

Company Update

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Eonmetall Group Bhd – venturing to Dubai RM0.735

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MARKET DATA

Recommendation:	OUTPERFORM	Mkt. Cap (RM' million):	121.75
Bloomberg code:	EONM MK	52 week high/low (RM):	0.88/0.43

Highlights

- ◆ **Diversification into district cooling and chemical flushing systems. Eonmetall Group Bhd** (Emetall) announced in end-May that the company has formed a JV with 4 other parties in Dubai to undertake diversification into:
 - metal products and composites products manufacturing;
 - direct investment in the business of electro mechanical contracting and testing, chemical flushing and maintenance of district cooling systems; and
 - direct investment in the business of oil and gas activities.

- ◆ **Diversification via Coolrich LCC.** Emetall holds the majority stake of 30% in the Dubai-based JV, Eonmetall Global Composites LCC (EGC-LCC), which will be used as a vehicle to acquire Coolrich District Cooling Services LCC (Coolrich) for AED4.5 million (about RM4.86 million). Coolrich's purchase is valued at Price/NTA of 1.8X, which is deemed reasonable because the company provides:
 - profit guarantee of AED3 million (about RM3.24 million) for 2 years; and
 - projects in-hand amount to AED30 million (about RM32.4 million).

- ◆ **Coolrich to spearhead Emetall's foray into Middle East.** Coolrich is involved in the planning, installation and maintenance of co-generation district cooling systems used to generate chilled water for air-conditioning requirements. Besides this, the company is also involved in chemical flushing as well as pipeline hydro-testing and commissioning. Coolrich's track record includes the Dubai Investment Park – Green Community, Dubai Festival City, Dubai International Financial Centre, Grand Mosque Abu Dhabi, Al Muroor/Al Jazeera Sports Complex Abu Dhabi and Jumeirah Beach Residence.

- ◆ **Orders expected to increase.** Emetall is expecting demand for Coolrich's district cooling systems to increase to AED80 million (about RM86.5 million) by early next year. The district's cooling systems market in United Arab Emirates is estimated to be worth AED6 billion (about RM6.5 billion) and is poised to increase significantly on the back of new construction projects that require cooling against the country's warm weather.
- ◆ **Pipeline and insulation plant to be ready buy year-end.** Emetall has secured a plot of leasehold land in Dubai Industrial Park to set up their pipeline and insulation plant. The plant is scheduled to be operational by end-2007 and should start contributing positively to Group's bottomline by FY 12/2008. Diversifying into the pipeline and insulation business will enable Emetall to tap into the lucrative oil and gas sector to the Gulf Cooperation Council (GCC) comprising Saudi Arabia, Kuwait, Bahrain, Qatar, United Arab Emirates and Oman.
- ◆ **Net profit for 1Q 3/2007 surged 6-fold y-o-y.** Emetall posted an impressive 92% y-o-y jump in revenue to RM26.29 million in 1Q 3/2007. Pretax profit surged nearly 5-fold to RM3.70 million whilst net profit rose 6-fold to RM3.36 million compared to 1Q 3/2006. The significantly better performance was mainly due to higher sales of machinery and equipment.

However, the results were lower when compared to the previous 4Q 12/2006. Pretax profit for 4Q 12/2006 was higher by 39% at RM6.1 million compared to the current quarter, mainly due to increased year-end sales of machinery and equipment, which command a higher margin than secondary flat steel products.

Issues

- ◆ **Foray into Middle East has its challenges.** Eonmetall's JV is not without challenges, especially from well-established local and foreign competitors in the district cooling as well as pipeline and insulation industries. Coolrich's orderbook of AED 30 million is deemed insignificant when compared to Dubai's district cooling industry estimated at AED6 billion. Among the major players are The National Central Cooling Co. (Tabreed), Palm District Cooling and Emirates Central Cooling Systems Corp (Empower).
- ◆ However, we believe the pie is big enough for everybody due to the district cooling industry's rapid growth in Dubai as well as the GCC region. The International District Energy Association (IDEA) forecasts investments in district cooling sector between US\$10 - 30 billion over the next 10 years because of feverish construction boom in the GCC region.

Recommendation

- ◆ We reiterate **OVERWEIGHT** on Emetall due to the company's proactive strategy to expand its market share and diversify into synergistic areas. Among the key catalysts are:
 - **Ready to take on larger orders via capacity expansion.** Emetall's new factory costing RM25 million is ready and should start contributing to the Group by this year. The new 30-acre factory is expected to boost Emetall's metalwork machinery and equipment (MME) capacity by an estimated 50% and secondary flat steel products by 70%, as well as acting as a warehouse for the group's raw materials and finished goods.
 - **New products to expand MME range.** Enhanced Cold-Rolled Mill capable of reducing thickness of hot-rolled strips to 0.5mm and galvanizing machine have joined Emetall's MME product range this year and are expected to enhance future group revenue. The Enhanced Cold-Rolled Mill offers wider applications of secondary flat steel products such as steel tubes whilst galvanising machine is in high demand.
 - **Diversification into district cooling as well as pipeline and insulation should impact FY 12/2008.** Via Coolrich, Emetall is able to venture into the lucrative district cooling and oil and gas businesses in Dubai as well as the GCC region. We are confident that the JV will secure higher orders for district cooling systems whilst not forgetting the pipeline and insulation manufacturing plant slated to be ready by end-2007.
 - **Other exciting plans are in the pipeline.** With Dubai as a base for Emetall's entry into the booming GCC region, plans are already in the pipeline to set up a steel manufacturing plant in Dubai to cater to the needs of the buoyant construction sector. Meanwhile, Emetall is also actively exploring JV possibilities in other countries that require their expertise.
- ◆ Although Emetall does not have common listed peers for comparison, especially in the MME industry or its new JV in Dubai, we based our sector PER of 9.42X on selected players in the secondary flat steel products and related products industry, which works out to a **fair value of RM1.11.**

Financial Highlights

FY Dec 31/ RM'mil	2003A	2004A	*2005A	2006A	2007F	2008F
Revenue	49.36	78.45	79.56	93.89	122.06	146.47
Operating Profit	13.92	17.49	28.15	19.45	25.03	33.68
Pretax Profit	13.17	16.06	28.16	16.54	21.81	26.07
Net Profit	11.74	13.44	15.62	14.29	19.52	22.52
EPS (sen)	7.09	8.11	9.43	8.63	11.78	13.60
PER (X)	10.37	9.06	7.80	8.52	6.24	5.41
Total no. of shares	165.64	165.64	165.64	165.64	165.64	165.64
Margin: Operating	28.20	22.30	35.38	20.72	20.51	22.99
Pretax Profit	26.68	20.47	35.39	17.61	17.87	17.80
Net Profit	23.78	17.13	19.63	15.22	15.99	15.38
Gross Dividend Per Share (sen)	-	-	5.00	2.50	2.50	2.50
Dividend Yield (%)	-	-	6.80	3.40	3.40	3.40
* FY 12/2005 pretax profit includes negative goodwill of RM11.85 million						

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