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FY08 Results Review

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OIL & GAS

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EPIC

NEUTRAL	**Downgrade**
Price	**RM1.22**
Target	**RM1.30**

A Blow from Doubtful Debts

Stock Profile/Statistics

Bloomberg Ticker	EPIC MK Equity
KLCI	890.67
Issued Share Capital (m)	169.17
Market Capitalisation (RMm)	206.38
52 week H | L Price (RM)	2.23| 0.71
Average Volume (3m) '000	82.15
YTD Returns (%)	0.27
Net gearing (x)	-0.26
Altman Z-Score	2.82
ROCE/WACC	0.80
Beta (x)	1.57
Book Value/share (RM)	1.56

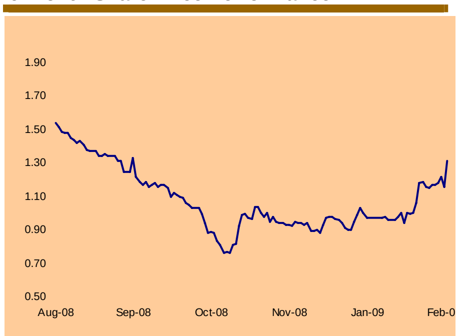
Major Shareholders (%)

Terengganu Inc	38.21
Ahmad Zaki	20.98

Share Performance (%)

Month	Absolute	Relative
1m	17.95	19.19
3m	17.35	13.71
6m	(19.32)	(3.93)
12m	(42.38)	(11.08)

6-month Share Price Performance



EPIC's principal activities are in the management of petroleum supply base and provides support for O&G activities in Peninsular Malaysia.

EPIC's FY08 results were below expectations due to provisions for doubtful debts in the current quarter. The provisions are related to one of its subsidiaries, Mustari Engineering, whose core business is in the minor fabrication of modular fittings. Based on existing information, we view the proposed new maritime hub in Pekan positively, as we believe there would be more brownfield services jobs off the coast of Terengganu from Petronas in the near term, which would require more than one supply base.

Below expectations. The FY08 results were below consensus and our expectations, making up only 81% and 82% of the FY08 net profit forecasts respectively. The poorer-than-expected results were mainly due to provision for doubtful debts of about RM16m relating to one of its subsidiary, Mustari Engineering whose core business is in the minor fabrication of modular fittings. Excluding this provision, 4QFY08 PBT would have increased by 27% to RM19m instead of plunging 80% to only RM3m. This increase is in line with continuously high O&G activities, which require the use of its Kemaman Supply Base. Also, revenue was up 8.1% and 39.1% q-o-q and YTD respectively.

New maritime hub in Pekan a threat to EPIC? At this juncture, we are unsure of the reasons why the Government wants to build another maritime hub close to the Kemaman Supply Base owned by EPIC. Nevertheless, we look at this from the positive angle as we believe Petronas may have plans to award more new brownfield services contracts in the near future and hence an additional supply base would be welcome. This move is also in line with the existing low crude oil prices of below US$40/barrel, whereby it is more commercially viable to concentrate on existing platforms. Hence, we are keeping our view on EPIC unchanged for now until we seek further clarification.

FY09 earnings revised downwards by 19%. Our downward revision is in line with the expected slower O&G activities following the global economic slowdown.

Downgrading to Neutral from Buy. Our target price for EPIC is also revised downwards to RM1.30 based on PER of 7x FY10 earnings (previously RM1.69 based on PER of 8x FY09 earnings) as we roll forward to 2010. Nevertheless, EPIC has a strong balance sheet (with net cash position of RM35m) and attractive dividend yield of 7.4%, coupled with the potential of privatisation by its major shareholders.

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	122.2	176.2	245.4	239.4	248.1
Core Net Profit	9.0	30.7	27.8	29.6	31.5
% chg YoY	45.1	44.1	39.3	-2.4	3.6
Consensus	-	-	34.4	37.2	39.2
EPS (sen)	5.3	18.1	16.5	17.5	18.6
DPS (sen)	7.0	7.0	8.0	9.0	10.0
Div Yield	5.7	5.7	6.6	7.4	8.2
ROE	3.6	11.5	9.4	9.3	9.4
ROA	3.0	9.1	7.2	7.1	7.4
PER (x)	23.0	6.7	7.4	7.0	6.6
P/BV (x)	0.81	0.74	0.67	0.63	0.60
EV/EBITDA (x)	12.2	5.8	6.1	6.2	5.2

KEY HIGHLIGHTS

Quarter Results Table

FYE Dec (RMm)	4QFY08	3QFY08	% chg	FY08	FY07	% chg
Turnover	65.59	60.68	8.1%	245.38	176.36	39.1%
EBITDA	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Depreciation	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net interest expense	0.00	0.00	0.0%	0.00	0.00	0.0%
Associates	0.00	0.00	0.0%	0.00	0.00	0.0%
PBT	3.01	14.96	-79.9%	44.97	49.04	-8.3%
Tax	(1.17)	(3.13)	-62.5%	(13.41)	(13.94)	-3.8%
MI	(0.12)	(0.92)	-87.2%	(3.72)	(4.32)	-14.0%
Net Profit	1.72	10.92	-84.3%	27.84	30.77	-9.5%
EPS (sen)	1.01	6.50		16.46	18.32	
Gross DPS (sen)	5.00	4.00		9.00	7.00	
EBITDA margin	n.a.	n.a.	n.a.	n.a.	n.a.	
Net Assets (RM)	1.83	1.90		1.83	1.74	

FYE Dec (RMm)	FY06	FY07	FY08	FY09f	FY10f
Turnover	122.2	176.2	245.4	239.4	248.1
EBITDA	28.3	59.8	56.7	55.3	65.7
PBT	18.5	49.0	45.0	42.5	52.9
Net Profit	9.0	30.7	27.8	29.6	31.5
EPS (sen)	5.3	18.1	16.5	17.5	18.6
DPS (sen)	7.0	7.0	8.0	9.0	10.0
Margin					
EBITDA	23.2%	33.9%	23.1%	23.1%	26.5%
PBT	15.2%	27.8%	18.3%	17.8%	21.3%
Net Profit	7.3%	17.4%	11.3%	12.4%	12.7%
ROE	3.6	11.5	9.4	9.3	9.4
ROA	3.0	9.1	7.2	7.1	7.4
Balance Sheet					
Fixed Assets	196.47	221.37	271.67	276.32	309.08
Current Assets	110.50	144.64	135.25	145.81	124.29
Total Assets	306.97	366.01	406.91	422.13	433.37
Current Liabilities	22.79	44.56	46.61	51.32	43.84
Net Current Assets	87.71	100.08	88.64	94.49	80.44
LT Liabilities	25.71	25.60	50.19	44.61	44.03
Shareholders Funds	253.62	279.76	310.11	326.21	345.50
Net Gearing (%)	net cash	net cash	-4.79	-6.61	-6.76

OSK Research Guide to Investment Ratings

Buy: Share price may exceed 10% over the next 12 months

Trading Buy: Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain

Neutral: Share price may fall within the range of +/- 10% over the next 12 months

Take Profit: Target price has been attained. Look to accumulate at lower levels

Sell: Share price may fall by more than 10% over the next 12 months

Not Rated: Stock is not within regular research coverage

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