

## Trusted Oil and Gas Solution Partner

### SALIRAN GROUP BERHAD

**Fair Value: RM0.32 (+18.52%)**

#### Company Description

Saliran Group Berhad ("Saliran") is principally involved in the supply and distribution of pipes, fittings and flanges as well as steel products. Its products are primarily used in the oil and gas industry ("O&G"). In addition, the Group also involved in the manufacturing of fittings and flanges in customised specifications – as a complement to its supply and distribution business.

#### Investment Highlight

- PETRONAS capital expenditures "CAPEX" boosts local O&G industry:** Following the recovery in global oil and natural gas consumption after the end of the Coronavirus disease 2019 ("COVID-19") pandemic – PETRONAS expanded its domestic CAPEX to RM18.60 billion ("bn") and RM26.20bn, in 2019 and 2021 respectively. In 2024, PETRONAS has allocated a total CAPEX of RM50.00bn to RM60.00bn – part of the 5-year RM300.00bn CAPEX expansion – that boosts the demand for pipes, fittings and flanges as well as steel products.
- Huge opportunity in Indonesia construction sector:** Indonesian manufacturing and construction sectors recorded compound annual growth rate "CAGR" of 2.45% and 1.58% in 2019 and 2023 respectively. Such significant contribution and growth of the manufacturing and construction sectors – signifies high demand for pipes, fittings and flanges as well as steel products – as these products are utilised to support manufacturing and construction activities. Hence, this led to Saliran's establishment of regional office in Indonesia.
- Strategic jointly-owned brand contributes for higher margin:** The Group entered into an Original Equipment Manufacturer ("OEM") Agreement with Tae Heung Forging Co Ltd ("Tae Heung") in 2021. Tae Heung serves as contract manufacturer to supply products and Saliran has exclusive rights to supply, and under the jointly-owned brand of "THF" in Malaysia, Indonesia, Singapore, Thailand, Vietnam and Philippines. This collaboration led to higher gross profit ("GP") margin – as seen in its GP margin for the supply and distribution of "THF" brand fittings and flanges was 24.40% in the FPE 2024 – compared to the GP margin of 12.55% for the supply and distribution of third-party brands fittings and flanges products.
- Wide product offerings rise brand awareness:** The Group offers an extensive range of pipes, fittings and flanges for use in industrial processing, refining and manufacturing activities in the O&G industry as well as other industries – available in a variety of specifications in terms of material types, shapes and dimensions to cater customer needs. In addition, the jointly-owned brand enables Saliran to establish presence in the industry and raise its brand awareness to facilitate wider customer penetration.

#### Valuation / Recommendation

We derive a fair value of RM0.40 based on 11.23x multiple to its FYE2025F EPS of 3.60sen. The initial public offering ("IPO") aims to raise approximately RM21.71 million ("mn") through the issuance of 80.4mn new shares. A total of 38.55% is allocated for working capital, 32.25% will be utilised for repayment of bank borrowings, 6.63% of proceeds will be for operating expenses, 5.53% for capital expenditure, while the remaining of 16.04% of it will be used for listing expenses.

The current ratio is above 1x at 1.26x – an indication of healthy capability to repay current liabilities (as of FYE2023). Driven by the solid-growing global demand in O&G industry, we expect to see long-term positive growth for the Group.

#### IPO TIMELINE

Opening Date	19 Feb 2025
Closing Date	28 Feb 2025
Listing Date	13 Mar 2025

IPO Price (RM)	0.27
Expected Return	18.52%
Market/ Sector	Oil & Gas
Bursa Code	0346

#### IPO Details

	Shares(mn)
Offer for Sale	38.29
Public Issue	80.40
Enlarged share	382.90
	RM(mn)
Market Cap	103.38
Shariah compliant	Yes

Substantial Shareholders	Shares(mn)	(%)
Maju Alliance	264.21	69.00

Utilisation of IPO Proceeds	RM(mn)	(%)
Establishment of a sales office in Indonesia	1.20	5.53
Purchase of machinery and delivery trucks	1.44	6.63
Repayment of bank borrowings	7.00	32.24
General working capital	8.37	38.55
Estimated listing expenses	3.70	17.04
<b>Total</b>	<b>21.71</b>	<b>100.00</b>

Allocation	Shares(mn)	(%)
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#### Public Issue

Malaysian Public via balloting process:		
• Public investors	9.57	2.50
• Bumiputera public investors	9.57	2.50
Eligible Directors	0.60	0.16
Eligible employees	7.06	1.84
Private placement to selected investors	5.74	1.50
Private placement to Bumiputera investors approved by MITI	47.86	12.50
Subtotal	80.40	21.00

#### Offer for sale

Private placement to selected investors	38.29	10.00
Subtotal	38.29	10.00
<b>Total</b>	<b>118.69</b>	<b>31.00</b>

<b>Total enlarged share capital upon listing</b>	<b>382.90</b>
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#### Key Financial Summary

FYE Dec (RMmn)	2022A	2023A	2024F	2025F	2026F
Revenue	138.62	243.16	274.48	309.85	349.80
Gross Profit	26.10	41.06	46.35	52.32	59.07
Pre-tax Profit	9.04	14.09	16.15	21.33	24.09
Core Net Profit	6.27	10.15	11.64	15.37	17.35
Core EPS (Sen)	1.64	2.65	3.04	4.01	4.53
P/E (x)	16.49	10.19	8.88	6.73	5.96
DPS (Sen)	0.10	0.00	0.00	0.00	0.00
Dividend Yield (%)	0.39	0.00	0.00	0.00	0.00

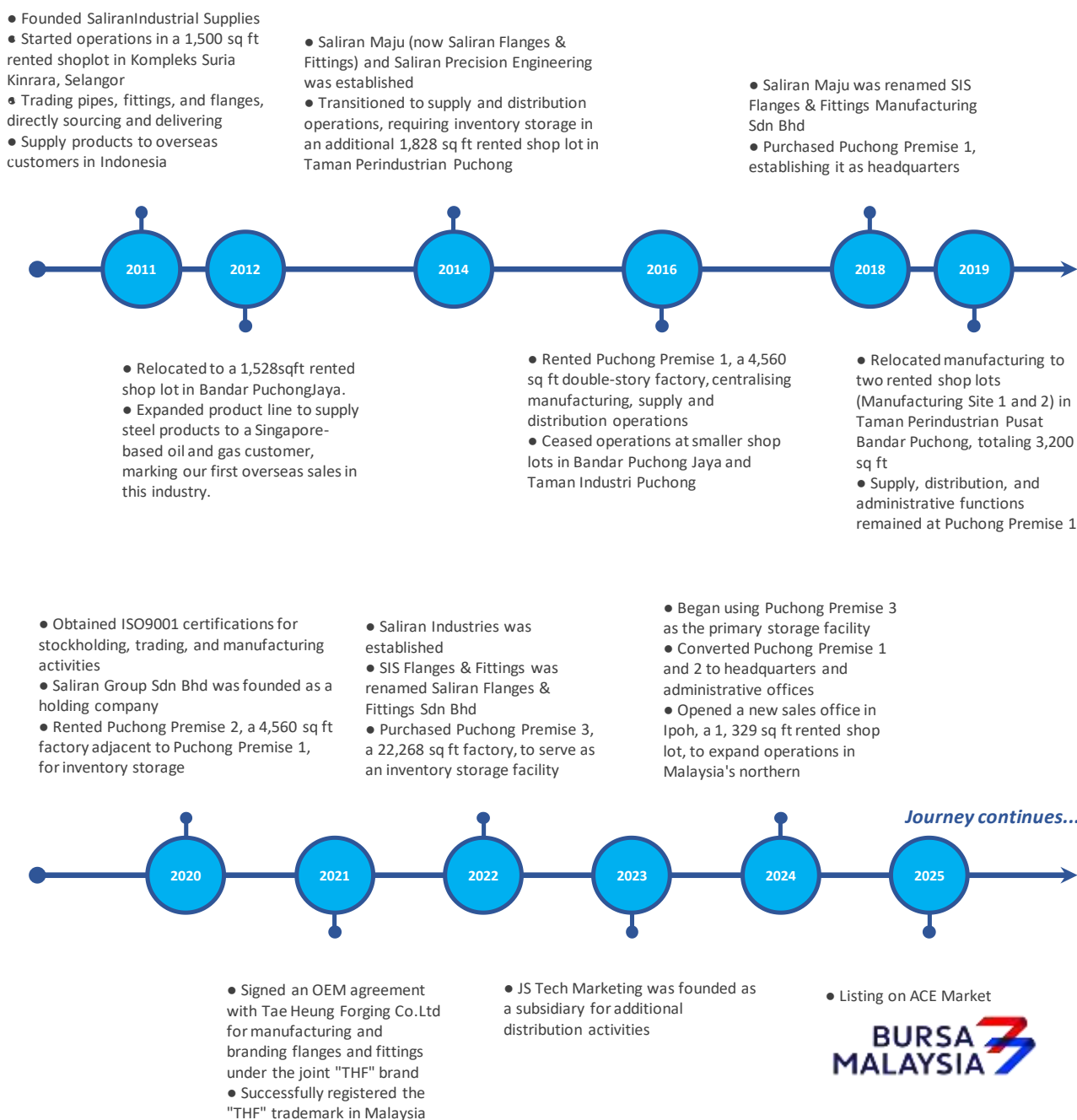
Source: Company Prospectus, S&P Global, Eco Asia Research Estimates  
EPS, P/E and DPS from 2022A to 2023A (pre-IPO) are on pro-forma basis for comparative purposes only.



## Company Background

Saliran was incorporated in Malaysia under the Act on 7 August 2020 as a private limited company under the name of Saliran Group Sdn Bhd. On 19 June 2024, the Group was converted into a public listed company and assumed its present name. Below is its milestones of history and development.

## Key Milestones



Source: Company Prospectus



## Business activities

Saliran products are primarily used in the O&G industry categorised into two main products as below:

**(i) Pipes, fittings and flanges as well as related parts and accessories:** Used for the transfer of fluid and gaseous substances in production and refining / processing activities.

**(ii) Steel products, which include steel beams, steel bars, steel plates and steel sections:** Used as structural support for the installation of our pipes, fittings and flanges and/or for the construction of process plants.

In addition, the Group also involved in the **manufacturing of fittings and flanges** in customised specifications to complement its supply and distribution business.

The details of Saliran product offerings under our supply and distribution business are as follows:

Products		Manufacturing of fittings and flanges	
<b>1. Pipes</b>	<b>Application</b>	<b>1. Anchor blocks</b>	<b>Application</b>
	<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Palm oil refining</li> <li>Building materials</li> <li>Manufacturing</li> </ul>		<ul style="list-style-type: none"> <li>Building materials</li> </ul>
<b>2. Fittings</b>	<b>Application</b>	<b>2. Chasers</b>	<b>Application</b>
	<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Palm oil refining</li> <li>Building materials</li> <li>Manufacturing</li> </ul>		<ul style="list-style-type: none"> <li>Building material</li> </ul>
<b>3. Flanges</b>	<b>Application</b>	<b>3. Plugs</b>	<b>Application</b>
	<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Palm oil refining</li> <li>Building materials</li> <li>Manufacturing</li> </ul>		<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Palm oil refining</li> <li>Building materials</li> <li>Manufacturing</li> </ul>
<b>4. Steel</b>	<b>Application</b>	<b>4. Coupling</b>	<b>Application</b>
	<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Palm oil refining</li> <li>Building materials</li> <li>Manufacturing</li> </ul>		<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Palm oil refining</li> <li>Building materials</li> <li>Manufacturing</li> </ul>
<b>5. Related parts and accessories</b>	<b>Application</b>	<b>5. Flanges</b>	<b>Application</b>
	<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Palm oil refining</li> <li>Building materials</li> <li>Manufacturing</li> </ul>		<ul style="list-style-type: none"> <li>Oil and gas</li> <li>Palm oil refining</li> <li>Building materials</li> <li>Manufacturing</li> </ul>

Source: Company Prospectus

### Brands:

- Third-party brands products
- Jointly-owned brand - "THF"

### Customer industries:

- O&G
- Other industries including building materials, palm oil refining and manufacturing

### Geographical markets:

- Malaysia
- Indonesia
- Singapore
- Other countries including China, South Korea and Vietnam

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## Business Segments

### Supply and Distribution Segment

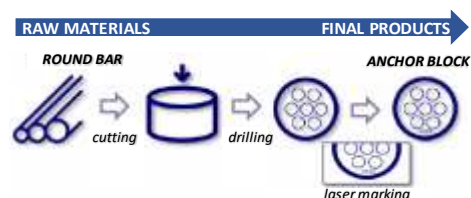
Supply and distribution of pipes, fittings and flanges as well as steel products and related parts and accessories

Pipes, fittings and flanges  
Third-party brands products  
Products labelled under jointly-owned brand

### Steel products

### Manufacturing Segment

#### Manufacturing of Fittings and Flanges

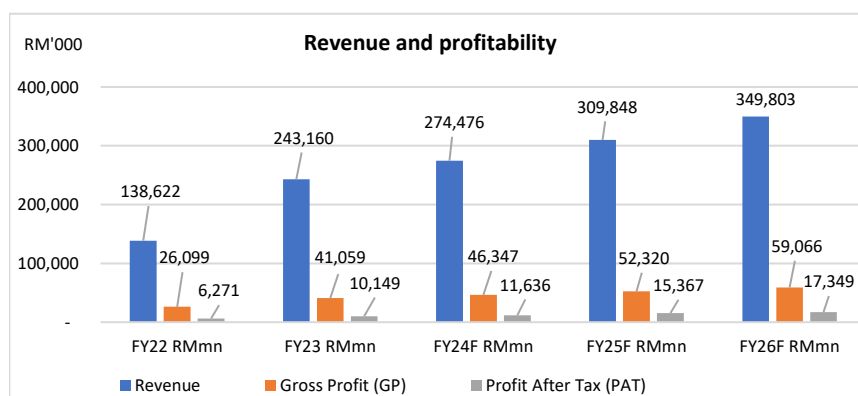
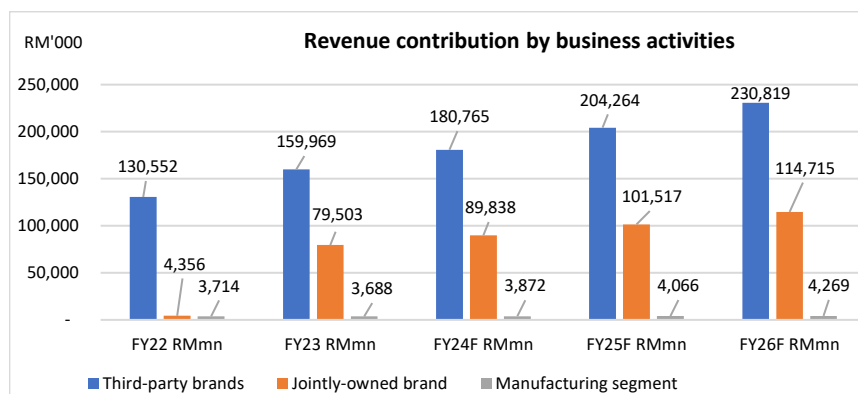


Source: Company Prospectus



## Revenue and Profitability

Saliran revenue from FYE2022 to FYE2023 was mainly derived from the Third-party brands, which accounted around 66.00% of its total revenue (as of FYE2023). The following shows revenue contributions by business activities as well as the revenue and profitability from FYE2022 to FYE2023, FYE2024F, FYE2025F and FYE2026F:



## Future Plans and Strategies

### 1) Expansion into the Indonesian market by establishing a regional office:

- Intends to further expand its business in Indonesia in order to strengthen Saliran market presence by establishing a sales office.
- To hire 1 local sales manager and 2 local sales executives to handle sales as well as build and maintain relationships with local customers.
- Funded by an estimated RM1.20mn from IPO proceeds

### 2) Increase inventory levels for the on-going expansion:

- To increase inventory level within 12 months post-listing. In addition to working capital of RM8.37mn – the Group aims to reduce interest expenses by between RM0.39mn to RM0.81mn per annum – which improve our profitability.
- Funded by approximately RM8.37mn from IPO proceeds

### 3) Enhance quality assurance/quality control (“QA/QC”) procedures:

- To intensify QA/QC procedures by acquiring an additional optical emission spectrometer, for product inspection. The purchase is estimated to be done within 6 months post-listing.
- Funded by approximately RM0.35mn from IPO proceeds.

### 4) Expand delivery fleet to accommodate growing needs for product delivery:

- To acquire 5 additional delivery trucks, comprising 3 units of 3-ton trucks, 1 unit of 5-ton truck and 1 unit of 10-ton truck. The purchase is estimated to be fully funded from within 24 months post-listing.
- Funded by approximately RM1.09mn from IPO proceeds.



**5) Enhance the supply and distribution of jointly-owned “THF” brand:**

- a) To further develop and grow the supply and distribution of jointly-owned brand products, i.e. “THF” products. This is done by actively intensifying sales and marketing strategy through the following efforts.
  - i) Encourage sales personnel to promote “THF” products
  - ii) Actively promote “THF” products while participating in exhibitions and trade shows
  - iii) Train sales personnel on the product knowledge and application.

**Key Risks**

**Dependent on major suppliers, mainly Tae Heung:** Saliran is dependent on Tae Heung as its largest supplier in FYE 2023 and FPE 2024, which has contributed 30.50% and 35.61% of total purchases. Tae Heung serves as the Group contract manufacturer to supply products listed in the OEM Agreement under jointly-owned brand of “THF”, which gives exclusive rights to supply and distribute these products under the brand of “THF” in Malaysia, Indonesia, Singapore, Thailand, Vietnam and Philippines. Any failure to renew the Agreement will end its right to supply and distribute Tae Heung’s products at all, thus, would negatively affect the Group sales performance.

**Reliant on major customers:** Saliran is dependent on Harmoni Group and PT Promatcon Tapatguna in maintaining the required licences to operate within the O&G industry within their respective countries. In the event that customers are unable to renew their required licences respectively, it may cause a significant reduction of their orders to the Group. Thus, it may lead to an adverse impact on its financial performance.

**Exposed to price fluctuations of raw materials:** Pipes, fittings and flanges are made of different raw materials, such as carbon steel, stainless steel or plastics, whereas steel products are made of carbon steel, stainless steel, or other steel alloys. These raw materials are subject to price fluctuations driven by the global demand and supply factors. Any material increases in the prices of raw materials such as carbon steel may lead to a rise in the prices of pipes, fittings and flanges as well as steel products. As such, failure to pass on the increase in prices to customers may cause material adverse impact to Saliran’s financial performance.

**Exposed to unfavourable changes in import duty regulations:** The pipes, fittings and flanges as well as steel industry in Malaysia is subject to Government regulations on the imposition of import duties which is levied between 0% to 15% depending on the types and grades of products. Any changes in import duty regulations will result in the increase in the cost of imported raw materials, hence, could subsequently negative impact to the Group’s financial performance.

**Industry Outlook**

From 2020 to 2023, the O&G industry gradually recovered and recorded compound annual growth rate (“CAGR”) of 1.51% to reach RM88.22bn. This is driven by increasing global demand for oil and natural gas, fueling production, refining, and processing activities – which is expected to boost demand for pipes, fittings, flanges, and steel products to support O&G process plant operations.

In response to the recovery in global consumption of oil and natural gas in 2021, PETRONAS’s domestic CAPEX increased 24.00% YOY to RM18.60bn in 2022. In 2023, domestic CAPEX increased further by 40.86% YOY to RM26.20bn following investments in new projects.



**DEFINITION OF RATINGS**

Eco Asia Investment Advice uses the following rating system:

**STOCK RECOMMENDATION**

**BUY** Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.

**TRADING BUY** Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.

**HOLD** Share price may fall within the range of +/- 10% over the next 12 months

**TAKE PROFIT** Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.

**TRADING SELL** Share price may fall by more than 15% in the next 3 months.

**SELL** Share price may fall by more than 10% over the next 12 months.

**NOT RATED** Stock is not within regular research coverage.

**SECTOR RECOMMENDATION**

**OVERWEIGHT** The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months

**NEUTRAL** The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months

**UNDERWEIGHT** The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

**Applicability of ratings**

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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Lot 1904, 19th Floor  
Tower 1, Faber Towers  
Jalan Desa Bahagia, Taman Desa  
58100 Kuala Lumpur

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**Research Office:**



ECO ASIA CAPITAL ADVISORY SDN BHD  
Lot 1904, 19th Floor  
Tower 1, Faber Towers  
Jalan Desa Bahagia, Taman Desa  
58100 Kuala Lumpur

**Rijel Sid**

Head, Investment Advice

Phone: +60 3 7971 1822

Fax: +60 3 7972 1821

Email: [research@ecoasia-my.com](mailto:research@ecoasia-my.com)

