

Out think. Out perform.

Missed on expectations

APM reported a weak quarter with core earnings down 20% yoy to RM10.5m, which misses our and consensus estimates. We believe recent share price appreciation has run ahead of fundamental. As such, we downgrade APM to SELL with higher TP of RM3.55 based on 11x PE on FY17 EPS.

1Q17 earnings below expectations

APM booked a headline earnings of RM10.6m, which rose 13% yoy in tandem with an improvement in revenue at +6.5% yoy. The improvement was primarily supported by the interior & plastic and overseas operations coupled with better overall margins. However, core earnings fell 20% yoy to RM10.6m as APM recorded a larger forex losses of RM1.7m and RM2m derivatives loss in 1Q16 which was excluded. 1Q17 core earnings merely accounted for 14% and 16% of our and street estimates respectively.

Supported by interior & plastic and oversea operations

Interior and plastic division recorded 12.3% higher revenue yoy driven by better demand in OEM parts from new model launches and higher localization content for certain OEM parts. Likewise, better overseas operations was supported by higher demand for OEM parts. Core PBT increased 6% yoy to RM18.5m on the back of better margins from all business segments except electrical & heat exchanges and overseas market.

Downgrade SELL with higher TP of RM3.55

After updating our model with released audited figures and lower margins assumptions to reflect the disappointing quarter results, we trimmed our FY17-18E earnings by 15.3% and 5.2%. We also introduced our FY19 earnings at RM76.8m. We downgrade our rating to SELL with higher TP of RM3.55 (from RM3.43), based on higher 11x PE, in line with its 5-year average forward PE, on FY17E EPS.

Key upside risks to our call include: i) rebound in consumer sentiment and spending which may lead to a strong pick-up in vehicles sales.

Earnings & Valuation Summary

FYE 31 Dec	2015	2016	2017E	2018E	2019E
Revenue (RMm)	1,152.8	1,236.6	1,183.7	1,241.3	1,301.8
EBITDA (RMm)	129.5	126.4	163.6	179.8	186.3
Pretax profit (RMm)	95.0	83.2	101.8	115.6	123.8
Net profit (RMm)	60.5	48.6	63.1	71.7	76.8
EPS (sen)	30.9	24.8	32.3	36.7	39.2
PER (x)	12.9	16.1	12.4	10.9	10.2
Core net profit (RMm)	60.5	48.6	63.1	71.7	76.8
Core EPS (sen)	30.9	24.8	32.3	36.7	39.2
Core EPS growth (%)	(30.9)	(19.7)	29.9	13.6	7.0
Core PER (x)	12.9	16.1	12.4	10.9	10.2
Net DPS (sen)	14.6	11.3	11.3	11.3	11.3
Dividend Yield (%)	3.7	2.8	2.8	2.8	2.8
EV/EBITDA (x)	4.4	4.8	3.3	2.6	2.1
Chg in EPS (%)			(15.3)	(5.2)	-
Affin/Consensus (x)			1.0	1.0	1.2

Source: Company, Affin Hwang estimates

Results Note

APM

APM MK

Sector: Auto & Autoparts

RM4.00 @ 6 May 2017

SELL (downgrade)

Upside: -11.2%

Price Target: RM3.55

Previous Target: RM3.43



Price Performance

	1M	3M	12M
Absolute	7.8%	17.0%	3.6%
Rel to KLCI	6.7%	11.8%	-3.3%

Stock Data

Issued shares (m)	195.5
Mkt cap (RMm)/(US\$m)	782.1/180.3
Avg daily vol - 6mth (m)	0.1
52-wk range (RM)	3.3-4.15
Est free float	27.4%
BV per share (RM)	6.06
P/BV (x)	0.66
Net cash/ (debt) (RMm) (1Q17)	174.1
ROE (2017E)	5.1
Derivatives	Nil
Shariah Compliant	Yes

Key Shareholders

Tan Chong Consolidated	37.5%
Wealthmark Holdings	7.8%
EPF	5.6%

Source: Affin Hwang, Bloomberg

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Fig 1: Results Comparison

FYE 31 Dec (RMm)	1Q16	4Q16	1Q17	QoQ % chg	YoY % chg	Comment
Revenue	276.1	340.7	294.1	(13.7)	6.5	1Q17 revenue increased 6.5% yoy to RM294.1m driven by higher off take from OEMs as a result of new model launched in 2H16.
Op costs	(248.9)	(297.8)	(261.4)	(12.2)	5.0	
EBITDA	27.2	42.9	32.7	(23.8)	20.0	
EBITDA margin (%)	9.9	12.6	11.1	-1.5ppt	1.3ppt	
Depn and amort	(11.7)	(16.8)	(15.4)	(8.1)	31.4	
EBIT	15.5	26.2	17.3	(33.9)	11.4	
EBIT margin (%)	5.6	7.7	5.9	-1.8ppt	0.3ppt	
Int expense	(0.6)	(0.8)	(0.9)	11.3	52.5	
Int and other income	3.1	2.1	2.1	0.2	(31.3)	
Associates	(0.6)	(1.6)	(0.1)	(95.8)	(88.8)	
EI	(3.8)	0.5	(0.0)	(101.8)	(99.8)	
Pretax profit	13.6	26.4	18.5	n.m	35.6	
Core pretax	17.5	25.9	18.5	(28.5)	6.0	
Tax	(2.9)	(7.6)	(5.3)	n.m	n.m	
Tax rate (%)	21.6	28.8	28.9	0.1ppt	7.3ppt	
MI	(1.3)	(3.4)	(2.6)	n.m	n.m	
Net profit	9.3	15.4	10.6	(31.5)	12.9	
EPS (sen)	4.8	7.9	5.4	(31.5)	12.9	
Core net profit	13.2	14.9	10.6	(29.1)	(19.8)	1Q17 core net profit missed our and consensus expectation which accounted for 14% and 16% respectively.

Source: Affin Hwang, Company data

Fig 2: Segmental breakdown

FYE 30 Dec (RMm)	1Q16	2Q16	3Q16	4Q16	1Q17	qoq % chg	yoy % chg
Group Revenue (RM'm)	276.1	306.5	313.3	340.7	294.1	-13.7	6.5
Suspension	51.9	55.7	51.7	50.4	39.9	-20.7	-23.0
Interior & Plastics	174.6	200.5	213.0	242.3	196.1	-19.1	12.3
Electrical & Heat Exchange	42.3	38.4	41.0	47.3	37.5	-20.6	-11.2
Marketing	47.3	52.8	58.0	55.2	57.7	4.5	21.8
Others	13.8	14.1	13.0	15.2	15.9	4.8	15.1
Overseas	31.2	39.4	43.4	55.5	42.2	-24.0	35.2
Elimination	-85.0	-94.4	-106.8	-125.2	-95.3	23.9	-12.1
Group PBT (RM'm)	13.6	16.5	26.7	26.4	18.5	-29.9	35.6
Suspension	3.4	5.7	6.7	7.5	4.9	-34.5	44.9
Interior & Plastics	7.1	0.8	14.8	13.0	10.3	-21.3	44.2
Electrical & Heat Exchange	3.9	5.3	2.7	2.7	0.6	-78.9	-85.5
Marketing	1.2	2.9	2.4	2.0	2.9	43.8	135.5
Others	-2.2	0.5	0.8	2.6	0.1	-94.8	106.1
Overseas	0.3	1.1	-0.5	-1.9	-0.1	94.2	-132.4
Elimination	-0.1	0.2	-0.2	0.5	-0.2	-136.2	-22.6
Group PBT margin (%)	4.9%	5.4%	8.5%	7.7%	6.3%	-1.5%	1.3%
Suspension	6.5%	10.2%	12.9%	14.8%	12.3%	-2.6%	5.7%
Interior & Plastics	4.1%	0.4%	6.9%	5.4%	5.2%	-0.2%	1.2%
Electrical & Heat Exchange	9.2%	13.9%	6.6%	5.7%	1.5%	-4.2%	-7.7%
Marketing	2.6%	5.5%	4.1%	3.7%	5.1%	1.4%	2.4%
Others	-15.9%	3.4%	6.0%	17.2%	0.8%	-16.4%	16.7%
Overseas	1.1%	2.9%	-1.0%	-3.4%	-0.3%	3.2%	-1.4%

Source: Affin Hwang, company data

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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