

Date: 6 August 2007

Eastern Pacific Industrial Corporation Berhad (EPIC) <i>Proposes To Acquire Minor Fabrication Yard</i>		Price:	RM2.89
		Market Capitalisation:	RM476.9m
		Board:	Main Board
		Sector:	Trading & Services
Stock Code:	8265	Recommendation:	BUY

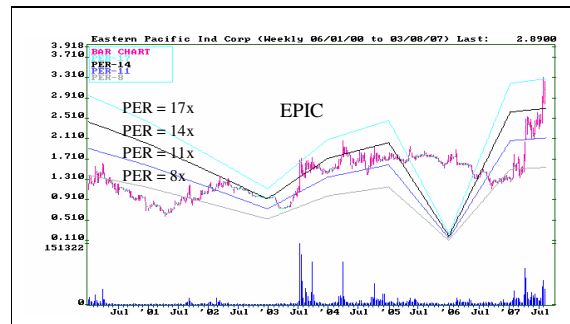
(latest figures)

<u>Key Stock Statistics</u>	2006	2007F
EPS (sen)	4.8	19.6
Core EPS (sen)	18.8	19.6
Core P/E (x)	15.4	14.8
Dividend/Share (sen)	9.4	9.9
NTA/Share (RM)	1.44	1.54
Book Value/Share	1.44	1.54
Issued Capital (mil shares)	165.0	
52-weeks Share Price Range	1.13-3.20	
<u>Major Shareholders:</u>		
Perbadanan Memajukan Iktisad Negeri Terengganu (PMINT)	44.0	
Lembaga Tabung Haji	20.8	

<u>Per Share Data</u>	2005	2006	2007F	2008F
Book Value (RM)	1.49	1.44	1.54	1.65
Cash Flow (sen)	5.7	6.4	21.2	21.2
EPS (sen)	1.3	4.8	19.6	21.7
Core EPS (sen)	12.0	18.8	19.6	21.7
Dividend (sen)	17.5	9.4	9.8	10.8
Payout Ratio (%)	1,306.8	50.0	50.0	50.0
PER (x)	215.8	60.1	14.8	13.3
Core PER (x)	24.2	15.4	14.8	13.3
P/Cash Flow (x)	49.9	45.2	13.7	13.6
P/Book Value (x)	1.9	2.0	1.9	1.8
Dividend Yield (%)	6.1	3.2	3.4	3.7
ROE (%)	8.0	13.0	12.7	13.1
Net Gearing (%)	Net cash	0.0	0.1	0.3

<u>P&L Analysis (RM mil)</u>	2005	2006	2007F	2008F
Year-end: Dec				
Revenue	84.3	112.2	154.8	239.9
EBITDA	31.1	46.4	55.6	67.3
Depreciation	(7.1)	(7.9)	(8.8)	(12.7)
Net int exp and other inc	6.7	2.0	3.0	4.0
Pre-tax profit	13.7	18.5	48.9	56.0
Effective tax rate (%)	82.7	51.6	27.0	26.0
Net profit	2.2	7.9	32.3	35.8
Core net profit	19.7	31.0	32.3	35.8
EBITDA margin (%)	36.9	41.3	35.9	28.0
Pre-tax margin (%)	16.3	16.5	31.6	23.4
Net margin (%)	2.6	7.1	20.8	14.9

PE Band Chart



1. Highlights:

Minor fab yard. As expected, EPIC announced an agreement to acquire 70% of Mushtari Engineering and Trading (MET) for RM21m cash. Currently MET operates two minor fab yards – one in Telok Kalong near the Kemaman Supply Base and the other within KSB itself. The purchase price is pegged at a PER of 6x, based on the net profit guarantee of RM5m for FY07, which is attractive vs. 14.6x for EPIC based on our earnings forecasts.

Upgrade to major fab yard later. Management had earlier guided that the yard facilities would be upgraded at a cost of RM100m. The upgraded yard would then be able to fabricate bigger platform structures and qualify for a major fab licence from Petronas. There are currently seven Petronas-licensed major fab yards, and according to Petronas, there is still insufficient fabrication capacity in the domestic market. Given its links to Petronas (via KSB, a Petronas-sanctioned monopoly) and the Terengganu state government (its major shareholder), we believe EPIC stands a good chance of getting the licence.

2. Recommendation:

Maintain Buy. We have cut our FY07-09 EPS forecasts by 1-2% p.a. for the purchase and capex but we highlight that the new business should be earnings accretive from FY10. We remain positive on EPIC's long-term prospects, both as a proxy to the oil and gas activity offshore Terengganu and from new businesses. We thus maintain our Buy call with a new fair value of RM3.90/share (RM3.93 previously) based on 18x FY08 EPS (10% discount to peers' target PER of 20x).

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Outperform = The stock return is expected to exceed the KLCI benchmark by greater than five percentage points over the next 6-12 months.

Trading Buy = Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 15% or more over a period of three months, but fundamentals are not strong enough to warrant an Outperform call. It is generally for investors who are willing to take on higher risks.

Market Perform = The stock return is expected to be in line with the KLCI benchmark (+/- five percentage points) over the next 6-12 months.

Underperform = The stock return is expected to underperform the KLCI benchmark by more than five percentage points over the next 6-12 months.

Industry/Sector Ratings

Overweight = Industry expected to outperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Neutral = Industry expected to perform in line with the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

Underweight = Industry expected to underperform the KLCI benchmark, weighted by market capitalisation, over the next 6-12 months.

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