

30 June 2022

Industrial Products & Services | Palm Oil Mills Manufacturer

Ecoscience International (EIB MK)

Expanding Footprint In Indonesia

- MYR0.31 FV, based on 10x FY23F P/E.** At a MYR0.30/share IPO price, Ecoscience International will raise MYR24.7m from its public issue of 82.2m shares. Bulk of the proceeds will be used to finance working capital expenditure and repay its borrowings, while MYR5m is allocated to increase its business presence in Indonesia. Its future earnings (3-year CAGR of 11.6%) will be driven by greater contributions from its equipment fabrication as well as supply of equipment and materials segments, on top of improving margins.
- Orderbook and outlook.** EIB's outstanding orderbook consists of MYR107m in existing contracts, 65.5% of which is expected to be recognised in FY22F. On top of this, the group is currently tendering for 17 projects (four overseas and 13 local), with an estimated total value of MYR781m. With its facility in Pasir Gudang currently at a 100% utilisation rate (vs 80% average in FY21), we are positive on the sustained topline growth for the group. However, we remain cognisant of the potential need for additional investment to keep up with demand and contract wins in the future.
- Expansion strategies.** The group has earmarked MYR6m from its public issue proceeds to be used for business expansion purposes. From this, MYR5m will be allocated to set up a new fabrication facility and office in Indonesia, where it is seeing increasing demand for its services (27% of FY21 revenue came from Indonesia, vs 12% in FY20). Elsewhere, the remaining MYR1m will be used to purchase 12 new non-chemical water treatment equipment to be leased to customers as part of its environmental and energy efficiency business.
- Earnings estimates.** We forecast a FY21-FY24 earnings CAGR of 11.6%, premised on topline growth and improving margin. We believe topline growth will be driven by the equipment fabrication as well as supply of equipment and material segments, while a moderation in steel prices should alleviate some pressure on its costs. Management has pledged a 20% dividend payout ratio, which translates to a FY22F dividend yield of 1.2% based on IPO price.
- Valuation.** Pegged to a P/E multiple of 10x based on FY23F earnings, we arrive at a FV of MYR0.31. The target multiple of 10x is in line with the 11x 2-year historical average P/E of its local peers (Figure 5), with a small discount ascribed to account for its listing on the ACE Market.
- Key risks:** Dependence on major customers, a slowdown in contract wins, and adverse movements in regulations and FX rates.

Fair Value (Return):	MYR0.31 (+3%)
IPO Price:	MYR0.30
Closing Application Date:	1 Jul 2022
Indicative Listing Date	18 Jul 2022

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Company Description

Ecoscience International is a constructor of palm oil mills and facilities, headquartered in Pasir Gudang, Johor and with operations in Malaysia, Indonesia and Gabon. On top of its core operations, the company also fabricates and supplies complementary equipment to its customers.

IPO Details

Public Issue (%)	24.2
Shares outstanding (m)	340
Implied market cap	MYR102.0m

Major Shareholders (%)

Wong Choi Ong	31.3
Pan Kum Wan	26.6
Lim Siew Kuen	4.7

Utilisation of IPO Proceeds

	MYRm
Establishment of new fabrication facility	5.0
Expansion of environmental and energy efficiency business	1.0
Working capital expenditure	7.9
Repayment of bank borrowings	7.0
Estimated listing expenses	3.8
TOTAL	24.7

Additional Data

Listing Market	ACE
Bursa Code	0255

Forecasts and Key Data	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	154	153	170	187	203
Recurring net profit (MYRm)	7	8	10	11	11
Recurring net profit growth (%)	-47.8	23.8	20.7	9.7	5.2
Recurring EPS (MYR)	0.02	0.02	0.02	0.03	0.03
Recurring P/E (x)	15.6	12.6	10.5	9.6	9.1
P/BV (x)	2.0	1.7	1.2	1.1	1.0
P/CF (x)	71.8	55.0	11.0	10.2	8.8
Dividend yield (%)	0.0	0.0	1.2	2.2	2.3
EV/EBITDA (x)	10.0	8.4	5.8	4.9	4.4
ROE (%)	13.1	14.5	8.1	11.7	11.2
Net debt to equity (%)	0.3	0.3	Net Cash	Net Cash	Net Cash

Source: Company data, RHB

Financial Overview And Valuation

FY21 results review. The group's FY21 revenue dipped 0.3% YoY on the back of lower contributions from its construction (-27.9% YoY) segment, owing to COVID-19-related regulations that hindered its overseas operations. Despite this, positive growth was recorded in the equipment fabrication (+84.4% YoY) as well as supply of materials and equipment (+145.5% YoY) segments. By geographical market, contributions from Gabon (45.4%) formed the biggest chunk of revenue, while Malaysia (27.3%) and Indonesia (27.0%) were its next largest markets. Core earnings grew 23.8% YoY as margins improved from 14.0% in FY20 to 17.8% in FY21.

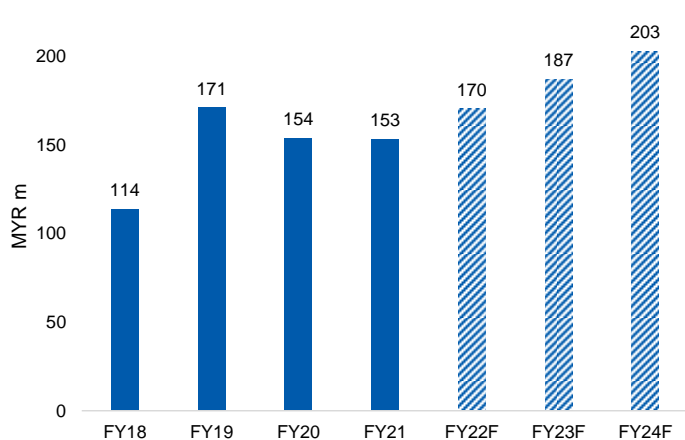
Forecasts. We forecast revenue to grow by a FY21-FY24 CAGR of 9.8%, mostly driven by the fabrication of equipment as well as supply of materials and equipment segments, which we expect to grow at a CAGR of 13.3% and 16.5%. Topline contributions from the construction of plants and facilities will largely track the projected palm oil industry's 2022-2030 CAGR of 5%, with a higher growth rate of 7% ascribed in FY24F as its new Indonesia office begins operations.

Its earnings CAGR of 11.6% for FY21-FY24F is premised on topline growth as well as margin improvements. We expect EIB to enjoy lower raw material costs as steel prices begin to normalise, and be well-shielded from the rising interest rate environment as it repays its bank borrowings and enters a net cash position by Dec 2022.

Valuation. We ascribe a 10x P/E on the group's FY23F earnings to arrive at a fair value of MYR0.31. We benchmark our target FV against the weighted average of its local peers' 2-year historical P/E of 11x, and ascribe a small discount to account for its listing on the ACE Market (its peers are listed on the Main Market).

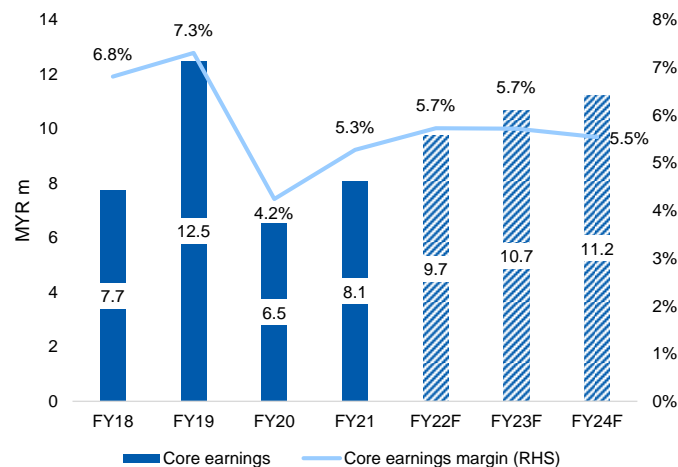
Dividends. While the group has not paid dividends since FY17, it has pledged to allocate 20% of its annual PAT as payout. Our forecasts indicate a FY22 yield of 1.2% based on its IPO price.

Figure 1: Revenue trend



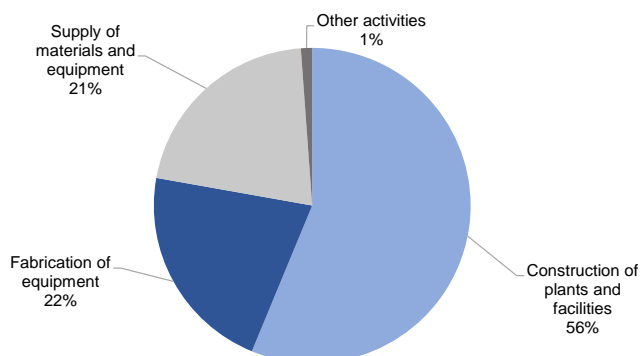
Source: Company data, RHB

Figure 2: Core profit trend



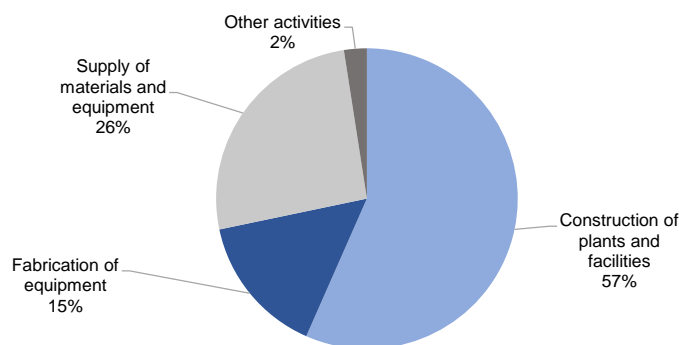
Source: Company data, RHB

Figure 3: FY21 revenue breakdown



Source: Company data, RHB

Figure 4: FY21 gross profit breakdown



Source: Company data, RHB

Figure 5: Peer comparison

Company	Country	FYE	Mkt Cap (USDm)	P/E (x)			Div. Yld (%)	ROE (%)	NP Growth (%)	
				Current	1 Yr Fwd	2-Yr Historical			Actual	Actual
Ecoscience International	MY	Dec	23.2	12.5	10.5	NA	NA	14.5	-26.4	79.8
Local peers										
CB Industrial Product Holding	MY	Dec	143.4	7.5	6.3	9.3	3.1	11.1	18.0	-4.8
Muar Ban Lee Group	MY	Dec	19.1	4.0	NA	11.2	NA	12.6	NA	NA
Eonmetall Group	MY	Dec	33.6	3.8	NA	12.1	2.8	10.6	NA	NA
Seremban Engineering	MY	Jun	20.1	7.7	NA	21.7	NA	51.8	NA	NA
Weighted Average				6.6		11.0		14.9		
International peers										
PT Krakatau Steel (Persero)	ID	Dec	471.4	7.0	NA	14.8	NA	12.1	NA	NA
PT Paramita Bangun Sarana	ID	Dec	63.8	7.9	NA	18.2	7.4	20.7	NA	NA

Source: Bloomberg, RHB

Company Overview

EIB, a solution provider for the construction of palm oil mills and supporting facilities, is headquartered in Malaysia. The group's principal markets are Gabon, Malaysia and Indonesia, and it has presence in Liberia and India. The following is an overview of the core business activities of the group:

- Construction of plants and facilities** (56% of FY21 revenue) – involves construction of palm oil mills and refineries, biodiesel/biogas plants, as well as support facilities such as workers' quarters, laboratories, and offices;
- Fabrication of equipment** (22% of FY21 revenue) – involves fabricating, and in some cases, designing equipment for existing mills that require replacement or upgrading. The group also fabricates energy/environmental-related equipment such as heat recovery and non-chemical water treatment equipment;
- Supply of materials and equipment** (21% of FY21 revenue) – involves the supply of piping materials, heavy construction equipment, and other construction materials such as spun piles, ravel, sand, and bricks;
- Other activities** (1% of FY21 revenue) – involves the supply of spare parts for palm oil milling machinery, the provision of maintenance services for plants and facilities, and certain earthworks and site clearing activities.

Key customers. In FY21, the group's Top 5 customers contributed 78.8% of FY21 revenue. The group's largest customer in FY21 was Olam Group (OLAM SP, NR), which engaged with the group for projects in Gabon.

Figure 6: Top customers

Customer	Location of customer/project	Products and services provided	Amount (MYR '000)	% of FY21 total revenue	Length of relationship (years)
Olam Group	Gabon	Construction of palm oil mill facilities and plants, rubber plantation facilities, and fabrication of palm oil mill equipment	58,433	38.2	7
Kuala Lumpur Kepong	Malaysia, Indonesia	Construction of palm oil mill plant, fabrication of palm oil mill equipment	25,818	16.9	17
Customer A	Malaysia	Construction of other facilities and fabrication of equipment	14,763	9.6	1
Palm Tech Engineering Construction SB	Gabon	Supply of heavy construction equipment	11,106	7.3	1
PT Kapuas Maju Jaya	Indonesia	Construction of palm oil mill plant	10,406	6.8	1

Source: Prospectus

Senior management. EIB is led by an experienced senior management team, spearheaded by Project Director, Andy Tan Boon Kiong. He is responsible for the group's projects in Gabon, and has been in the plantations engineering industry since 2002. Tia Tuan Sim acts as the group's Operational and Technical Director, and is responsible for the overall operations of the group's projects and engineering department. He is accompanied by Business Development Director Thing Jin Suan, who handles the group's growth strategies, business development and sales and marketing operations. Both Tia and Thing hail from engineering backgrounds and began their careers as engineers.

Future Plans And Strategies

Establishment of fabrication facility and office in Indonesia. The group plans to incorporate a wholly-owned subsidiary and establish a new fabrication facility and office located at Balikpapan in East Kalimantan, Indonesia. The facility will mainly be used to support projects involving the construction of palm oil mills and facilities, and fabrication of equipment that the group may secure in Kalimantan and other parts of Indonesia. Management expects the new facility to be operational by 4Q23.

Expansion of environmental-related equipment business. The group, through its subsidiary Ecoscience Technologies SB, started supplying environmental-related equipment such as heat recovery and non-chemical water treatment equipment in FY20. The group plans to purchase and install 12 units of non-chemical water treatment equipment, to be leased to prospective customers. The purchase and installment of these new treatment equipment is expected to cost MYR1.0m.

Enhancement of core competencies. The group's aim is to grow together with customers, by being the service provider for upgrading or expansion of existing plants and facilities as well as fabrication of equipment.

Figure 7: Utilisation of IPO proceeds

Details of use of proceeds	Estimated timeframe	MYRm	% of proceeds
Business expansion	Within 24 months		
- Establishment of new fabrication facility and office in Indonesia		5.0	20.3
- Expansion of environmental and energy efficiency business		1.0	4.1
Working capital expenditure	Within 12 months	7.9	31.8
Repayment of bank borrowings	Within 12 months	7.0	28.4
Estimated listing expenses	Within 1 month	3.8	15.4
Total		24.7	100.0

Source: Prospectus

Key risks for the group include:

- i. Dependency on Olam Group as a major customer;
- ii. Fluctuation of FX rate;
- iii. Regulatory risks from different geographical markets;
- iv. External and internal factors causing delays to project completion times;
- v. Inability to secure new projects and ensure orderbook continuity.

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