

# Winds of Change

The Barisan Nasional's recent victory in the general election sees a ripple of change going through companies in Terengganu.

By Bhupinder Singh

COUNTERS controlled by the Terengganu government, such as TDM Bhd, Golden Pharos Bhd (GPB) and Eastern Pacific Industrial Corporation Bhd (EPIC) jumped after the Barisan National (BN) recaptured the oil-rich state from Parti Islam SaMalaysia (PAS).

Taken by surprise by the local populace's sweeping endorsement of the BN, TDM's share price hit a six-year high of RM1.44, while EPIC did one better by hitting a seven-year high of RM4.14 within a couple of days. In turn, GPB saw its shares rise to a four-year high of 92 sen. However, the excitement of the thumping BN victory has fizzled out over the past couple of weeks.

Profit taking has garlanded the victory, as the play on the counters is now giving way to a more compelling commodity-related theme that began in the middle of last year and triggered the initial upward price trajectory. Things are getting back to basics, and that means an emphasis on fundamentals. The feel-good effect might still be lingering among those hoping to cash in, but do these counters still have enough momentum to go higher? Analysts believe the fundamentals, especially the continued favourable outlook for commodities in the near term, will help support an earnings recovery for all three counters.

## TDM Bhd

Strong prices for palm oil in 2003, led to a financial turnaround for palm oil plantation TDM, as the company posted a net

**Price Movement of Terengganu Government Counters Pre- and Post-Election (RM Per Share)**

Counter	Price on March 19, 2004	Price on March 22, 2004	Price at the time of writing
TDM	1.16	1.41	1.21
Golden Pharos	0.685	0.845	0.64
EPIC	3.42	3.74	3.72

Source: Investamatic

profit of RM25.8 million or 12.1 sen per share for the financial year (FY) ended Dec 31, 2003 as compared to a profit of RM2.4 million or 1.1 sen per share in FY02.

With Bank Negara Malaysia estimating crude palm oil (CPO) prices at RM1,600 per tonne on average, the earnings potential of TDM looks set to improve assuming the company's management can increase the yields of its plantations.

In the first three months of the year, CPO prices have been averaging above RM1,800 per tonne, 17% higher than last year for the same period. An analyst at

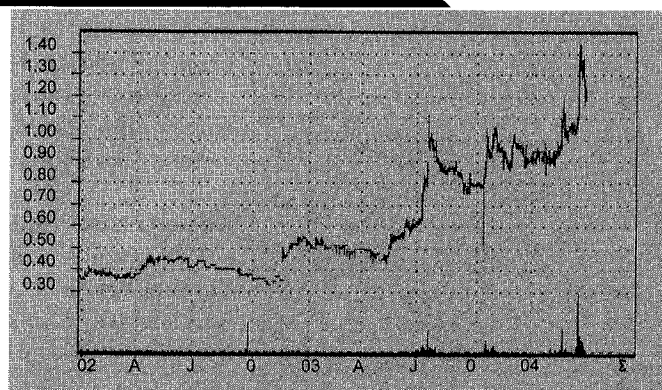
MIDF Sisma Securities Sdn Bhd is predicting earnings of plantation companies to grow between 5%-30% depending on the company's plantation profile.

CPO prices have been driven up in part by the expectations of a falling supply situation in soy complex. Strong demand from buyers such as China has been fueling the rally after the American soybean production was damaged by adverse weather conditions in the United States, and similarly in Brazil and Argentina.

'However, caution needs to be taken in the second half of the year, as the anticipated recovery in supply side factors may see the prices of edible oils slip. This may lead to a bearish phase, seen after every three-year cycle based on historical data,' says the analyst.

The Terengganu state government has a 68.8% stake in

**TDM's Price Performance Chart**



palm oil plantation TDM via Perbadanan Memajukan Iktisad Negeri Terengganu (PMINT) and Perbadanan Menteri Besar Terengganu.

TDM owns 40,000 hectares of palm oil plantations that contribute about three-quarters of its revenue and all of its profit. The company is also involved in poultry farming and healthcare ventures that operated at a loss for the full FY ended Dec 31, 2003.

TDM is trading at a historical price earnings (PE) ratio of 10.2x compared to a prospective FY04 PE of 10.5x for the sector. Its current market price is at a 42% discount to its net tangible asset (NTA) value of RM2.12 per share as at Dec 31, 2003, and its balance sheet carries long-term borrowings of RM66 million. The preferred counters for the sector remain the large plantation firms like IOI Corporation Bhd and Kuala Lumpur Kepong Bhd, which feature good management and profit track records.

### Eastern Pacific Industrial Corporation Bhd (EPIC)

The prime beneficiary from the BN-led government in Terengganu will likely be the oil and gas sector, as the sector may see new vigour in upstream and downstream activity for companies like EPIC to exploit.

When oil-rich Terengganu fell to PAS in the previous election, the federal government converted the state's royalty payment into *wang ehsan*, used to finance development projects in the state. In the meantime, ExxonMobil Exploration and Production Malaysia Incorporated moved its headquarters to KL.

The promise of increased money for development and rise in petrol-dollar invest-

ments could lead to a spin-off in the state's economy. EPIC's Kemaman Supply Base and Kemaman Port could become a hive of activity in days to come.

Exploration and production (E&P) activities continued, even under the PAS administration, but it is a commonly held belief among the industry players that the Federal Government tends to encourage Petronas to increase industry-related activity when there is an economic slowdown.

While E&P activities now may be offering small field development potential, the sustained strong oil and gas price motives of OPEC makes it economical to develop marginal fields now. The strong infrastructure offshore and integrated onshore operations further encourage the development of recent oil and gas finds by Shell and Talisman Energy off Terengganu. The state has a 40% stake in EPIC via PMINT.

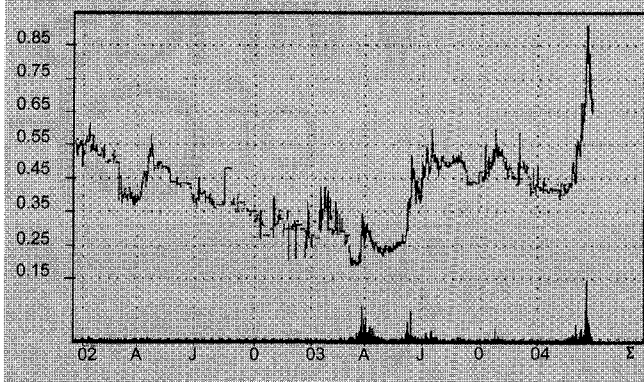
According to Mayban Securities senior analyst Tursina Yaacob, fair value for EPIC is RM4 per share at a prospective FY04 PE of 17x. The stock is seen as a good defensive play with steady income. The company currently trades at a 13% premium to an NTA of RM3.15. The company's balance sheet is strong, with little debt, and a healthy cash balance of RM95 million for FY03 ending Dec 31.

EPIC's efforts to diversify its earnings stream abroad via its investment in Aurado Energy Ltd, sludge management and property development gives the stock some interesting earning possibilities.

### Golden Pharos Bhd

The state of Terengganu has a 46.9% stake in this timber-related company via Lembaga

Golden Pharos' Price Performance Chart



Tabung Amanah Warisan Negeri Terengganu and PMINT. The weakest among the state controlled companies, salvation for the timber industry is coming in the form of stronger prices after some trying times in the past few years.

Increased demand for timber could see an earnings recovery for stocks like GPB. The company posted a profit of RM2.4 million for FY03, but that was primarily due to a RM12.6 million waiver granted on state premiums. The company undertakes upstream harvesting and processing and downstream plywood and door manufacturing. Upstream operations are profitable, but margins are thin due to fierce competition. Meanwhile, downstream activities may see a return to profit this financial year, based on better economic growth and demand from GPB's markets abroad.

GPB's share price before the election jumped to a two-year high of 92 sen on strong volumes, before retracing to 68 sen at a PE of 34x at the time of writing, as compared to the sector's prospective FY04 PE of 17.3x. The company's balance sheet carries some RM44.6 million in borrowings, with little cash.

The Terengganu government also has a 17.24% stake in newly listed roofing products concern, Astino Bhd, via Lembaga Tabung Amanah Warisan Terengganu. Another factor that needs to be considered for any investment assessment of the counters would be the likely possibility of changes in the board of all companies concerned. The tendency of the market to pay a premium for big-ticket names may provide a boost for stock prices. **mb**

Eastern Pacific Industrial Corp's Price Performance Chart

