.5	17.3	22.3
Net cash/(debt) b/f	(4.3)	(3.1)	(8.4)	3.9	20.3
Net cash/(debt) c/f	(3.1)	(5.2)	5.1	21.2	42.7
Key Ratios (YE 31 Dec)	FY15	FY16	FY17F	FY18F	FY19F
Revenue growth (%)	23.7	32.6	14.4	14.0	14.8
EBITDA growth (%)	143.0	62.1	15.4	17.1	17.9
Pretax margin (%)	7.0	12.0	14.8	16.2	17.5
Net profit margin (%)	7.8	11.8	13.7	15.0	16.5
Interest cover (x)	2.7	5.0	16.4	26.5	57.5
Effective tax rate (%)	11.0	1.7	7.3	7.2	5.8
Dividend payout (%)	-	33.8	25.8	20.7	16.4
Debtors turnover (days)	147	144	136	119	104
Stock turnover (days)	219	195	186	163	142
Creditors turnover (days)	60	53	35	31	27

Source: Company, AmlInvestment Bank Bhd estimates

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