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**Recommendation: Subscribe**

**IPO Price:** RM 0.22

**Previous Target Price:** -

**Target Price:** RM 0.25

**Upside/Downside:** 12.8%

**Company Brief**

Engaged in the provision of aesthetic medical services, specialising in non-invasive and minimally invasive procedures

**Stock Information**

Board	ACE
Sector	Food and Beverages
Bursa / Bloomberg Code	0300 / SBH MK
Syariah Compliant	Yes
Shares issued (m)	888.0
Market Cap (RM' m)	195.4
Free float (%)	25.9

**Top 3 Shareholders (%)**

TBN Holdings	17.8
Tan Boo Nam	14.2
Tan Yuak Ming	6.8

**IPO Timetable Date**

Opeining of IPO application	18/3/2024
Closing of IPO application	25/3/2024
Balloting of IPO application	27/3/2024
Allotment of IPO shares	4/4/2024
Listing of IPO on Bursa Malaysia	8/4/2024

## SBH Marine Holdings Berhad

### Vertically integrated seafood player

#### Summary

- Involved in aquaculture shrimp farming, processing of frozen seafood products as well as distribution and trading.
- Core earnings expected to improve from recovery of pond yields coupled with the expansion in both the Selinsing farm and Kurau plant.
- SBH is valued by pegging its FY25F core EPS of 1.7 sen to PE of 9.6x, leading to a FV of RM0.25 (12.8% potential upside from IPO price).

#### Company Background

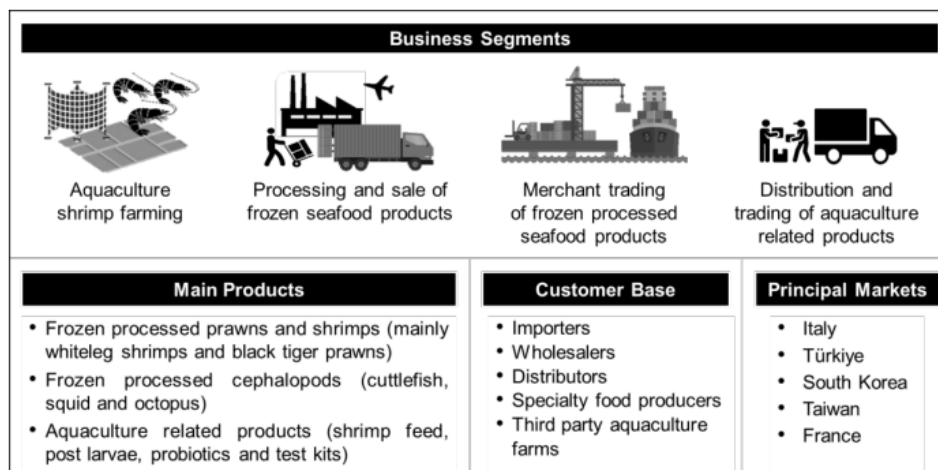
- SBH Marine Holdings Bhd's (SBH) history traces back to 2000 through the trading and supply of seafood, focusing mainly on crustaceans, black tiger prawns, cat tiger prawns, white prawns, pink prawns and cephalopods which includes cuttlefish, squid and octopus.
- Over the years, SBH expanded their operations and ventured into processing frozen seafood products through the construction of the Kurau Plant in Perak. In 2011, SBH entered a joint venture (JV) with Perak Agro Aquaculture Sdn Bhd (PASB), marking the initial foray into shrimp farming activities upstream. This JV allowed SBH to utilise PASB's land and commence development of its first shrimp farm, the Kurau farm. Subsequently, in 2020, the Selinsing farm was added to the portfolio, and SBH Perak Agro began rehabilitation and development work on the Selinsing Farm.
- To-date, SBH manages a total of 88 cultivation ponds, inclusive of Kurau and Selinsing farms. Concurrently, SBH's seafood processing plant has an annual capacity of 4,800 tonnes, boasting a robust utilisation rate of 80.7%.
- The processed seafood products are marketed under the Titanium brand or manufactured under the brands of its customers. SBH products are distributed and exported to importers, wholesalers, distributors, and specialty food producers based overseas. Majority of customers are generally concentrated in Europe, South Korea, Taiwan, and the Middle East.

#### IPO Utilisation

Details of utilisation	RM	(%)
Development of Selinsing farm	16.0	40.0%
Construction of new seafood processing plant	6.5	16.0%
Purchase of machineries/equipment and motor vehicles	6.1	16.0%
Working Capital	7.0	18.0%
Lising Expenses	4.0	10.0%

Source: SBH, prospectus

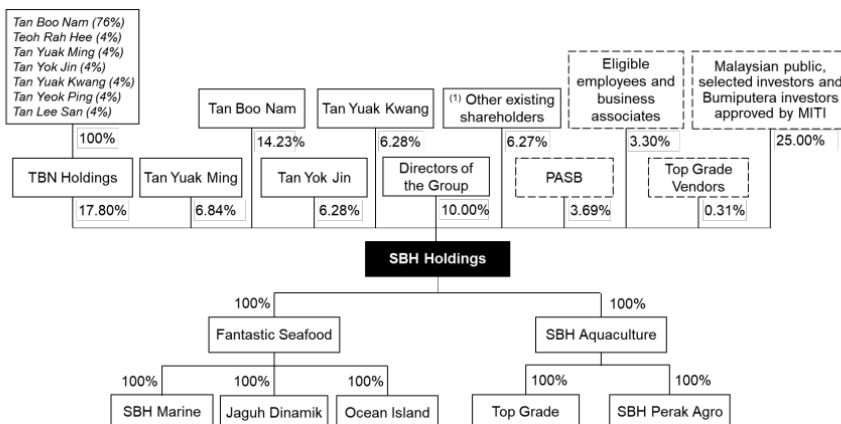
## Business Overview



Source: SBH, prospectus

- SBH's involves in a vertically integrated operations, involving the processing of frozen seafood products sourced directly from the Group's aquaculture shrimp farms. Furthermore, SBH engages in merchant trading of frozen processed seafood products, including cephalopods and fish, which are primarily exported directly to customers in overseas markets.
- SBH conducts aquaculture shrimp farming operations at the Kurau farm and Selinsing farm, cultivating both whiteleg shrimps and black tiger prawns. However, SBH does not derive revenue from the farmed shrimps harvested at its aquaculture shrimp farms. Instead, all farmed shrimps are supplied internally and processed at the Kurau plant. Whiteleg shrimps typically takes around 150 days from the initial stage to harvest, enabling the company to harvest for 2 cycles. In contrast, black tiger prawns require a longer cultivation period of approximately 210 days.
- Kurau farm represents SBH's first venture into aquaculture shrimp farming, spanning 142-ac and housing 58 shrimp ponds in cultivation. This farm yields up to 620 tonnes of shrimp annually. Currently, the farm operates under a long-term lease agreement lasting 30 years, scheduled to expire in 2046.
- Meanwhile, Selinsing farm covers 299-ac with 30 shrimp ponds under cultivation. SBH is targeting to increase the numbers of ponds to 109 by FY27F, boosting its annual capacity from 260 tonnes to 1,180 tonnes. Similar to the Kurau Farm, the Selinsing Farm is also under lease agreement for 30 years but is expected to expire by 2050. Nonetheless, the lease agreement of both farms is extendable upon mutual agreement by both parties.
- In FY22, frozen shrimps are SBH largest revenue contributor, which accounted more than 54% of total revenue, followed by frozen cephalopods, which accounted over 39% of total revenue.

## Post IPO Corporate Structure



Source: Company, prospectus

- In bid to fully integrate the upstream business, SBH will be consolidating Perak Agro under its wings by acquiring the remaining stake in the JV. Under the new structure, SBH will own 100% stake in SBH Perak Agro which is the joint venture vehicle between PASB and SBH Aquaculture.
- Moving forward, SBH intends to expand its seafood processing plant effectively increasing the production capacity from 4,800 tonnes to 8,800 tonnes. Construction of the plant is scheduled to begin in the third quarter of 2024 and is anticipated to be commissioned by the second quarter of 2026.

## Industry Overview

- Frozen seafood refers to seafood that are stored or kept at freezing temperatures to prolong shelf life by preventing the growth of microorganisms. Traditionally, US and Canada have held sway over the global seafood market due to their well-developed cold chain infrastructure. However, the Asia Pacific region is poised for growth, driven by surging demand for frozen seafood due to rapid population expansion.
- Growing health consciousness among consumers has spurred a shift from canned to frozen food, further propelling the global frozen seafood market. Additional factors fueling market growth include the increasing preference for seafood as a red meat substitute and ongoing advancements in cold chain transport infrastructure worldwide.
- Malaysia plays a modest role in the global frozen seafood market. Its market is export-oriented, primarily dealing in live or chilled seafood. Major export destinations for Malaysian frozen seafood products include China, Japan, the USA, and the European Union.
- Exports of frozen seafood was valued at RM2.22bn in 2022, which was an increase of 12.0% from RM1.98bn in the previous year, mainly attributed to increased consumption of frozen seafood as economic activities gradually return to pre-Covid levels, as well as the adoption of new lifestyle norms which see more consumers adopting online shopping thereby boosting sales and consumption of frozen seafood.

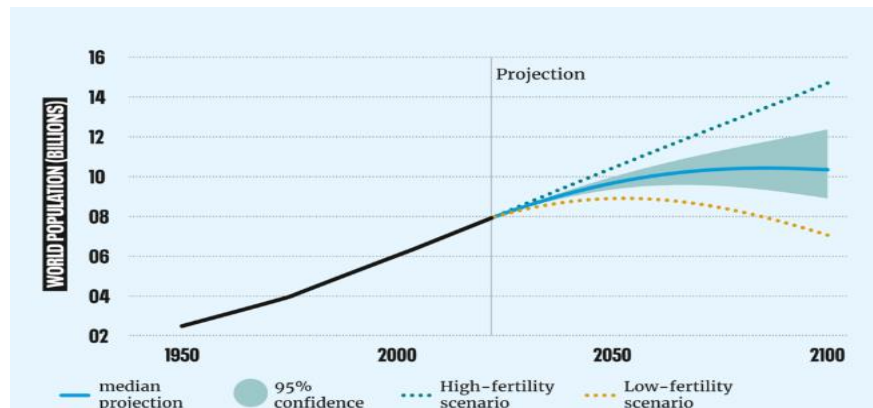
### Market Size and Growth Forecast for Frozen Seafood Market in Malaysia



Source: Protégé Associates

- According to Protégé Associates, the near-term expansion in the frozen seafood market is projected to stem from heightened consumption among health-conscious consumers and the rising trend of online shopping for frozen seafood products. Nonetheless, the less favorable economic forecast for the US and Eurozone in 2023 could dampen demand for frozen seafood in the short run. Looking ahead to the medium to long term (2025-2027), the domestic frozen seafood market will rebound to its pre-economic slowdown levels as the global economy is anticipated to steadily recover.

### UN Global Population Projection



Source: UN

- Moving forward, we expect demand to remain stable overtime that is in line with the growing population. The global population was estimated at 7.94bn people in 2022 and is projected to reach 9.69bn in 2050. We reckon that the increasing global population represents an increasing number of potential consumers of seafood, which is poised to bolster the development of marine shrimp aquaculture and the frozen seafood markets in the future.

## Investment Highlights

- **Exporter with multiple accreditations.** SBH's aquaculture shrimp farming and seafood processing endeavors have earned multiple certifications from Malaysia's regulatory bodies such as myGAP, HACCP, MeSTI, GMP and others. Having amassed close to two decades of experience since its inception in 2000, SBH has cultivated a solid reputation as a frozen seafood processing group, aligning with diverse standards concerning food safety, food manufacturing, good aquaculture practices, and environmental control. Adhering strictly to these standards has allowed the Group to attract a robust customer base across various countries with stringent import requirements for seafood, particularly in Europe.
- **Vertically integrated business operation.** Management intends to expand Selinsing farm's cultivation pond with an estimated 22 pond p.a., effectively growing the number of ponds from 30 to 109 by FY27F. Upon completion, Selinsing farm's carrying capacity will surge from 260 tonnes to 1180 tonnes p.a. This expansion plan will enable the Group to reduce its reliance from external aquaculture farms, thereby improving the quality and consistency of the supply chain for its seafood processing operations. Furthermore, SBH also intends to venture further upstream by operating its own Hatchery Centre to produce and supply shrimp post larvae directly to its aquaculture shrimp farms by 3QFY24.
- **SBH at inflection point.** In 9MFY23, SBH's bottom line was dragged down by losses from PASB. This is mainly due to lower production in Kurau farm as it undergoes pond maintenance. We gather that pond maintenance is typically carried out every 10-12 years to prevent diseases and enhance pond yield. Looking ahead, we anticipate a gradual recovery in FY24F driven by normalisation of pond yields at the Kurau farm. On top of that, we expect strong earnings growth thereafter as the expansion impact from the Selinsing farm starts to kick in.
- **Construction of new seafood processing plant.** Currently, SBH's Kurau plant serves as both the seafood processing facility with cold storage capabilities and its headquarters. This plant is capable of processing an estimated 4,800 tonnes of frozen seafood annually. In view of the increasing worldwide demand for seafood, management intends to enhance the seafood processing capacity by building a new processing plant. Upon completion, the total estimated annual production capacity will increase by an additional 4,000 tonnes of frozen processed seafood. The construction of this new plant is set to commence in 3QFY24 and is projected to be operational by 2QFY26.

## Financial Highlights

- SBH's core net profit demonstrated an impressive track record in FY20-22, registering RM9.6m in FY22 (2Y CAGR +25%), despite facing labour shortages during the period. This is mainly due to improvement in GP margin from 12.0% to 13.7%, on higher selling prices of frozen shrimps and contribution from the Selinsing farm which came into operation in FY21.
- Moving forward, we project core net profit to remain flat in FY23, with minimal growth of +2.6% yoy after consolidating losses from PASB due to pond maintenance from Kurau farm. However, we foresee robust growth in FY24F and FY25F, projected at +28.6% yoy and +33.2% yoy, respectively, as pond yields fully recover alongside the expansion in the number of cultivation ponds.

### Financial Highlights

FYE Dec (RM m)	FY21	FY22	FY23F	FY24F	FY25F
<b>Revenue</b>	<b>192.0</b>	<b>194.4</b>	<b>208.8</b>	<b>237.5</b>	<b>287.3</b>
<b>EBITDA</b>	<b>33.4</b>	<b>49.8</b>	<b>17.3</b>	<b>23.8</b>	<b>29.9</b>
<b>Pre-tax Profit</b>	<b>15.4</b>	<b>15.7</b>	<b>16.3</b>	<b>21.0</b>	<b>27.9</b>
<b>Profit After Tax</b>	<b>13.0</b>	<b>13.0</b>	<b>13.4</b>	<b>17.2</b>	<b>22.9</b>
<b>Net Profit</b>	<b>13.0</b>	<b>13.1</b>	<b>13.4</b>	<b>17.2</b>	<b>23.0</b>
<b>Core Net Profit</b>	<b>13.0</b>	<b>13.1</b>	<b>13.4</b>	<b>17.2</b>	<b>23.0</b>
<b>Core EPS (sen)</b>	<b>1.8</b>	<b>1.8</b>	<b>1.7</b>	<b>1.9</b>	<b>2.6</b>
<b>Core P/E (x)</b>	<b>12.5</b>	<b>11.9</b>	<b>13.1</b>	<b>11.3</b>	<b>8.5</b>
<b>Dividend Yield (%)</b>	<b>13.3</b>	<b>3.9</b>	<b>2.3</b>	<b>2.6</b>	<b>3.5</b>
<b>P/B (x)</b>	<b>2.1</b>	<b>1.9</b>	<b>1.9</b>	<b>1.9</b>	<b>1.6</b>
<b>ROE (%)</b>	<b>17.2</b>	<b>16.8</b>	<b>15.5</b>	<b>17.8</b>	<b>20.7</b>
<b>Gearing (%)</b>	<b>7.1</b>	<b>0.8</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>

Source: SBH, Apex Securities

### Valuation & Recommendation

- At an IPO offer price of RM0.22, SBH's forward PE valuation for FY24F and FY25F are projected at 11.3x and 8.5x, based on our estimated FY24F and FY25F EPS of 1.9 sen and 2.6 sen respectively. We arrived at our fair value of RM0.25 (15% potential upside from its IPO price) by assigning a target PE of 9.6x to its FY25F EPS. We rolled forward our earnings forecast to FY25F as we opined that most of SBH's earnings growth will be more accurately reflected in that specific financial year.
- The assigned target PE represents approximately 15.0% premium to selected peers that are involved in the frozen seafood industry such as MAGH and PTRB that are trading at an average 1-year trailing PE of 8.4x. The premium to selected peers is justifiable, premised on SBH strong earnings growth prospect which is expected to come into play in the coming years.
- In addition to that, SBH is presently eligible for direct listing on the Main Market but plans to adopt a gradual approach as part of efforts to gain deeper insights. Nevertheless, management aims to transition to the Main Market within the next three years. With that in mind, we reckon there might be potential re-rating to occur, thereby supporting a higher PE premium.
- We are optimistic over SBH's strategic initiative to integrate its entire supply chain, from hatchery to merchant trading. This comprehensive approach allows SBH to closely monitor its product sources and capture margins across the supply chain more effectively. Furthermore, the Group is actively exploring opportunities in the Chinese market through the Frozen Seafood Expo, which, if successful, could create additional revenue streams for SBH.
- While SBH does not adopt a formal dividend policy, management has indicated that they will maintain a minimum payout of 30% going forward.

### Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x) FY22	Gross DY (%)	Revenue RM 'm	Net Income RM 'm
<b>SBH Marine Holdings Bhd</b>	<b>ACE</b>	<b>Dec</b>	<b>0.220</b>	<b>195.4</b>	<b>11.9</b>	<b>2.3</b>	<b>194.4</b>	<b>13.1</b>
PT Resources Holdings Berhad	ACE	Apr	0.455	243.4	6.4	0.0	502.6	36.4
MAG Holdings Berhad	ACE	Jun	0.190	313.3	10.3	5.3	201.6	34.5
<b>Avg ex-SBH Marine Holdings Bhd</b>					<b>8.4</b>	<b>2.7</b>	<b>352.1</b>	<b>35.5</b>

Source: SBH, Bloomberg, Apex Securities

**APEX SECURITIES BERHAD – CONTACT LIST**

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**RESEARCH RECOMMENDATION FRAMEWORK**

**STOCK RECOMMENDATIONS**

**BUY:** Total returns\* are expected to exceed 10% within the next 12 months.  
**HOLD:** Total returns\* are expected to be within +10% to – 10% within the next 12 months.  
**SELL:** Total returns\* are expected to be below -10% within the next 12 months.  
**TRADING BUY:** Total returns\* are expected to exceed 10% within the next 3 months.  
**TRADING SELL:** Total returns\* are expected to be below -10% within the next 3 months.  
 \*Capital gain + dividend yield

**SECTOR RECOMMENDATIONS**

**OVERWEIGHT:** The industry defined by the analyst is expected to exceed 10% within the next 12 months.  
**NEUTRAL:** The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.  
**UNDERWEIGHT:** The industry defined by the analyst, is expected to be below -10% within the next 12 months.

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