

01 Aug 2005

EPIC

EPIC MK

RM1.78

BUY

Acquires a 95% stake in Tubex for RM18.5m

Eastern Pacific Industrial Corporation Berhad (EPIC) has proposed to buy a 95% stake in Tubex Sdn Bhd (Tubex) for RM18.5m cash.

Tubex provides pipe threading and ancillary services specialising in threading and cutting of tubular, casing and down hole equipment used in the oil & gas offshore drilling activities, tubular inspection and maintenance services.

The proposed acquisition is expected to be completed by 4Q05.

- **We are positive on this latest development.** The news does not come as a surprise, as we have highlighted in our earlier reports that EPIC is looking at adding pipe-threading operations to its oil & gas business model.
- **EPS positive.** Based on the limited financials provided, Tubex reported pretax profit of RM2.4m as at FY05/05. Assuming a statutory tax rate of 28%, Tubex would report net profit of RM1.7m for the year. This translates to acquisition P/E of 11.5x, which compares favourably against EPIC's historical FY04 P/E of 12.3x.
- **Prospects remain healthy,** for Tubex's fortunes are tied to the prospects of oil & gas drilling activities in Malaysia, which remain buoyant. We also understand that this is a localised business with no foreign participation. Hence, barriers to entry are moderately high, restricted by Government's policy.
- **Domestic competition.** There is, nevertheless, some element of domestic competition, for other companies engaged in similar activity include: Bell & Order, Kejuruteraan Samudra Timur and UMW Holdings.

Bell & Order is expected to be involved in pipe threading operations, once it acquires the operations from Scomi Group. Kejuruteraan Samudra Timur, meanwhile, is in the process of acquiring a 70% stake in Sobena Offshore Inc, which does similar work. UMW Holdings holds a 30% stake in UCM Oil-Tex Threading Ltd, a company that is also involved in threading operations, but in Thailand.

- **Estimated 6% enhancement in EPIC's EPS for FY06.** Conservatively, this takes in an added RM1.8m contribution in net profit or 1.1sen from EPIC's 95% stake in Tubex.
- **Financing the deal is not an issue.** EPIC has zero debt and is cash rich, sitting on gross cash of RM84m as at Mar 2005.
- **Several other corporate exercises are in the pipeline.** They include, among others, the privatisation of Kemaman Port, which is expected to be completed by end-2005.

We are positive over this deal, as it enhances EPIC's future earnings at a low investment cost. The port has been profitable, generating revenue and operating profit of RM24m & RM5m respectively in 2004. Note that we have not incorporated any earnings potential arising from this privatisation deal into our forecast yet.

- **We reiterate our BUY recommendation EPIC.** Target price of RM2.00, based on an FY05 P/E multiple of 13x.

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Y/E Dec (RM'm)	Pretax Profit	Net Profit	EPS (sen)	EPS Chg (%)	P/E (x)	EV/EBITDA (x)	DPS (sen)	Yield (%)
2003	28.8	19.8	12.3	86%	14.5	6.1	6.5	3.7
2004	31.3	23.4	14.5	18%	12.3	5.9	7.0	3.9
2005E	35.4	25.2	15.4	7%	11.5	5.4	17.0	9.6
2006E	42.3	30.0	18.4	19%	9.7	4.6	11.0	6.2

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