

O&G All-Inclusive EPCC Support

STEEL HAWK BERHAD

Fair Value: RM0.35 (+133%)

Company Description

Steel Hawk Berhad ("Steel Hawk") is principally involved in the provision of onshore and offshore support services for the Oil and Gas ("O&G") industry. Its core principal activities are, Engineering, Procurement, Construction, and Commissioning ("EPCC") services for chemical injection skids and facilities improvement / maintenance of topside O&G facilities, installation and maintenance as well as supply of oilfield equipment.

Investment Highlight

- Global economic recovery led to strong demand for EPCC services:** The end of COVID-19 in 2021 marks the resilient economy recovery. We saw an increase of world output of petroleum from 90.64 million ("mn") barrels per day in 2022 to 92.60mn barrels per day in 2023 – as the Asia-Pacific region was the largest petroleum products producing region with 34.47mn barrels per day produced in the same year. This led to a strong global demand within the O&G industry. Subsequently, more demand for EPCC services to complement the positive growth.
- Solid EPCC services demand derived from PETRONAS:** PETRONAS annual domestic capital expenditures ("CAPEX") is projected to grow from RM26.50 billion in 2024 to RM28.00 billion in 2028, registering a compound annual growth rate ("CAGR") of 1.34% during the forecast period. As the custodian of Malaysia's petroleum resources, its budgets and determines upstream and downstream oil and gas projects give a positive impact on the participation rate and revenue stream of OGSE industry players. Hence, strong future demand for all related EPCC services for offshore and onshore segments.
- New venture in renewable energy ("RE") industry:** The National Energy Transition Roadmap ("NETR") targets to increase RE's contribution of total primary energy supply ("TPES") from 4% in 2023 to 23% by 2050. This expansion provides huge opportunity for Steel Hawk, as the Group aims to provide EPCC services and facilities improvement /maintenance services for hydroelectric energy and solar energy.
- Untap growth in new opportunity:** Steel Hawk has the essential capability in providing integrated Hook-up and Commissioning ("HUC") services to interconnect platforms, pipelines and associated infrastructure of an O&G production asset – both onshore and offshore HUC services. Thus, it is a new opportunity for more sustainable growth in the long run.

Valuation / Recommendation

We derive a fair value of RM0.35 based on 18x multiple to its FYE2025F EPS of 1.95sen. The IPO aims to raise approximately RM13.5mn from the issuance of 90mn new shares. A total of 66.67% of proceeds will be utilised for capital expenditure, 7.41% is allocated for repayment of bank borrowings and working capital, while the remaining 25.93% of it will be utilised for listing expenses.

Steel Hawk posted current ratio above 1x at 1.72x (as of FYE2023) – reflecting strong capacity to repay its current liabilities. While the low gearing ratio below 1x at 0.83x shows healthy funding ability. Hence, we foresee it to grow steadily and strong in the future.

IPO TIMELINE

Opening Date	16 Aug 2024
Closing Date	23 Aug 2024
Listing Date	5 Sep 2024

IPO Price (RM)	0.15
Expected Return	133%
Market/ Sector	Energy
Bursa Code	03049

IPO Details

	Shares(mn)
Offer for Sale	44.70
Public Issue	90.00
Enlarged share	490.00

	RM(mn)
Market Cap	73.50
Shariah compliant	Yes

Substantial Shareholders

	Shares(mn)	(%)
Radiant Capital	178.35	36.40
Dato' Sharman	48.95	9.99
Datin Annie A/P V Sinniah	48.95	9.99

Utilisation of IPO Proceeds

	RM(mn)	(%)
Construction of Teluk Kalung Facility 2	7.00	51.85
Working capital	2.00	14.81
Repayment of bank borrowings	1.00	7.41
Estimated expenses for the Transfer	3.50	25.93
Total	13.50	100.00

Allocation

	Shares(mn)	(%)
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Public Issue

Malaysian Public via balloting process:		
• Public investors	12.25	2.50
• Bumiputera public investors	12.25	2.50
Eligible Parties	12.25	2.50
Placement to selected investors	53.25	10.87
Subtotal	90.00	18.37

Offer for sale

Private placement to Selected Investors	44.70	9.12
Subtotal	44.70	9.12
Total	134.70	27.49

Total enlarged share capital upon listing 490.00

Source: Company Prospectus

Key Financial Summary

FYE Dec (RMmn)	2022A	2023A	2024F	2025F	2026F
Revenue	66.33	72.54	83.42	95.79	110.12
Gross Profit	16.03	20.83	23.96	27.51	31.63
Pre-tax Profit	8.20	10.34	11.90	13.66	15.70
Core Net Profit	5.07	7.22	8.30	9.53	10.96
Core EPS (Sen)	1.03	1.47	1.69	1.95	2.24
P/E (x)	14.49	10.18	8.85	7.71	6.71
DPS (Sen)	0.18	0.00	0.51	0.58	0.67
Dividend Yield (%)	1.20	0.00	3.39	3.89	4.47

Source: Company Prospectus, Eco Asia Research Estimates

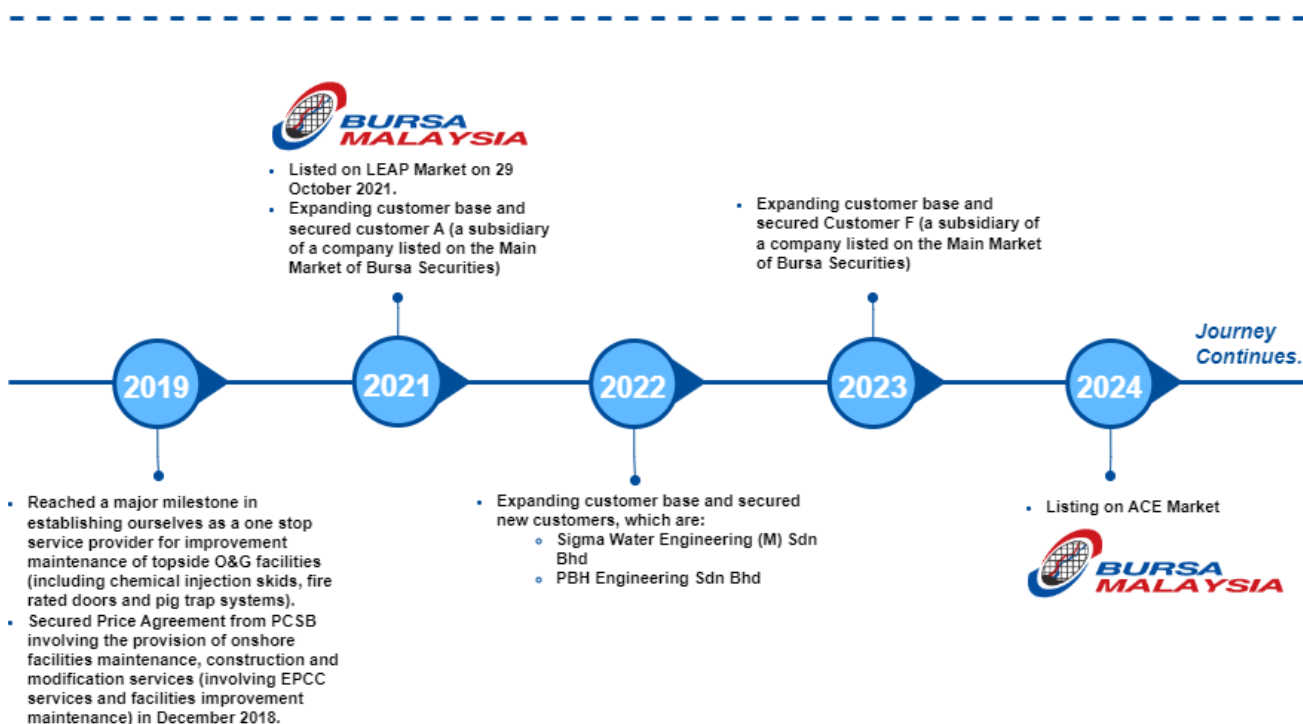
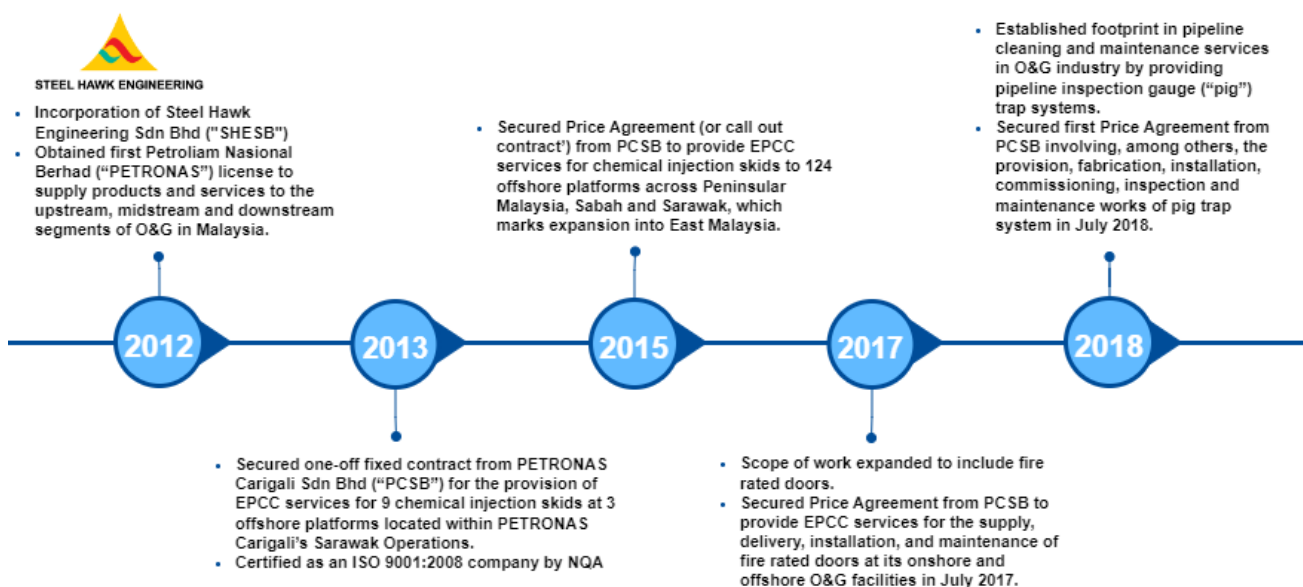
EPS, P/E and DPS from 2022A to 2023A (pre-IPO) are on pro-forma basis for comparative purposes only.



Company Background

The Group was incorporated in Malaysia on 29 December 2020 as a private limited company under the name of Steel Hawk Sdn Bhd. On 8 July 2021, Steel Hawk converted into a public limited company and was listed on the LEAP Market of Bursa Securities on 29 October 2021. Following the incorporation of Steel Hawk Engineering Sdn Bhd ("SHESB") in October 2012, the Group started its initial business activity solely focusing on the provision of EPCC services for chemical injection skids at offshore exploration and production platforms in the O&G industry. The following illustration shows milestones of its history and development.

Key Milestones



Source: Company Prospectus

Business activities

EPCC services and facilities improvement / maintenance: under the provision of EPCC services, the chemical injection skid is installed at onshore or offshore exploration and production facilities (i.e. platforms, rigs or terminals). Meanwhile, facility improvement / maintenance refers to the overall improvement and maintenance of O&G facilities. It covers all upgrades, replacements and modification of corroded or damaged parts and structures.

Installation and maintenance of oilfield equipment: Supply of the oilfield equipment, which to be installed and maintained, that cover repair, refurbishment, and replacement services at customers' sites.

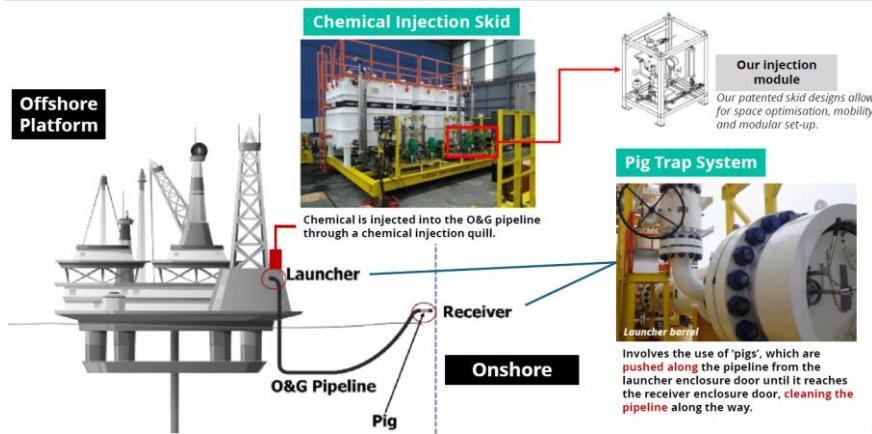
Supply of oilfield equipment: Steel Hawk also supplies and delivers specific oilfield equipment and / or parts and components to embarkation points. Range of components are Pipeline Inspection Gauge ("Pig") trap system, fire rated doors, oil spill recovery equipment, etc.

Geographical footprint: In order to serve the industry well – the Group facilities are strategically located nearby the O&G production hubs – which are Kemaman in Terengganu, and Miri in Sarawak.

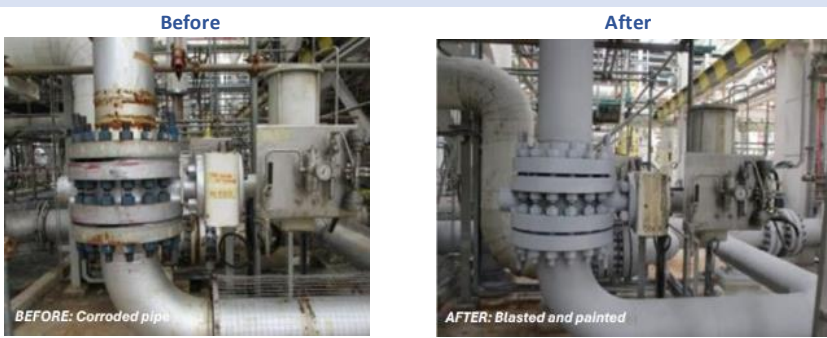


Source: Company

EPCC Services for Chemical Injection Skids, Supply of Pig Trap System



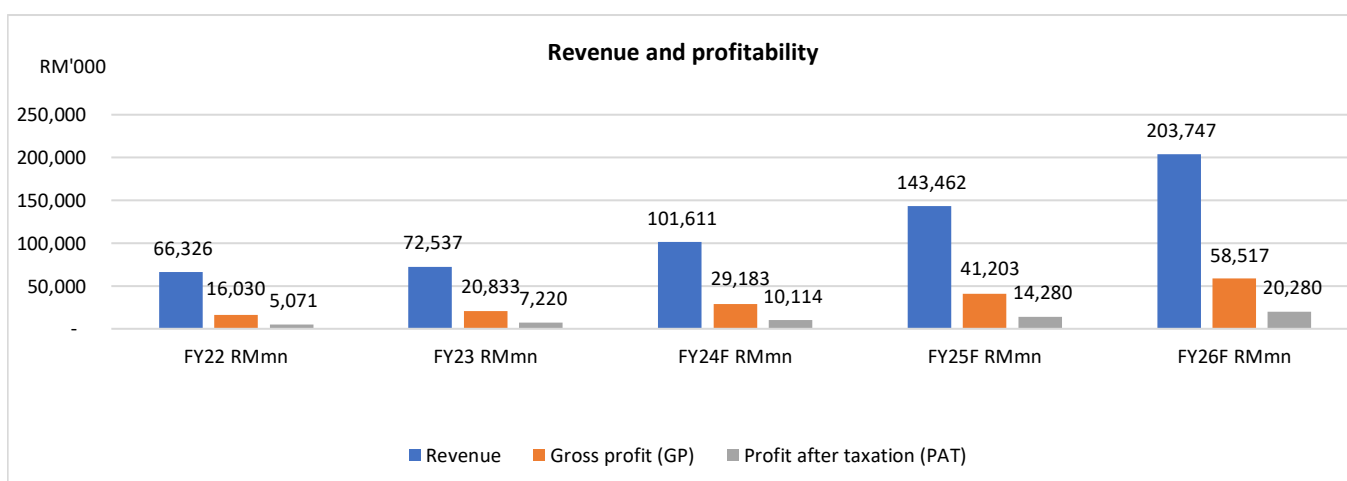
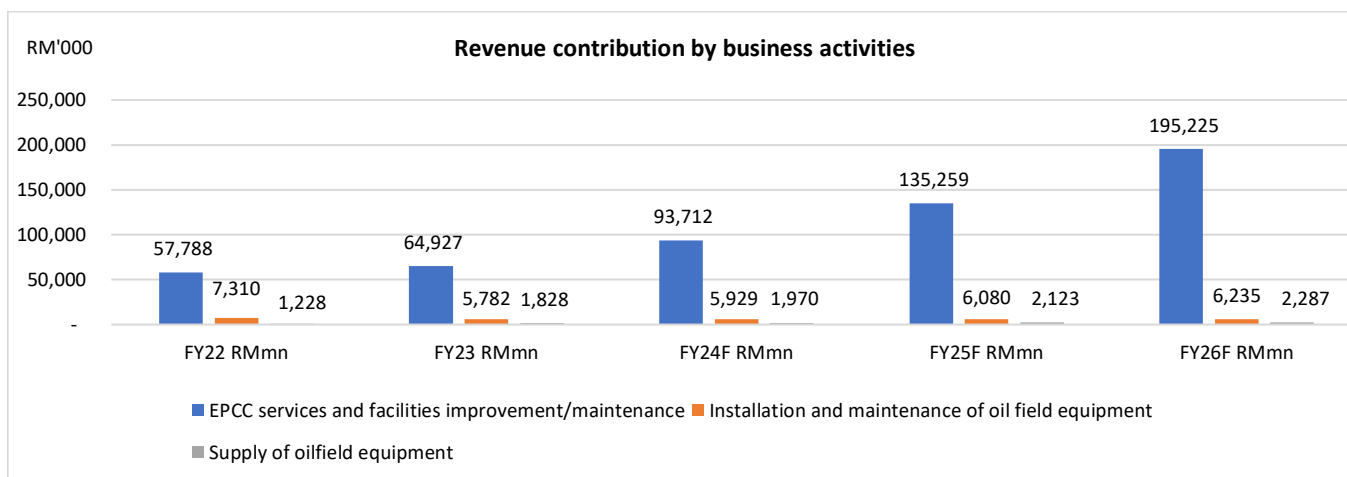
Facilities Improvement / Maintenance of Topside Facilities



Source: Company Prospectus

Revenue and Profitability

The Group’s revenue from FYE2022 to FYE2023 was mainly derived from its EPCC services and facilities improvement / maintenance segment, which accounted more than 90% of the total revenue – as of FYE2023. Revenue contributions by business activities as well as the revenue and profitability from FYE2022 to FYE2023, FYE2024F, FYE2025F and FYE2026F are as below:



Source: Company Prospectus / Eco Asia Research Estimates

Future Plans

- Facility expansion of new Terengganu fabrication yard – Teluk Kalung Facility 2:**
 - In line with the anticipated increase in spending on EPCC services in the O&G industry, it is expected that the fabrication activities will further increase. Steel Hawk aims to build new facility to add up additional fabrication capacity of 52 Metric Tonnes (“MT”) of steel pipes. This will optimise the turnaround time of the EPCC services with minimising possible delays caused by external subcontractors’ delivery schedules. The construction for new facility is expected to start in 3Q 2024, while expected operation will be in 3Q 2026.
- Expansion EPCC services to the renewable energy industry:**
 - The Group aims to utilise its transferable-technical expertise in O&G industry into the RE industry. Steel Hawk will be focusing to provide EPCC services and facilities improvement /maintenance services to Hydroelectric Energy and Solar Energy.



- **To Provide Integrated Hook-up and Commissioning (“HUC”) Services:**
 - To provide integrated HUC services to interconnect platforms, pipelines and associated infrastructure of an O&G production asset. For onshore HUC services, the Group focus in two areas as below:
 - Onshore HUC Services: Onshore fabrication services, System integration, Assembly, Pre-commissioning of components and systems.
 - Offshore HUC Services: Transportation and installation (“T&I”), Hook-up services, installing fabricated components, start-up commissioning.

Key Risks

Dependent on major customer: Steel Hawk is dependent on PETRONAS group, which contributed 85.84%, 54.47%, 45.64% and 61.39% to our total revenue for the Financial Years (“FY”)/ Period Under Review, respectively. In the event of business termination with PETRONAS, the Group’s business operations and financial performance may be adversely affected, as it may not be able to find new customer that can contribute similar revenue size.

Risk of business operation suspension: The O&G services and equipment industry requires Steel Hawk to be constantly comply with the rules and regulations issued by PETRONAS in order to meet the Standardised Work and Equipment Categories (“SWEC”) requirements. Any failure to abide on the regulation may result revocation, suspension, blacklisting and non-renewal of license – which could cause loss of business to the Group.

Demand driven by PETRONAL local CAPEX: In the event that PETRONAS group and other O&G players reduce, delay or terminate their O&G activities, it will cause lower expansion to their local CAPEX. Consequently, this may have an adverse effect on Steel Hawk business operation and financial performance due to declining demand of its services.

Industry Outlook

Malaysian O&G industry growth remains to be solid – which reflected in the increase of PETRONAS domestic CAPEX – from RM15 billion (“bn”) to RM18.60bn (as of 2022). Looking forward, the long-term sustainable growth led by the strong support from PETRONAS is projected to grow from RM26.50 billion in 2024 to RM28.00 billion in 2028, registering a CAGR of 1.34% (during the forecast period). In addition, the presence of strategic petroleum reserves coupled with the ongoing influx of investments for more upstream and downstream oil and gas activities fuels stronger long-term positive outlook for the industry.



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

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