



# EPB Group Berhad

## Cooking Up Overseas Success

ACE Market  
Industrial Product & Services Sector  
**SUBSCRIBE**  
IPO Price: RM0.56  
Fair Value: RM0.75

### Valuation / Recommendation

We have a **SUBSCRIBE** call on EPB Group (EPB) with **RM0.75 FV based on 16x FY25F EPS**, which suggests a potential upside of 34% to the IPO price. Our target PE is slightly lower than comparable global peers' average PE of 17.1x, taking into account EPB's much smaller market capitalisation but mitigated by its stronger earnings growth. We like the stock for its strategic exposure to high-grow markets like the Philippines and Indonesia, as well as solid balance sheet with net cash position.

### Investment Highlights

**Strategic overseas exposure.** Approximately 70% of EPB's FY23 sales came from overseas, with a strategic focus on two of Asia's fastest-growing markets: the Philippines and Indonesia. Revenue from overseas (mainly from these two countries) has increased significantly, more than doubling from RM35.7m in FY20 to RM85.1m in FY23. These countries are not just large in population but also growing rapidly in terms of economic growth and consumer spending. The governments of these nations are also prioritising the food processing sector, making it an opportune time for EPB to expand. EPB's overseas exposure is not limited to just these two countries; the group also has sales to customers in the USA, Myanmar, and Algeria, which contributed 7-10% of its sales.

**Adding new floor space.** EPB is suffering bottlenecks at its current Plant 1 facility due to the increasing scale and complexity of its machinery solutions, which require more floor space to construct. To address this, the group plans to use 61% of the RM40.0m IPO proceeds to buy industrial land and build new facilities, including a 52,000 sq ft factory, an 18,000 sq ft corporate office, a warehouse, and a showroom. This expansion will improve production flow, boost capacity, and allow the showroom to showcase machinery to clients, enhancing engagement and driving sales.

**Steady margins.** EPB has maintained a stable gross margin of 33-34% over the past four years, attributed to effective cost management, a smart pricing strategy, and high customisation of its food processing machinery solutions. After the COVID-19 pandemic, EPB experienced a surge in machinery sales in FY21-22, but without a substantial increase in selling and distribution expenses. This, coupled with a lower effective tax rate, led to higher PAT margins in FY21-22. Looking ahead, amid higher taxation, we expect EPB's PAT margins to stabilise around 11-12% for FY24-26F.

**Risk factors** for EPB include (1) Dependency on key suppliers, (2) Fluctuations in raw materials prices, and (3) Forex risk.

FY Dec	FY22	FY23	FY24F	FY25F	FY26F
Revenue (RM m)	89.1	122.1	125.6	149.1	171.1
EBITDA (RM m)	17.5	21.2	20.6	25.7	29.4
PAT (RM m)	12.3	14.3	14.2	17.5	20.0
PAT Margin (%)	13.8	11.7	11.3	11.7	11.7
EPS (sen)	4.1	4.7	3.8	4.7	5.4
EPS Growth (%)	3.6	16.1	(19.6)	22.9	14.3
BV Per Share (sen)	14.1	18.2	28.3	31.9	35.9
PE (x)	17.0	14.6	14.7	11.9	10.4
Net Gearing (%)	Cash	Cash	Cash	Cash	Cash
ROE (%)	28.9	26.1	13.5	14.7	14.9

### Business Overview

EPB Group Berhad provides food processing and packaging machinery solutions, as well as cellulose casings and flexible packaging materials.

### Listing Details

Listing date	23 Aug 2024
New shares (m)	71.6
Offer for sale (m)	40.0
Funds raised (RM m)	40.1

### Post Listing

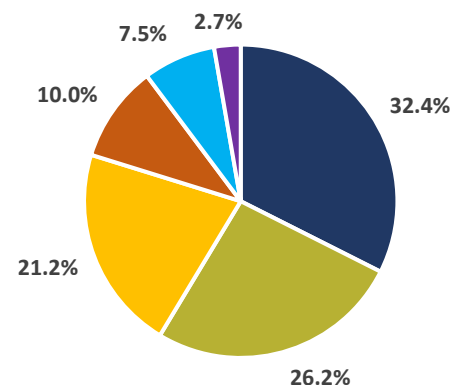
Ordinary shares (m)	372.0
Market cap (RM m)	208.3
Free float (%)	30.0
P/E (FY24F)	14.7

### Top 3 Shareholders

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

### Utilisation of Proceeds

	RM m
Acquisition of Land	13.0
Construction of Factory	10.5
Working Capital	8.5
Estimated Listing Expenses	4.0
Repayment of Bank Borrowings	3.0
Purchase of Machinery	1.1



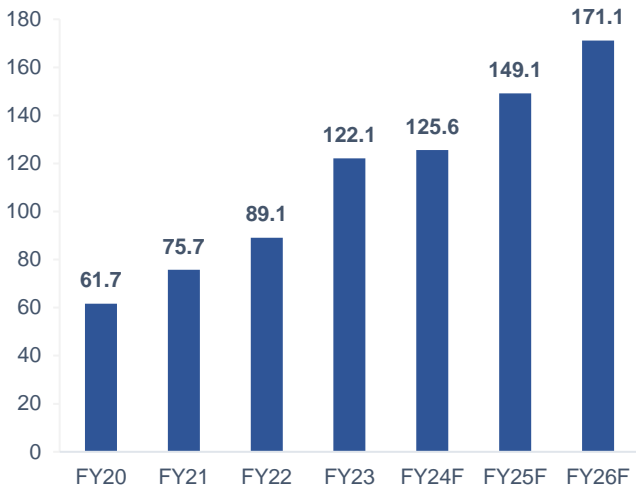
Source: Company, Mercury Securities



## Financial Highlights and Valuation

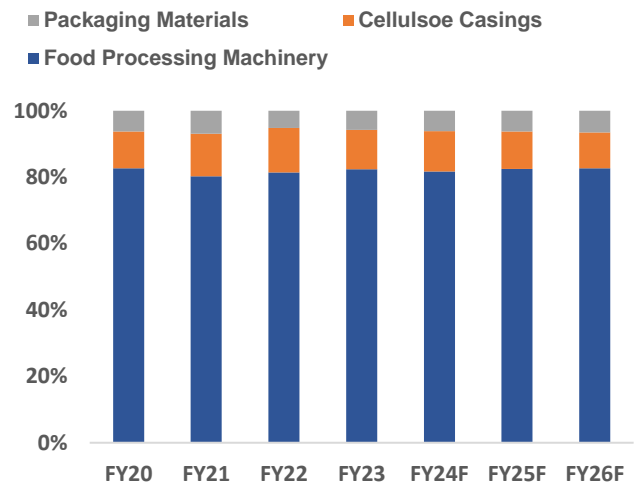
**Healthy sales growth.** EPB has achieved an impressive 3-year CAGR of 25.6%, with revenue doubling from RM61.7m in FY20 to RM 122.1m in FY23. This growth was driven primarily by increased sales of food processing and packaging machinery, which accounted for 82% of the group's total revenue.

**Figure 1: EPB's revenue trend (in RM m)**



Source: Company, Mercury Securities

**Figure 2: EPB's revenue breakdown (%)**

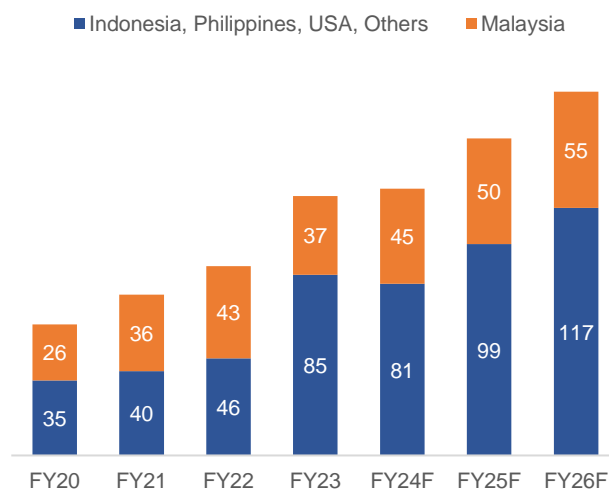


Source: Company, Mercury Securities

**Overseas expansion.** EPB largely derives its sales from overseas markets, with two of the largest F&B countries in Asia—the Philippines and Indonesia. This strategy highlights the company's focus on expanding beyond the Malaysian market to tap into international opportunities. Interestingly, EPB also has deals with other countries like the USA, Myanmar, and Algeria, with around 7-10% of its FY23 sales coming from these countries.

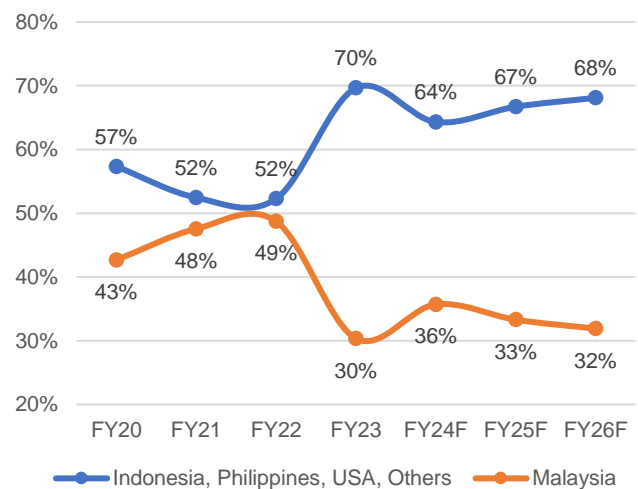
From FY20 to FY23, EPB overseas revenue (predominantly from the Philippines and Indonesia) has surged by more than twofold, rising from RM35.7m to RM85.1m. This remarkable growth is underpinned by several factors especially specific to the two countries, which are 1) Large populations, 2) Increasing consumer spending power, 3) Robust GDP growth, and 4) Government initiatives prioritising the food processing sector for attracting foreign investment.

**Figure 3: Revenue by geographical location (in RM m)**



Source: Company, Mercury Securities

**Figure 4: Geographical location breakdown (%)**



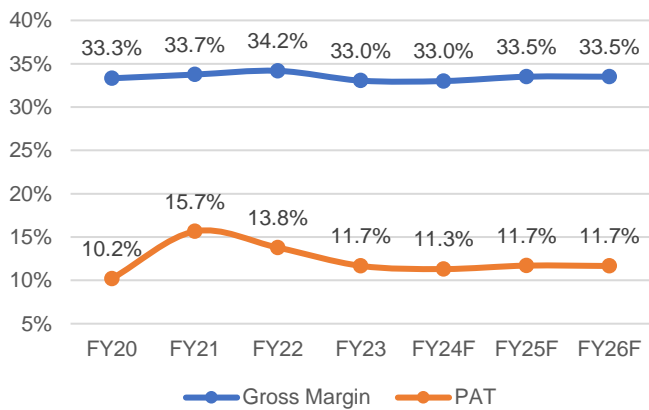
Source: Company, Mercury Securities



**New facility to de-bottleneck and showcase offerings.** EPB is experiencing production bottlenecks at their 28,335 sq ft Plant 1 facility due to the increasing scale and complexity of their integrated and automated food processing and packaging lines. To solve this issue, the company plans to use 61% of the RM40.0m IPO proceeds to purchase industrial land and construct new facilities. This will include a 52,000 sq ft factory, an 18,000 sq ft corporate office, a warehouse, and a showroom. The consolidation of their operations into a single headquarters will optimise production flow and increase capacity. The new showroom will also play a critical role in demonstrating machinery to clients, thereby enhancing customer engagement and driving sales.

**Steady margins.** EPB has maintained a stable gross margin of 33-34% over the past four years, attributed to effective cost management, a smart pricing strategy, and high customisation of its food processing machinery solutions. With business disruptions easing following the aftermath of the COVID-19 pandemic, there was pent-up demand for EPB's machinery, leading to a surge in FY21-22 sales but without a substantial increase in selling and distribution expenses. Coupled with the lower effective tax rate, this contributed to the higher PAT margins in FY21-22. Looking ahead, amid higher taxation, we expect EPB's PAT margins to stabilise around 11-12% for FY24-26F.

**Figure 5: Gross margin and PAT margin (%)**



Source: Company, Mercury Securities

**Healthy balance sheet to support dividend policy:** EPB has a strong balance sheet with net cash position of RM31.1m. This would help to support its formal dividend policy post-listing, which EPB intends to target a payout of up to 25% of earnings.

**RM0.75 FV based on 16x FY25F EPS.** EPB does not have direct comparable peers listed in Bursa Malaysia. Nonetheless, we have identified two listed peers in Germany whose business models (i.e. F&B machinery solutions provider) closely resemble EPB. Valuation-wise, we peg a target PE valuation of 16x for EPB, slightly lower than comparable peers' average of approximately 17.1x. While EPB's market capitalisation is much smaller than that of its global peers, we believe this is more than adequately compensated by its relatively stronger earnings growth. Applying this to FY25 EPS of 4.7sen, we arrive at our fair value of RM0.75.

**Peer Comparison – Trailing 12-month basis (as of 25 Jul 2024)**

Company	Country	Share price (LC)	Mkt Cap (in USD)	Earnings Growth (%)	P/E (x)	P/B (x)	ROE (%)	Net yield (%)
GEA Group AG	Germany	39.78	7,429.8	(2.3)	16.7	2.7	16.8	2.5
Krones AG	Germany	125.60	4,300.6	7.8	17.5	2.2	13.2	1.8
<b>Simple Average</b>				<b>2.8</b>	<b>17.1</b>	<b>2.5</b>	<b>15.0</b>	<b>2.1</b>
EPB Group		0.56	44.6	22.9	11.9	1.7	14.7	2.0

Source: Bloomberg, Mercury Securities



## Company Background

**One-stop provider of machinery solutions.** EPB is a one-stop provider of food processing and packaging machinery solutions. The group is primarily involved in the design, customisation, fabrication, integration and automation of production lines for food manufacturing and processing companies, tailored based on customers' needs. Beyond machinery, EPB is also involved in the trading of cellulose casings and the manufacturing and trading of flexible packaging materials.

**Focusing on food processing & packaging machinery.** According to the FY23 financials, EPB's main source of revenue is its food processing and packaging machinery solutions, which make up 82% of its revenue. The rest of the revenue comes from trading cellulose casings (12%) and manufacturing and trading flexible packaging materials (6%). The company's machinery is designed to produce affordable and convenient foods such as nuggets, sausages, meatballs, and ham, and it has experienced strong demand, especially from customers in Indonesia, the Philippines, and Malaysia.

**Indonesia and the Philippines are key markets.** EPB has shown a strong focus on expanding its international business, with overseas deals representing 69.7% of its FY23 revenue. The company's major clients are in the Philippines and Indonesia, contributing 43.5% and 16.9% of revenue, respectively. Additional markets, including the USA, Myanmar, and Algeria, add another 7.3%.

**Figure 6: Business Overview**

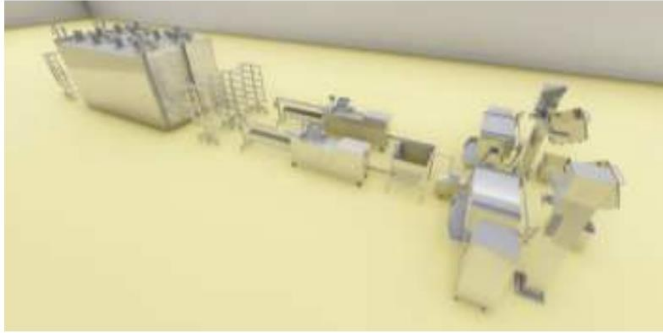
One-stop provider of food processing and packaging machinery solutions			
Business segment	Provision of food processing and packaging machinery solutions	Trading of cellulose casings	Manufacturing and trading of flexible packaging materials
Activities	✓ Provision of food processing and packaging machinery solutions	✓ Trading of cellulose casings	✓ Manufacturing and trading of flexible packaging materials
Revenue Breakdown in FYE 2023	<ul style="list-style-type: none"> <li>• RM100.54 million</li> <li>• 82.33% of total</li> </ul>	<ul style="list-style-type: none"> <li>• RM14.56 million</li> <li>• 11.92% of total</li> </ul>	<ul style="list-style-type: none"> <li>• RM7.02 million</li> <li>• 5.75% of total</li> </ul>
Target Customers	<ul style="list-style-type: none"> <li>➢ Food manufacturers</li> <li>➢ Food processing companies</li> <li>➢ Cold chain logistics providers</li> <li>➢ Industrial and logistics property owners</li> </ul>	<ul style="list-style-type: none"> <li>➢ Food manufacturers</li> <li>➢ Food processing companies</li> </ul>	<ul style="list-style-type: none"> <li>➢ Food manufacturers</li> <li>➢ Personal care manufacturers</li> <li>➢ Pet food manufacturers</li> </ul>
Principal Markets in FYE 2023	<ul style="list-style-type: none"> <li>○ Philippines (RM43.68 million, 35.77% of total revenue)</li> <li>○ Malaysia (RM37.06 million, 30.35% of total revenue)</li> <li>○ Indonesia (RM31.52 million, 25.81% of total revenue)</li> </ul>		

Source: Company, Mercury Securities





**Figure 7: Sausage processing and packaging solutions**



Source: Company, Mercury Securities

**Figure 8: Mooncake processing and packaging solutions**



Source: Company, Mercury Securities

**Figure 9: Cendol processing and packaging**



Source: Company, Mercury Securities

**Figure 10: Coffee and tea processing and packaging**



Source: Company, Mercury Securities

**Figure 11: Three-side seal bag**



Source: Company, Mercury Securities

**Figure 12: Stand-up bag**



Source: Company, Mercury Securities

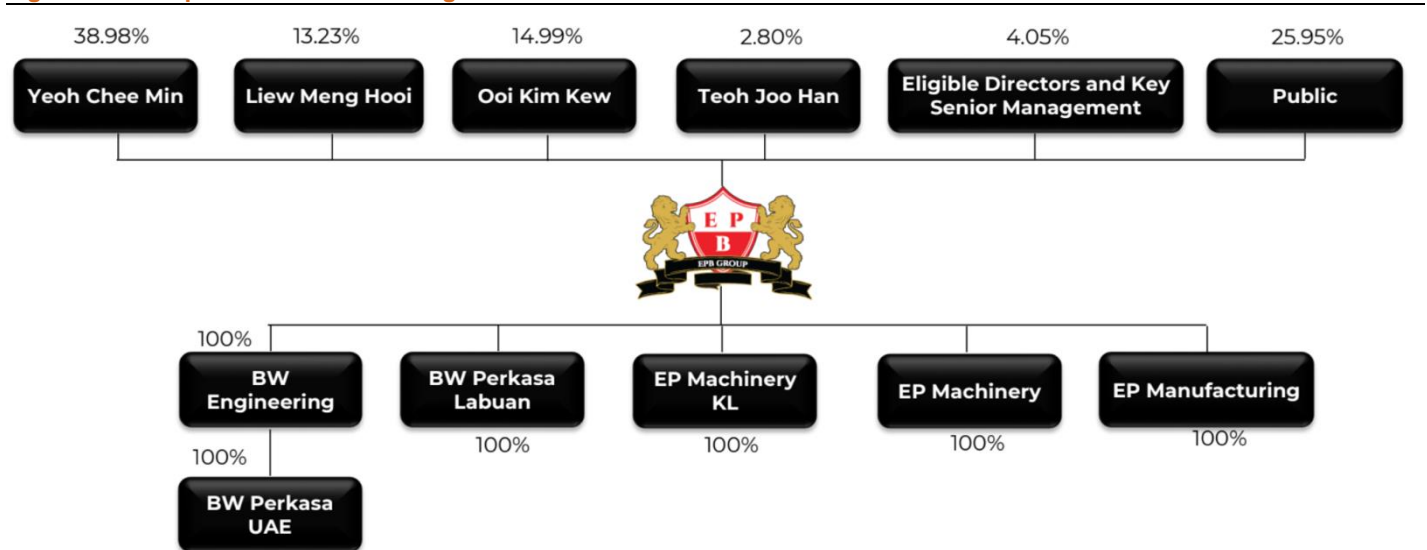


**Figure 13: Key Management Team**

Name and Designation	Age	Profile
<b>Yeoh Chee Min</b> Managing Director	59	<ul style="list-style-type: none"> <li>Responsible for formulating and implementing the overall business strategy and corporate development of the Group as well as overseeing EP Machinery and EP Machinery KL.</li> <li>More than 30 years of experience in the food processing machinery industry.</li> <li>Year 12 of the South Australian Certificate of Education (SACE) in Australia.</li> </ul>
<b>Liew Meng Hooi</b> Deputy Managing Director	59	<ul style="list-style-type: none"> <li>Manages the daily operations of BW Engineering, BW Perkasa Labuan, and BW Perkasa UAE, mainly in the areas of business strategy, sales, and operations.</li> <li>26 years of experience in the food processing machinery industry</li> <li>From 5 education at SMK Tunku Abdul Rahman in Alor Setar, Kedah.</li> </ul>
<b>Ooi Kim Kew</b> Executive Director	60	<ul style="list-style-type: none"> <li>Oversees the entire operations of EP Manufacturing, mainly in the areas of procurement and production.</li> <li>Established Momizi Boutique in Kedah in 1988 and disposed in 2000.</li> <li>Technician Diploma in Architectural Draughtsmanship from the Federal Institute of Technology, Kuala Lumpur.</li> </ul>

Source: Company

**Figure 14: Group Structure Post Listing**



Source: Company, Mercury Securities



## Future Plans & Business Strategies

**Factory expansion in Penang.** EPB intends to construct a new corporate office, a factory building with a warehouse and a showroom – with a total built-up area of approximately 70,000 sq ft. The new three-storey corporate office will centralise backroom operations under one roof. Additionally, a new factory is also set to be built to accommodate the production of food processing and packaging machinery, together with a warehouse and a showroom. The showroom will display machinery solutions, enhancing customer experiences.

From the IPO proceeds, RM13.0m will be used to purchase industrial land, while RM10.5m will cover the construction of the new corporate office and factory building with a warehouse and showroom. RM1.1m will be allocated to purchase new machinery and equipment, including two vertical machining centres, a CNC turning centre, and a CNC press brake/cutting machine, intended for the production of food processing and packaging machinery and equipment.

**Increasing robotic footprint in food processing and packaging machinery solutions.** EPB successfully launched a food packaging machinery solution with robotic arms in 2022. This machinery can feed sausages at a rate of up to 500 pieces per minute. In the future, the company plans to leverage the Industrial Revolution 4.0 trend by further integrating robotic technology into its food processing and packaging machinery solutions. There is a significant opportunity for more robotic technology in the industry due to the strict hygiene requirements for handling food and the challenges faced by food manufacturers in hiring factory workers.

To tackle these challenges and reduce human intervention, the company plans to seek collaboration with technology partners specialised in robotics technology. Additionally, it will work on developing software internally to control robots integrated into its machinery solutions. This strategy will be implemented at Plant 1.

## Key Risks

**Dependency on key suppliers.** EPB relies heavily on one major supplier, Shandong Vicel of China, for cellulose casings, which account for 13-18% of its total purchase value over the years. Based on the latest distribution agreement, EPB will be the distributor of Vicel Speedy Peel Cellulose Casings in Indonesia for another two years, starting from January 1, 2024. Nevertheless, there is no assurance that Shandong Vicel will continue to grant EPB distributorship after the current agreement expires or renew the agreement on similar terms.

**Fluctuation in raw material prices.** EPB's profitability is exposed to fluctuations in raw material prices, particularly for stainless steel and aluminium products required in its fabrication activities. Any price hikes in raw materials, driven by shortages beyond their control, could result in increased costs. This could hinder profitability, especially if they cannot immediately or fully pass these increased costs onto the customers.

**Fluctuations in foreign exchange.** As of FY23, 65.3% and 57.1% of EPB's sales and purchases are transacted in foreign currencies (majority USD). The group currently does not have a formal policy regarding its foreign exchange transactions. It also does not use any financial instruments to hedge its exposure to fluctuations in foreign currency exchange rates.



## IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
<b><u>Retail Offering</u></b>				
Malaysian Public	-	19.6	19.6	5.3
Pink Form Allocations	-	21.2	21.2	5.7
<b><u>Institutional Offering</u></b>				
Bumiputera investor approved by MITI	15.7	30.8	46.5	12.5
Selected investors	24.3	-	24.3	6.5
<b><u>Total</u></b>	40.0	71.6	111.6	30.0

Source: Company





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MERCURY SECURITIES SDN BHD  
Registration No. 198401000672 (113193-W)  
L-7-2, No 2, Jalan Solaris, Solaris Mont' Kiara, 50480 Kuala Lumpur  
Telephone: (603) - 6203 7227  
Website: [www.mercurysecurities.com.my](http://www.mercurysecurities.com.my)  
Email: [mercurykl@mersec.com.my](mailto:mercurykl@mersec.com.my)