Elridge Energy Holdings Berhad (EEHB)

"Sage Ruler" In The Biomass Fuel Markets

- **EEHB group is principally involved in the manufacturing and trading of biomass fuel products, particularly palm kernel shells (PKS) and wood pellets. The group's key customers are based in Indonesia, Singapore, and Japan which comprises of mainly manufacturers and biomass power plant operators.**
- **For FY24-26f, we project the topline to grow at 11.1-20.7% to RM379.1m-RM508.5m, while forecasting its core net profit to increase by 8.2-94.9% to RM45.9m-RM58.6m, supported by the overall expansion plans of its PKS manufacturing lines as well as the current order book from the clients.**
- **We ascribe a fair value of RM0.54 (upside of 86.2% against IPO price of RM0.29) for EEHB Group. The valuation is derived by pegging a P/E of 20.0x to the FY25f EPS of 2.71 sen. We believe a P/E of 20.0x is justified as it in line with the average P/E of 20.8x of the selected peers.**

Investment Highlights

Growing PKS demand… EEHB operates out of the Port Klang Factory (PKF), which has a capacity of 720kMT/year and running at a utilisation rate of 74% in FY23, up from 39% in FY21. As of LPD, the group has entered into separate MoUs with two of its major customers for the manufacturing and sale of 560kMT of PKS and an additional 160kMT of PKS with other customers, giving a cumulative 720kMT and 710kMT of PKS to be delivered in FY24 and FY25, respectively, which would fully utilise the group's PKS production lines at PKF.

…thus, greater expansion plans. As of June 2024, they have started Kapar operations with a production capacity of 240kMT/year (2 PKS production lines). Also, EEHB intends to expand its production capacity in (i) Pasir Gudang, Johor, (ii) Kuantan, Pahang, and (iii) Lahad Datu, Sabah, which will bring the total annual production capacity to 1,680kMT/year by July 2025.

Significant margins growth… EEHB has maintained steadily growing PAT margins of 1.5% to 7.0% from FY21 to FY23, and it further expanded to 12.7% in FPE24, indicating that EEHB has strong pricing power and efficient cost management capabilities.

…**and high market share**. Being in the industry for more than a decade, EEHB has a strong track record, capturing 22.3% (2022: 13.1%) market share in 2023, making it one of the key players in the manufacturing of PKS in the APAC region.

Biomass fuel products gaining traction with FiT. Japan's Feed-in-Tariff (FiT) programme promotes renewable energy (RE) by guaranteeing the purchase of electricity from renewable sources at fixed prices for a specified period. This programme supports sustainability by reducing reliance on fossil fuels and nuclear energy (especially after the Fukushima Nuclear accident), making the RE sector a prime beneficiary. The demand for biomass fuel products, including PKS and wood pellets, in Japan is expected to grow as Japan's government prioritises RE as a major power source and targets to increase the percentage contribution of RE to its total electricity generation to approximately 36.0%, from 22.6%, by 2030.

Benefiting from RE adoption. Malaysia, given its geopolitical neutrality, has been a major beneficiary as Japan has consistently been a major export market for palm kernel shells since 2012. This, in tandem with the growth of EEHB's PKS revenue for

IPO Note – Not rated

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Non-Rated

Share price	**RM0.29**
Target price	**RM0.54**
Previous TP	**-**
Capital upside	86.2%
Dividend return	
Total return	86.2%

Company profile

EEHB Group is principally involved in the manufacturing and trading of biomass fuel products, particularly palm kernel shells and wood pellets.

Stock information

Bursa Code	0318
Bloomberg ticker	ELRIDGE MK
Listing market	ACE
Share issued (m)	2,000
Market Cap (m)	580
Shariah compliant	YES

Major shareholders	**%**
Mikro MSC	20.6
Kayavest	16.4
BEH	11.5

Earnings snapshot

FYE (Dec)	FY23	FY24f	FY25f
PATMI (m)	23.6	45.9	54.1
EPS (sen)	1.18	2.30	2.71
P/E (x)	24.6	12.6	10.7

Timetable of IPO

Opening of application	6 August
Closing of application	12 August
Balloting of application	14 August
Allotment of the IPO shares	21 August
Listing on the ACE market	22 August

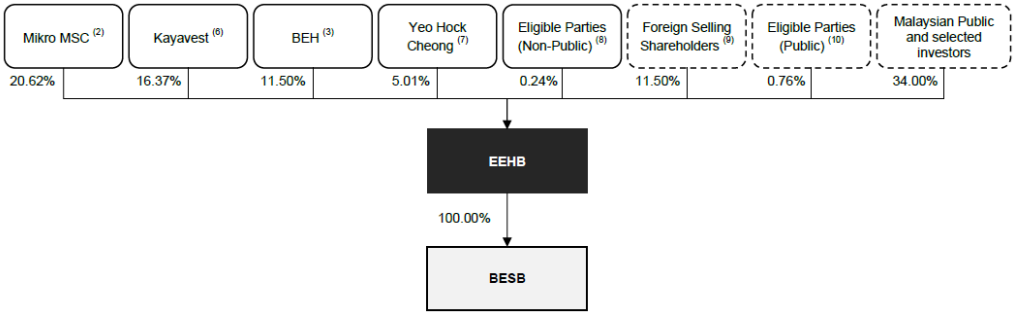
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the Japan region, grew from RM17.9m in FY21 to RM87.0m in FY23, achieving a CAGR of 120.5%.

Company Background

Through its wholly owned subsidiaries, EEHB is involved in the manufacturing and trading of biomass fuel products, particularly PKS and wood pellets. In FY23, c.95.0% of the revenue was derived from international customers with key markets like Indonesia, Singapore, and Japan.

Fig #1 Post-IPO company structure



Source: EEHB Group

Fig #2 Corporate Milestones

Year	Milestones
2011	BESB was incorporated.
2012	Secured first order of PKS from local customer based in Malaysia.
2013	Began to export PKS to a customer based in Japan. Secured first order of wood pallets from local customer based in Malaysia.
2015	Set up its present Port Klang Factory. Obtained the PEFC certification for wood pellets.
2016	Obtained the Green Label Certification for wood pellets.
2018	Secured first order of wood pellets from customer based in Singapore.
2019	Secured first large contract from customer based in Japan to supply 30K MT of PKS per annum over a period of five years. Secured first order of PKS from customer based in Indonesia.
2020	Secured first order of PKS from a customer based in China. Awarded the SME100 Malaysia Fast Moving Companies Awards 2020 by SME Magazine.
2021	Secured first order of wood pellets from customer based in South Korea.
2022	The proprietary PKS process was successfully patented.
2023	Obtained Green Gold Label certification for PKS. Awarded the Biomass Industry Achievement Award by Malaysia Biomass Industries Confederation.
2024	Completed first shipment of Green Gold Label certified PKS. Set up Kapar Factory.

Source: EEHB Group

Fig #3 Utilisation of Proceeds

Use of proceeds	RM'm	%	Estimated time frame
Construction of new factory and warehouse in Kuantan	47m	46.3%	Within 36 months
Purchase of new machineries and equipment	21.1m	20.8%	Within 18months
Working capital	27.1m	26.7%	Within 12 months
Estimated listing expenses	6.3m	6.2%	Within 3 months
Total	**101.5m**	**100%**	

Source: EEHB Group

Business overview

Manufacturing of biomass fuel products. EEHB's revenue is generated from the sale of PKS and wood pellets, directly resulting from the selling prices and volume of PKS and wood pellets sold. The group's average selling price is generally dependent on the specifications required by the customer, such as (i) moisture levels, (ii) calorific value as well as ash, (iii) sulphur, (iv) sodium, (v) potassium and chlorine volume, (vi) impurities and durability, (vii) the price of unprocessed PKS and wood residue, (viii) the volume of order required by the customer and (ix) the forex fluctuations.

Fig #4 EEHB's business overview



Source: EEHB Group

i) **Manufacturing of PKS (86.55% of FY23 revenue):** This is the group's main driver, accounting for more than 80% of the revenue over the past three years. As of LPD, the group's Port Klang Factory is equipped with 6 PKS production lines that collectively have an annual manufacturing capacity of 720kMT/year.

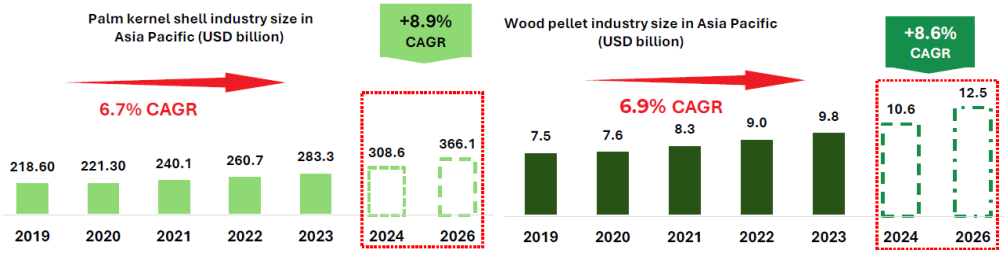
ii) **Manufacturing and trading of wood pellets (13.45% of FY23 revenue):** The group also manufactures its wood pellets at the Port Klang Factory. The group has one wood pellet production line with a capacity of 36kMT/year as of FYE23.

Industry Outlook

PKS prospects. In the Asia Pacific (APAC), the PKS market grew from RM905.6m in 2019 to RM1.3b in 2023, reflecting CAGR of 6.7%. According to Providence Research, the PKS market in APAC is projected to grow at a CAGR of 8.9%, from an estimated RM1.4b in 2024 to RM1.7b by 2026.

Wood pellet outlook. Meanwhile, the wood pellet market grew from RM31.1b to RM44.7b achieving a CAGR of 6.9%, and the wood pellet market is expected to grow at a CAGR of 8.6% from RM48.4b in 2024 to RM57.1b in 2026.

Fig #5 PKS and Wood Pellet Industry Prospects



Source: EEHB's Prospectus

Financials

In FY23, EEHB's revenue surged to RM335.25m from RM115.11m in FY21, achieving a CAGR of 70.66%. The revenue increase is mainly due to a higher sales volume of PKS, which rose by approximately 50.59% to 531,812 MT from 353,150 MT during FY23, in tandem with the rising average selling price of the product.

Growing top- and bottom-line. Moving forward, we project the revenue to grow at 11.1-20.7% to RM379.1m-RM508.5m for FY24-26f, while the core net profit is expected to increase by 8.2-94.9% to RM45.9m-RM58.6m, supported by the overall expansions in its PKS manufacturing lines and stronger demand from its international clients.

Fig #6 Financial Highlights

FYE Dec (RM m)	FY22	FY23	FY24f	FY25f	FY26f
Revenue	144.4	335.3	379.1	457.7	508.5
EBITDA	9.1	31.2	64.8	78.1	86.8
EBIT	8.4	29.7	62.2	73.2	79.2
PBT	6.4	28.0	60.4	71.2	77.0
PAT	6.3	23.6	45.9	54.1	58.6
% change YoY – PAT	261.0%	274.7%	94.9%	17.8%	8.2%
Core EPS (sen)	0.31	1.18	2.30	2.71	2.93
P/E (x)	92.2	24.6	12.6	10.7	9.9
BVPS (RM/share)	0.01	0.02	0.11	0.13	0.16
P/B (x)	50.6	16.6	2.7	2.2	1.8
ROE (%)	75.6%	101.4%	36.8%	22.4%	19.7%
Net Gearing (%)	CASH	CASH	CASH	CASH	CASH

Source: M+ Research

Valuations

We derive a fair value of RM0.54 (an upside of 86.2% against the IPO price of RM0.29) for EEHB. This fair value is derived by pegging a P/E ratio of 20x to the FY25f EPS of 2.71 sen. We believe a P/E ratio of 20x is justified as it is in line with the average P/E ratio of 20.8x of the selected peers.

Fig #7 Peer comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM'm)	P/E (x)	Forward P/E (x)	NP Margin (%)
Elridge Energy Holdings Berhad (EEHB)	**ACE**	**Dec**	**0.290**	**580.0**	**24.6***	**12.6**	**12.7****
TSH Resources Bhd	MAIN	Dec	1.120	1,545.8	18.0	15.1	8.9
BM GreenTech Bhd	MAIN	Mar	1.920	990.7	29.4	23.1	7.6
Samaiden Group Bhd	MAIN	Jun	1.170	489.7	34.5	30.8	5.9
KAWAN RENERGY BHD	ACE	Oct	0.715	393.3	29.6	NM	13.5
Tex Cycle Technology Malaysia	ACE	Dec	1.240	336.0	15.3	NM	44.1
Cepatwawasan Group BHD	MAIN	Dec	0.690	213.2	10.9	NM	6.7
MHC Plantations Bhd	MAIN	Dec	0.935	183.8	8.1	NM	4.6
Hhrg Bhd	ACE	Mar	0.165	157.6	20.4	NM	5.6
BTM Resources BHD	MAIN	Dec	0.055	69.1	NM	NM	-
Avg ex-EEHB					**20.8**	**23.0**	**12.1**

Source: M+ Research, Bloomberg

Investment risks

Dependent on key senior management. Discontinuation of service by key senior management may disrupt key decision-making within EEHB's business operations.

Disruptions in manufacturing activities. Any prolonged disruption to EEHB's manufacturing activities may adversely affect the group's production schedule and the timely delivery of its products.

Exposure to foreign exchange fluctuations. EEHB has customers primarily in foreign countries such as Japan, and may be unable to pass on increased costs to these customers. Therefore, a weakening ringgit may affect profit margins for the group.

Issues with sourcing raw materials: If EEHB is unable to obtain the volume of unprocessed PKS and wood residues required for its operations in sufficient quantities or at acceptable prices, its business operations and financial performance may be adversely affected.

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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