

Team Coverage

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Recommendation: **Subscribe**

IPO Price: **RM 0.56**

Previous Target Price: -

Target Price: **RM 0.66**

Upside/Downside: **17.9%**

Company Brief

Primarily engaged in the provision of food processing and packaging machinery solutions.

Stock Information

Board	ACE Market
Sector	Consumer
Bursa / Bloomberg Code	0317 / EPB MK
Syariah Compliant	Yes
Shares issued (m)	372.0
Market Cap (RM' m)	208.3
Free float (%)	30.0

Top 3 Shareholders (%)

Yeoh Chee Min	39.0
Liew Meng Hooi	13.2
Ooi Kim Kew	15.0

IPO Timetable

	Date
Opening of IPO application	27/6/2024
Closing of IPO application	31/7/2024
Balloting of IPO application	8/8/2024
Allotment of IPO shares	19/8/2024
Listing of IPO on Bursa Malaysia	23/8/2024

EPB Group Bhd

Integrated Food Processing and Packaging Player

Summary

- EPB is principally involved in the food processing and packaging ecosystem, encompassing machinery solutions, cellulose casing trading and flexible packaging material manufacturing.
- We like EPB with growth prospects supported by (i) rising demand in the frozen food market, (ii) expansion initiatives to ramp up production capacity, (iii) integration of robotic technology and software development and (iv) strong foothold in regional markets.
- We assigned a **SUBSCRIBE** recommendation to EPB, with a fair value of **RM0.66 (17.9% potential upside from IPO price)**, by pegging a **P/E multiple of 14.0x to its FY25F EPS**.

Company Background

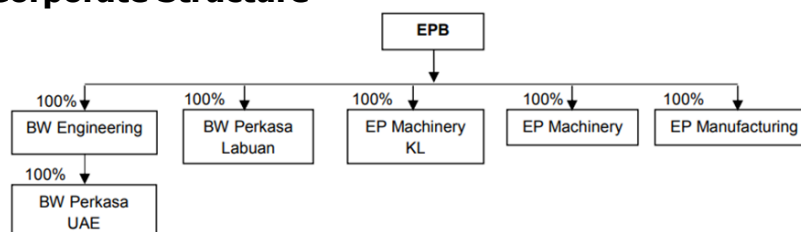
- EPB Group Berhad (EPB) traces its origins to 1992 before restructuring into a private limited investment holding company in 2022 and subsequently converted to a public limited company in 2023. The Group oversees a robust portfolio of subsidiaries specialising in provision of comprehensive food processing and packaging machinery solutions, cellulose casing trading, and manufacturing of flexible packaging materials such as films and bags. EPB's subsidiaries include EP Machinery (1996), EP Machinery KL (2000), EP Manufacturing (2003), BW Engineering (2014), BW Perkasa Labuan (2015), BW Perkasa UAE (2021).
- In 2005, EPB transformed from an individual trading and manufacturing entity into a one-stop provider of food processing and packaging machinery solutions player. This evolution enabled EPB to design, customise, fabricate, integrate and automate production lines tailored for diverse customers, such as instant coffee and tea manufacturers, confectionery companies and poultry processors.
- EPB expanded its product offerings in 2014 to include flexible packaging materials. By 2017, the Group commenced in-house manufacturing of these materials. In 2018, the Group ventured into trading cellulose casings, essential for sausage production, further diversifying its capabilities in the food processing industry.
- EPB's primary operational facilities, including its main factory, office, warehouse and showroom, are located at Plant 1 in Penang. Spanning c.28,335 sqf, Plant 1 is designated for fabricating and assembling food processing and packaging machinery. This space allows EPB's flexible packaging materials segment to have a yearly production capacity of 9.5m meters.
- Continuous investment in advanced manufacturing technologies such as CNC machines, laser cutting equipment and bending machines bolstered EPB's capacity to deliver highly automated food processing and packaging solutions. This ensures efficiency and compliance with stringent hygiene standards in food production environment. Over the past 32 years, EPB remained committed to innovation, continually adapting technologies to meet evolving market demands and regulatory requirements.

IPO Utilisation

Details of utilisation	Estimated time frame for utilisation	RM 'm (%)
Factory expansion:		
(a) Acquisition of land	Within 12 months	RM13.0m (32.4%)
(b) Construction of factory	Within 36 months	RM10.5m (26.2%)
(c) Purchase of machinery	Within 36 months	RM1.1m (2.7%)
Repayment of bank borrowings	Within 6 months	RM3.0m (7.5%)
Working capital	Within 12 months	RM8.5m (21.2%)
Estimated listing expenses	Within 3 months	RM4.0m (10.0%)

Source: EPB Group Berhad, prospectus

Corporate Structure



Source: EPB Group Berhad, prospectus

Company	Principal Activities
BW Engineering	Manufactures, assembles and trades machinery and equipment, and also trades cellulose casings in the domestic market.
BW Perkasa Labuan	Provides agency and management service for refrigeration, cold chain solutions, food processing equipment and ingredients.
EP Machinery	Supplies food processing and packaging machinery primarily for the food industry and laboratory equipment for research purpose.
EP Machinery KL	Engages in the sale of various packaging machinery and trades absorbent agents and packing materials.
EP Manufacturing	Engages in trading and manufacturing of packaging materials.
BW Perkasa UAE	Involved in installing industrial machinery, wholesale trade and overseas trading of cellulose casings.

Source: EPB Group Berhad, prospectus

Business Overview

Business segment /Activities	One-stop provider of food processing and packaging machinery solutions		
	Provision of food processing and packaging machinery solutions	Trading of cellulose casings	Manufacturing and trading of flexible packaging materials
Revenue Breakdown in FY23	- RM100.54 million - 82.33% of total	- RM14.56 million - 11.92% of total	- RM7.02 million - 5.75% of total
Target Customers	- Food manufacturers - Food processing companies - Cold chain logistics providers - Industrial and logistics property owners	- Food manufacturers - Food processing companies	- Food manufacturers - Personal care manufacturers - Pet food manufacturers
Principal Markets in FY22	- Philippines (RM43.68 million, 35.77% of total revenue) - Malaysia (RM37.06 million, 30.35% of total revenue) - Indonesia (RM31.52 million, 25.81% of total revenue)		


Source: EPB Group Berhad, prospectus

- EPB engages in (i) provision of food processing and packaging machinery solutions, (ii) trading of cellulose casings as well as (iii) manufacturing and trading of flexible packaging materials.

- EPB offers food processing and packaging machinery solutions for various food products, primarily targeting food manufacturing and processing companies. Other customers include cold chain logistics providers and industrial and logistics property owners. The Group specialises in the design, customisation, fabrication, integration and automation of production lines, all tailored to meet the specific needs of its customers. Over the past four financial years, this segment has contributed more than 80% of total revenue. In FY23, EPB recorded transactions with over 630 customers in the food processing and packaging machinery solutions segment.
- The food processing equipment includes systems for food preparation, grinding, mixing, cooking, boiling and freezing. EPB integrates both in-house and third-party equipment for large-scale automation, tailored to customers' needs.
- For food packaging, EPB offers manual, semi-automatic and automatic machines, accommodating diverse packaging types. These packaging solutions can be integrated with their processing machinery to form complete end-to-end automated production lines, from raw material storage to finished product packaging. Moreover, EPB offers computer-aided design (CAD) services to optimize production layouts, which can be converted into 3-D models for customer viewing.
- In addition, services supplied to customers include (i) replacement parts and components for the food processing lines and (ii) maintenance and repair services after the 18-month warranty period.

Food Processing and Packaging Machinery Solutions




Some illustrative samples of food processing and packaging machinery solutions:

Food Processing Machinery	 <p>Mixer</p>	 <p>Super-fine grinder</p>	
Food Packaging Machinery	 <p>Manual packaging machine</p>	 <p>Semi-automatic packaging machine</p>	 <p>Automatic packaging machine</p>

Source: EPB Group Berhad, prospectus

- The trade of cellulose casings complements the frozen food industry, particularly sausage production. Cellulose casings are essential for shaping and protecting meat during processing. Key offering includes clear casings, colour transfer casings and printed casings.
- The primary customers for this segment are food manufacturing and processing companies. This segment has generated c.12% of total revenue over the past four financial years. In FY23, EPB recorded transactions with 3 customers in the cellulose casings trading segment.

Trading of Cellulose Casings

	Clear Casing	Colour Transfer Casing	Printed Casing
Type of Casings			
Description	<ul style="list-style-type: none"> • Transparent casing • High intensity • Flexible & breathable • Heat-resistant • 'Easy to peel' 	<ul style="list-style-type: none"> • Casing for desired colour • Uniform colour transfer • Commonly red or orange 	<ul style="list-style-type: none"> • Custom-printed casing with logo or trademark • Enhances brand awareness

Source: EPB Group Berhad, prospectus

- EPB’s capabilities include double-sided gravure printing of up to eight colours, dry lamination, curing and slitting. The Group trades a variety of flexible packaging materials, featuring more than 8 colours, ultraviolet spot printing, paper or polyethylene laminations and special die-cut bags. Key offerings include packaging films (rolled form), 3-side seal bags, stand-up bags and gusset bags.
- The Group’s flexible packaging solutions primarily cater to food manufacturing companies, personal care product manufacturers and pet food producers. In FY23, over 80 customer transactions were recorded for this segment.

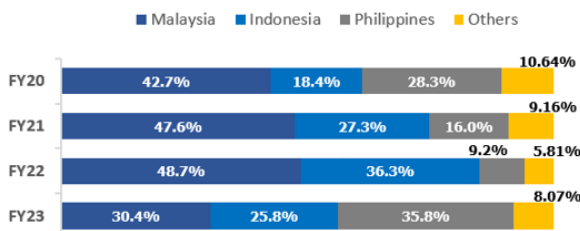
Manufacturing and Trading of Flexible Packaging Materials

	Packaging Film (rolled)	3-side Seal Bag	Stand-up Bag	Gusset Bag
Product				
Description	Flexible thin plastic layer for soft packaging.	3-side seal pouch with one open side for filling.	Stand-up pouch that stands erect.	Pouch with expandable sides or bottom for increased capacity and strength.
Optional Features	Can be loaded onto automatic packaging machines for forming, filling and sealing.	<ul style="list-style-type: none"> • Hanger hole • Press-to-close zipper • Tear notch 	<ul style="list-style-type: none"> • Re-sealable zipper • Track • Spout 	-
Suitable for	Dry food and liquid	Liquids, ground coffee, spices, snacks, pet food	Solid, liquid, powdered items	Bulk items: Nuts, beads Bulky items: Baked goods

Source: EPB Group Berhad, prospectus

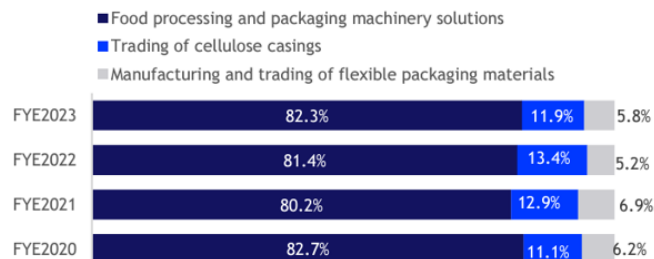
- EPB’s revenue landscape reveals a changing dynamic. While the absolute contribution from Malaysia has grown steadily from RM26.3m in FY20 to RM37.1m in FY23, the portion of contribution has fluctuated over the years, indicating a shift in the Group’s geographic revenue distribution. Overseas markets, primarily Indonesia and the Philippines, have consistently contributed more than 50.0% of total revenue over the same period. Indonesia’s revenue rose from RM11.3m to RM31.6m, and the Philippines’ from RM17.5m to RM43.7m in FY23.

Revenue Breakdown (by geographical) **Revenue Breakdown (by business segment)**



Note: Others market include Australia, Bahrain, Brunei, Canada, Chile, China, Egypt, France, Germany, India, Italy, Kenya, Laos, Liberia, Malawi, Maldives, Mexico, Morocco, Myanmar, Netherlands, New Zealand, Nigeria, Pakistan, Papua New Guinea, Qatar, Saudi Arabia, Singapore, Slovakia, South Africa, Sri Lanka, Sweden, Taiwan, Tanzania, Thailand, United Arab Emirates, United Kingdom, USA, Vietnam, Yemen and Zambia.

Source: EPB Group Berhad, Apex Securities



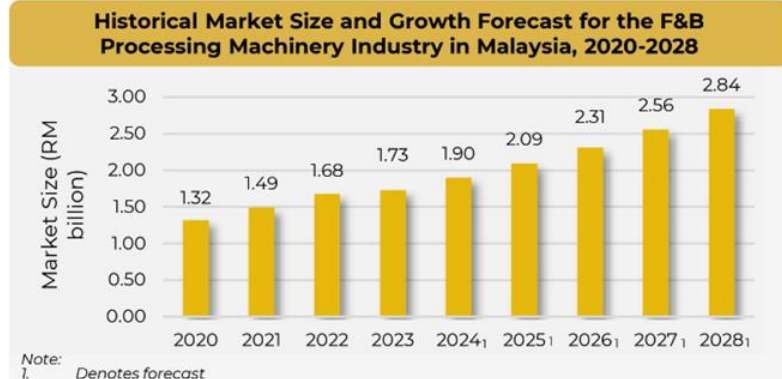
Source: Bursa Malaysia

- The Group reported a 20.4% annual production capacity utilisation rate for printing flexible packaging materials in FY23. However, space constraints have hindered their ability to work on turnkey projects, resulting in missed opportunities with customers. Factors that may impact production and delivery of food processing and packaging machinery solutions are the availability of floor space for fabrication and assembly, as well as manpower and machinery capacity.
- Moving forward, EPB plans to expand its footprint in Penang with a new 70,000 sqf facility that will house a corporate office, factory, warehouse and showroom. Of the total built-up area, 18,000 sqf will be allocated to a new three-storey corporate office, while the remaining 52,000 sqf will be used for the production of food processing and packaging machinery, as well as the warehouse and showroom. This facility will centralise operations, boost production capacity and enhance customer experience. Following the expansion, the existing 28,335 sqf floor space of Plant 1 will continue to be used for fabrication and assembly activities.
- In addition to expansion of value-added processing areas, EPB aims to ride on the industrial revolution 4.0 trend and elevate robotics capabilities to meet hygiene requirements and address labour shortages. Following the successful FY22 launch of a robotic packaging solution, EPB plans to collaborate with technology partners and develop internal software to control integrated robots, focusing these efforts in Plant 1.

Industry Overview

- Malaysia F&B industry demonstrated robust growth in FY23 with real GDP contribution from F&B processing activities grew by 4.7% yoy to RM28.4bn, driven by increased consumer and tourist spending. Despite global economic slowdown, F&B processing remained resilient, with advancements in technology enhancing the use of local raw materials and expanding product ranges.
- In 2023, the F&B processing machinery industry in Malaysia was valued at RM1.73bn, reflecting a 3.0% yoy increase from 2022. This industry is projected to grow at a five-year CAGR of 10.4%, reaching RM2.84bn by 2028. Projected growth is driven by (i) labour shortages spurring industrial automation, (ii) diverse range of F&B products necessitating processing, (iii) consumer preference for convenient processed food and (iv) supportive government policies aimed at developing the local-food related industries.

F&B processing machinery industry market size in Malaysia



Source: Protégé Associates

- The government’s recent National Agrofood Policy 2.0 (2021-2030) emphasises transforming the agrifood sector into a sustainable, competitive and high-technology industry. This policy provides crucial support and incentives to boost economic growth and development within Malaysia’s food processing industry.
- Meanwhile, the F&B industry in Indonesia has shown substantial growth and dynamism, with promising prospects for further expansion. The move plays a key driver of the economy and an attractive investment sector. Indonesia’s F&B manufacturing sector thrived, contributed to 5.0% yoy economic growth in 2023, driven by transportation, services and accommodation. Rising consumer purchasing power and demand for modern packaged food fuel growth in dairy, baby food, baked goods and noodles, highlighting growth opportunities in the F&B processing machinery sector.
- Elsewhere, the Philippines’ F&B processing industry expanded along with 5.6% yoy economic growth in 2023 and projected to grow at 6.2% annually through 2025. Dominated by micro, small and medium enterprises and larger corporations, the sector benefits from population growth, rising incomes and urbanisation, offering substantial opportunities for the machinery sector amid growing demand for quality and safe food products.

Investment Highlights

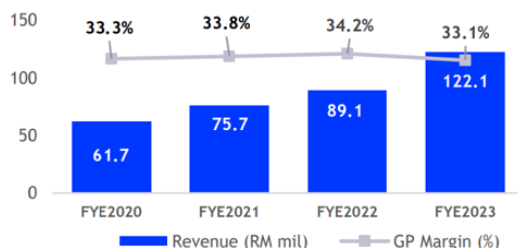
- **Thirty years of machinery solutions excellence.** EPB has over 30 years of operating track record. The Group transformed into a one-stop provider of food processing and packaging machinery solutions in 2005, expanded into manufacturing and trading flexible packaging materials in 2017, and ventured into cellulose casings trading in 2018. Financial wise, revenue grew from RM61.7m in FY20 to RM122.1m in FY23 reflects EPB’s steady expansion in the market.
- **Streamlined food processing solutions.** EPB excels as a one-stop provider of food processing and packaging machinery solutions with in-house manufacturing capabilities. The Group offers turnkey projects, integrating machines into cohesive production lines and ensuring customisation options and reliable after-sales support.
- **Innovative product development partnerships.** EPB collaborates closely with customers to develop new products, advising on packaging design, materials and food manufacturing processes, accelerating time-to-market and enhancing customer loyalty while maintaining a competitive edge.

- **Overseas strategic advantages.** EPB leverages strategic advantages in Indonesia and the Philippines by offering advanced machinery to meet modern industry standards, supporting both countries' F&B processing capabilities amidst economic expansion and enabling them to meet rising demand driven by increasing income and living costs.
- **Exciting expansion plan.** EPB's expansion entails a setup of a centralise operations to boost production capacity and improve customer experience. The integration of robotic technology and internal software development will address industry challenges, enhance efficiency and ensure continuous adaption to market trends and customer requirements.

Financial Highlights

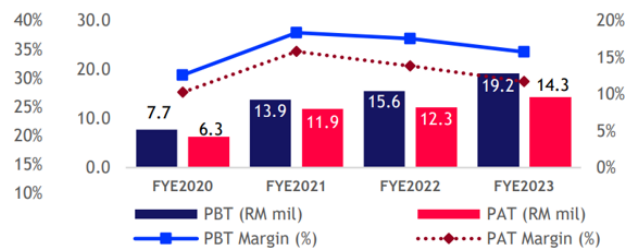
- In FY23, EPB's revenue rose 37.0% yoy to RM122.1m, driven by growth across all three business segments. The food processing and packaging machinery solutions segment took the largest slice with 82.3% of total revenue (RM100.5m) which expanded 38.5% yoy, boosted by increased overseas sales and enhanced automation. The trading of cellulose casings segment accounted for RM14.6m (11.9% of revenue), climbing 22.3% yoy, while the flexible packaging materials segment reached RM7.0m (5.8% of revenue), jumping 51.2% yoy.
- During the same period, the Group's PBT increased 23.0% yoy to RM19.2m, primarily due to growth in GP. However, the PBT margin decreased from 17.5% to 15.7%, due to a lower GP margin (from 34.2% to 33.1%), reduced other income, increased costs and higher administrative expenses. Total tax expenses rose to RM4.9m, with the effective tax rate increasing from 21.2% to 25.6% due to non-allowable expenses. EPB's PAT increased 16.1% yoy to RM14.3m, in line with PBT growth. PAT margin declined from 13.8% to 12.7%, reflecting the lower PBT margin and higher effective tax rate.

Revenue and GP margin



Source: Bursa Malaysia

Profit and Margin



Source: Bursa Malaysia

- Moving forward, we project a slight decline in core net profit, with a decrease of 6.5% yoy to RM13.3m in FY24F. The Q1FY24 results slightly underperformed, but we anticipate a slight uptick in the following quarters due to expected fulfilment and billing of RM44.3m in order books for FY24. We have factored in these outstanding order books and anticipate that EPB will show improvement in their order books, excluding unbilled orders.
- In FY25F, we anticipate EPB's top and bottom lines to reach RM147.8m (+24.7% yoy) and RM17.7m (+33% yoy) respectively. This growth is bolstered by (i) promising future prospects and outlook for the F&B Processing Machinery Industry in Malaysia, Indonesia, and the Philippines, (ii) ramping up utilisation rates resulting

in improved average selling prices and margins, and (iii) aggressive marketing initiatives aimed at expanding market share in the Philippines and Indonesia.

FYE Dec (RM m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	75.7	89.1	122.1	118.5	147.8
EBITDA	15.5	17.5	21.2	21.3	26.6
Pre-tax Profit	13.9	15.6	19.2	17.8	23.6
Profit After Tax	11.9	12.3	14.3	13.3	17.7
Net Profit	11.9	12.3	14.3	13.3	17.7
Core Net Profit	11.9	12.3	14.3	13.3	17.7
Core EPS (sen)	3.2	3.3	3.8	3.6	4.8
Core P/E (x)	17.5	17.0	14.6	15.6	11.7
Dividend Yield (%)	N/A	N/A	N/A	1.6	2.1
P/B (x)	6.9	4.9	3.8	3.2	2.7
ROE (%)	39.8	28.9	26.1	20.6	22.7
Gearing (%)	13.9	10.9	8.5	7.2	5.9

Source: EPB Group Berhad, prospectus

Valuation & Recommendation

- At an IPO offer price of RM0.56, EPB's forward PE valuation for FY24F and FY25F is projected at 15.6x and 11.7x, based on our estimated FY24F and FY25F EPS of 3.6 sen and 4.8 sen respectively. We arrived at our fair value of RM0.66 (17.9% potential upside from its IPO price) by assigning a target PE of 14.0x to its FY25F EPS.
- The assigned target PE represents approximately 15.0% premium to selected peers such as BP Plastics Holdings, Thong Guan Industries and SLP Resources, which are engaged in food packaging. These peers' stocks are currently trading at an average P/E ratio of 12.0x for FY24F. The premium to selected peers is justified due to several factors. Firstly, EPB's margins are approximately two times higher than the selected peers. Additionally, EPB is more exposed to overseas markets and faces less competition in providing one-stop solution for food processing and packaging machinery. Moreover, EPB's core net profit margin stands at c.10% and above, whereas the margin of selected peers hover around 8.0-12.0%.
- We favour EPB for its established position in food processing and packaging machinery, bolstered by in-house manufacturing capabilities. EPB also stands out for its close collaboration with customers, acting as advisors to enhance efficiency using their proprietary machines. One promising future prospect is their initiative in robotic solutions for food processing and packaging, aimed at mitigating labor shortages. Given the promising outlook for increased demand across various countries, including Malaysia, we anticipate EPB will emerge as a primary beneficiary in the food processing and packaging machinery sector. This positions them well to capitalise on growing demand and drive sales in these segments.

Peers Comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x)		Gross DY (%)	Revenue RM 'm	Net Income RM 'm
					FY24F	FY25F			
EPB Group Berhad	ACE	Dec	0.56	208.3	14.6	14.0	-	122.1	14.3
BP Plastics Holding Bhd	MAIN	Dec	1.38	388.4	10.9	9.2	4.3	476.5	34.6
Thong Guan Industries Bhd	MAIN	Dec	1.98	795.2	8.3	7.5	2.1	1271.2	75.4
SLP Resources Berhad	MAIN	Dec	0.96	302.7	16.8	14.5	5.0	162.9	12.5
Avg ex-EPB Group Berhad					12.0	10.4	3.8	636.8	40.8

Source: Bloomberg, Apex Securities

Key Risks

- **Dependence on new orders.** The financial performance of EPB relies on securing new orders from existing and new customers across all segments. Uncertainty in order sustainability and potential cancellations may impact operational and financial performance.
- **Single supplier dependency.** EPB's heavy reliance on Shandong Vicel as the exclusive supplier of cellulose casings presents potential challenges to operational continuity and financial performance due to the uncertainty of ongoing supply and potential disruption.
- **Foreign exchange exposure.** EPB faces fluctuations in foreign exchange rates from transactions in USD, EUR, NTD, SGD, IDR, RMB and PHP. Without a formal hedging policy, the Group manages this risk primarily through natural hedging, aiming to mitigate the potential impact on adverse currency movements on financial performance.

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD	DEALING TEAM	RESEARCH TEAM
<p>Head Office: 5th Floor Menara UAC, 12, Jalan PJU 7/5, Mutiara Damansara, 47800 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7890 8899</p> <p>Petaling Jaya Office: 16th Floor, Menara Choy Fook Onn, No.1B Jalan Yong Shook Lin, 46050 Petaling Jaya, Selangor Darul Ehsan, Malaysia</p> <p>General Line: (603) 7620 1118</p>	<p>Head Office: Kong Ming Ming (ext 2002) Shirley Chang (ext 2026) Norisam Bojo (ext 2027) Ahmad Mujib (ext 2028) Azfar Bin Abdul Aziz (ext 2031) Aizzat Bin Mohd Daud (ext 2030)</p> <p>Institutional Dealing Team:</p> <p>PJ Office: General Line: (603) 7620 1118</p>	<p>Head Office: Kenneth Leong (ext 2093) Steven Chong (ext 2068) Jayden Tan (ext 2069) Chelsea Chew (ext 2070) Tan Sue Wen (ext 2095)</p>

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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