

## 8. IMR REPORT



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Date: 22 December 2023

The Board of Directors

**SIK CHEONG BERHAD**

No. 11, Jalan 6/14  
Kampung Tasik Tambahan  
68000 Ampang  
Selangor Darul Ehsan

Dear Sirs,

**Independent Market Research (“IMR”) report on the Refined, Bleached and Deodorised (“RBD”) Palm Olein Oil Repackaging Industry in Malaysia in conjunction with the Proposed Listing of Sik Cheong Berhad (the “Company”) on the ACE Market of Bursa Malaysia Securities Berhad**

PROVIDENCE STRATEGIC PARTNERS SDN BHD (“**PROVIDENCE**”) has prepared this IMR report on the RBD Palm Olein Oil Repackaging Industry in Malaysia for inclusion in the Prospectus of Sik Cheong Berhad.

PROVIDENCE has taken prudent measures to ensure reporting accuracy and completeness by adopting an independent and objective view of this industry within the confines of secondary statistics, primary research and evolving industry dynamics. We believe that this IMR report presents a balanced view of the industry within the limitations of, among others, secondary statistics and primary research, and does not purport to be exhaustive.

For and on behalf of PROVIDENCE:

MELISSA LIM

EXECUTIVE DIRECTOR

**About PROVIDENCE STRATEGIC PARTNERS SDN BHD:**

*PROVIDENCE is an independent research and consulting firm based in Petaling Jaya, Selangor, Malaysia. Since our inception in 2017, PROVIDENCE has been involved in the preparation of independent market research reports for capital market exercises. Our reports aim to provide an independent assessment of industry dynamics, encompassing aspects such as industry performance, demand and supply conditions and competitive landscape.*

**About MELISSA LIM:**

*Melissa Lim is the Executive Director of PROVIDENCE. She has more than 10 years of experience in market research for capital market exercises. Melissa Lim holds a Bachelor of Commerce (Double major in Marketing and Management) from Murdoch University, Australia.*

## 8. IMR REPORT (CONT'D)



Sik Cheong Berhad and its subsidiaries (collectively referred to as “**Sik Cheong Group**”) are principally involved in the repackaging, marketing and distribution of RBD palm olein oil products. As such, this IMR report focuses on *The RBD Palm Olein Oil Repackaging Industry in Malaysia*. This IMR report also covers an *Overview of The Soybean Oil Market in Malaysia* as Sik Cheong Group intends to venture into the repackaging, marketing and distribution of soybean oil in Malaysia.

# 1 THE RBD PALM OLEIN OIL REPACKAGING INDUSTRY IN MALAYSIA

## INTRODUCTION

Palm oil is the most common type of vegetable edible oil consumed in Malaysia. In 2022, the volume of palm oil sold was 183.7 million litres, which translates to 76.5% of the total volume of vegetable edible oils sold in Malaysia.<sup>1</sup>

One of the main reasons it is the most commonly consumed vegetable oil in Malaysia is because it is priced relatively lower than other types of vegetable oil. This is due to its availability in Malaysia as Malaysia is one of the largest producers of palm oil in the world, apart from Indonesia. Malaysia has a planted area of 5.7 million<sup>2</sup> hectares of oil palm plantations in 2022 and these plantations collectively produced approximately 18.5 million metric tonnes (“**MT**”) of crude palm oil (“**CPO**”) in the year.

Palm oil is typically refined, bleached and deodorised, and is fractionated to produce RBD palm olein and RBD palm stearin oil. RBD palm olein oil refers to the liquid form of palm oil that is used as cooking oil and lamp oil, amongst others. Meanwhile, RBD palm stearin oil refers to the solid fraction of palm oil that is used to produce products such as margarine.

RBD palm olein oil remains stable under high heat as it has a smoke point of approximately 230°C. This indicates that RBD palm olein oil can be heated up to 230°C before it smokes and discolours (which indicates changes in chemical or physical properties and renders it less suitable for continued usage).

As such, RBD palm olein oil is suitable to be used as cooking oil or other types of oil such as lamp oil. As it is used as cooking oil, it is a key ingredient used in the manufacturing and preparation of food and is thus consumed on a daily basis. It is a source of fats and fatty acids and provides energy to the human body.

The industry value chain of the palm oil industry, of which the RBD palm olein oil repackaging industry is a sub-segment, can generally be segmented into:

### (a) Upstream

This segment entails the planting, cultivating and harvesting of palm fresh fruit bunches (“**FFB**”) from plantations which will be sent to palm oil mills;

### (b) Midstream

The midstream segments involve milling and refining palm oil. Palm oil milling involves palm oil mills extracting oil from palm FFB into 2 types of palm oil:

- (i) CPO – from the mesocarp of the fruit; and
- (ii) palm kernel oil (PKO) – from the kernel of the fruit.

Upon milling, the oil may be sent to local or overseas refineries where it will undergo RBD processes, i.e. deacidification, degumming and bleaching to remove gums, trace metals, pigments, peroxides and other products as well as deodorising by introducing high pressure steam to remove volatile compounds that impact the odour, flavour, colour and stability of the oil.

Thereafter, the oil will undergo fractionation to separate the liquid part (palm olein) from the solid part (palm stearin), forming RBD palm olein oil and RBD palm stearin oil; and

<sup>1</sup> Source: Euromonitor

<sup>2</sup> Source: Malaysia Palm Oil Board (“**MPOB**”).

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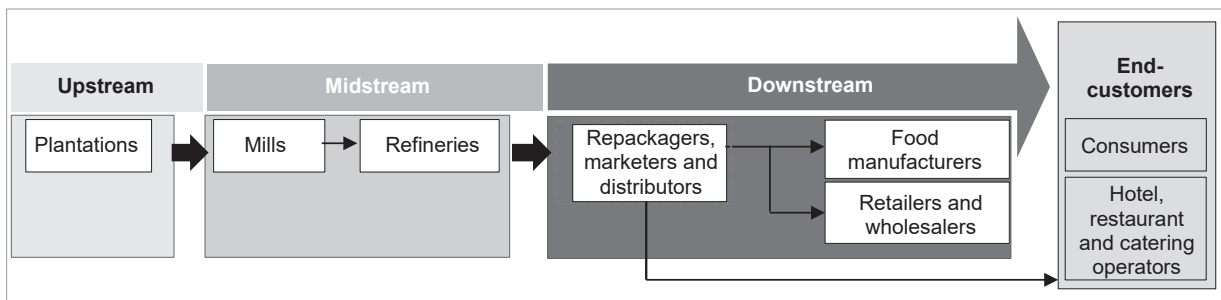


(c) **Downstream** – involves the repackaging, marketing, sales and/or distribution of RBD palm olein oil as well as manufacturing of other related downstream products such as food and oleochemical products. These finished products may be used by the following customer segments:

- **Repackagers, marketers and distributors** – repackages, markets and/or distributes RBD palm olein oil in bulk for onward sale to manufacturers or retailers. These industry players may or may not have their own brand of products;
- **Food manufacturers** – manufacturing food products (such as ice cream, instant noodle and creamer) as well as oleochemical products (such as soap) using RBD palm olein oil and RBD palm stearin;
- **Retailers and wholesalers** – fast-moving consumer goods companies and/or grocery retailers and wholesalers. Retailers retail packaged RBD palm olein oil products to consumers and food and beverage (“F&B”) service providers in their retail outlets. Meanwhile, wholesalers sell packaged RBD palm olein oil products to retailers and manufacturers.

Some refineries may either directly, or through a related company or subsidiary, package a portion of their RBD palm olein oil into smaller packaging sizes. In such cases, the refineries act as both refineries as well as repackagers, marketers and distributors.

**Palm oil industry value chain**



Note:  
 [ ] Denotes the RBD palm olein oil repackaging industry sub-segment, in which Sik Cheong Group operates

Source: PROVIDENCE

The RBD palm olein repackaging industry comprises industry players that purchase RBD palm olein oil from refineries, and package them into smaller packaging sizes such as polybags, bottles, tin cans, jerry cans and intermediate bulk containers to be distributed to manufacturers, retailers, wholesalers and hotel, restaurant and catering operators. These industry players may or may not have their own brand of products. The RBD palm olein repackaging industry does not include refineries that perform their own packaging activities as the RBD palm olein oil is not repackaged if it is carried out by the same party.

Sik Cheong Group is involved in the downstream segment of the palm oil industry, specifically the RBD palm olein oil repackaging industry, where it is principally involved in the repackaging, marketing and distribution of its own brand of RBD palm olein oil products.

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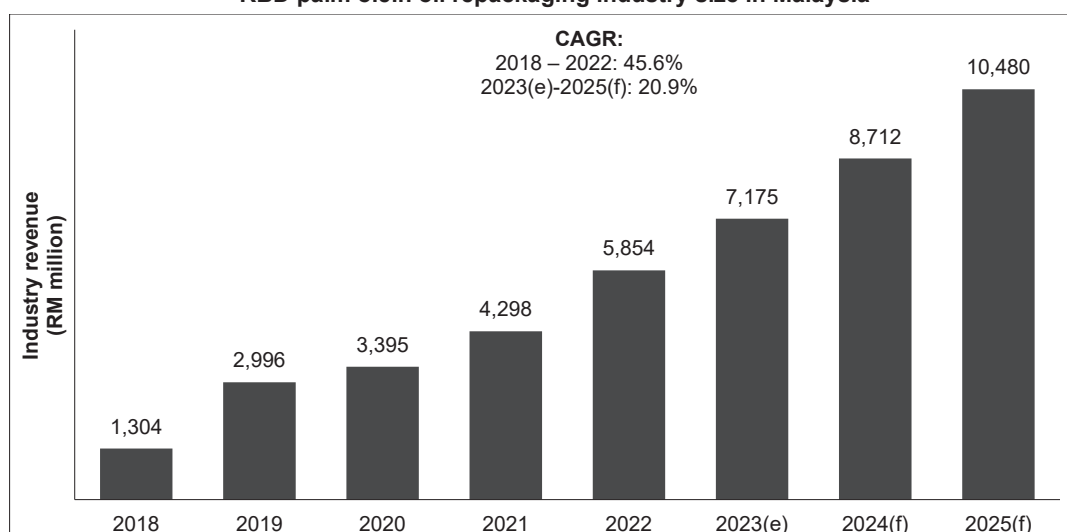


### INDUSTRY SIZE, PERFORMANCE AND GROWTH

The RBD palm olein oil repackaging industry in Malaysia can be measured based on the revenues of industry players involved in the repackaging, marketing and/or distribution of RBD palm olein oil products. This may be sold either under their own or third-party brands.

Between 2018 and 2022, the RBD palm olein oil repackaging industry size in Malaysia grew from RM1.3 billion to RM5.9 billion, registering a compound annual growth rate (“CAGR”) of 45.6% over the period. Moving forward, the RBD palm olein oil repackaging industry in Malaysia is expected to grow from an estimated RM7.2 billion in 2023 and reach RM10.5 billion in 2025, at a CAGR of 20.9% over the period.<sup>3</sup>

**RBD palm olein oil repackaging industry size in Malaysia**



Notes:

- (i) (e) – Estimate
- (ii) (f) – Forecast
- (iii) The RBD palm olein oil repackaging industry size may include revenues from business not related to repackaging of RBD palm olein oil products such as repackaging of other types of edible oils, shortening and ghee.

Source: PROVIDENCE

### KEY DEMAND DRIVERS

#### Continuous demand for RBD palm olein oil products and other related downstream products from consumers will drive the growth of the RBD palm olein oil repackaging industry

In 2022, the sales volume of palm oil constituted 76.5% of the total volume of vegetable edible oil sold in Malaysia.<sup>4</sup> In addition, the per capita consumption of palm oil is also higher than other types of vegetable oils. In 2022, the domestic consumption of palm olein oil per capita in Malaysia was 26.2 kilograms (“kg”) per capita, where else the per capita consumption of other vegetable edible oils such as palm kernel oil was 3.8 kg per capita, soybean oil was 1.8 kg per capita, coconut oil was 0.9 kg per capita and peanut oil was 0.2 kg per capita.<sup>5</sup> This indicates that RBD palm olein oil products are widely consumed by the majority of the Malaysian population.

The demand for RBD palm olein oil products and other related downstream products (such as food products e.g. ice cream, instant noodles and creamer, as well as oleochemicals e.g. soap) amongst consumers is driven by the following factors:

<sup>3</sup> PROVIDENCE’s growth forecast is based on their proprietary forecasting model that takes into account historical growth performance, demand drivers and restraints, industry risks and challenges as well as industry trends

<sup>4</sup> Source: Euromonitor

<sup>5</sup> Source: Foreign Agriculture Service, United States Department of Agriculture; PROVIDENCE analysis

## 8. IMR REPORT (CONT'D)



### (i) Growth in population

The population of Malaysia has been growing, from 32.4 million to 32.7 million between 2018 and 2022.<sup>6</sup> As the population increases, it is expected that the demand for RBD palm olein oil products and other related downstream products will also grow in tandem.

### (ii) Government subsidy programmes and initiatives

The Government of Malaysia has implemented a cooking oil subsidy program to ensure the availability and affordability of cooking oil to consumers, as cooking oil is a staple cooking ingredient in Malaysian households.

Since June 2007, the Government of Malaysia subsidised cooking oil in 1 kg polybag packaging at a price of RM2.50 per packet, compared to its actual market price of RM9.00 per kg as at 2022. In June 2022, the Government of Malaysia announced that it will maintain the subsidy with an additional fund allocation of RM4 billion. In April 2023, the Government of Malaysia further announced its initiative to maintain the edible oil subsidy with a quota of 60,000 MT per month.

This government subsidy program is expected to drive demand for RBD palm olein oil products in view that it will help to stabilise the retail price of cooking oil in Malaysia.

Moreover, under Budget 2024, the Government of Malaysia has proposed to allocate a total of RM225 million to cover the distribution costs of essential goods, which includes edible oil, to rural and remote areas, under the Community Drumming Programme.

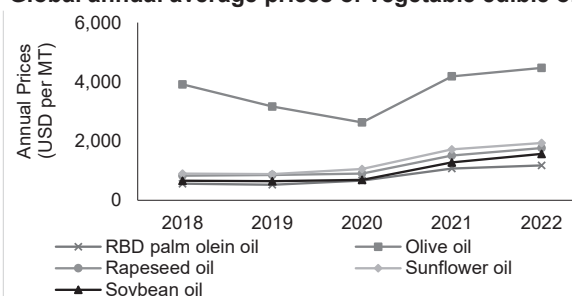
### (iii) Lower price and ease of accessibility

Between 2018 and 2022, the average price of RBD palm olein oil was the lowest as compared to other vegetable edible oils such as sunflower oil, rapeseed oil, olive oil and soybean oil. As such, RBD palm olein oil is a more cost-effective option for consumers (especially lower income households) as well as businesses which consume large quantities of oil in their food manufacturing operations.

Further, Malaysia is one of the largest producers of palm oil. The production of CPO in Malaysia increased from 19.5 million MT in 2018 to 19.9 million MT in 2019. Despite the fall in CPO production to 19.1 million MT in 2020 and 18.1 million MT in 2021 due to the impact of the Coronavirus Disease 2019 (“COVID-19”) and labour shortages, the production of CPO recovered and increased to 18.5 million MT in 2022 in light of the lifting of COVID-19 restrictions in the country.<sup>7</sup>

As such, the affordability and accessibility to palm oil will contribute to the growth of the RBD palm olein oil industry in Malaysia.

Global annual average prices of vegetable edible oil



Year	RBD palm olein oil	Sunflower oil	Rapeseed oil	Olive oil	Soybean oil
	USD per MT				
2018	559.9	900.8	829.6	3,911.7	658.6
2019	524.0	883.5	853.7	3,166.3	645.3
2020	666.1	1,056.5	903.1	2,628.3	690.0
2021	1,073.5	1,718.9	1,510.0	4,184.8	1,277.4
2022	1,177.0	1,934.2	1,763.3	4,469.9	1,566.1
<b>Average</b>	<b>800.1</b>	<b>1,298.8</b>	<b>1,171.9</b>	<b>3,672.2</b>	<b>967.5</b>

Note:

- (1) The above edible oils were the only vegetable edible oils tracked by the International Monetary Fund (“IMF”) and are also substitutes of RBD palm olein oil and soybean oil.

Source: IMF

<sup>6</sup> Source: Department of Statistics Malaysia (“DOSM”)

<sup>7</sup> Source: MPOB

**8. IMR REPORT (CONT'D)**

**The growth in demand from hotel, restaurant and catering operators will drive demand for RBD palm olein oil products, which would drive the growth of the RBD palm olein oil repackaging industry**

RBD palm olein oil products are essential in food preparation. They can be used in a wide range of cooking methods such as frying, sauteing, baking and dressing. In Malaysia, stir-frying and deep-frying are commonly used in local cuisine. As these methods involve high heat, the use of edible oils with high smoke point such as palm olein oil is typically recommended. As such, apart from consumers, it is also used by hotel, restaurant and catering operators in preparing food for their patrons, guests and customers.

In Malaysia, the performance of the F&B industry has improved over the years, albeit a decline in 2020 and 2021 due to the effects of the COVID-19 pandemic. During the COVID-19 pandemic, many businesses had to reduce operational capacity or stop operations entirely. Overall, the growth of the F&B industry may be depicted by the gross domestic product (“GDP”) of the F&B industry in Malaysia, which recorded a CAGR of 2.9%. The overall F&B industry increased from RM40.6 billion in 2018 to RM45.6 billion in 2022, despite the temporary dip to RM37.8 billion and RM35.9 billion in 2020 and 2021 respectively.<sup>8</sup> As Malaysia recovers from the COVID-19 pandemic and opened all economic sectors since April 2022, the nation’s F&B industry is expected to grow due to the growing demand for food services.

#### **SUPPLY CONDITIONS**

The main material used in the RBD palm olein oil repackaging industry is RBD palm olein oil. RBD palm olein oil is generally supplied and refined by refineries. According to MPOB, there were 54 palm oil refineries in Malaysia in 2023. The factors affecting the supply of RBD palm olein oil include its availability and price.

RBD palm olein oil is widely available in Malaysia as Malaysia is one of the largest producers of palm oil in the world, apart from Indonesia. Malaysia has a planted area of 5.7 million<sup>9</sup> hectares of oil palm plantations in 2022 and these plantations collectively produced approximately 18.5 million MT of CPO in the year. Meanwhile, the production of CPO in Malaysia increased from 19.5 million MT in 2018 to 19.9 million MT in 2019. Despite the fall in CPO production to 19.1 million MT in 2020 and 18.1 million MT in 2021 due to the impact of COVID-19 and labour shortages, the production of CPO recovered and increased to 18.5 million MT in 2022 in light of the lifting of COVID-19 restrictions in Malaysia.<sup>10</sup>

Although RBD palm olein oil is widely available in Malaysia, the volume of its supply locally may be affected by weather conditions and any other factors which may lead to disruptions in operational activities such as the COVID-19 pandemic.

In terms of prices, RBD palm olein oil prices generally fluctuate. It correlates with the CPO prices, and the prices of both products are influenced by their demand and supply and prices of other edible oils and fats and crude oil. The annual average RBD palm olein oil, indicated by average export prices of RBD palm olein oil, fell from RM2,328.50 per MT in 2018 to RM2,236.50 per MT in 2019. In 2020, the average prices of RBD palm olein oil recorded RM2,844.00 per MT, before it increased to RM4,764.50 per MT in 2021 and RM5,366.50 per MT in 2022.

Likewise, in 2018, the annual average CPO prices in Malaysia recorded RM2,232.50 per MT, before dropping to RM2,079.00 per MT in 2019. The annual average CPO prices recovered to RM2,685.50 per MT in 2020 and further increased to RM4,407.00 per MT in 2021 and RM5,087.50 per MT in 2022.

RBD palm olein oil and CPO prices rose in 2020 largely due to the impact of COVID-19 pandemic which affected the volume of FFB yield and processed, thus resulting in lower CPO and RBD palm olein oil production. The annual production of RBD palm olein oil increased from 10.6 million MT in 2018 to 11.5 million MT in 2019. In 2020, the annual production decreased to 10.1 million MT.

<sup>8</sup> Source: DOSM

<sup>9</sup> Source: MPOB

<sup>10</sup> Source: MPOB

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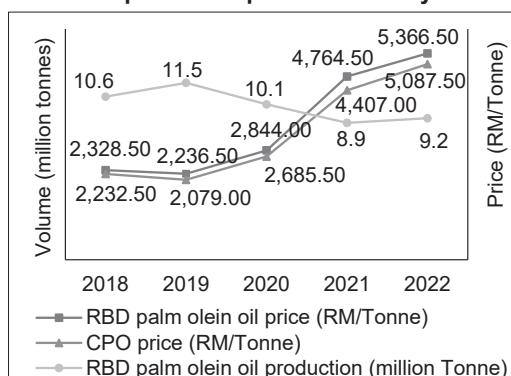


Subsequently in 2021, the annual production of RBD palm olein oil recorded the lowest amongst the 5 years due to the temporary suspension on foreign labour intake as part of COVID-19 containment measures. As a result, it has affected the volume of FFB processed and CPO production, which led to an increase in prices of CPO and RBD palm olein oil.

Although the annual production of RBD palm olein oil recovered in 2022, the CPO and RBD palm olein oil prices continued to rise due to weaker Ringgit as against the USD as well as the prolonged Russia-Ukraine war. The Russia-Ukraine war has disrupted the sunflower oil supply chain globally, which caused a surge in demand for palm oil as a replacement for sunflower oil.

However, CPO prices fell from RM5,087.50 per MT in 2022 to RM4,046.57 per MT in 2023.<sup>11</sup> The fall in CPO prices was due to higher production and stock levels of CPO in the year as well as lower demand for vegetable oils from China and competition from other types of vegetable oils which would result in lower demand for CPO. The higher supply of and lower demand for CPO resulted in lower CPO prices in the year.

**RBD palm olein price trend analysis**



Note:

(1) Latest publicly available information on RBD palm olein oil prices and production is in 2022

Source: MPOB

### GOVERNMENT LAWS AND REGULATIONS

The key laws and regulations relating to the RBD palm olein oil repackaging industry are as follows:

- Control of Supplies Act 1961 – was enacted to provide for the control and rationing of supplies;
- Control of Supplies Regulations 1974 – which states that a person shall deal in any scheduled article of manufacture any scheduled article (including cooking oil) in accordance with the licence issued under the regulation, and have separate licence(s) for each place of business; and
- Cooking Oil Stabilisation Scheme - a cooking oil subsidy programme established by Kementerian Perdagangan Dalam Negeri dan Kos Sara Hidup or Ministry of Domestic Trade and Cost of Living (“KPDN”) that aims to stabilise the retail price of cooking oil in Malaysia, as cooking oil is one of the controlled goods under the Control of Supplies Act 1961 and Control of Supplies Regulations 1974.

The eligibility criteria for application of Cooking Oil Stabilisation Scheme (“COSS”) are as follows:

- the applicant must own a repackaging facility;
- the applicant must have obtained a MPOB licence to buy and store the processed palm oil;
- the applicant must have obtained a business licence from local authority;
- the applicant must have obtained a retail licence and wholesale licence issued by KPDN under Control of Supplies Regulations 1974;
- the applicant must provide details and particulars of suppliers for the RBD palm olein oil; and
- the applicant must provide details of the retailers and wholesalers to be distributed by the applicant.

According to KPDN, as at May 2023, there were 21 refineries and 366 repackagers nationwide that were granted with the quota in total of 60,000 metric tonne (MT) per month to supply subsidised cooking oil in polybag to the market under COSS programme.

- MPOB (Licensing) Regulations 2005 under the MPOB Act 1998 – which states that no person shall sell, move, store, purchase or export palm oil and related products unless he is a holder of an appropriate licence issued under MPOB (Licensing) Regulations 2005, amongst others. Any person that contravenes this regulation shall be liable to a fine not exceeding RM250,000 or imprisonment for a term not exceeding 3 years, or both.

<sup>11</sup> Source: World Bank

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### PRODUCT/ SERVICE SUBSTITUTION, AND RELIANCE AND VULNERABILITY TO IMPORTS

As cooking oil, RBD palm olein oil products can be substituted with other types of vegetable edible oil such as sunflower oil, corn oil, rapeseed oil, soybean oil, olive oil as well as blended oil (which is a blend of different types of edible oil).

RBD palm olein oil products are readily available from local refineries in Malaysia. Thus, the palm oil industry is not reliant on imports of palm olein oil.

### COMPETITIVE OVERVIEW

There are more than 366<sup>12</sup> repackagers of RBD palm olein oil in Malaysia, comprising companies, sole proprietorships and partnerships which may be private companies or public listed companies. As mentioned earlier, there are 366 repackagers nationwide that were granted with the quota to supply subsidised cooking oil in polybag to the market under COSS programme as at May 2023, according to KPDN. These companies, sole proprietorships and partnerships may repackage, market and distribute their own brands of RBD palm olein oil products, or may repackage on behalf of other RBD palm olein oil marketers. Some of the companies may also be related companies to refineries.

As Sik Cheong Group is principally involved in the repackaging, marketing and distribution of its own brand of RBD palm olein oil products, the competitive landscape will be focused on companies involved in the repackaging, marketing and distribution of their own brand of RBD palm olein oil products.

PROVIDENCE has identified 9 industry players, including the Group, on the basis that:

- (i) these industry players are involved in repackaging of RBD palm olein oil and distribute their own brand(s) of RBD palm olein oil products;
- (ii) these industry players have a revenue of RM10.0 million and above in the latest financial year; and
- (iii) these industry players are not involved, and are not related to companies that are involved, in refining of palm oil and are not involved in the repackaging of upstream palm oil products such as crude palm oil, based on publicly available information.

The table below sets out the details of the industry players <sup>(a)(b)</sup>:

Company name	Type of vegetable edible oils marketed and distributed	Brand	Latest audited financial year end ("FYE")	Revenue (RM '000)	Gross profit ("GP") (RM '000)	Profit after tax ("PAT") (RM '000)	GP margin (%) <sup>(c)</sup>	PAT margin (%) <sup>(d)</sup>
Bukit Seribu Holdings Sdn Bhd	RBD palm olein oil	Cap Bukit and Cap Bukit Emas	31 December 2022	16,655	1,097	596	6.6	3.6
CI Holdings Berhad (a public listed company)	RBD palm olein oil, sunflower oil, soybean oil, coconut oil, canola oil and corn oil	333 Chilli, Cheri-Mas, Cheri-Mama, Aisha and Shasa	30 June 2023	5,326,012 <sup>(e)</sup>	355,916 <sup>(f)</sup>	166,514 <sup>(f)</sup>	6.7 <sup>(f)</sup>	3.1 <sup>(f)</sup>
Continental Edible Oil Industries Sdn Bhd	RBD palm olein oil	Cap Hasil, Cap Aloe Vera and Cap Coral	31 December 2022	13,693	1,712	786	12.5	5.7

<sup>12</sup> The actual total number of repackagers of RBD palm olein oil in Malaysia cannot be ascertained as some of the companies, sole proprietorships and partnerships may not be publicly searchable.



**8. IMR REPORT (CONT'D)**

Company name	Type of vegetable edible oils marketed and distributed	Brand	Latest audited financial year end ("FYE")	Revenue (RM '000)	Gross profit ("GP") (RM '000)	Profit after tax ("PAT") (RM '000)	GP margin (%) <sup>(c)</sup>	PAT margin (%) <sup>(d)</sup>
Ding-Dang Enterprise Sdn Bhd	RBD palm olein oil	Cap Ketupat	30 June 2022	10,670	1,373	155	12.9	1.5
Federation Oil Factory (Johore) Sdn Bhd	RBD palm olein oil, canola oil, coconut oil, sunflower oil and soybean oil	Lazaria	30 April 2023	50,185	5,628	649	11.2	1.3
Gemilang Edible Oil (M) Sdn Bhd	RBD palm olein oil	Gemilang	31 May 2022	65,285	5,032	1,293	7.7	2.0
Golden Palm Oil Industries Sdn Bhd	RBD palm olein oil	Ali Jaya and Fatin	30 November 2022	13,253	1,841	349	13.9	2.6
Sarafiah Natural Resources Sdn Bhd	RBD palm olein oil and sunflower oil	Sarafiah and Fenna	31 December 2022	1,232,807	10,602	3,395	0.9	0.3
Sik Cheong Group	RBD palm olein oil	Sawit Emas and Vitamas	31 March 2023	78,236	11,984	6,029	15.3	7.7

Notes:

- (i) <sup>(a)</sup> Information based on publicly disclosed information as at 22 December 2023.
- (ii) <sup>(b)</sup> This list is not exhaustive. Exempt private companies and companies with revenues below RM10.0 million have been excluded from this list.
- (iii) <sup>(c)</sup> GP margin is computed based on GP divided by revenue.
- (iv) <sup>(d)</sup> PAT margin is computed based on PAT divided by revenue.
- (v) <sup>(e)</sup> Segmental financial information for the group's edible oil business
- (vi) <sup>(f)</sup> Consolidated financial information was used as segmental financial information was not publicly available. As such, financial information may include other types of business activities not related to edible oil

Source: Companies Commission of Malaysia, various company websites, PROVIDENCE

In order to set up a new RBD palm olein oil repackaging, marketing and distribution business, there is a need for new entrants to incur capital expenditure for the purchase of the packaging lines, rental or acquisition of the facility, storage tanks, tankers, delivery trucks and other necessary equipment to carry out the packaging process. Further, new entrants will also be required to recruit workers and have sufficient working capital to purchase RBD palm olein oil supplies from refineries. As capital expenditure and working capital are required, the barriers to entry faced by industry players involved in the repackaging, marketing and distribution of RBD palm olein oil products are moderately high. Among the critical success factors for companies involved in the repackaging, marketing and distribution of RBD palm olein oil are having a network of suppliers to have a consistent supply of palm oil, a network of customers to distribute and sell palm oil products to and managing palm oil inventory levels to ensure prompt delivery.

**Market Share**

Based on Sik Cheong Group's revenue from its RBD palm olein oil repackaging, marketing and distribution business segment of RM59.4 million for the FYE 31 March 2022 and the total RBD palm olein oil repackaging industry size of RM4.3 billion in 2021, Sik Cheong Group garnered an industry revenue share of approximately 1.4% in 2021. Sik Cheong Group's industry revenue share was approximately 1.3% in 2022, with a revenue of RM77.9 million for the FYE 31 March 2023 and a total RBD palm olein oil repackaging industry size of RM5.9 billion in 2022.

## 8. IMR REPORT (CONT'D)



## 2 OVERVIEW OF THE SOYBEAN OIL MARKET IN MALAYSIA

Soybean oil is a type of vegetable edible oil produced from the seeds of the soybean plant. Once soybeans are harvested, they are cleaned to remove impurities before being cracked into smaller pieces and dehulled to remove the outer seed coat. The dehulled soybeans are then conditioned with heat and moisture to prepare them for oil extraction. The solid residue remaining after the oil extraction process is used to produce soybean meal, which is a staple in the diets of livestock and poultry. The extracted soybean oil will then undergo a refining process, which involves degumming, neutralisation, bleaching and deodorisation to remove impurities and improve the quality of the oil. After refining, the soybean oil is filtered to further remove any remaining particles and before it is packaged for distribution.

Soybean oil, including high oleic soybean oil, has a mild and neutral flavour which makes it suitable for most types of cooking method such as frying, stir frying and deep frying. Soybean oil is also a relatively healthier option as compared to RBD palm olein oil in light of its higher nutrient content (in terms of Omega 3 and Omega 6 fatty acids) and lower saturated fat content.<sup>13</sup> Thus, it serves as a good cooking oil option for restaurant, hotels and catering operations and food manufacturing as well as for consumers, where it meets the demand for a relatively healthier edible oil while still being a relatively cost-effective cooking oil.

The soybean oil market in Malaysia, as depicted by the sales volume of soybean oil sold locally, grew at a CAGR of 4.7% from 1.0 million litres in 2018 to 1.2 million litres in 2022.<sup>14</sup> During the same period, the sales value of soybean oil in Malaysia increased from RM13.3 million to RM14.9 million, recording a CAGR of 2.9%.<sup>15</sup> The growth in sales value and sales volume has been in line with growing demand for soybean oil in the country in light of its affordability and availability, as well as the growth of the F&B industry and steady growth in population. Moving forward, PROVIDENCE forecasts that the sales volume of soybean oil sold in Malaysia to grow at a CAGR of 4.1% between 2023 and 2025 to reach 1.3 million litres in 2025, and forecasts the sales value of soybean oil sold in Malaysia to grow at a CAGR of 2.6% between 2023 and 2025 to reach RM16.1 million in 2025.<sup>16</sup>

The growth of the soybean oil market has been, and is expected to be driven by the following factors:

- (a) **affordability of soybean oil** – as compared to other vegetable edible oils such as olive oil, sunflower oil and rapeseed oil, soybean oil is a relatively cheaper option due to its availability as soybean oil is the second most produced vegetable edible oil in the world. As compared to other vegetable oils such as rapeseed oil, sunflower oil and olive oil, the price of soybean oil is relatively cheaper. Between 2018 and 2022, the average prices of soybean oil is USD967.70 (RM4,049.18)<sup>17</sup> per MT, while the average prices of sunflower oil, rapeseed oil and olive oil are USD1,298.80 (RM5,435.74<sup>12</sup>) per MT, USD1,171.90 (RM4,904.64<sup>12</sup>) per MT and USD3,672.20 (RM15,368.89<sup>12</sup>) per MT, respectively.<sup>18</sup>
- (b) **availability of soybean oil** – soybean oil is one of most produced vegetable edible oil, alongside RBD palm olein oil. In 2022, the production of soybean oil recorded 58.9 million MT, which accounted for 27.1% of the world vegetable edible oil production output. In Malaysia, soybean oil is the third most produced vegetable oil in the country, after palm olein oil and palm kernel oil in 2021.<sup>19</sup>
- (c) **rising population** – the population of Malaysia grew from 32.4 million in 2018 to 32.7 million in 2022.<sup>20</sup> The population growth will contribute to increased consumption of edible oil, including soybean oil, as edible oil is a necessity in every household. In terms of domestic consumption per

<sup>13</sup> Source: MFA Incorporated

<sup>14</sup> Source: Euromonitor

<sup>15</sup> Source: Euromonitor

<sup>16</sup> PROVIDENCE's growth forecast is based on their proprietary forecasting model that takes into account historical growth performance, demand drivers and restraints, industry risks and challenges as well as industry trends

<sup>17</sup> Exchange rate from USD to RM was converted based on the average of annual exchanges rates from 2018 to 2022 derived from published information from Bank Negara Malaysia at USD1 = RM4.1852

<sup>18</sup> Source: IMF

<sup>19</sup> Source: Oil World. Latest publicly available information is as at 2021

<sup>20</sup> Source: DOSM

**8. IMR REPORT (CONT'D)**

capita of vegetable oils in Malaysia, soybean ranks the third highest in terms of per capita consumption after palm oil and palm kernel oil. In 2022, the domestic consumption of soybean oil per capita in Malaysia was 1.8 kg per capita, which was third highest after palm oil and palm kernel oil. This is in comparison to other vegetable edible oils such as coconut oil at 0.9 kg per capita and peanut oil at 0.2 kg per capita.<sup>21</sup> This indicates that soybean oil is also widely consumed by the Malaysian population; and

- (d) **growth of F&B industry in Malaysia** – between 2018 and 2022, the F&B industry in Malaysia, as depicted by the GDP of F&B industry, grew at a CAGR of 2.9%, from RM40.6 billion to RM45.6 billion.<sup>22</sup> As edible oil is an essential ingredient used in food preparation, the growth of the F&B industry will drive demand for edible oil, including soybean oil.

PROVIDENCE has identified 4 soybean oil repackagers, marketers and distributors based in Malaysia, namely Continental Resources Sdn Bhd, Federation Oil Factory (J) Sdn Bhd, Promac Industries (Johore) Sdn Bhd and Kenchana Edible Oils Sdn Bhd. In order to operate as a soybean oil repackager, marketer and distributor in Malaysia, an industry player would be required to obtain a Scheduled Controlled Goods licence under the Control of Supplies Regulations 1961.

### 3 PROSPECTS OF SIK CHEONG BERHAD

The RBD palm olein oil repackaging industry in Malaysia grew by 25.0% between 2019 and 2022. Moving forward, the RBD palm olein oil repackaging industry in Malaysia is forecast to grow at a CAGR of 20.9% between 2023 and 2025, in light of the following demand drivers:

- Continuous demand for RBD palm olein oil products and other related downstream products from consumers, which are driven by population growth, government subsidy programmes and initiatives and lower price and ease of accessibility; and
- Growth in demand from hotel, restaurant and catering operators.

As a key industry player in the RBD palm olein oil repackaging industry in Malaysia, Sik Cheong Group stands to benefit from the positive outlook of the industry. Sik Cheong Group also stands to benefit from the growing soybean oil market in Malaysia as it intends to venture into the repackaging, marketing and distribution of high oleic soybean oil in the future.

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<sup>21</sup> Source: Foreign Agriculture Service, United States Department of Agriculture; PROVIDENCE analysis

<sup>22</sup> Source: DOSM