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MARC RATINGS UPGRADES EVYAP MALAYSIA'S RM500.0 MILLION SUKUK WAKALAH PROGRAMME RATING TO AA_{IS}

MARC Ratings has upgraded Evyap Sabun Malaysia Sdn Bhd's (Evyap Malaysia) RM500.0 million Sukuk Wakalah Programme rating to **AA_{IS}** from AA-_{IS} and accordingly revised the rating outlook to **stable** from positive.

Evyap Malaysia's healthy operational and financial performance, and sustained strong credit metrics since the initial rating was assigned in 2020 are key rating drivers for the upgrade. The group has also adhered to prudent financial management in expanding its oleochemical plant capacity — from 260,000MT p.a. for fatty acids in 2018 to 380,000MT p.a. currently and the addition of an ester production facility with a current capacity of 19,800MT p.a. — and on dividend distribution, a policy which MARC Ratings expects Evyap Malaysia to maintain in the foreseeable future.

Based in Tanjung Langsat, Johor, Evyap Malaysia is one of the largest vertically integrated oleochemical producers of multi-chained fatty acids (primary product), soap noodles, glycerines, esters, and bar soaps. MARC Ratings views positively Evyap Malaysia's ability to adapt its oleochemical output in accordance with demand from its well-established customer base in over 100 countries. It draws support from its parent, Türkiye-based Evyap Group, which has strong expertise and a track record of over 90 years in the manufacture and distribution of personal care products in Europe and the Middle East region.

The rating agency notes that Evyap Malaysia has generally maintained high utilisation rates; for 1H2024, this stood at 94.5% for fatty acids production. It has steady supply of feedstock — palm oil, palm stearin and palm kernel oil — that is secured from the palm oil refinery cluster in Pasir Gudang, proximate to the plant. Its facilities have the Roundtable on Sustainable Palm Oil (RSPO) Supply Chain Certification Standards status which allows for greater marketability. The group is in the process of setting up a second oleochemical plant in the region. Costing RM440 million, the plant, with a production capacity of 240,000MT p.a., is being established on a 40-acre land parcel in Medan, Indonesia. Slated for operational commencement in 4Q2025 and focusing on fatty acids, glycerines and soap noodles, the cost for the plant is funded largely by internal funds. The project is not expected to materially weigh on Evyap Malaysia's leverage and coverage metrics.

MARC Ratings views that establishing an oleochemical manufacturing plant in Medan, where palm oil is readily available, would allow Evyap Malaysia to cater to the growing demand for oleochemicals in Indonesia and abroad. The global oleochemicals industry is forecast to grow at a compound annual growth rate of 4% through 2028. While there is some concern on execution risk, this is alleviated by the group's proven track record of establishing and operating the Tanjung Langsat plant.

For 1H2024, Evyap Malaysia recorded revenue of RM1.1 billion, up 20.4% y-o-y driven by higher sales volumes of bar soaps, fatty acids and esters. Operating profit before interest, tax, depreciation and amortisation (OPBITDA) increased to RM157.3 million (1H2023: RM65.9 million), supported by lower production costs from the decline in natural gas prices. For 2024-2025, OPBITDA is projected at around

RM300 million p.a. Based on this expectation — incorporating additional borrowings of about RM200 million by year end to support working capital and capex requirements — minimum OPBITDA interest and debt coverages would be at around 13x and 0.5x through 2025.

Total borrowings of RM366.5 million as at end-June 2024, consisting largely of the RM300.0 million outstanding notes under the rated programme, is forecast to increase to around RM566 million by end-2024, before declining to approximately RM200 million by end-2028. Consequently, pro forma gross leverage (assuming equity remains at end-June 2024 level of RM1.2 billion) could peak at around 0.48x at end-2024 before easing to around 0.17x by end-2028 (end-June 2024: 0.31x). Given its demonstrated healthy operating performance and current strong liquidity position, with cash balances standing at about RM300 million as at end-June 2024, the rating agency views that Evyap Malaysia has the wherewithal to support its business expansion and meet its financial obligations. The upcoming maturing note of RM100 million in December 2025 is expected to be refinanced from the proceeds of RM200 million from the planned sukuk issuance by end-2024 with the balance of RM100 million to be utilised to fund working capital and capex.

Contacts:

Umar Abdul Aziz, +603-2717 2962/ umar@marc.com.my

Cyndy Goh, +603-2717 2941/ cyndy@marc.com.my

Taufiq Kamal, +603-2717 2951/ taufiq@marc.com.my

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