STANDARD & POOR'S

Eastern Pacific Industrial Corporation

Recommendation: **BUY**

Stock Code: **8265** Bloomberg: **EPIC MK** Price: **MYR1.67** 12-Month Target Price: **MYR1.90** Date: **February 27, 2007**

Board: Main

Sector: Trading/Services

GICS: Energy/Oil & Gas Equipment & Services

Market Value - Total: MYR275.6 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

Results Review & Earnings Outlook

- EPIC's 2006 results were above our expectations, with net profit of MYR7.9 mln coming in above our forecast of MYR5.8 mln. This was due largely to stronger-than-expected earnings from the oil & gas division.
- As expected, further provisions were made against amounts due from Vela Financial Holdings, but we do not expect any further provisions in the future. Total such provisions in 2006 amounted to about MYR20 mln.
- Revenue from oil & gas surged 45.6% YoY to MYR106.4 mln in 2006 while pre-tax profit from this division jumped 56.5% YoY. Driving this is increased throughput and utilization at KSB, and the group also recognized a maiden revenue contribution of MYR6.5 mln from Kemaman Port.
- The outlook remains positive, with buoyant oil & gas activities off the east coast of Peninsular Malaysia. Moreover, 2007 will see a full-year's contribution from Kemaman Port. We are upgrading our earnings by 28.6% and are introducing our 2008 net profit forecast of MYR33.5 mln.

Recommendation & Investment Risks

- We maintain our Buy recommendation, but upgrade our 12-month target price to MYR1.90 from MYR1.75.
- Our target price continues to be DCF-based, and the upgrade in target price is primarily on the back of the earnings upgrade and a higher terminal growth rate, in view of buoyant oil & gas activities as well as contributions from Kemaman Port. Our primary assumptions are 4-year net profit CAGR of 7.2%, a terminal growth rate of 5% (3% previously), 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.

Key Stock Statistics

FY Dec.	2006	2007E
Reported EPS (sen)	4.8	18.2
PER (x)	34.7	9.2
Dividend/Share (sen)	7.0	7.0
NTA/Share (MYR)	1.46	1.59
Book Value/Share (MYR)	1.52	1.65
No. of Outstanding Shares (mln)	165.0	
52-week Share Price Range (MYR)	1.13 - 1.72	
Major Shareholders:	%	
PMINT	39.6	
Lembaga Tabung Haji	21.1	

Per Share Data

FY Dec.	2004	2005	2006	2007E
Book Value (MYR)	1.66	1.51	1.52	1.65
Cash Flow (sen)	18.4	15.6	21.7	22.6
Reported Earnings (sen)	14.5	1.4	4.8	18.2
Dividend (sen)	7.0	17.0	7.0	7.0
Payout Ratio (%)	42.0	138.9	29.9	27.7
PER (x)	11.5	119.3	34.7	9.2
P/Cash Flow (x)	9.1	10.7	7.7	7.4
P/Book Value (x)	1.0	1.1	1.1	1.0
Dividend Yield (%)	4.2	10.2	4.2	4.2
ROE (%)	8.9	6.9	11.1	11.5
Net Gearing (%)	0.0	0.0	0.0	0.0

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Quarterly Performance

FY Dec. / MYR mln	4Q06	4Q05	% Change
Reported Revenue	36.6	21.7	69.0
Reported Operating Profit	11.5	5.4	>100
Depreciation & Amortization	NA	NA	NA
Net Interest Income / (Expense)	NA	NA	NA
Reported Pre-tax Profit	6.5	-10.1	NM
Reported Net Profit	3.8	-15.5	NM
Reported Operating Margin (%)	31.5	25.1	-
Reported Pre-tax Margin (%)	17.9	-46.8	-
Reported Net Margin (%)	10.4	-71.3	-

Source: Company data

Profit & Loss

FY Dec. / MYR mln	2005	2006	2007E	2008E
Reported Revenue	84.3	112.2	118.3	130.3
Reported Operating Profit	5.9	15.4	38.1	41.8
Depreciation & Amortization	-7.8	-8.0	-7.3	-8.2
Net Interest Income / (Expense)	0.0	0.0	1.9	2.3
Reported Pre-tax Profit	13.0	18.5	41.1	45.3
Effective Tax Rate (%)	80.7	51.6	27.0	26.0
Reported Net Profit	2.3	7.9	30.0	33.5
Reported Operating Margin (%)	7.0	13.7	32.2	32.1
Reported Pre-tax Margin (%)	15.4	16.5	34.7	34.7
Reported Net Margin (%)	2.7	7.1	25.3	25.7

Source: Company data, S&P Equity Research

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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.

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Recommendation and Target Price History

Date	Recommendation	Target Price
New	Buy	1.90
6-Feb-07	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