Oiltek International (OTEK SP)

Strong Growth Pipeline; Project Execution Remains In Focus

BUY (Maintained)	
Share Price	S$1.60
Target Price	S$2.78
Upside	+73.8%

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Highlights

- We hosted Oiltek recently, and management provided updates on its operations and expansion strategy.
- Oiltek continues to pursue growth through a strong pipeline of SAF projects, JVs and new ventures. In addition, the HOA announced in Apr 26 is progressing well.
- Maintain BUY with an unchanged target price of S$2.78, pegged to 28x 2027F PE. We believe contract wins and delivery of better earnings could continue to support its re-rating potential.

Analysis

- **Key takeaways from SG Small & Mid Cap Corporate Day.** We hosted Oiltek International (Oiltek) recently at our SG Small & Mid Cap Corporate Day, where management provided updates on its dividend policy and expansion strategy across existing and new markets. Key topics covered included the group's algae farming trial, feedstock business segment, and sustainable aviation fuel (SAF) project pipeline in Sabah and other markets. A summary of the key questions raised can be found on the following page.
- **Strong SAF order pipeline and potential corporate actions.** Oiltek is pursuing more SAF opportunities and is targeting orders that could be worth several billion in ringgit terms, supported by a broader tender book of three potential contracts over the next 12 months. Separately, the heads of agreement (HOA) announced in Apr 26 is progressing well for land purchase, licensing and funding drawdown, with the land offer letter expected by end-26. Looking ahead, Oiltek has two corporate actions in the pipeline, a Bursa secondary listing and a spinoff of its JV.
- **Growth strategy and new initiatives.** Oiltek's strategy is two pronged. It is expanding into existing and new markets while shifting focus toward larger scale projects and separately building recurring income through JVs structured on a low-capex, high-return basis - an asset-light approach that diversifies earnings. Beyond this, the group is exploring new growth avenues, including an algae farming trial (currently focused on HEFA, given its proven technology and low-cost profile) and a feedstock business that is still in the trial stage, alongside another expansion initiative yet to be disclosed.

Key Financials

Year to 31 Dec (RMm)	2024	2025	2026F	2027F	2028F
Net turnover	230	211	230	700	720
EBITDA	34	48	44	175	180
Operating profit	34	48	44	175	180
Net profit (rep./act.)	27	40	35	132	136
Net profit (adj.)	27	40	35	132	136
EPS (sen)	6.3	9.4	8.2	30.7	31.6
PE (x)	81.1	54.1	62.0	16.5	16.1
P/B (x)	25.8	21.8	19.2	9.6	7.2
EV/EBITDA (x)	61.4	43.2	46.9	11.9	11.5
Dividend yield (%)	1.7	0.8	0.6	2.4	2.5
Net margin (%)	11.7	19.0	15.3	18.8	18.8
Net debt/(cash) to equity (%)	(125.9)	(99.9)	(85.0)	(78.3)	(83.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	35.3	43.7	33.0	77.8	51.1
Consensus net profit (RMm)	-	-	40	119	111
UOBKH/Consensus (x)	-	-	0.88	1.11	1.22

Source: Oiltek, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Industrials
Bloomberg ticker	OTEK SP
Shares issued (m)	429.0
Market cap (S$m)	686.4
Market cap (US$m)	531.9
3-mth avg daily t'over (US$m)	1.7

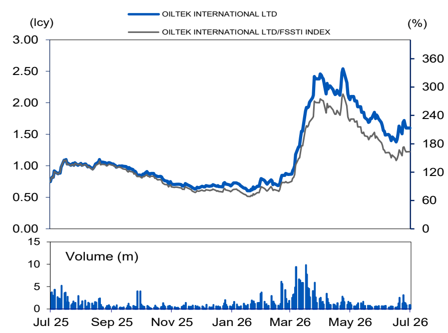
Price Performance (%)

52-week high/low				S$2.69/S$0.60
1mth	3mth	6mth	1yr	YTD
(8.6)	(32.8)	135.3	119.2	135.3

Major Shareholders	%
Koh Brothers Group	68.1
Yong Khai Weng	5.6

Major Shareholders	
FY26 NAV/Share (RM)	0.26
FY26 Net Cash/ Share (RM)	0.22

Price Chart



Source: Bloomberg

Company Description

Oiltek International provides renewable energy equipment.

Stock Impact

- **Oiltek briefing Q&A summary.** Investors' questions centred on the progress and monetisation timeline of Oiltek's newer growth initiatives.
  - Algae farming remains at a semi pilot stage, currently at a half-acre pond size, with harvesting challenges and negative feedback from larger organisations. Management is unable to predict when this will meaningfully impact the market.
  - Regarding the SAF projects in Sabah, management is in talks for two smaller sized contracts (100 tonnes and 300 tonnes p.a.), alongside three other potential contracts at the tender stage over the next 12 months.
  - For the HOA timeline announced in April, the process requires nine months in total, comprising six months plus a further three months to finalise land purchase, licensing and funding drawdown. Management flagged the timeline may be slightly behind schedule.
  - Dividend policy remains at 40-50% of net profit, supported by a net cash position above RM100m over the past few years.
- **Building a major SAF facility in Sabah.** Earlier this year, Oiltek entered into a RM1.4b HOA with Bioseaga Industries Sdn Bhd (Bioseaga) for the construction services of a SAF production facility with a planned capacity of approximately 300 metric tonnes per day in Sabah, Malaysia. Oiltek acts as the exclusive contractor for the project and will undertake the engineering, procurement, construction and commissioning (EPCC) for the plant's pre-treatment facilities, SAF production plant, tank farm and logistic bulking infrastructure, and partial blending facilities. Oiltek also provides the preliminary necessary technical expertise and data reasonably required by Bioseaga and its advisor for financial modelling and project planning.
- **Right to participate in equity ownership enables significant future recurring estimated earnings of RM14m-28m.** This project enables Oiltek the right of first refusal to participate in any equity investment, JV, or ownership opportunity related to the project. We estimate that a 10% stake in the plant could generate around RM14m-28m of recurring earnings p.a., based on 10-20% ROI of the plant's RM1.4b construction value. This is a significant sum, equivalent to 45-90% of Oiltek's 2025 earnings.

Valuation/Recommendation

- **Maintain BUY with unchanged target price of S$2.78,** pegged to a 28x 2027F PE (+1SD above historical PE mean). We believe a strong contract win and delivery of better earnings could continue to support a re-rating. Our valuation base year of 2027 also better captures the significant earnings uplift from the recently secured RM1.4bn Bioseaga SAF project.
- **Oiltek is currently trading at only 17x 2027F PE,** around 25% discount vs the tech manufacturers in Singapore and Malaysia, despite having more a superior: a) business model that is asset-light in nature, b) EPS growth, c) ROE (>30%), and d) net margin (>15%).

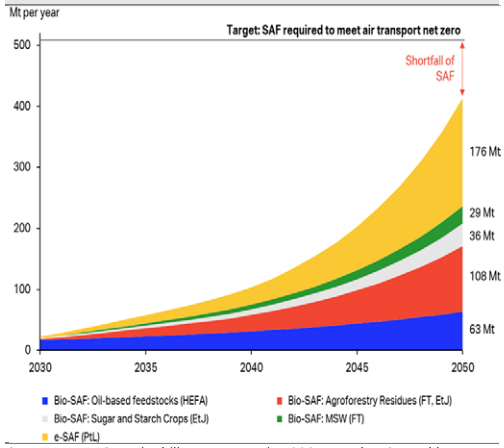
Earnings Revision/Risk

- No changes to our earnings forecasts.

Share Price Catalyst

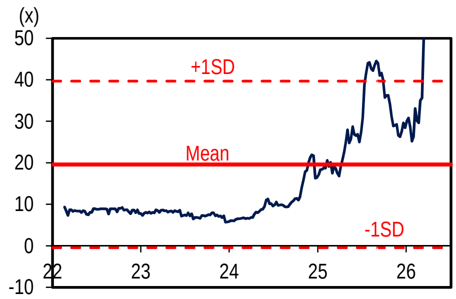
- Higher-than-expected order wins.
- Better-than-expected margins from better economies of scale.
- Potential positive corporate actions.

Estimated Global SAF Production Potential



Source: IATA Sustainability & Economics 2025, Worley Consulting

Historical PE Chart



Source: Bloomberg, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Net turnover	211.4	230.0	700.0	720.0
EBITDA	48.1	44.4	175.2	180.1
Deprec. & amort.	0.4	0.2	0.2	0.2
EBIT	47.8	44.2	175.0	179.9
Total other non-operating income	(8.2)	0.0	0.0	0.0
Associate contributions	8.2	0.0	0.0	0.0
Net interest income/(expense)	3.3	3.3	3.3	3.3
Pre-tax profit	51.0	47.5	178.3	183.2
Tax	(10.8)	(12.3)	(46.3)	(47.6)
Minorities	0.0	0.0	0.0	0.0
Net profit	40.2	35.1	131.9	135.5
Net profit (adj.)	40.2	35.1	131.9	135.5

Balance Sheet

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Fixed assets	3.4	2.7	2.0	1.3
Other LT assets	3.0	3.0	3.0	3.0
Cash/ST investment	99.7	96.2	177.0	254.2
Other current assets	81.7	88.9	270.6	278.4
Total assets	187.8	190.8	452.6	536.8
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	88.0	78.4	227.2	233.6
LT debt	0.0	0.0	0.0	0.0
Other LT liabilities	0.0	0.0	0.0	0.0
Shareholders' equity	99.9	113.2	226.1	304.0
Minority interest	0.0	(0.7)	(0.7)	(0.7)
Total liabilities & equity	187.8	190.8	452.6	536.8

Cash Flow

Year to 31 Dec (RMm)	2025	2026F	2027F	2028F
Operating	14.1	18.8	100.3	135.3
Pre-tax profit	42.8	47.5	178.3	183.2
Tax	(12.2)	(12.3)	(46.3)	(47.6)
Deprec. & amort.	0.4	0.2	0.2	0.2
Associates	8.2	0.0	0.0	0.0
Working capital changes	(20.9)	(17.5)	(32.8)	(1.4)
Non-cash items	0.0	0.0	0.0	0.0
Other operating cashflows	(4.3)	1.0	1.0	1.0
Investing	(0.1)	(0.5)	(0.5)	(0.5)
Capex (growth)	(0.1)	(0.5)	(0.5)	(0.5)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(15.5)	(16.9)	(14.0)	(52.8)
Dividend payments	(15.5)	(16.9)	(14.0)	(52.8)
Proceeds from borrowings	0.0	0.0	0.0	0.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	0.0	0.0	0.0	0.0
Net cash inflow (outflow)	(1.5)	1.4	85.7	82.1
Beginning cash & cash equivalent	106.1	99.7	96.2	177.0
Changes due to forex impact	(4.9)	(4.9)	(4.9)	(4.9)
Ending cash & cash equivalent	99.7	96.2	177.0	254.2

Key Metrics

Year to 31 Dec (%)	2025	2026F	2027F	2028F
Profitability				
EBITDA margin	22.8	19.3	25.0	25.0
Pre-tax margin	24.1	20.6	25.5	25.4
Net margin	19.0	15.3	18.8	18.8
ROA	19.9	18.5	41.0	27.4
ROE	43.7	33.0	77.8	51.1
Growth				
Turnover	(8.2)	8.8	204.3	2.9
EBITDA	42.0	(7.7)	294.7	2.8
Pre-tax profit	38.9	(7.0)	275.7	2.7
Net profit	49.7	(12.7)	275.7	2.7
Net profit (adj.)	49.7	(12.7)	275.7	2.7
EPS	49.7	(12.7)	275.7	2.7
Leverage				
Debt to total capital	0.0	0.0	0.0	0.0
Debt to equity	0.0	0.0	0.0	0.0
Net debt/(cash) to equity	(99.9)	(85.0)	(78.3)	(83.6)
Interest cover (x)	n.a.	n.a.	n.a.	n.a.