



AmInvestment Bank

Company report

EONMETALL GROUP

(EONM MK EQUITY, EONM.KL)

10 Feb 2017

A Subdued 4QFY16 On The Cards

BUY

(Maintained)

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Rationale for report: Company update

Price	RM0.64
Fair Value	RM0.78
52-week High/Low	RM0.96/RM0.25

Key Changes

Fair value	⬇️
EPS	⬇️

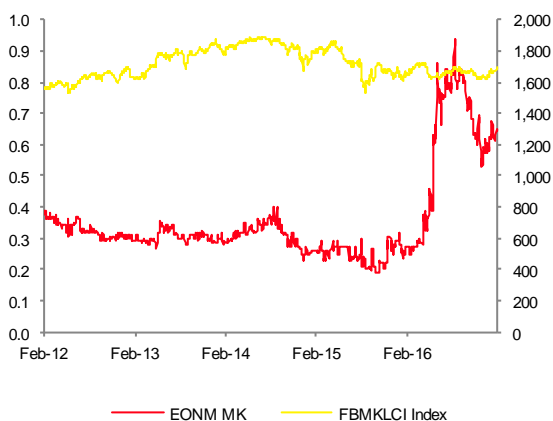
YE to Dec	FY15	FY16F	FY17F	FY18F
Revenue (RM mil)	79.7	112.6	120.9	129.3
Core net profit (RM mil)	6.2	14.4	16.6	18.3
FD Core EPS (sen)	3.6	8.4	9.7	10.7
FD Core EPS growth (%)	(322.3)	134.0	15.1	9.9
Consensus Net Profit (RM mil)	-	20.6	22.5	24.6
DPS (sen)	-	2.5	2.5	2.5
PE (x)	17.7	7.6	6.6	6.0
EV/EBITDA (x)	12.8	7.1	6.3	5.4
Div yield (%)	-	3.9	3.9	3.9
ROE (%)	4.2	9.4	10.1	10.3
Net Gearing (%)	36.9	28.8	20.1	11.6

Stock and Financial Data

Shares Outstanding (million)	171.2
Market Cap (RMmil)	109.5
Book Value (RM/share)	0.87
P/BV (x)	0.7
ROE (%)	4.2
Net Gearing (%)	36.9
Major Shareholders	Dato' Goh Cheng Huat (67.9%)

Free Float	33.1
Avg Daily Value (RMmil)	0.6

Price performance	3mth	6mth	12mth
Absolute (%)	-	(17.9)	137.0
Relative (%)	(2.3)	(19.2)	133.3



Investment Highlights

- We cut our FY16F/17F/18F forecasts by 30%, 26% and 26% respectively, and FV by 26% to RM0.78 (from RM1.05) but maintain our BUY call, following a recent meeting with Eonmetall. Our FV is based on 8x revised FY17F EPS of 9.7sen, at a discount to the manufacturing sector's average 1-year forward PE of 10-11x to reflect Eonmetall's relatively small market capitalisation.
- Eonmetall guided for a subdued 4QFY16 largely due to: (1) a spike in prices of hot-rolled coil, the input in the production of cold-rolled coil in end-2016; (2) a higher-than-expected provision for 2016 staff bonus (on the back of a bumper year in terms of profit); (3) a negative adjustment to inventory following a recent stock-taking exercise; and (4) slower-than-expected progress billings from certain residual oil extraction plant maintenance/upgrading contracts.
- Meanwhile, our downgrade of FY17F and FY18F forecasts is premised upon a new assumption that going forward, most of Eonmetall's residual oil extraction plant projects will be carried out on a build-operate-transfer (BOT) basis (vis-a-vis 100% outright sales to third parties previously). Eonmetall's profits will be effectively back-loaded via the BOT model. Under the BOT model, upon commissioning of the plant (which is not immediate), Eonmetall gets a cut of the profit from the sale of the oil produced, which will recur over a number of years. On the other hand, an outright sale of a plant to a third party gives Eonmetall an instant and one-off lumpy construction profit.
- We understand that Eonmetall is currently in negotiation with a publicly listed company to build several residual oil extraction plants on a BOT basis. It is also in talks with an existing client (a government agency) for the order of its second residual oil extraction plant, and a new customer (a publicly listed plantation company) for the contract of its first ever residual oil extraction plant.
- We now project Eonmetall's earnings to only more than double in FY16F (from more than triple previously) driven largely by residual oil extraction plant construction profits, and rise by 15.1% in FY17F and 9.9% in FY18F. Generally, steel products, metalwork machinery and residual oil extraction plants, each contributes about a third to Eonmetall's group earnings.
- We continue to like Eonmetall for its tremendous growth potential in the residual oil extraction segment, backed by: (1) its patents for the technology in Malaysia, Indonesia and India; (2) a huge addressable market for the technology in the region; and (3) high margins as it sources inputs for the residual oil extraction plant (steel products and metalwork machinery) internally.

EXHIBIT 1: PB BAND CHART

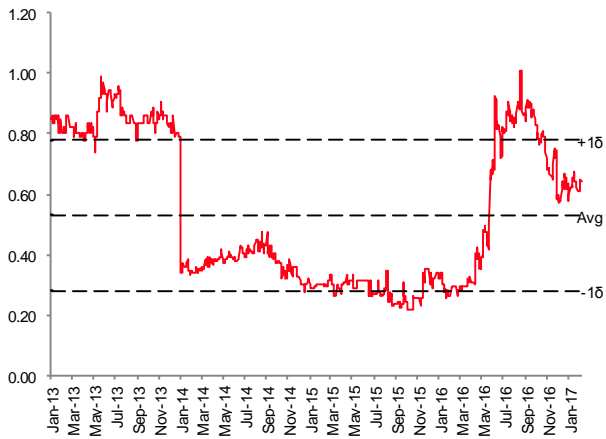


EXHIBIT 2: PE BAND CHART

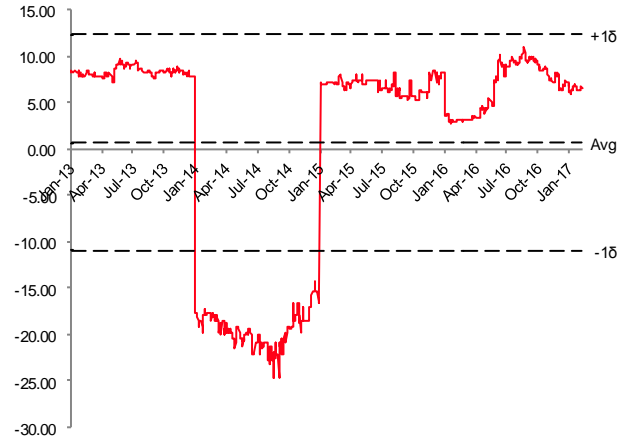


EXHIBIT 3: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue	64.4	79.7	112.6	120.9	129.3
EBITDA	5.3	12.9	21.9	22.7	24.4
Depreciation/Amortisation	(4.3)	(4.0)	(4.0)	(4.0)	(4.0)
Operating income (EBIT)	1.0	8.9	18.0	18.7	20.4
Other income & associates	-	-	-	-	-
Net interest	(3.3)	(3.3)	(2.5)	(0.8)	(0.6)
Exceptional items	-	-	-	-	-
Pretax profit	(2.3)	5.6	15.4	17.9	19.9
Taxation	(0.5)	0.6	(1.0)	(1.3)	(1.6)
Minorities/pref dividends	-	-	-	-	-
Net profit	(2.8)	6.2	14.4	16.6	18.3
Core net profit	(2.8)	6.2	14.4	16.6	18.3
Balance Sheet (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Fixed assets	103.2	102.2	103.2	104.3	105.3
Intangible assets	-	-	-	-	-
Other long-term assets	33.5	32.9	32.9	32.9	32.9
Total non-current assets	136.7	135.0	136.1	137.1	138.2
Cash & equivalent	1.6	2.1	11.2	22.6	35.5
Stock	44.2	51.4	51.4	51.4	51.4
Trade debtors	25.7	38.6	38.6	38.6	38.6
Other current assets	0.1	0.3	0.3	0.3	0.3
Total current assets	71.6	92.4	101.6	112.9	125.9
Trade creditors	7.5	18.8	18.8	18.8	18.8
Short-term borrowings	37.3	46.4	46.4	46.4	46.4
Other current liabilities	0.1	0.1	0.1	0.1	0.1
Total current liabilities	44.9	65.3	65.3	65.3	65.3
Long-term borrowings	16.3	10.7	10.7	10.7	10.7
Other long-term liabilities	3.3	2.4	2.4	2.4	2.4
Total long-term liabilities	19.6	13.1	13.1	13.1	13.1
Shareholders' funds	143.5	148.7	158.9	171.3	185.3
Minority interests	0.3	0.3	0.3	0.3	0.3
BV/share (RM)	0.84	0.87	0.93	1.00	1.08
Cash Flow (RMmil, YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Pretax profit	(2.3)	5.6	15.4	17.9	19.9
Depreciation/Amortisation	4.3	4.0	4.0	4.0	4.0
Net change in working capital	(3.8)	7.9	-	-	-
Others	2.5	(13.5)	1.5	(0.5)	(1.0)
Cash flow from operations	0.6	3.9	20.9	21.4	22.8
Capital expenditure	(4.5)	(5.2)	(5.0)	(5.0)	(5.0)
Net investments & sale of fixed assets	9.2	2.7	-	-	-
Others	(1.6)	(0.1)	-	-	-
Cash flow from investing	3.1	(2.5)	(5.0)	(5.0)	(5.0)
Debt raised/(repaid)	(3.7)	4.6	-	-	-
Equity raised/(repaid)	-	-	-	-	-
Dividends paid	-	-	(4.3)	(4.3)	(4.3)
Others	(3.7)	(3.8)	-	-	-
Cash flow from financing	(7.4)	0.8	(4.3)	(4.3)	(4.3)
Net cash flow	(3.7)	2.2	11.6	12.1	13.5
Net cash/(debt) b/f	(0.4)	(4.3)	(3.1)	6.1	17.4
Net cash/(debt) c/f	(4.3)	(3.1)	8.6	18.2	30.9
Key Ratios (YE 31 Dec)	FY14	FY15	FY16F	FY17F	FY18F
Revenue growth (%)	(15.5)	23.7	41.4	7.3	7.0
EBITDA growth (%)	(67.8)	143.0	70.5	3.5	7.5
Pretax margin (%)	(3.6)	7.0	13.7	14.8	15.4
Net profit margin (%)	(4.3)	7.8	12.8	13.8	14.1
Interest cover (x)	0.3	2.7	7.1	23.4	36.5
Effective tax rate (%)	20.4	11.0	6.5	7.3	8.0
Dividend payout (%)	nm	-	29.6	25.7	23.4
Debtors turnover (days)	433	147	125	116	109
Stock turnover (days)	125	219	167	155	145
Creditors turnover (days)	257	60	61	57	53

Source: Company, AmlInvestment Bank Bhd estimates

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