



AmInvestment Bank

Company report

EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

20 Mar 2018

Gets steel racking OEM rights

BUY

(Maintained)

AmInvestment Bank

www.amesecurities.com.my

03-2036 2250

Rationale for report: Company update

Price RM0.69
Fair Value RM0.92
52-week High/Low RM0.87/RM0.58

Key Changes

Fair value ⇄
EPS ⇄

YE to Dec	FY17	FY18F	FY19F	FY20F
Revenue (RM mil)	131.9	139.8	210.2	216.5
Core net profit (RM mil)	16.2	21.7	31.2	31.4
FD Core EPS (sen)	8.6	11.5	16.6	16.7
FD Core EPS growth (%)	18.4	33.6	43.8	0.8
Consensus Net Profit (RM mil)	-	21.7	31.2	31.4
DPS (sen)	2.3	2.3	2.3	2.3
PE (x)	7.9	5.9	4.1	4.1
EV/EBITDA (x)	4.6	5.9	4.3	4.1
Div yield (%)	2.9	2.9	2.9	2.9
ROE (%)	21.9	20.2	14.6	13.0
Net Gearing (%)	66.8	30.1	25.5	21.7

Stock and Financial Data

Shares Outstanding (million)	171.2
Market Cap (RMmil)	117.3
Book Value (RM/share)	0.08
P/BV (x)	9.0
ROE (%)	21.9
Net Gearing (%)	66.8
Major Shareholders	Dato' Goh Cheng Huat (66.7%)

Free Float	33.1
Avg Daily Value (RMmil)	0.4

Price performance	3mth	6mth	12mth
Absolute (%)	(7.4)	(11.6)	13.2
Relative (%)	(13.0)	(15.0)	6.9



— EONM MK — FBMKLCI Index

Investment Highlights

- We maintain our BUY call, forecasts and FV of RM0.92 based on 8x FY18F EPS of 11.5 sen, at a discount to the manufacturing sector's average 1-year forward PE of 10-11x to reflect Eonmetall's relatively small market capitalisation of less than RM150mil.
- Eonmetall has recently entered into a strategic partnership with Gonvarri Material Handling AS (Gonvarri), whereby Eonmetall has obtained the licensing rights to manufacture and distribute steel racking solutions under the product flagship of Constructor from Europe for an initial term of 5 years with the option to renew for a further 5 years. The strategic partnership allows both Gonvarri and Eonmetall to expand on their mutual plans to manufacture and distribute Constructor steel racking solutions across Asia-Pacific on the basis of equal profit sharing.
- Eonmetall will also be able to expand its products range and market presence in Asia-Pacific leveraging the Constructor brand name through Eonmetall's newly formed subsidiary Constructor Asia Sdn Bhd (CASB) which was incorporated in 4Q17. CASB is expected to begin its operation by 2H18 with an estimated annual revenue of RM40-60million in FY18-20F and a healthy mid-to-high teens EBITDA margins.
- Meanwhile, Eonmetall will bear the full cost to set up the production facilities based on Gonvarri design and technology requirements, as well as technical expertise by Gonvarri for the steel racking production in accordance to Constructor's quality standards prior to commencement of the production. The estimated capex cost is <RM2mil and will be funded internally by cash.
- Based on the stipulated partnership agreement, Eonmetall will be granted three types of sales rights under the Constructor brand name which are: 1) 5-year irrevocable exclusive sales to the Asean region, Bangladesh and China, 2) 3-year conditional exclusive sales to all other Asian countries excluding the Asian part of Russia; and 3) 3-year non-exclusive sales to other parts of Asia (i.e. including Asia-Pacific).
- We are positive on the recent development but maintain our numbers as we have already imputed this into our forecasts previously.

- The company's earnings remain upbeat in FY18 due to: 1) additional earnings from the newly formed subsidiary, CASB, which is expected to commence its operation as early as 2H18 with an estimated annual revenue of RM40mil; and 2) the company is currently in the final stage of negotiation with a public listed company for the construction of several solvent oil extraction plants on a build-operate-transfer (BOT) basis and expects to deliver the plants as early as 1HFY18. In addition, Eonmetall may secure additional two plants on an outright purchase basis which are expected to be delivered as early as 1HFY18.
- We like Eonmetall for the growing acceptance by palm oil millers in Malaysia and Indonesia for its solvent oil extraction plants. Eonmetall enjoys good margins for these 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.

EXHIBIT 1: PB BAND CHART

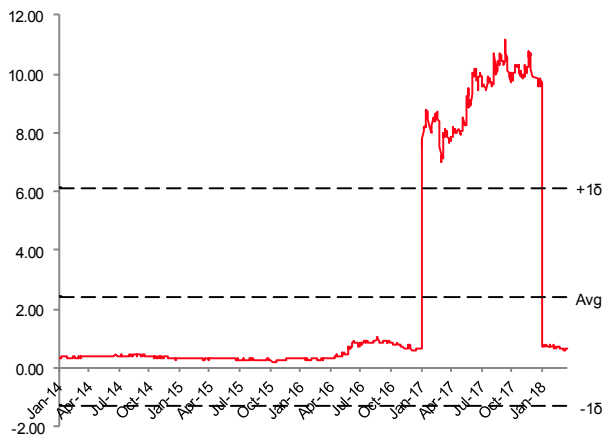


EXHIBIT 2: PE BAND CHART

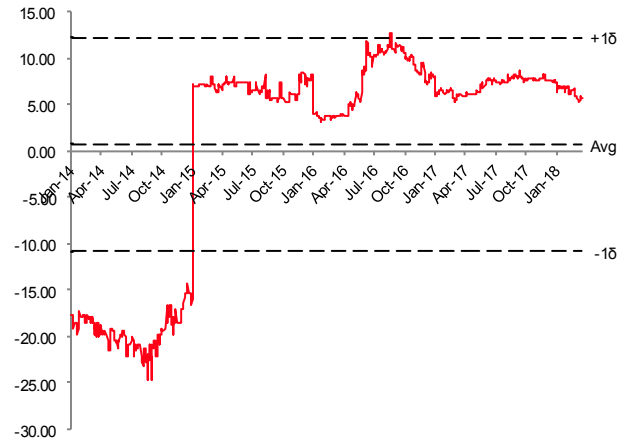


EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue	105.6	131.9	139.8	210.2	216.5
EBITDA	20.8	27.5	30.0	40.4	42.3
Depreciation/Amortisation	(5.0)	(5.9)	(5.2)	(5.5)	(5.8)
Operating income (EBIT)	15.9	21.6	24.8	34.9	36.6
Other income & associates	-	(0.1)	-	-	-
Net interest	(3.2)	(4.1)	(1.1)	(1.2)	(0.5)
Exceptional items	-	2.5	-	-	-
Pretax profit	12.7	19.9	23.6	33.7	36.1
Taxation	(0.2)	(1.2)	(2.0)	(2.5)	(4.7)
Minorities/pref dividends	-	-	-	-	-
Net profit	12.5	18.7	21.7	31.2	31.4
Core net profit	12.5	16.2	21.7	31.2	31.4
Balance Sheet (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Fixed assets	95.6	24.1	135.4	159.9	184.1
Intangible assets	-	-	-	-	-
Other long-term assets	32.6	-	32.6	32.6	32.6
Total non-current assets	128.2	24.1	168.0	192.5	216.8
Cash & equivalent	2.6	(9.6)	6.5	8.9	11.8
Stock	61.5	-	61.5	61.5	61.5
Trade debtors	44.9	-	44.9	44.9	44.9
Other current assets	0.2	-	0.2	0.2	0.2
Total current assets	109.2	(9.6)	113.1	115.5	118.4
Trade creditors	11.6	-	11.6	11.6	11.6
Short-term borrowings	56.5	-	56.5	56.5	56.5
Other current liabilities	0.7	-	0.7	0.7	0.7
Total current liabilities	68.9	-	68.9	68.9	68.9
Long-term borrowings	10.3	-	10.3	10.3	10.3
Other long-term liabilities	1.4	-	1.4	1.4	1.4
Total long-term liabilities	11.7	-	11.7	11.7	11.7
Shareholders' funds	156.5	14.4	200.2	227.1	254.2
Minority interests	0.3	-	0.3	0.3	0.3
BV/share (RM)	0.91	0.08	1.06	1.21	1.35
Cash Flow (RMmil, YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Pretax profit	12.7	19.9	23.6	33.7	36.1
Depreciation/Amortisation	5.0	5.9	5.2	5.5	5.8
Net change in working capital	(23.4)	-	-	-	-
Others	6.2	2.8	(0.8)	(1.4)	(4.2)
Cash flow from operations	0.5	28.6	28.0	37.8	37.6
Capital expenditure	(4.4)	(30.0)	(30.0)	(30.0)	(30.0)
Net investments & sale of fixed assets	-	-	-	-	-
Others	5.8	-	-	-	-
Cash flow from investing	1.3	(30.0)	(30.0)	(30.0)	(30.0)
Debt raised/(repaid)	4.0	-	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	(4.2)	(4.3)	(4.3)	(4.3)	(4.3)
Others	(3.2)	-	-	-	-
Cash flow from financing	(3.5)	(4.3)	(4.3)	(4.3)	(4.3)
Net cash flow	(1.7)	(5.6)	(6.3)	3.5	3.4
Net cash/(debt) b/f	(3.1)	-	2.9	(4.5)	(2.1)
Net cash/(debt) c/f	(5.2)	(5.6)	(3.4)	(0.9)	1.2
Key Ratios (YE 31 Dec)	FY16	FY17	FY18F	FY19F	FY20F
Revenue growth (%)	32.6	24.9	6.0	50.3	3.0
EBITDA growth (%)	62.1	32.0	8.9	34.6	4.9
Pretax margin (%)	12.0	15.1	16.9	16.0	16.7
Net profit margin (%)	11.8	14.2	15.5	14.8	14.5
Interest cover (x)	5.0	5.3	21.9	29.5	74.5
Effective tax rate (%)	1.7	6.1	8.3	7.5	13.0
Dividend payout (%)	33.8	22.9	19.7	13.7	13.6
Debtors turnover (days)	144	62	59	78	76
Stock turnover (days)	195	85	80	107	104
Creditors turnover (days)	53	16	15	20	20

Source: Company, AmlInvestment Bank Bhd estimates

DISCLOSURE AND DISCLAIMER

This report is prepared for information purposes only and it is issued by AmlInvestment Bank Berhad (“AmlInvestment”) without regard to your individual financial circumstances and objectives. Nothing in this report shall constitute an offer to sell, warranty, representation, recommendation, legal, accounting or tax advice, solicitation or expression of views to influence any one to buy or sell any real estate, securities, stocks, foreign exchange, futures or investment products. AmlInvestment recommends that you evaluate a particular investment or strategy based on your individual circumstances and objectives and/or seek financial, legal or other advice on the appropriateness of the particular investment or strategy.

The information in this report was obtained or derived from sources that AmlInvestment believes are reliable and correct at the time of issue. While all reasonable care has been taken to ensure that the stated facts are accurate and views are fair and reasonable, AmlInvestment has not independently verified the information and does not warrant or represent that they are accurate, adequate, complete or up-to-date and they should not be relied upon as such. All information included in this report constitute AmlInvestment’s views as of this date and are subject to change without notice. Notwithstanding that, AmlInvestment has no obligation to update its opinion or information in this report. Facts and views presented in this report may not reflect the views of or information known to other business units of AmlInvestment’s affiliates and/or related corporations (collectively, “AmBank Group”).

This report is prepared for the clients of AmBank Group and it cannot be altered, copied, reproduced, distributed or republished for any purpose without AmlInvestment’s prior written consent. AmlInvestment, AmBank Group and its respective directors, officers, employees and agents (“Relevant Person”) accept no liability whatsoever for any direct, indirect or consequential losses, loss of profits and/or damages arising from the use or reliance of this report and/or further communications given in relation to this report. Any such responsibility is hereby expressly disclaimed.

AmlInvestment is not acting as your advisor and does not owe you any fiduciary duties in connection with this report. The Relevant Person may provide services to any company and affiliates of such companies in or related to the securities or products and/or may trade or otherwise effect transactions for their own account or the accounts of their customers which may give rise to real or potential conflicts of interest.

This report is not directed to or intended for distribution or publication outside Malaysia. If you are outside Malaysia, you should have regard to the laws of the jurisdiction in which you are located.

If any provision of this disclosure and disclaimer is held to be invalid in whole or in part, such provision will be deemed not to form part of this disclosure and disclaimer. The validity and enforceability of the remainder of this disclosure and disclaimer will not be affected.