



MALAYSIA EQUITY

Investment Research

Daily News

OIL & GAS

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Company Update

Private Circulation Only

EPIC

BUY	Maintain
Price	RM1.75
Target	RM3.50

Still very active

We recently met up with EPIC's management. With the new CEO and 2 board representatives from Ahmad Zaki coming on board, EPIC's earnings risks is expected to be lower and is expected to continue growing at a moderate pace after a good year in 2007. The current under-utilised Liquid Chemical Berth and East Wharf are expected to be filled-up after the upgrading work to handle higher DWT vessels in 3Q08. Meanwhile, as the first 2 phases in Kemaman Supply Base have almost been fully occupied, there are already plans in place to develop the 3rd phase. Longer term growth will come from the 60-acre fabrication yard. Given the estimated 65 new platforms to be developed over the next 5 years, we believe EPIC to get involved to fabricate jackets and modules for topside. Overall, prospects of the company remain favourable as O&G activities in the region are likely to stay vigorous over the next few years. At this juncture, we make minimal changes to our FY08 estimates. Buy recommendation maintained.

New management, new board members. En Omar Suhaimi tookover the CEO's position in EPIC in Nov 07. Previously En Omar held various positions in Petronas Carigali and MISC over the past 20 years. Together with AZRB representatives in the board, we think earnings risk will be lower given AZRB's track record.

Filling up under-utilised capacity. The expected increase in the utilization of Liquid Chemical Berth and East Wharf is likely to spur earnings going forward. EPIC will carry out some upgrading works to handle higher DWT vessels this year, providing services to more vessels and meeting increasing demand and requirements from clients.

Expansion in Supply Base. Due to high occupancy, there will be a 3rd phase expansion in Kemaman Supply Base, which is EPIC's current main source of earnings driver. The 3rd phase measures about 30ha, smaller than the first 2 phases. The new phase is part of the relocation plan to move existing warehouses and yard to the 3rd phase so that the first 2 phases will provide more value-added services along the seafont.

Becoming one of the major fabricators. As mentioned in our previous reports, EPIC is planning to develop another 60 acre fabrication yard in addition to its current 70% owned fabricator, Mushtari Engineering, to capture the ample demand for fabrication works either from Petronas or other O&G players. By then, EPIC will emerge as the 6th largest fabricator in Malaysia in terms of yard size.

Stock Profile/Statistics

Bloomberg Ticker	EPIC MK
KLCI	1201.35
Issued Share Capital (m)	169.07
Market Capitalisation (RMm)	297.56
52 week H L Price (RM)	3.32 1.40
Average Volume (3m) '000	147.30
YTD Returns (%)	-0.86
Net gearing (x)	-0.26
Altman Z-Score	5.11
ROCE/WACC	0.48
Beta (x)	1.63
Book Value/share (RM)	1.57

Major Shareholders (%)

Terengganu Inc Sdn Bhd	38.2
AZRB	20.8

Share Performance (%)

Month	Absolute	Relative
1m	-11.77	-0.94
3m	-26.53	-16.18
6m	-25.31	-21.79
12m	21.17	19.33

6-month Share Price Performance



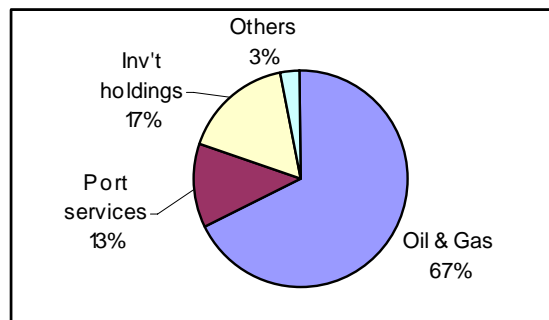
FYE Dec (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	84.3	122.2	176.2	212.4	239.4
Core Net Profit	2.2	9.0	30.7	36.8	41.5
% chg YoY	5.2	45.1	44.1	20.5	12.7
Consensus	-	-	-	35.8	41.0
EPS (sen)	1.3	5.3	18.1	21.8	24.5
DPS (sen)	17.0	7.0	7.0	11.0	11.0
Div Yield	9.7	4.0	4.0	6.3	6.3
ROE	0.8	0.8	0.8	13.8	15.5
ROA	0.7	3.0	9.2	9.4	9.5
PER (x)	134.1	33.0	9.6	8.0	7.1
P/BV (x)	1.19	1.22	1.06	1.16	1.05
EV/EBITDA (x)	17.0	12.2	5.8	8.9	7.8

KEY HIGHLIGHTS

New management, new board members, new prospects. The CEO position was finally filled when Encik Omar Suhaimi took over the post in Nov 07 after the previous CEO resigned 1½ year ago. En Omar with over 20 years experience had held various positions such as Senior Manager of Procurement Management, General Manager of Sudan Operations in Petronas Carigali, and Head of O&G Business and General Manager of Corporate Planning and Development in MISC (group of companies). With the emergence of AZRB representatives on the board after it acquired a 20% in EPIC end of 2007, we think this will reduce earnings risk of EPIC given AZRB’s track record as well as the strong relationship the management has established with Petronas and also other oil majors.

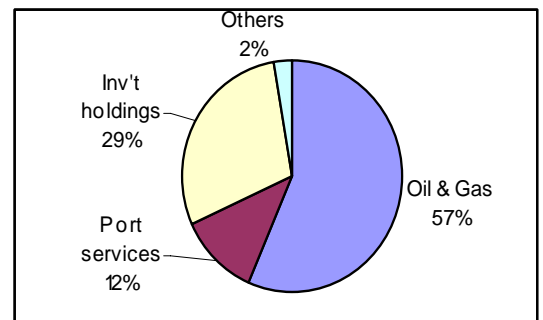
Filling up under-utilised capacity. The utilization rate at Liquid Chemical Berth (LCB) and East Wharf (EW) is likely to ramp up and spur earnings going forward. Currently utilization is running at 30-50% at LCB and EW, serving vessels with only 40,000 DWT. Hence EPIC has plans to carry out some upgrading works to handle higher DWT vessels and construct more warehouses this year, providing services to more vessels and meeting clients’ requirement. For LCB, management also hopes to handle liquids such as naphtha, kerosene and diesel in future other than bitumen which is currently handled by them. The capex committed for the upgrading works is estimated at RM40m. Once the upgrading is completed by 4Q07, we foresee revenue to increase significantly from the current contribution of only RM28m, representing 16% of revenue.

Figure 1: Breakdown for FY07 Revenue



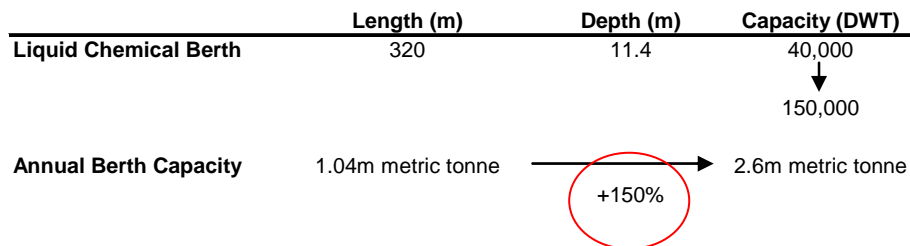
Note: Figures are before elimination for inter-company
Source: Company

Figure 2: Breakdown for FY07 PBT



Note: Figures are before elimination for inter-company
Source: Company

Figure 3: Increase in LCB capacity



Source: Company

New Phase 3 in Kemaman Supply Base. KSB has been the largest contributor to EPIC’s earnings (60%). Being a major supply base in Peninsula Malaysia for O&G activities in the east coast, facilities such as warehouses, yard and berthing capacity have almost been fully occupied by oil majors. As such, management is planning to develop a new Phase 3 in KSB, which is adjacent to the first 2 phases. The new phase forms part of the relocation plan to move the open yard and warehouses and allowing Phase 1 & 2 to provide more value-added services at the seafront. There will also be a new berth at KSB to cater for 2 more vessels. Phase 3 will have an area of about 30ha, compared to 130.3ha for the first 2 phases and is currently in the process of negotiation. A total of RM200m has been allocated for the expansion over the next 3 years, inclusive of land acquisition. To note, KSB currently serves about 30 production rigs and about 230 tenants of oil majors. Ultimately management’s vision is to make KSB as a one-stop centre for PSC’s, providing main support services.

Figure 3: Increase in LCB capacity

	Length (m)	Depth (m)	Capacity (DWT)
Kemaman Supply Base	360	14.0	8,000
<u>Storage facility</u>	General purpose		3000 sqm
	Hazardour cargo		2462 sqm
	Engineering		1858 sqm
	Special		576 sqm
	Silo		37 sqm
Phase 1 open yard			296,045 sqm
Specialised yard			18,735 sqm
Cemented yard			13,185 sqm
Phase 2 yard			404,989 sqm

Source: Company

One of the major fabricators. Apart from the expansion in KSB, EPIC is also eyeing to develop a fabrication yard with an area of 60 acre, which is expected to be completed by 1Q2010 and should be able to accommodate about 10,000–15,000 mt of capacity p.a., equivalent to that of Oilfab. Management has allocated about RM150m to develop the yard into two phases mainly catering for fabrication of jackets and topside modules. Mushtari Engineering & Trading Sdn Bhd of which EPIC acquired for RM21m is for small jobs such as modular fittings. To our knowledge, all fabrication yard in Malaysia are fully utilised to fabricate platforms, modules for shallow as well as deepwater oilfield developments. With another 65 new platforms to be constructed over the next five years, that we believe should be beneficial to EPIC's 60-acre yard. We also think EPIC stands a good chance of getting a Petronas fabrication license when the yard commences its operations. Management can well capitalise on its established relationship with Petronas and the state government, and considering also that there are no main license holders operating in Kemaman and Kuantan area. (See Figure 3 for fabrication license holders in Malaysia).

Good long term prospects. With all the expansion plans on the table, we think prospects on EPIC going ahead are very favourable. Although substantial earnings contribution may only materialise in 2-3 years, earnings in the short run are well supported by the activities in KSB, where we expect a 20% bottom line growth in FY08. Profits and cash flows are recurring as most tenants such as the PSCs are mostly long term, especially those with their own plants and facilities. Its balance sheet is also fairly strong, sitting at a net cash position of over RM70m as at FY07. To finance the expansion, we believe EPIC will possibly utilise its internal funds plus minimal borrowings. Management has also guided that there will be no more provisions incurred going forward, hence less downside risk in profits.

Valuations. We maintain our Buy recommendation on EPIC. Our fair value is RM3.50, based on the average 15x PE on FY08 earnings and 2.5x P/B ratio, to be inline with its historical trend. We apply a lower valuation multiple compared to our sector fundamental target PE at 16x and 3.5x book because EPIC's new management team lack the necessary track record coupled with a few unsuccessful investments. To recap, EPIC made a total of RM30m provision due to failed investment in Aurado Energy in Canada. The investment was CA\$10.5m (about RM33.8m) and failed because of ownership tussle over the oilfield found.

Figure 4: Fabrication licenses holders in Malaysia

Fabrication Yard	Capacity (mt per annum)	Land (acres)	Location	Owner	Notes
Malaysia Marine Heavy Engineering (MMHE)	45,000	80	Pasir Gudang, Johor	100% owned by MISC	Has completed the Spar and FPSO for Kikeh and is also building the Semisubmersible for Gumusut. Said to be undergoing a RM1bn upgrading of yard to cater for deepwater development. Aims to double its yard capacity.
Sime Darby Engineering	41,000	77	Pasir Gudang, Johor	79% owned by Sime Darby, 70% owned by Sime Engineering	Looking to secure another yard in Pasir Gudang
Ramunia Fabricators	31,000	170	Teluk Ramunia	100% owned by Ramunia	Having acquired the 80 acre land previously occupied by Sime, now increasing capacity to 80,000 mt pa
Kencana HL	36,000	78	Lumut	Owned by Kencana Petroleum	25 acres out of the 78 acres is rented. Also buying Torsco from IJM which comes with 45 acres of land
Oilfab	10,000	60	Pulau Indah	51% owned by OilCorp	Expandable to 25,000 mt pa under phase 2. Delivered 1st fabrication project to Newfield. Took over CPOC contract from Ramunia
Brooke Dockyard and Engineering Works	5000	54	Kuching	100% owned by Sarawak state government	
Boustead Heavy Industries Corporation	9,000	40	Pulau Jerejak	BHIC	License has supposedly lapsed. BHIC aims to resuscitate fabrication license before end 2007

Source: Company, OSK Research

Figure 5: Valuations in local O&G sector

Company	Bloomberg ticker	Share price (RM)	Market cap (RM mil)	PE 08	PE 09	P/B 08	P/B 09	ROE 08	ROE 09
KNM	KNMG MK	5.60	5870.36	15.8	11.1	4.2	3.2	27.0%	20.7%
Dialog	DLG MK	1.42	2006.76	21.4	14.9	5.3	4.4	26.8%	32.2%
Kencana	KEPB MK	1.37	1221.36	13.3	8.2	4.6	2.9	34.5%	38.7%
Wah Seong	WSC MK	2.09	1619.33	11.0	9.7	2.2	1.9	22.4%	18.6%
Alam Maritim	AMRB MK	1.80	818.98	11.5	8.3	2.0	1.7	19.5%	21.3%
Tg Offshore	TOFF MK	1.83	432.71	9.4	6.7	2.5	2.4	26.0%	29.3%
Petra Perdana	PETR MK	3.70	1001.22	10.8	8.4	2.7	2.1	31.1%	25.0%
Petra Energy	PENB MK	2.26	440.70	7.5	6.3	1.7	1.4	23.2%	21.6%
EPIC	EPIC MK	1.75	295.19	8.0	7.1	1.2	1.0	13.8%	15.5%
Average				12.1	9.0	2.9	2.3	24.9%	24.8%

Source: Company

FYE Dec (RMm)	FY05	FY06	FY07	FY08f	FY09f
Turnover	84.3	122.2	176.2	212.4	239.4
EBITDA	20.3	28.3	59.8	38.5	44.0
PBT	13.7	18.5	49.0	50.2	56.7
Net Profit	2.2	9.0	30.7	36.8	41.5
EPS (sen)	1.3	5.3	18.1	21.8	24.5
DPS (sen)	17.0	7.0	7.0	11.0	11.0
Margin					
EBITDA	24.1%	23.2%	33.9%	18.1%	18.4%
PBT	16.3%	15.2%	27.8%	23.6%	23.7%
Net Profit	2.6%	7.3%	17.4%	17.3%	17.3%
ROE	0.8	0.8	0.8	13.8	15.5
ROA	0.7	3.0	9.2	9.4	9.5
Balance Sheet					
Fixed Assets	189.77	192.87	221.37	256.75	286.51
Current Assets	102.82	110.50	144.64	159.53	168.12
Total Assets	292.59	303.37	366.01	416.28	454.64
Current Liabilities	12.97	22.79	44.56	44.62	56.40
Net Current Assets	89.85	87.71	100.08	114.91	111.72
LT Liabilities	27.99	25.71	25.60	24.72	23.84
Shareholders Funds	249.02	250.01	279.76	254.13	282.19
Net Gearing (%)	net cash	net cash	net cash	net cash	net cash

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