

Date: 24 April 2007

<b>Eastern Pacific Industrial Corporation Berhad (EPIC)</b> <i>Likely Beneficiary Of East Coast Corridor</i>	<b>Price:</b>	RM2.50	
	<b>Market Capitalisation:</b>	RM412.6m	
	<b>Board:</b>	Main Board	
	<b>Sector:</b>	Trading & Services	
<b>Stock Code:</b>	8265	<b>Recommendation:</b>	<b>BUY</b>

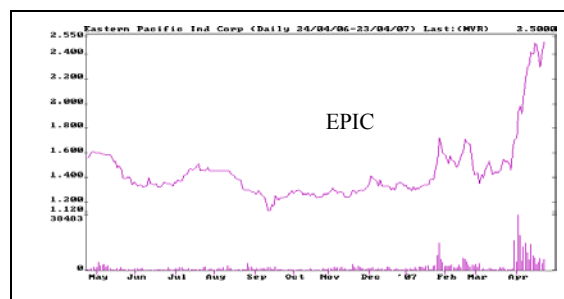
(latest figures)

<u>Key Stock Statistics</u>	2006	2007F
EPS (sen)	4.8	19.7
Core EPS (sen)	18.8	19.7
Core P/E (x)	13.3	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	1.13-2.50	
<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	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 (%)	1,306.8	50.0	50.0	50.0
PER (x)	186.7	52.0	12.7	11.4
Core PER (x)	20.9	13.3	12.7	11.4
P/Cash Flow (x)	43.1	39.1	10.6	8.9
P/Book Value (x)	1.7	1.7	1.6	1.5
Dividend Yield (%)	7.0	3.8	3.9	4.4
ROE (%)	8.0	13.0	12.8	13.2
Net Gearing (%)	net cash	net cash	net cash	net cash

<u>P&amp;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

Share Price Chart



1. Highlights:

**Visit to KSB.** We visited Kemaman Supply Base (KSB) yesterday. KSB is located at Telok Kalong in Terengganu, around one hour north of Kuantan Airport. KSB is located within the Kemaman Port together with East Wharf and Liquid Chemical Berth (both privatised in October 2006 under Konsortium Pelabuhan Kemaman), Petronas LPG Export Terminal (owned by Petronas) and West Wharf (owned by Road Builder).

**Plans for reorganisation and expansion of KSB.** Although the supply base appeared relatively inactive, we were assured that business was as per normal. More encouragingly, KSB plans to reorganise the customs bonded area that were built under phases 1 and 2 since 1982 to improve the use of space. There are also plans to expand the services offered to the 228 customers within the supply base (including common storage and handling of drilling mud, food handling, and common warehousing). KSB is expected to contribute around 66% of EPIC's total revenue.

**Plans for KPK.** Longer term, EPIC's 61%-subsidiary Konsortium Pelabuhan Kemaman (KPK) also plans to upgrade and expand the East Wharf and Liquid Chemical Berth (LCB). Currently, the East Wharf is a general purpose wharf catering mainly to its largest customer Perwaja Steel. On the other side of KSB, the LCB has a capacity of 1.04m tones p.a. and is capable of handling 40,000 deadweight tonne (DWT) vessels. However, KPK has already begun plans to upgrade and expand the LCB at a cost of RM35m to handle 150,000 DWT vessels and increase the capacity to 2.6m tones p.a. by March 2008. This is crucial as a newly-completed bitumen plant next door (owned by Seloga Holdings and Thai partners) will process heavy crude from Venezuela, transported in 150,000 DWT oil tankers. Currently, the crude is off-loaded at West Wharf but this will shift to LCB after the expansion.

**East Coast Corridor.** Although Petronas is believed to have briefed state officials of Pahang, Terengganu and Kelantan on the concept of the East Coast Corridor, details have yet to be finalised. However, we understand that three zones will be created, with oil and gas/petrochemicals likely to be focused on an area from northern Pahang up into Terengganu, through Kemaman, Kertih and Paka (site of Petronas' refineries). EPIC is eyeing two

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projects: 1) fabrication yard; and 2) ship repair and maintenance facilities, within this zone. A second zone for tourism and education will likely be focused on an area north of Paka in Terengganu while a third zone for trading initiatives will likely be in Kelantan. Financial projections at this stage are likely to be premature.

**Other plans.** Other than the East Coast Corridor, EPIC is also looking to replicate its supply base expertise in Cambodia and East Kalimantan. The prospect is greater for Cambodia given the possibility of setting up an identical model to KSB. The East Kalimantan proposal involves taking over an existing supply base, although this is still subject to cooperation from customers and authorities.

## 2. Recommendation:

**Positive impact on earnings.** With the existing core supply base earnings (from cargo handling, dock and vessel services and rental) flattening out, we believe EPIC's plans for new services and businesses at KSB will have a positive impact on earnings growth in FY08-09. The additional profit may be small in the early stages but we see net profit accelerating in FY08-09, with forecast

EPS growth of 11% and 16% respectively. The company has conservatively forecast EPS CAGR of 14% for FY07-10, but we believe this does not fully reflect the new businesses to be introduced under the East Coast Corridor initiative or the plans to replicate the supply base model overseas.

**Valuations.** Although we believe the stock still deserves a discount to peers' average PER to reflect its tight liquidity and small market cap, we have reduced the discount from 25% to 10% given the strong upside potential. Even though the share price has risen by 80% over the last three months, and outperformed the KLCI by 13% over the same period, EPIC remains one of the cheapest stocks in the oil and gas sector. We thus maintain our **BUY** call with a new fair value of RM3.12/share based on 15x one-year forward EPS.

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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.

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