



EASTERN PACIFIC INDUSTRIAL CORPORATION (“EPIC”)

Recommendation LONG TERM BUY

Share Price RM0.95

FINANCIAL SUMMARY

FYE Dec (RM m)	FY07A	FY08E	FY09F	FY10F
Revenue	175.7	225.0	151.0	160.9
EBITDA	57.7	61.8	64.1	68.4
EBITDA Margins (%)	32.8	27.5	42.5	42.5
Pretax Profit	47.6	49.0	43.8	44.4
Net Profit	30.7	31.3	30.0	30.2
EPS (sen)	18.0	18.9	18.2	18.3
DPS (sen)	5.0	6.5	5.5	5.5
PER	5.2	5.0	5.2	5.2
Dividend Yield (%)	5.2	6.8	5.8	5.8

OTHER KEY DATA

Listing	Main Board
Share Cap. (m)	169.1
Market Cap. (RM m)	160.6
52 Week Low/High (RM)	0.765 – 2.70
Net Gearing/(Net Cash) (%)	(11.7)
ROE (%)	11.5
NTA/share (RM)	1.70
Major Shareholder	(%)
Terengganu State Government	39.9
Ahmad Zaki Resources	21.3

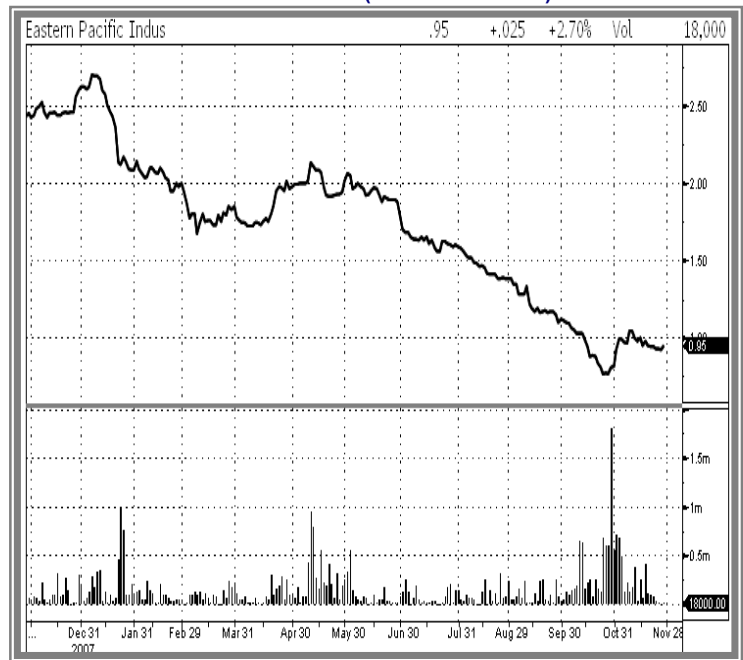
Source: Company, Bloomberg & PCM Estimates

Against the backdrop of tanking crude oil prices, O&G players across the board were bashed indiscriminately. The situation was exacerbated further when OPEC slashed production along with oil behemoths Saudi Aramco and Petrobras claiming to review E&P activities.

However we have a contrarian view on EPIC’s business model. Their strong recurring rental income bodes well to weather through the global recession. Furthermore, EPIC is in a net cash position of RM0.22/share and can expect annual recurring cashflow of RM30mil.

Currently trading at only 5x PER with a high dividend yield of 6%. EPIC is certainly one undervalued defensive stock with strong recurring earnings for long term investment.

Price Chart of EPIC (DEC’07 – NOV’08)



Source: Bloomberg

Highlights:

Company Overview – EPIC’s earnings stream can be derived from three major sources, namely supply-based services, port management and O&G fabrication/engineering works. However, contribution from the latter two segments came into light only in 2006 and 2007 respectively. EPIC managed to obtain a 60-year concession port operation license when Terengganu state government decided to privatise Kemaman Port back in September 2006. Jumping onto the crude oil bull bandwagon, EPIC acquired Mushtari last year, an upstream O&G engineering firm to increase their bottom line. Nonetheless, the original supply-based services segment has always been EPIC’s lynchpin, contributing circa 58% of FY07 earnings. Overall, EPIC is heavily tied to the O&G industry.

Derailed by Slumping Oil Prices – O&G related stocks dovetailed along with tanking of crude oil prices. Concerns were raised that the slowdown in E&P activities would lead to vessel services glut and falling fabrication orders. These outcomes hit O&G players indiscriminately.

Insulation from Rental Income – The distinct advantage in EPIC’s business model is that majority of their earnings is derived from rental income (supply-based segment) which is naturally stable and recurring. EPIC provides rental facilities ranging from office, warehouse and yards to more than 200 over tenants, which boasts big oil names such as Petronas, EPMI, Murphy and other Petronas PSCs. It is highly unlikely that rental contracts will be renegaded underpinned by the strategic location and sustaining power of many tenants. As such, based on supply-based segment earnings alone, EPIC is trading at 9x forward PER on a flat growth assumption. The supply-based services will enable EPIC to weather the slowdown well and earnings growth from other divisions during this trying period will be an additional bonus.

Geographical Advantage – One of the key advantages for Kemaman Port is its strategic location. The deep water port enables large vessels to dock and it is naturally shielded to allow operation throughout the year. It is also a key port to attend the needs of many offshore platforms located in Terengganu’s water. Nearly all of these platforms are brownfield projects and will continue to operate, requiring engineering, maintenance and logistic services. In future, the development of Malaysia/Thailand JDA reserve block will lead to greater activities at the port.

Strong Balance Sheet – EPIC’s balance sheet has no gearing at all and is a net cash company with RM0.22/share. On an acid-test basis, EPIC can cover current liabilities of 3.5x. Furthermore, the strong recurring annual cashflow is expected to be more than RM30mil, provided management does not go on a spending binge.

Recommendation:

We fancy EPIC for its monopolistic and unique business model. It is the sole provider of petroleum supply-base services in Peninsular Malaysia. Going forward, EPIC has the niche to encapsulate much of the value chain in the O&G industry ranging from logistics, fabrication, maintenance, piping and etc. Current future prospects are the liquid chemical berth currently upgraded from 1m tons to 2mil tons capacity, establishment of T-Fab to venture into fabrication works and planned RM20mil facilities expansion for supply-based services division.

Having said that, history has proven that EPIC’s new business ventures are not always successful. Among the notable failures are RM29mil losses (already provided for) incurred from the Aurado Energy venture, a tubular threading company, Tubex, recorded a RM1mil loss during 1H08 and their ICT unit is still racking up losses. Notwithstanding that, with a new CEO at helm since end of 2007, it should be able to avoid repeating the same pitfalls.

EPIC has the advantage of virtually owning a port, strong cash position and necessary infrastructures. From a political standpoint, a 38% state government holding gives them lobbying leverage. The only thing standing between them would be the management’s aptitude. Furthermore, unlike other port operators, their income is not heavily dependent on cross-border trade and exposed to industrial cycles.

Despite the limited growth outlook, EPIC is currently only trading at an attractively low 5x PER and dividend yield of 6%. Due to the strong recurring earnings, we expect EPIC to have limited downside. We are very much convinced that the current commodities slump provides a wonderful opportunity to start collecting undervalued EPIC for Long Term investment. However, the caveat emptor rule prevails. This stock is extremely thinly traded and only suitable for those who are in for the long haul.

DISCLAIMER:

This publication is solely for information and private circulation only. It should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities mentioned herein. Whilst we have taken all reasonable care to ensure that the information contained in this publication is accurate, it does not guarantee the accuracy or completeness of this publication. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of any person or group of persons acting on such information and advice. Phillip Capital Management Sdn Bhd, its directors, staffs and clients may have interest in the securities mentioned herein, and its associates may also have positions from time to time. This publication was prepared without regard to your specific investment objectives, financial situation or particular needs. Whilst views and advice given are in good faith, you should not regard the publication as a substitute for the exercise of your own judgement and should seek other professional advice for your specific investment needs or financial situations.

For Phillip Capital Management Sdn Bhd



Nona Salleh
Executive Chairperson

APPENDIX

LIST OF STOCKS RECOMMENDED SINCE 2007

Our Picks – 2007/08						
No	Stock	Date	Price	Price @ 27/11/08	% Change	Comments
1	Jadi Imaging	13 Mar 07	RM0.26	RM0.105	-59.6	Hold. Buying another piece of land for expansion.
2	Asiatic Dev.	13 Mar 07	RM4.78	RM3.36	-29.7	Buy. Rebounded from mid-Sept low like CPO price.
3	Kossan Rubber	13 Mar 07	RM4.86	RM2.36	-51.4	Buy on weakness. Outlook improved from weaker ringgit & rubber price.
4	Wellcall	13 Mar 07	RM1.91	RM1.02	-46.6	Hold. Trading between RM1.00 and RM1.45.
5	CBIP	13 Mar 07	RM3.89	RM2.11	-45.8	Hold. Affected by lower CPO price
6	Ranhill Utilities	19 Mar 07	RM2.02	RM3.50	+73.3	GO at RM3.50 – delisted.
7	Crescendo	08 Jun 07	RM1.35	RM0.76	-43.7	Switch. Cheap but short-term limited upside.
8	Batu Kawan	25 Jun 07	RM8.75	RM7.55	-13.7	Hold. Rebounded from mid-Sept low like CPO price.
9	Bumi-Commerce	22 Nov 07	RM10.25	RM6.05	-41.0	Buy. Better outlook after change of leadership.
10	LCL	14 Dec 07	RM3.05	RM0.78	-74.4	Hold. Market is concern with the ability of its customers to pay.
11	Faber	04 Feb 08	RM1.24	RM0.64	-48.4	Buy on weakness. Trading between 0.50 and 0.70.
12	AEON Credit	05 Mar 08	RM2.98	RM2.56	-14.1	Buy. Hike in petrol -> more sales of motorcycle, benefit its financing.
13	VADS	28 Mar 08	RM5.47	RM7.45	+36.2	Hold. Surprise GO by TM at RM7.60.
14	Axis REIT	30 Apr 08	RM1.76	RM1.18	-33.0	Buy. High dividend close to 10%.
15	JobStreet	13 May 08	RM1.68	RM1.28	-23.8	Buy. Long term growth not affected by present crisis.
16	Resorts World	29 May 08	RM3.13	RM2.44	-22.0	Buy on weakness. Market not happy with recent deals.
17	YTL Power	29 July 08	RM1.83	RM1.85	+1.1	LT Buy. To use its cash for acquisitions.
18	Success	29 Aug 08	RM0.90	RM0.63	-30.0	Buy. Low valuation.

**Price adjusted for dividend, bonus and rights*