

Sik Cheong Berhad

Vital Staples For The Masses

- Established for more than 30 years, Sik Cheong Berhad is principally involved in the repackaging, marketing, and distribution of RBD palm olein oil products for its customers, comprising more than 500 per annum.
- For FY25-27f, we project the revenue to grow by 10.7-12.3% to RM89.4-109.6m, while its core net profit to increase by 9.8-14.1% to RM6.9-8.8m, supported by overall expansion plans in Peninsular Malaysia and growing demand for its RBD palm olein oil products.
- We ascribe a fair value of RM0.495 (upside of 83.3% against IPO price of RM0.27) for Sik Cheong. Our valuation is derived by pegging a forward P/E of 18x to the mid-FY26f EPS of 2.75 sen. We believe the forward P/E of 18x, which is a discount of 21-33% from the average P/E and average forward P/E of 27.0x and 22.8x of the GICS Consumer Staples Segment due to its smaller market capitalization.

Investment Highlights

Venturing into the distribution of Soybean Oil... Sik Cheong Berhad (SCB) has over 30 years of experience in the industry and a customer base of more than 500 per annum, comprising retailers, wholesalers, hotel, restaurant and catering operators, and food manufacturers, the group intends to expand its product range to include high oleic soybean oil. This new venture will provide SCB with an additional income stream by 2Q26 and reduce its reliance on the RBD palm olein oil segment, which contributed 99.1-99.6% to its total revenue during the FYEs under review.

...and enhancing its operational capacity in Factory No. 9. The group intends to rebuild Factory No. 9 into a 3-storey factory building with a total built-up area of approximately 18,000 sq ft. With the rebuilding of Factory No. 9, coupled with its existing packaging capacity at Factory No. 11, the group will increase its total built-up area by 88% to approximately 39,000 sq ft. This is significant as the current utilisation rate for repackaging activities and storage space is over 95%. Additionally, SCB will purchase and house (i) two packaging lines for high oleic soybean oil, (ii) a labelling machine, (iii) two inkjet printing machines for printing batch numbers and expiry dates on bottles, (iv) a receiving turntable, (v) three storage tanks, and (vi) other equipment such as forklifts, pallets, trucks, and a floor scrubber in Factory No. 9. The truck utilisation rate stood at over 97.55% as of FY24. The rebuilding of Factory No. 9, along with the installation and testing of the new machinery and equipment, is expected to be completed in 1Q26. High oleic soybean oil is estimated to contribute to SCB's top and bottom lines after 2Q26.

Geographical expansion to reach new demand. As of LPD, SCB's revenue has been predominantly generated from customers based in Kuala Lumpur and Selangor, accounting for 95-98%. Moving forward, the group intends to grow its revenue from existing and new customers based in other states in Malaysia, particularly Perak, Negeri Sembilan, Melaka, and Pahang, due to the proximity of these states to Kuala Lumpur and Selangor, where Factory No. 11 is located. This will allow the group to easily extend its sales reach and deliver products to these states.

IPO Note – Not rated

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Non-Rated

Share price	RM0.27
Target price	RM0.495
Previous TP	-
Capital upside	83.3%
Dividend return	-
Total return	83.3%

Company profile

Incorporated in 1987, Sik Cheong principally involved in the repackaging, marketing and distribution of RBD palm olein oil products. The group main products are RBD palm olein cooking oil, which are sold under its in-house-brands – “Sawit Emas” and “Vitasmas” or sold unbranded.

Stock information

Bursa Code	0316
Bloomberg ticker	SCB MK
Listing market	ACE
Share issued (m)	266
Market Cap (m)	71.8
Shariah compliant	YES

Major shareholders

	%
Wong Hing Hiap	33.1
Wong Hin Loong	33.1

Earnings snapshot

FYE (Dec)	FY24	FY25f	FY26f
PATMI (m)	6.3	6.9	7.7
EPS (sen)	2.4	2.6	2.9
P/E (x)	22.3	10.3	9.4

Timetable of IPO

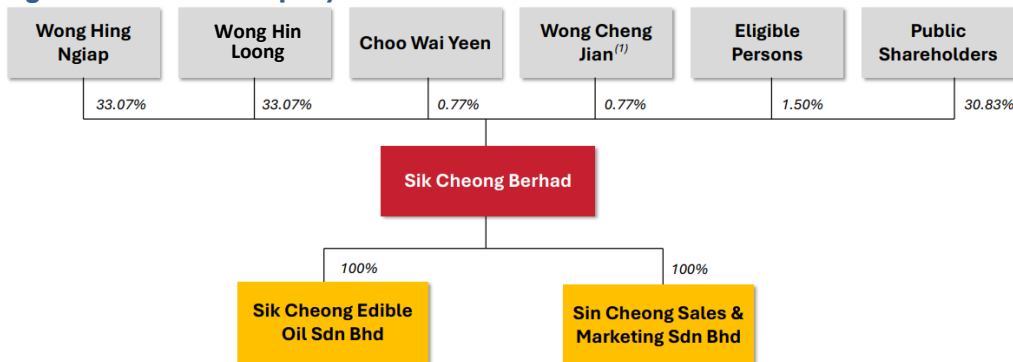
Opening of application	19 July
Closing of application	30 July
Balloting of application	2 August
Allotment of the IPO shares	9 August
Listing on the ACE market	13 August



Company Background

Through its wholly owned subsidiaries, SCB is principally involved in the repackaging, marketing, and distribution of RBD palm olein oil products. The group's main products are RBD palm olein cooking oil, which are sold under its in-house brands – “Sawit Emas” and “Vitamas” – or sold unbranded. The group also sells RBD palm olein lamp oil under its in-house brand, “Pingat Emas.”

Fig #1 Post-IPO company structure



Source: Sik Cheong Berhad

Fig #2 Corporate Milestones

Year	Milestones
2006	Began to automate packaging operations by acquiring 2 packaging lines for 1KG polybags and one of these packaging lines was later disposed in 2020. Expanded packaging types to include jerry can and tin can products by acquiring 1 packaging line for jerry cans and tin cans.
2007	Applied and obtained the quota to supply subsidised RBD palm olein cooking oil under the COSS.
2009	Received first Halal certificate issued by the Halal Development Corporation for “Minyak Sawit”.
2014	Expanded the product packaging types to include bottled products by acquiring 2 packaging lines for bottles.
2015	Acquired two additional packaging lines for COSS products. Acquired an additional packaging line for bottles. Obtained MeSTI certification, an independent certification for quality and safety compliance, for the group’s operation at Factory No. 11.
2016	Acquired an additional packaging line for bottles. Obtained Halal Certification issued by Jabatan Agama Islam Selangor for “Minyak Sawit”.
2021	Obtained quota to repackage, distribute and market RBD palm olein cooking oil under the MKHMM programme. Obtained renewal of the Halal certificate issued by Jabatan Agama Islam Selangor for “Minyak Masak Bertapis”.
2023	The Factory No. 11 has been successfully transferred to and registered in the name of SCEO. Sik Cheong was incorporated and was converted to a public limited company.
2024	Obtained the HACCP (MS 1480: 2019) Food Safety certification, an independent certification for quality and safety compliance. Obtained the ISO 22000: 2018 Food Safety Management System certification, an independent certification for food systems.

Source: Sik Cheong Berhad



Fig #3 Utilisation of Proceeds

Use of proceeds	RM'm	%	Estimated time frame
Expansion of packaging facility	7.2m	40.3%	Within 18 months
Purchase of new delivery trucks	0.9m	5.0%	Within 12 months
Working capital	6.0m	33.4%	Within 12 months
Estimated listing expenses	3.8m	21.3%	Within 3 months
Total	17.8m	100%	

Source: Sik Cheong Berhad

Business overview

Repackaging, marketing and distribution of RBD palm olein oil products segments (99.6% of FY24's revenue). This segment has always been the main driver for SCB's topline. All of the group's revenue is generated in Malaysia, with a majority of its products sold and delivered to customers based in Kuala Lumpur and Selangor. For the FYEs under review, revenue generated from customers based in Kuala Lumpur and Selangor comprised between 95.09% and 97.66% of SCB's revenue. The group's other customers are based in Negeri Sembilan, Johor, the Federal Territory of Putrajaya, Pahang, Perak, Sarawak, Melaka, and Terengganu.

Trading of third-party products (0.4% of FY24's revenue). Upon requests from customers, the group will source third-party branded products (mainly margarine) for its customers in the retail, wholesale, hospitality, and food industries sector. As of the LPD, the group sourced and distributed "Adela," "Pelangi," and "Bunga Emas" margarine.

Fig #4 Sik Cheong's business overview summary



Source: Sik Cheong Berhad

Fig #5 Factory No.11 utilisation rate

Utilisation rates of Factory No. 11	FY21	FY22	FY23	FY24
Total floor area space for repackaging activities (sq ft)	6,500	6,500	6,500	6,500
Average floor area space utilised (sq ft)	4,593	5,094	5,998	6,110
Average utilisation rate	70.7%	78.4%	92.3%	94.0%
Total storage floor area space (sq ft)	9,600	9,600	9,600	9,600
Average floor area space utilised (sq ft)	8,000	7,641	8,997	9,120
Average utilisation rate	83.3%	79.6%	93.7%	95.0%

Source: Sik Cheong Berhad



Fig #6 SCB delivery trucks utilisation rate

Sik Cheong's delivery trucks	FY21	FY22	FY23	FY24
Total capacity of delivered trucks (MT)	18,638	18,880	21,456	20,300
Volume of products delivered (MT)	13,781	15,282	17,994	19,803
Utilisation rate	73.9%	80.9%	83.9%	97.6%

Source: Sik Cheong Berhad

Fig #7 SCB packaging lines utilisation rate

Sik Cheong packaging lines	FY21	FY22	FY23	FY24
COSS products	56.0%	65.1%	67.2%	68.9%
Bottled products	14.6%	20.3%	37.2%	42.5%
Jerry can and tin can products	28.2%	29.0%	22.0%	27.0%
IBCs	8.4%	6.3%	13.0%	21.7%
Lamp oil	9.6%	12.2%	10.4%	11.5%

Source: Sik Cheong Berhad

Financials

In FY24, SCB's revenue surged to RM79.6m from RM42.6m in FY20, achieving a CAGR of 23.2%. The revenue increase is mainly due to an increase in total volume sold in non-subsidized palm olein oil products, in tandem with the rise in average price amid an increase in the average CPO price.

Project to grow at 10.7-12.3%. Moving forward into FY25-27f, we project the revenue to grow at 10.7-12.3% to RM89.4-RM109.6m, while projecting its core net profit to increase by 9.8-14.1% to RM6.9-RM8.8m, supported by the overall expansion plans in Peninsular Malaysia, and growing demand for its RBD palm olein oil products.

Fig #8 Financial Highlights

FYE Mar (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Revenue	78.2	79.6	89.4	98.9	109.6
EBITDA	8.6	8.5	10.2	11.1	12.2
EBIT	7.8	7.6	8.7	9.4	10.5
PBT	8.0	7.9	9.1	10.1	11.5
PAT	6.0	6.3	6.9	7.7	8.8
PATMI – Core	6.0	6.3	6.9	7.7	8.8
% change YoY – Core PATMI	84.8%	5.0%	9.8%	10.5%	14.1%
Core EPS (sen)	2.27	2.38	2.61	2.89	3.29
P/E (x)	11.9	11.3	10.3	9.4	8.2
BVPS (RM/share)	0.08	0.10	0.18	0.21	0.24
P/B (x)	3.6	2.7	1.5	1.3	1.1
ROE (%)	30.2%	27.4%	18.9%	15.0%	14.8%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

M+ Research

Valuations

We ascribe a fair value of RM0.495 (upside of 83.3% against IPO price of RM0.27) for Sik Cheong. Our valuation is derived by pegging a forward P/E of 18x to the mid-FY26f EPS of 2.75 sen. We believe the forward P/E of 18x, which is a discount of 21-33% from the average P/E and average forward P/E of 27.0x and 22.8x of the GICS Consumer Staples Segment (Fig #9) due to its smaller market capitalization.



Wednesday, 24 Jul, 2024

Fig #9 Bursa Malaysia Consumer Index GICS

Bursa Malaysia Consumer Product Index

Ticker	Weight (%)	Shares	P/E	B/Est P/E
Consumer Staples (53 members)	47.193377	39,315.411138	27.02	22.80
Consumer Discretionary (84 members)	35.560659	75,669.005333	26.29	15.78
Industrials (17 members)	9.771351	19,871.296322	12.40	10.73
Energy (1 member)	6.201817	993.454000	19.24	16.55
Financials (2 members)	0.630536	749.389042	0	0
Health Care (4 members)	0.292400	4,985.512903	12.08	10.17
Materials (4 members)	0.248697	1,173.093558	23.83	0
Information Technology (2 members)	0.101163	514.528550	10.49	0

Source: Bloomberg

Investment risks

Any disruptions in packaging facility and business operations. Any prolonged disruptions in SCB's operations may adversely affect the group production schedule and timely delivery of the products.

Any issue with the product's regulations and compliance. Any changes in the regulations which result in stricter compliance requirements, the group operations may need to incur additional operating costs to comply with the new standards.

Presently dependent on a single product. Any challenges and/or declined faced in the RBD palm olein oil in the RBD palm olein oil industry may adversely impact SCB's business operations and financial performance.

Dependent on Key senior management. Discontinuation of service of the key senior management may disrupt key decision making within SCB's business operations.

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Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned



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