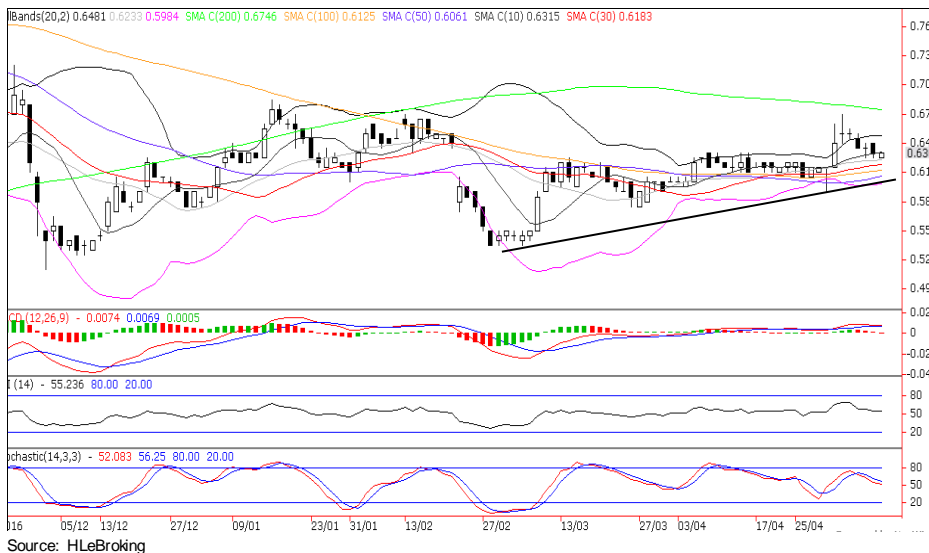


Trading idea: EMETAL – Seeds sown for a brighter future; Ripe for bottom fish

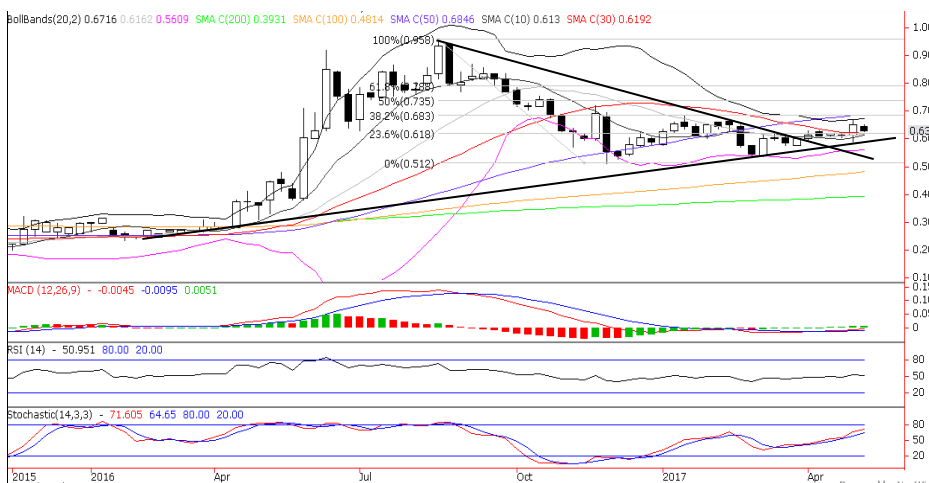
May 15, 2017

EMETALL (RM0.63/Vol:150k)

DAILY CHART: UPTREND INTACT



WEEKLY CHART: POSITIVE TRIANGLE BREAKOUT



Source: HLeBroking

- **A machinery and equipment master.** EMETALL's core business activities are categorized into two key segments, namely, steel products manufacturing (Steel Product Division - contributes about 70% to topline) and machinery and equipment manufacturing (Machinery and Equipment Division – generates about 30% to revenue). Currently, the group exports ~40% of its steel products to over 45 countries in Asia, Asia Pac, Middle East, Africa etc.
- In general, EMETALL is a midstream and downstream steel player that produces flat steel products such as cold rolled coils or CRC (120k MT pa) and galvanized coils (50k MT), mainly for internal consumption. It also produces secondary flat steel items (30k MT) such as slotted angles, conduit pipes, purlins and filter meshes, and light-duty/heavy-duty steel storage systems). Embracing its philosophy to push beyond traditional manufacturing boundaries and leverage on multiple disciplines to deliver total solutions in automated design & engineering, manufacturing and cost effective project investment, EMETALL is also involved in the machinery and equipment manufacturing (50 units). Today, the group is a leading design innovator and fabricator of patented solvent extraction plant (SEP-10 units) technology for palm mesocarp fibre and palm kernel cake.

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Risk Profile

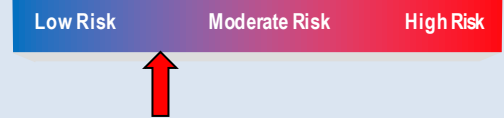


FIG1: Financials and technical snapshots

Last price (RM)	0.63
1 Day Change (%)	0.00
5 Day Change (%)	-3.08
1 Day Range (%)	100.00
5D High	0.65
5 Day Range (%)	20.00
52Wk High (RM)	0.96
52Wk Low (RM)	0.38
52Week Range (%)	43.10
Outlook (2-4 weeks)	Bottoming up
Daily RSI	Neutral
Daily Stochastics	Neutral
Daily MACD	Neutral
Avg volumes 100D ('mln)	0.70
S1/S2 (RM)	0.61 / 0.6
R1/R2 (RM)	0.67 / 0.7
LT Technical Objective (RM)	0.78
Upside reward (%)	23.81
Stop Loss (RM)	0.59
Downside risk (%)	-6.35
HLIB Institutional TP (RM)	-
Bloomberg TP (RM)	0.78
Trading period (max)	4 Weeks
Proforma BVPS (RM)	0.93
P/BV (x)	0.68
Dividend yield	3.97

Source: HLIB, Bloomberg

- **Cost advantages.** The group has two unique cost advantages underpinning its operations. Firstly, production capabilities to process steel coils raw material until the production of final steel downstream finished products. The second point is in the internal sourcing of metalwork machinery which reduced capital costs, tremendously resulting in enhanced competitiveness in the market whilst boosting its margins. It is a beneficiary of recent sliding iron ore prices (core raw material to produce HRC) and a stable RM (vs US\$) as the group imports HRC, which is the core raw material to produce CRC steels.
- **Gaining traction in SEP.** EMETALL's 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 technology has penetrated several locally listed key industry players and several private palm oil mills.
- To-date, 18 SEP plants constructed in Malaysia and Indonesia have commissioned operations. The Group anticipated further demands for the SEP mainly from the GLCs moving forward. There exist tremendous opportunity for high growth taking into the consideration of over 1,500 palm oil mills operating in both Malaysia and Indonesia. As such, the presumption that the technology will gain traction is reasonable and the Group is positive on the exponential growth of this patented technology. Overall, the Group shall strive to convert its business model into Built-Operate-Transfer ("BOT") model to transform itself as an operator of plant rather than solely depending on revenue on project sale. The BOT model shall provide more consistent annual income which and expected to contribute about 30% of the Group earnings moving forward.
- **Outlook.** Following its capacity expansions since 2015, EMETALL is expected to register earnings CAGR of 43% for FY15-18 to RM18.3m on the back of revenue CAGR of 17.5% to RM129m. This is mainly premised on resilient global economic conditions, positive steel industry, growing acceptance by palm oil millers in Malaysia and Indonesia for its SEP technology amid resilient plantation sector outlook, coupled with the insourcing of inputs (steel products and metalwork machinery) used in the fabrication of these plants.
- **Ripe for bottom fishing.** Since hitting a 52-week high of RM0.96 (19 Aug), the stock tumbled to a low of RM0.51 on 1 Dec before creeping up to end at RM0.63 last Friday. We anticipate of continuous improvement in both momentum and trend in near term amid recent positive medium term downtrend line breakout and share prices have been consistently closing above the support trend line.
- Should RM0.65 resistance level (daily upper Bollinger band) be broken, it may continue to lift price higher to RM0.67 (200-d SMA) and RM0.70 psychological levels before heading further to our LT objective at RM0.78 (61.8% FR). On the flip side, key supports are RM0.61 (50-d SMA) and RM0.60. Cut loss at RM0.59.

EARNINGS SUMMARY

FYE 31 Dec	FY13	FY14	FY15	FY16	FY17e	FY18e
Revenue (RM'm)	76.3	64.4	79.7	105.6	120.9	129.3
Core PATAMI (RM'm)	6.2	(2.8)	6.2	12.5	16.6	18.3
Issued shrs (m)	171.2	171.2	171.2	171.2	171.2	171.2
EPS (sen)	3.6	(1.6)	3.6	7.3	9.7	10.7
Dividend (sen)	1.8	-	-	2.5	2.5	2.5
P/E (x)	17.4	(38.5)	17.4	8.6	6.5	5.9
Yield (%)	2.8	-	-	4.0	4.0	4.0

Source: Bloomberg

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2. As of 15 May 2017, the analyst, Loui Low Ley Yee, who prepared this report, has interest in the following securities covered in this report:

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BUY	Positive recommendation of stock under coverage. Expected absolute return of more than +10% over 12-months, with low risk of sustained downside.
TRADING BUY	Positive recommendation of stock not under coverage. Expected absolute return of more than +10% over 6-months. Situational or arbitrage trading opportunity.
HOLD	Neutral recommendation of stock under coverage. Expected absolute return between -10% and +10% over 12-months, with low risk of sustained downside.
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SELL	Negative recommendation of stock under coverage. High risk of negative absolute return of more than -10% over 12-months.
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OVERWEIGHT	The sector, based on weighted market capitalization, is expected to have absolute return of more than +5% over 12-months.
NEUTRAL	The sector, based on weighted market capitalization, is expected to have absolute return between -5% and +5% over 12-months.
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