

## Eastern Pacific Industrial Corporation

Recommendation: **BUY**

Stock Code: 8265

Bloomberg: EPIC MK

Price: MYR1.55

12-Month Target Price: MYR1.75

Date: February 6, 2007

Board: Main

Sector: Trading/Services

GICS: Energy/Oil &amp; Gas Equipment &amp; Services

Market Value - Total: MYR255.8 mln

**Summary:** Eastern Pacific Industrial Corporation Berhad (EPIC) is a company that derives the bulk of its revenue (> 80%) from the ownership and management of the Kemaman Supply Base (KSB) in Terengganu. KSB is one of only two petroleum-supply bases catering to offshore oil & gas exploration activities in the country.

Analyst: Desmond Ch'ng, ACA



## Recent Developments

- KSB has seen increased traffic with stepped-up oil & gas activities off the east coast of Peninsular Malaysia. Its Phase 1 yard operates at close to full capacity while its Phase 2 yard is more than 80% tenanted. Ship calls in 2006 totaled approximately 4,200 versus 3,800 in 2005 and cargo handling activities improved to more than 850,000 MT versus more than 750,000 MT in 2005. All these point to increased rental income for KSB, given that we expect oil & gas activities to remain buoyant in the foreseeable future. We have conservatively assumed a 1.5% annual growth in ship calls and 3% growth in cargo handled over the next two years.
- The privatization of the East Wharf and Liquid Chemical Berth (LCB) of the Kemaman Port to Konsortium Pelabuhan Kemaman Sdn Bhd (KPK), in which EPIC holds a 61% stake, is positive, in our view, and this should supplement future earnings growth. About MYR45 mln has been set aside for upgrading works and a new LCB.
- KPK's revenue stream is estimated to be about MYR20 mln per year and we estimate a potential MYR2 mln - MYR3 mln in net profit contribution to group earnings in 2007 for EPIC's 61% stake. Further upside to earnings could stem from: (i) the upgrade of facilities at Kemaman Port as well as (ii) increased port usage from new customers secured such as Kemaman Bitumen Corp and Australia-based Grange Resources.

## Key Stock Statistics

FY Dec.	2005	2006E
Reported EPS (sen)	1.4	3.5
PER (x)	110.7	44.0
Dividend/Share (sen)	17.0	7.0
NTA/Share (MYR)	1.46	1.48
Book Value/Share (MYR)	1.51	1.54
No. of Outstanding Shares (mln)	165.0	
52-week Share Price Range (MYR)	1.13 - 1.84	
Major Shareholders:	%	
PMINT	39.6	
Lembaga Tabung Haji	21.1	

## Recommendation &amp; Investment Risks

- We maintain our Buy recommendation, but upgrade our 12-month target price to MYR1.75 from MYR1.45.
- Our target price continues to be DCF-based, but we have rolled forward our valuations and removed the previously accorded 15% discount, which was to reflect possible subdued investor sentiment due to continued provisions against amounts due from Vela Financial Holdings. 4Q06 should see the end of such provisions, and the resumption of normalized earnings. Key DCF assumptions (unchanged) are: a 4-year net profit CAGR of 7.2%, a terminal growth rate of 3%, and a WACC of 10%.
- Risks to our recommendation and target price include the possibility of a slowdown in oil & gas activities off the east coast of Peninsular Malaysia. In our opinion, this would result in lower-than-expected earnings from KSB, which is the group's primary profit contributor.

## Earnings Outlook

- We maintain our earnings forecasts with an expected rebound in 2007 earnings, in the absence of further provisioning. Upside to earnings could possibly emanate from better-than-expected contributions from Kemaman Port, in our view.

## Per Share Data

FY Dec.	2003	2004	2005	2006E
Book Value (MYR)	1.57	1.66	1.51	1.54
Cash Flow (sen)	16.0	18.4	15.6	20.5
Reported Earnings (sen)	12.3	14.5	1.4	3.5
Dividend (sen)	6.5	7.0	17.0	7.0
Payout Ratio (%)	38.1	42.0	139.3	32.4
PER (x)	12.6	10.7	110.7	44.0
P/Cash Flow (x)	9.7	8.4	9.9	7.6
P/Book Value (x)	1.0	0.9	1.0	1.0
Dividend Yield (%)	4.2	4.5	11.0	4.5
ROE (%)	8.0	8.9	6.9	10.2
Net Gearing (%)	0.0	0.0	0.0	0.0

All required disclosures appear on the last two pages of this report. Additional information is available upon request.

Redistribution or reproduction is prohibited without written permission. Copyright © 2007 The McGraw-Hill Companies, Inc.

Page 1 of 4

## Eastern Pacific Industrial Corporation

Recommendation: **BUY**

Stock Code: 8265

Bloomberg: EPIC MK

Price: MYR1.55

12-Month Target Price: MYR1.75

Date: February 6, 2007

**Profit & Loss**

FY Dec. / MYR mln	2004	2005	2006E	2007E
Reported Revenue	80.1	84.3	95.3	101.3
Reported Operating Profit	29.5	27.9	36.8	33.4
Depreciation & Amortization	-6.4	-7.8	-8.2	-9.4
Net Interest Income / (Expense)	1.8	1.4	0.7	0.2
Reported Pre-tax Profit	31.3	13.7	17.6	33.6
Effective Tax Rate (%)	24.5	82.7	62.8	28.0
Reported Net Profit	23.4	2.2	5.8	23.3
Reported Operating Margin (%)	36.8	33.2	38.6	33.0
Reported Pre-tax Margin (%)	39.0	16.3	18.5	33.2
Reported Net Margin (%)	29.2	2.6	6.1	23.0

Source: Company data, S&amp;P Equity Research

**Standard & Poor's Equity Research Services**

Standard & Poor's Equity Research Services U.S. includes Standard & Poor's Investment Advisory Services LLC; Standard & Poor's Equity Research Services Europe includes Standard & Poor's LLC- London and Standard & Poor's AB (Sweden); Standard & Poor's Equity Research Services Asia includes Standard & Poor's LLC's offices in Hong Kong, Singapore and Tokyo, Standard & Poor's Malaysia Sdn Bhd, and Standard & Poor's Information Services (Australia) Pty Ltd.

**Glossary**

**Strong Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

**Buy:** Total return is expected to outperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months, with shares rising in price on an absolute basis.

**Hold:** Total return is expected to closely approximate the total return of the KLCI or KL Emas Index respectively, over the coming 12 months with shares generally rising in price on an absolute basis.

**Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months and share price is not anticipated to show a gain.

**Strong Sell:** Total return is expected to underperform the total return of the KLCI or KL Emas Index respectively, over the coming 12 months by a wide margin, with shares falling in price on an absolute basis.

**S&P 12 Month Target Price** – The S&P equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics.

**Required Disclosures**

All of the views expressed in this research report accurately reflect the research analyst's personal views regarding any and all of the subject securities or issuers. No part of analyst compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

Additional information is available upon request.

**Other Disclosures**

This report has been prepared and issued by Standard & Poor's and/or one of its affiliates. In the United States, research reports are prepared by Standard & Poor's Investment Advisory Services LLC ("SPIAS"). In the United States, research reports are issued by Standard & Poor's ("S&P"), in the United Kingdom by Standard & Poor's LLC ("S&P LLC"), which is authorized and regulated by the Financial Services Authority; in Hong Kong by Standard & Poor's LLC which is regulated by the Hong Kong Securities Futures Commission, in Singapore by Standard & Poor's LLC, which is regulated by the Monetary Authority of Singapore; in Japan by Standard & Poor's LLC, which is regulated by the Kanto Financial Bureau; in Sweden by Standard & Poor's AB ("S&P AB"), in Malaysia by Standard & Poor's Malaysia Sdn Bhd ("S&PM") which is regulated by the Securities Commission, in Australia by Standard & Poor's Information Services (Australia) Pty Ltd ("SPIS") which is regulated by the Australian Securities & Investments Commission and in Korea by SPIAS, which is also registered in Korea as a cross-border investment advisory company.

The research and analytical services performed by SPIAS, S&P LLC, S&P AB, S&PM, SPIS and SPIAS LLC (Korea) are each conducted separately from any other analytical activity of Standard & Poor's.

A reference to a particular investment or security by Standard & Poor's and/or one of its affiliates is not a recommendation to buy, sell, or hold such investment or security, nor is it considered to be investment advice.

**CMDF-Bursa Research Scheme ("CBRS")**

This report has been prepared by S&PM for purposes of CBRS administered by Bursa Malaysia Berhad, independent from any influence from CBRS or the subject company. S&P will receive total compensation of RM15,000 each year for each company covered by it under CBRS. For more information about CBRS, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/website/bm/>

**Disclaimers**

This material is based upon information that we consider to be reliable, but neither S&P nor its affiliates warrant its completeness, accuracy or adequacy and it should not be relied upon as such. With respect to reports issued by S&P LLC-Japan and in the case of inconsistencies between the English and Japanese version of a report, the English version prevails. Neither S&P LLC nor S&P guarantees the accuracy of the translation. Assumptions, opinions and estimates constitute our judgment as of the date of this material and are subject to change without notice. Neither S&P nor its affiliates are responsible for any errors or omissions or for results obtained from the use of this information. Past performance is not necessarily indicative of future results.

This material is not intended as an offer or solicitation for the purchase or sale of any security or other financial instrument. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. Any opinions expressed herein are given in good faith, are subject to change without notice, and are only correct as of the stated date of their issue. Prices, values, or income from any securities or investments mentioned in this report may fall against the interests of the investor and the investor may get back less than the amount invested. Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision. This material does not take into account your particular investment objectives, financial situations or needs and is not intended as a recommendation of particular securities, financial instruments or strategies to you. Before acting on any recommendation in this material, you should consider whether it is suitable for your particular circumstances and, if necessary, seek professional advice.

For residents of the U.K. This report is only directed at and should only be relied on by persons outside of the United Kingdom or persons who are inside the United Kingdom and who have professional experience in matters relating to investments or who are high net worth persons, as defined in Article 19(5) or Article 49(2) (a) to (d) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001, respectively.

For residents of Malaysia. All queries in relation to this report should be referred to Alexander Chia, Lee Leng Hoe or Ching Wah Tam.

**Recommendation and Target Price History**

Date	Recommendation	Target Price
New	Buy	1.75
22-Nov-06	Buy	1.45
20-Sep-06	Buy	1.37
24-May-06	Buy	1.56
27-Feb-06	Buy	1.82

