

MEDIA CLIPPING

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Heng Huat eyes biomass materials industry

BY **WEI LYNN TANG**

Heng Huat Resources Group Bhd, which converts oil palm empty fruit bunches (EFB) into biomass materials and coconut husk into long fibres for industrial use, sees opportunities in moving further downstream to improve its margins.

Co-founder and managing director H'ng Choon Seng tells *The Edge Financial Daily* that the group aspires to move from selling raw materials to making more value-added products for end-users.

The group, which manufactures mattresses made with long fibres, targets to commercialise a new geotextile product — palm fibre mat — by year-end.

In view of the growing demand for its EFB-based products in China, Heng Huat plans to set up a subsidiary in the southern region of the republic by the first quarter of next year.

“With a sizeable supply of EFB in Malaysia, coupled with our processing capacity, we are positive that our direct presence in China will help to scale up the group’s exports,” H’ng says.

“Our success thus far in penetrating the huge Chinese market with our exports says much about the unabated demand for our EFB fibre as well as our product quality,” he adds.

Notably, the group’s exports to China — comprising EFB fibre — more than doubled from RM18.7 million for financial year ended Dec 31, 2011 (FY2011) to RM40.7 million in FY2013. In FY2013, exports to China accounted for 55.2% of the group’s revenue of RM73.7 million.

However, a risk Heng Huat faces is its dependence on major customers. One of its clients, Shenzhen Yuemao, contributed about 30.14% to group revenue in FY2013.

Established in 2007, Heng Huat currently has three EFB processing facilities in Kedah and Penang with a total capacity of 100,500 metric tons of EFB fibre a year.

The group also has a coconut husk processing plant in Kelantan and a plant in Penang that manufactures mattresses and related products.

Heng Huat, which is slated to list on the ACE market of Bursa Malaysia on July 25, has raised RM20.93 million from its initial public offering (IPO) priced at 45 sen apiece.

The IPO comprises a public issue of 46.5 million new ordinary shares — representing approximately 22.59% of the company’s enlarged issued and paid-up share capital of 10 sen each — and

Heng Huat Resources Group

ACE Market
 IPO price: 45 sen
 Par value: 10 sen
 Market capitalisation after IPO: RM92.6 million
 Fair value: 51 sen (Inter-Pacific Research),
 53 sen (Kenanga Research)
 Listing date: July 25, 2014

Financial highlights

YEAR-END DEC 31 (RM MIL)	2011	2012	2013
Revenue	31.7	62.97	73.74
Profit/(loss) after tax	10.54	12.16	9.74
EPS (sen)	6.61	7.64	6.11
DPS (sen)	NA	NA	NA
Dividend yield (%)	NA	NA	NA

an offer for sale of 14.66 million existing shares.

Of the public issue of 46.5 million new shares, seven million shares were offered to the public, five million were allocated to eligible employees, while 12.2 million and 22.3 million shares were allocated through private placement to identified investors and approved bumiputera investors respectively.

The 14.66 million shares under the offer for sale were also allocated by way of private placement to identified investors.

At 45 sen per share, Heng Huat is valued at a net price earnings ratio (PER) of 7.36 times, based on the group’s net earnings per share (EPS) of 6.11 sen or audited net profit of RM9.74 million for FY2013.

Inter-Pacific Research, in a July 14 note, said it is ascribing a PER of 5.9 times to Heng Huat’s projected FY2015 EPS of 8.6 sen, implying a 13% upside to the indicative 45 sen retail tranche IPO price.

Heng Huat is allocating the bulk of the gross proceeds, RM9.38 million or 44.8%, to the repayment of bank borrowings, RM4.55 million to working capital, RM4 million to capital expenditure and RM3 million to defraying of listing expenses.

Upon listing, the group envisages a dividend payout ratio of up to 20% of its net profit to its shareholders in each financial year.

Kenanga Investment Bank Bhd is the adviser, sponsor, underwriter and placement agent. WYNCORP Advisory Sdn Bhd is the corporate finance adviser. ■