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Investment Research

1QFY05 Results

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Eastern Pacific Industrial Corporation

Counting On Kemaman Supply Base

Recommendation

NEUTRAL

Price

RM1.75

12-mth target price

RM1.68 (-4.0%)

Share cap / Market cap

163.3m / RM285.7m

Free float

17.9%

Major shareholders

PMINT (39.6%)
Lembaga Tabung Haji (21.1%)
Tis' Ata' Ashar SB (4.0%)

- EPIC's annualized 1QFY05 earnings was within our expectations but turnover was below our expectations by 11.1%. Turnover was affected by the delay in some oil exploration offshore works in Terengganu and the traditional yearly slow start for the demand of its facilities and supplies.
- EPIC is currently enjoying a near full occupancy rate of 95% for its warehouse and office lots at Kemaman Supply Base's (KSB) Phase 1 and a 90% occupancy rate at KSB's Phase 2.
- EPIC expects oilfield discoveries and exploration works by Petronas and Murphy Oil will spur higher cargo handling and rental of facilities at its Kemaman Supply Base.
- We expect EPIC to maintain its dividend payout ratio of above 40% of its net earnings. Thus we expect an attractive dividend yield of 5.1% for FY05 and 5.3% for FY6.
- We revise downwards our forecast of EPIC's FY05 earnings by 0.8% and FY06 earnings by 1.9% due to the tighter margins. Using the oil and gas supporting service sector's average PER of 10.8x and EPIC's FY06 EPS of 15.6 sen, we derive a 12-month target price of RM1.68.

Consensus (Net profit)

05F : n.a.

06F : n.a.

Quarterly Results

Year to 31 Dec	3Q04	4Q04	1Q05	% chg*	OSK(F)
Turnover (RMm)	18.3	24.7	18.7	6.3	84.1
Pretax (RMm)	8.3	7.5	8.2	(1.0)	33.0
Net profit (RMm)	6.8	5.6	6.6	10.1	24.7
EPS (sen)	4.2	3.4	4.1	8.8	15.1

* chg is cumulative YoY. OSK (F) is the original forecast.

Earnings Table

Year to 31 Dec	02A	03A	04A	05F	06F
Turnover (RMm)	62.2	70.5	80.1	84.1	88.3
EBITDA (RMm)	29.9	27.4	26.8	26.9	27.1
Pretax (RMm)	20.2	28.8	31.3	31.9	32.6
Net profit (RMm)	10.8	19.9	23.4	24.5	25.5
EPS (sen)	6.7	12.3	14.5	15.0	15.6
YoY change (%)	(36.7)	83.8	18.0	3.5	4.1
PER (x)	26.1	14.2	12.1	11.6	11.2
GDPS (sen)	6.0	6.5	8.4	8.9	9.4
Div yield (%)	3.4	3.7	4.8	5.1	5.3
ROE (%)	4.4	8.0	8.9	8.9	8.8
NTA PS (RM)	1.50	1.58	1.67	1.74	1.83
P/BV (x)	1.2	1.1	1.0	1.0	1.0

Price performance chart

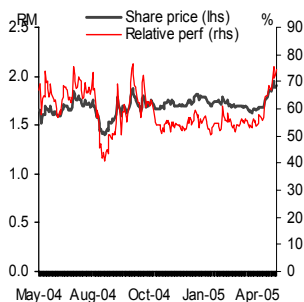


Figure 1: Key Performance – At A Glance

1Q Results (RMm)				% chg		Comments
	1Q04	4Q04	1Q05	y-o-y	q-o-q	
Turnover	17.6	24.7	18.7	6.3	(24.4)	The higher y-o-y turnover is attributed to better contributions from its Kemaman Supply Base. Q-o-q, turnover decreased due to the delay in some offshore oil exploration projects and the traditional seasonal slow start to the year.
EBITDA	7.5	6.1	4.8	(36.5)	(21.5)	EBITDA was lower q-o-q and y-o-y due to lower contributions from rental of its facilities and services at Kemaman Supply Base.
EBITDA Margin	42.8%	24.7%	25.6%			EBITDA margin improved q-o-q as there were some year-end adjustments pertaining to its gains on forex investments.
Pretax	8.3	7.5	8.2	(1.0)	9.2	PBT increased q-o-q due to an increase in investment and other income. In addition, there was no diminution in value of marketable investments and doubtful debts as in the previous final quarter of the year.
Pretax Margin	47.0%	30.3%	43.8%			
Net Earnings	6.0	5.6	6.6	10.1	19.6	Net earnings is higher q-o-q due to a lower effective tax rate. EPIC is expecting a 5-10% demand growth p.a. for its facilities and services at Kemaman Supply Base.

Source: OSK Research

Figure 2: Sector PER – Companies providing services to Oil & Gas sector

Company	Market cap (RMm)	Weightage	Average FY06F PER	Weighted PER
Bintulu Port Holdings	1672.0	33.0%	12.3	4.1
Scomi Group	1408.9	27.8%	10.4	2.9
Sapuracrest Petroleum	879.1	17.4%	8.1	1.4
Dialog Group	561.7	11.1%	11.4	1.3
Petra Perdana	541.2	10.7%	11.3	1.2
Sector average PER				10.8

Source: OSK Research / Bloomberg

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