



CHINA
DEVELOPMENT
FINANCIAL

Oiltek International

Riding long-term trends

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- Riding on record high palm oil prices and long-term renewable trends.** Oiltek International (Oiltek) is an integrated technology and renewable energy solutions provider in the vegetable oils industry. It mainly provides engineering, procurement, design, construction, and commissioning (EPCC) of refining plants, downstream speciality products and processing plants. Its clients include companies such as Wilmar International, Sarawak Oil Palms and Sime Darby Plantation.
- Valuations and relative comparison.** Oiltek will trade at 8.4x FY2020 P/E, a slight premium to locally listed peers such as PEC and Moya Holdings. This may partly be justified by the company's pivot towards renewables-related projects and supported by the favourable supply-demand dynamics for edible and non-edible oils in the next 12-24 months.
- Key IPO statistics.** The company will be issuing 22.5mn invitation shares comprising 22.0mn placement shares and 0.5mn public offer shares at S\$0.23 per share, raising gross proceeds of S\$5.2mn. The company will have a post-IPO market cap of S\$33mn. The public offer opened from 6pm, 18 Feb and will close at noon on 1 Mar. Shares will start trading at 9am on 3 March.

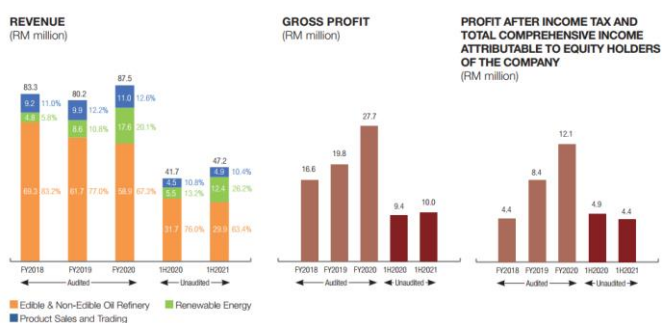
IPO NOTE			
IPO Price (S\$)	0.23	Valuation (post IPO)	
Total shares offered	22,500,000	NAV (S\$ cents)	7.09
Placement shares	22,000,000	P/NAV (x)	3.24
Public shares	500,000	EPS FY2020 (S\$ cents)	2.73
KEY DATES		P/E FY2020 (x)	8.42
Opening of invitation	6pm 18 Feb	Op. Cash flow (S\$ cents)	2.88
Closing of application	12pm 1 Mar	P/CF (x)	7.99
Balloting of application	3-Mar	Market cap (S\$m)	32.89
Commence trading	9am 3 Mar		
Major Shareholders (post IPO)		Sponsor, Issue Manager, Underwriter, Placement Agent	
Koh Brothers Group	67.4%	SAC Capital	
Tan Hun Tee	6.3%		
Ma Ong Kee	4.2%		

Figure 2: Leading palm oil producers in 2021/2022

Country	Production of palm oil ('000 metric tons)	% of Oiltek total sales (2020)	% of Oiltek total sales (1H21)
Indonesia	44,500	11.7%	28.5%
Malaysia	18,700	23.7%	50.1%
Thailand	3,120	6.0%	1.9%
Colombia	1,615		
Nigeria	1,400		
Others	6,168		

Source: Statista, IPO Prospectus, KGI Research

Figure 1: Financial summary



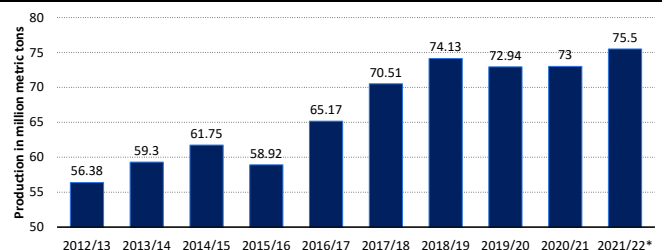
Source: IPO Prospectus, KGI Research

Home markets of Malaysia and Indonesia. Malaysia and Indonesia make up around a third of total revenue over the past three years. Revenue generated from these two countries went up to as much as 78% of total revenue in 1H2021, not surprisingly as Malaysia and Indonesia are the top two largest palm oil producing nations in the world (Figure 2).

Between 60% and 85% of its revenue is generated from clients operating in the edible and non-edible oil refinery business. In the longer term, the company is positioning itself to ride on the renewable energy trend, having grown the revenue generated from its renewable energy segment to 20% of total revenue in FY2020 and 26% in 1H2021.

Outlook and prospects. In the next 12-24 months, Oiltek's prospects should track the overall growth in the edible and non-edible oil markets, specifically that of palm oil. Palm oil is one of the major ingredients used in up to 50% of all daily-use products. While global production volume of palm oil has remained relatively flat at between 73-76mn tons from 2018 to 2021, palm oil prices in 2022 have hit all-time highs on favourable supply-demand dynamics.

Figure 3: Global palm oil production volume (mn metric tons)



Source: US Department of Agriculture, KGI Research

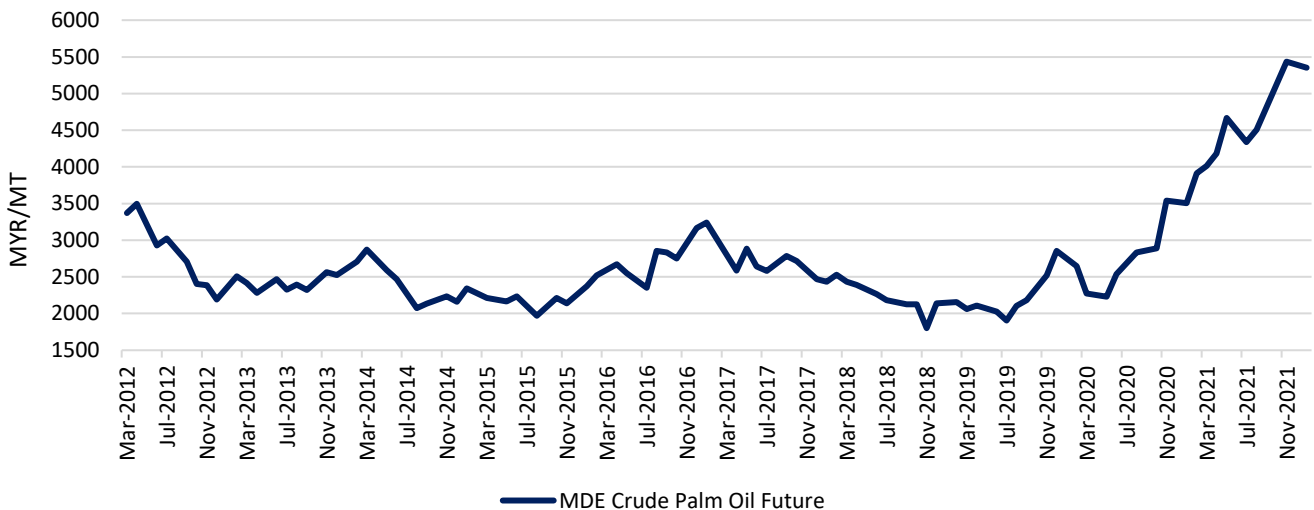
Valuation & Action: Oiltek will trade at 8.4x FY2020 P/E, a slight premium to locally listed peers such as PEC and Moya Holdings. This may partly be justified by the company's pivot towards renewables-related projects and supported by the favourable supply-demand dynamics for edible and non-edible oils in the next 12-24 months.

Risks: Margin pressure due to competition and lower-than-expected new order wins.

Palm oil prices at all-time highs and expected to remain resilient. Palm oil prices are likely to remain above MYR 4,700 (US\$1,124) per ton over the next six months, according to LMC International. In addition, it will still take another 12 months for Southeast Asia’s palm oil production to recover to end-2019 levels, after supply from Indonesia and Malaysia declined in 2020 and 2021.

In addition to supply constraints in Indonesia and Malaysia, palm oil prices have been buoyed by higher prices of alternatives such as soybean. In turn, soybean prices have been underpinned by tight supply due to yield losses in draught-hit South America.

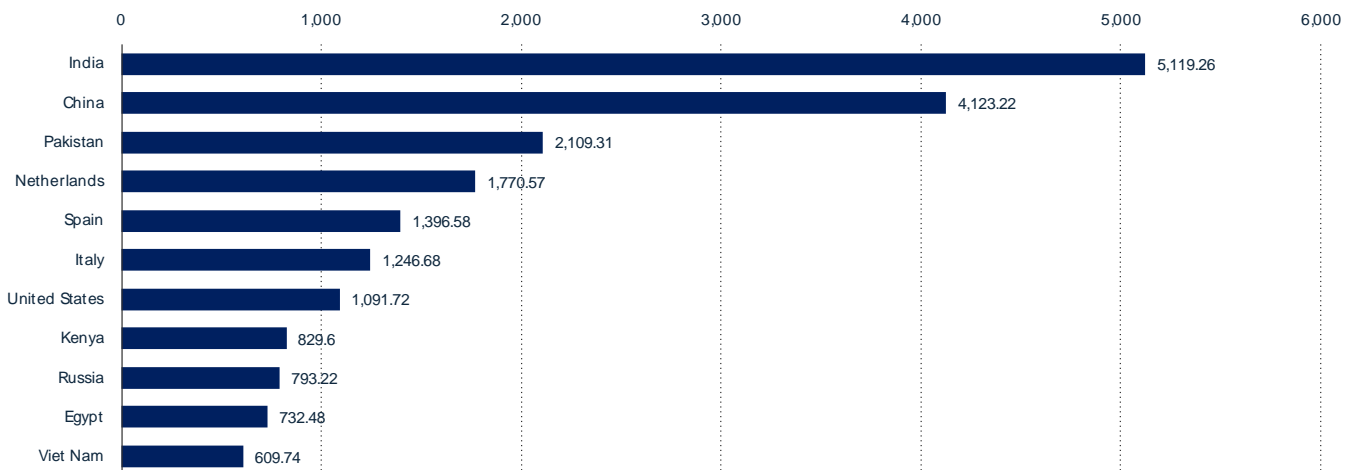
Figure 4: Palm oil prices are currently trading at all-time highs



Source: Bloomberg, KGI Research

Higher palm oil imports from the two most populous countries in the world. The leading palm oil importers will continue to be led by China and India, the two most populous nations in the world. According to the Council of Palm Oil Producing Countries, China’s palm oil consumption in 2022 is expected to increase due to lower supply of rapeseed oil and soybean oil. Likewise, India’s palm oil imports are likely to be spurred by the recovery of its hotel, restaurant and catering segment and the lowering of import duties.

Figure 5: Leading importers of palm oil worldwide in 2020 (in million USD)



Source: Trade Map, UN Comtrade, KGI Research

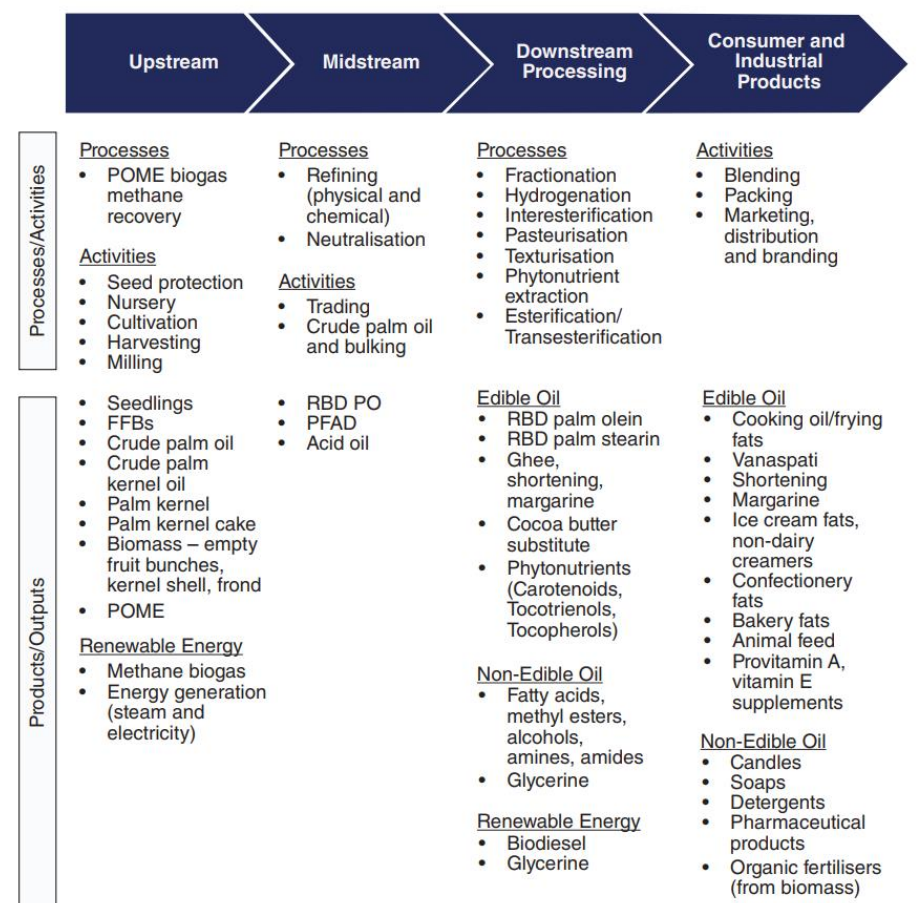
Peer comparison. The two closest SGX-listed peers operating in the EPC space are Moya Holdings (MHAL SP) and PEC (PEC SP). Both are trading at around 6-7x historical P/Es. However, these companies operate in different sectors. Moya designs and builds water treatment systems while PEC mainly serves the O&G and petrochemical sectors.

While Oiltek's P/E is a slight premium, we think this is justified by the favourable dynamics in the edible and non-edible oil industry, in addition to the growing revenue from renewables-related projects.

Figure 6: Peer comparison

Company	Bloomberg Ticker	Price (Lcl curr)	Mkt Cap (\$m)	P/E (x) (hist)	P/E (x) (fwd)	P/B (x)	ROE (%)	EV/EBITDA (x) (ttm)	EV/EBITDA (x) (fwd)	EV/EBITDA (x) (fwd 1 yr)	Net Gearing (%)	Dvd Yld (%)
Singapore EPC												
Oiltek Int'l		0.23	33	8.4	NA	3.2	35	-	-	-	-	-
Moya Holdings	MHAL SP	0.06	265	6.9	NA	0.8	12	3.6	NA	NA	46.2	NA
Memiontec	MHL SP	0.82	180	100.4	NA	10.6	11	64.5	NA	NA	NA	0.2
PEC	PEC SP	0.56	143	6.0	NA	0.6	11	0.8	NA	NA	NC	4.5
Sanli Environmental	SANLI SP	0.11	28	24.9	NA	1.0	4	6.8	NA	NA	NA	0.7
SIMPLE AVERAGE				34.5	NA	3.3	9	18.9	NA	NA	46.2	1.8

Source: Bloomberg, KGI Research *Prices as of 18 Feb 2022

Figure 7: Palm oil industry value chain


Source: IPO Prospectus, KGI Research

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