

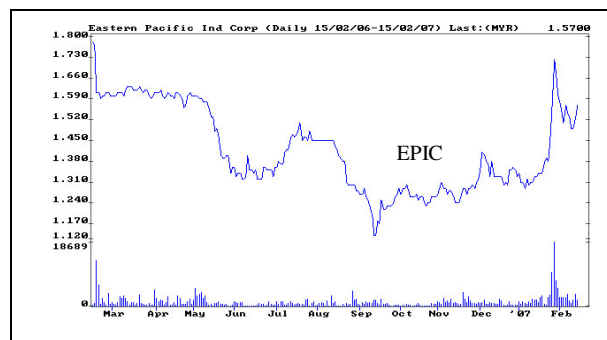
Date: 16 February 2007

Eastern Pacific Industrial Corporation Berhad (EPIC) <i>Core Earnings Beat Expectations Again</i>	Price:	RM1.57
	Market Capitalisation:	RM259.1m
	Board:	Main Board
	Sector:	Trading & Services
Stock Code:	8265	Recommendation: <i>BUY</i>

(latest figures)

<u>Key Stock Statistics</u>	2006	2007F
EPS (sen)	4.8	19.7
Core EPS (sen)	18.8	19.7
Core P/E (x)	8.4	15.7
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	1.13-1.84	
<u>Major Shareholders:</u>		
Perbadanan Memajukan Iktisad Negeri Terengganu (PMINT)	39.2	
Lembaga Tabung Haji	20.8	

Share Price Chart



1. Highlights:

4QFY06 results. 4Q core profit is believed to have exceeded our expectations again. Although not specifically highlighted in the results announcement, we have assumed that the investment holding loss of RM8.2m was associated with the final write-down of Aurado. FY06 net profit of RM7.9m was above our forecast of RM4.7m while core net profit of RM31.0m beat our forecast of RM24.6m. The better performance was due to increased activity at Kemaman Supply Base and lower operating costs plus full-year contribution from Tubex and first-time contribution from the Kemaman Port privatisation (from 1 Oct 06).

Table 1. EPIC Quarterly Results

FYE Dec (RMm)	4Q05	3Q06	4Q06	qoq (%)	yoy (%)
Revenue	21.7	26.1	36.6	40	69
Operating profit	5.4	9.0	13.7	51	153
<i>Op margin (%)</i>	24.9	34.6	37.3		
Exceptionals	(17.0)	(5.0)	(8.2)	63	(52)
Other op inc	1.5	0.9	1.0	13	(29)
Pre-tax profit	(10.1)	4.9	6.5	33	n.m.
Tax	(5.3)	(3.1)	(1.4)	(56)	(75)
<i>Eff. tax rate (%)</i>	-52.5	62.8	20.8		
Minority interest	(0.0)	0.1	(1.3)	n.m.	n.m.
Net profit	(15.5)	1.9	3.8	103	n.m.
Core net profit	1.5	6.9	12.0	74	699
EPS (sen)	(9.4)	1.1	2.3	103	n.m.
Core EPS (sen)	0.9	4.2	7.3	74	698

Source: Company

<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	23.6	28.2
EPS (sen)	1.3	4.8	19.7	21.8
Core EPS (sen)	12.0	18.8	19.7	21.8
Dividend (sen)	17.5	9.4	9.9	10.9
Payout Ratio (%)	>100.0	50.0	50.0	50.0
PER (x)	117.2	32.7	8.0	7.2
Core PER (x)	13.1	8.4	8.0	7.2
P/Cash Flow (x)	27.1	24.5	6.6	5.6
P/Book Value (x)	1.1	1.1	1.0	0.9
Dividend Yield (%)	11.1	6.0	6.3	7.0
ROE (%)	8.0	13.0	12.8	13.2
Net Gearing (%)	net cash	net cash	net cash	net cash

<u>P&L Analysis (RM mil)</u>	2005	2006	2007F	2008F
Year-end: Dec				
Revenue	84.3	112.2	135.4	146.5
EBITDA	31.1	46.4	54.2	59.9
Depreciation	(7.1)	(7.9)	(8.6)	(9.4)
Interest Expenses	1.0	2.0	3.0	4.0
Pre-tax Profit	13.7	18.5	48.7	53.6
Effective Tax Rate (%)	82.7	51.6	27.0	26.0
Net Profit	2.2	7.9	32.6	36.1
Core Net Profit	19.7	31.0	32.6	36.1
EBITDA Margin (%)	36.9	41.3	40.1	40.9
Pre-tax Margin (%)	16.3	16.5	36.0	36.6
Net-Margin (%)	2.6	7.1	24.1	24.6

2. Recommendation :

Forecasts upgraded. Following the strong FY06 performance, we have raised our FY07-08 EPS forecasts by 29% and 28% respectively, driven by revised assumptions of stronger revenue and lower operating costs. While we have now also factored in the Kemaman Port privatisation, we have assumed profit contribution will remain relatively small, at 14-15% of our net profit forecasts.

More upside. We believe there may be further earnings upside from: 1) Increased investment in the sector especially by Petronas in the Government's proposed East Coast Economic Corridor; and 2) Other domestic M&A and overseas upstream oil and gas support services, potentially in East Kalimantan and Cambodia. We maintain our **Buy** call with a new fair value estimate of RM2.57/share based on 13x FY07 EPS, maintaining a 25% discount to the sector average of 17x for execution risk, tight liquidity and small market cap.

Analyst – Yap Huey Chiang 📞 (603) 9280 2171 yap.huey.chiang@rhb.com.my

IMPORTANT DISCLOSURES

This report has been prepared by RHB Research Institute Sdn Bhd (RHBRI) and is for private circulation only to clients of RHBRI and RHB Investment Bank Berhad (previously known as RHB Sakura Merchant Bankers Berhad). It is for distribution only under such circumstances as may be permitted by applicable law. The opinions and information contained herein are based on generally available data believed to be reliable and are subject to change without notice, and may differ or be contrary to opinions expressed by other business units within the RHB Group as a result of using different assumptions and criteria. This report is not to be construed as an offer, invitation or solicitation to buy or sell the securities covered herein. RHBRI does not warrant the accuracy of anything stated herein in any manner whatsoever and no reliance upon such statement by anyone shall give rise to any claim whatsoever against RHBRI. RHBRI and/or its associated persons may from time to time have an interest in the securities mentioned by this report.

This report does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The securities discussed in this report may not be suitable for all investors. RHBRI recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Neither RHBRI, RHB Group nor any of its affiliates, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report.

RHBRI and the Connected Persons (the "RHB Group") are engaged in securities trading, securities brokerage, banking and financing activities as well as providing investment banking and financial advisory services. In the ordinary course of its trading, brokerage, banking and financing activities, any member of the RHB Group may at any time hold positions, and may trade or otherwise effect transactions, for its own account or the accounts of customers, in debt or equity securities or loans of any company that may be involved in this transaction.

"Connected Persons" means any holding company of RHBRI, the subsidiaries and subsidiary undertaking of such a holding company and the respective directors, officers, employees and agents of each of them. Investors should assume that the "Connected Persons" are seeking or will seek investment banking or other services from the companies in which the securities have been discussed/covered by RHBRI in this report or in RHBRI's previous reports.

This report has been prepared by the research personnel of RHBRI. Facts and views presented in this report have not been reviewed by, and may not reflect information known to, professionals in other business areas of the "Connected Persons," including investment banking personnel.

The research analysts, economists or research associates principally responsible for the preparation of this research report have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

The recommendation framework for stocks and sectors are as follows : -

Stock Ratings

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.

RHBRI is a participant of the CMDF-Bursa Research Scheme and will receive compensation for the participation. Additional information on recommended securities, subject to the duties of confidentiality, will be made available upon request.

This report may not be reproduced or redistributed, in whole or in part, without the written permission of RHBRI and RHBRI accepts no liability whatsoever for the actions of third parties in this respect.