

GROUP BUSINESS REVIEW – RESOURCE-BASED MANUFACTURING



WHO WE ARE & WHAT WE DO

The Group's global resource-based manufacturing business, comprising our refining, oleochemical and specialty oils and fats sub-segments, plays an important role in fortifying our integrated palm value chain. It consists of downstream activities such as refining of crude palm oil ("CPO") and palm kernel oil, and processing of refined palm oil and palm kernel oil into oleochemical as well as specialty oils and fats products. With our local and international manufacturing facilities, we are well equipped to meet the needs of our customers domestically and internationally.

FINANCIAL HIGHLIGHTS

The Group's resource-based manufacturing segment profit for FY2023 was RM691.0 million as compared to RM537.3 million for FY2022. Excluding the fair value loss on derivative financial instruments of RM58.1 million (FY2022 – gain of RM32.0 million) and share of our specialty fats associate, Bunge Lodders Croklaan Group BV's ("BLC") impairment loss of RM55.3 million reported in FY2022, the resource-based manufacturing segment reported an underlying profit of RM749.1 million for FY2023, which was 34% higher than the underlying profit of RM560.6 million for FY2022. The higher profit was due mainly to higher margins from the refining sub-segment, partly offset by lower margins from the oleochemical sub-segment.

REFINING



Manufacturing
Facilities
2

Combined Annual
Refining Capacity
1.8 million MT

Sales of Total Certified Refined Products
200,785 MT

The Group has two wholly-owned refineries in Malaysia with a combined annual capacity of about 1.8 million MT. They are strategically located in Pasir Gudang, Johor and Sandakan, Sabah, which have gateways to major shipping routes with direct port access. Both refineries are closely located to our plantation estates and mills. They produce CPO and palm kernel oil fractions for domestic and export markets as well as feedstock for the Group’s downstream activities. Our refineries are Roundtable on Sustainable Palm Oil (“RSPO”) and Malaysian Sustainable Palm Oil (“MSPO”) certified, and our Sandakan refinery is also International Sustainability and Carbon Certification (“ISCC”) certified. Our manufacturing premises have attained various national and internationally recognised quality management systems, environment management systems, food safety certifications and more. We are constantly identifying and implementing resource minimisation measures to reduce greenhouse gas (“GHG”) emissions.

KEY FOCUS AREAS



Optimise refineries’ processing capacity and efficiency



Supply consistently high-quality palm oil products that fulfil different customers’ needs



Expand certified sustainable palm oil products and low 3-MCPD and GE markets



Maximise consumer packing capacities in various packing configurations to meet customers’ requirements



Ensure efficient supply chain management with uninterrupted supply



Drive innovation and promote sustainable development

KEY BUSINESS HIGHLIGHTS

- The sales volume of our certified sustainable refined products was affected by huge fluctuations in palm oil demand and pricing due to geopolitical and macroeconomic factors.
- Both refineries have recorded higher sales of low 3-MCPD and GE products with stringent quality controls coupled with improved customers’ demand.
- Our refineries’ utilisation rates have been impacted by the supply tightness of raw materials mainly due to adverse weather conditions and slow demand in the second half of the financial year.

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BUSINESS PERFORMANCE REVIEW 2023

STRATEGIC OBJECTIVES	KEY INITIATIVES	ACHIEVEMENTS IN FY2023
 <p>Drive innovation and promote sustainable development.</p>	<p>Continuous improvement on process and digitalisation, and reduction of GHG emissions and energy consumption.</p>	<ul style="list-style-type: none"> IOI Edible Oils Sdn Bhd and IOI Bio-Energy Sdn Bhd have won several prestigious awards at the national and ASEAN levels for their green initiatives and achievements. <i>Refer to our Highlights of the Year on page 12 for the full list.</i> IOI Bio-Energy Sdn Bhd worked together with IOI Edible Oils Sdn Bhd to enhance the efficiency of their biomass boiler and improve steam distribution, which has led to reduced downtime from more than 100 hours to 40 hours, and cut GHG emissions by 2.08 million kg CO₂ by generating more green power. IOI Edible Oils Sdn Bhd installed two units of 500 RT high-efficiency centrifugal chillers at two main fractionation plants, which reduced the electricity consumption from 21.77 kWh to 17.71 kWh, and upgraded each plant capacity from 800 t/d to 1100 t/d.
 <p>Expand certified sustainable palm oil products and low 3-MCPD and GE markets.</p>	<p>Focusing on expanding our markets for certified sustainable and value-added palm oil.</p>	<ul style="list-style-type: none"> IOI Pan-Century Edible Oils Sdn Bhd has doubled its production capacity for producing low 3-MCPD products in March 2023. Both our refineries recorded higher sales volume in value-added refined palm products (low 3-MCPD and GE). Sales of certified refined palm products was 200,785 MT in FY2023.
 <p>Maximise consumer packing capacities in various packing configurations to meet different customers' requirements.</p>	<p>Actively participate in World Food Programme tenders and expand other potential markets.</p>	<ul style="list-style-type: none"> Successfully performed 36 shipments for the United Nations World Food Programme. IOI Pan-Century Edible Oils Sdn Bhd installed a new Bag-in-Box filling machine in May 2023.

CHALLENGES/RISKS	MITIGATION ACTIONS
<p>Huge fluctuations in demand and prices will affect our units' sales and bottom line.</p>	<ul style="list-style-type: none"> We are consistently looking for opportunities to capture demand and lock-in positive margin whenever possible. We will continue to increase our sales of value-added products like low 3-MCPD and GE in line with our strategic objective.
<p>Stiff competition of raw materials will affect our plant productivity and efficiency.</p>	<ul style="list-style-type: none"> We always keep abreast of changes in market competition and adopt necessary strategies to secure more raw materials domestically and overseas whenever available.

OUTLOOK & PROSPECTS

2022 was hailed as an eventful year. We witnessed many commodity prices, including palm oil, recording historical prices due to various factors. The start of the Russia-Ukraine crisis resulted in both supply and logistics issues for many commodities produced by the two countries, for example, sunflower, wheat and fertilisers. The ban on palm oil exports by Indonesia, labour shortage issues and adverse weather conditions also contributed to the bullishness of palm oil prices.

Many of these factors have somewhat normalised like the labour issues and the end of the La Niña phenomenon. Other factors such as the El Niño phenomenon, stiff competition from Indonesian refiners who benefit from their country's CPO export duty policy, and the shifting of global central banks from quantitative easing ("QE") to quantitative tightening ("QT") in order to rein in inflation are expected to affect the refining sales and margins. Nevertheless, our efficient cost structure and capability in producing low 3-MCPD and GE oil blends, coupled with our innovative and continuous improvement stance, will give us a competitive advantage in the challenging operating environment.

OLEOCHEMICAL



Manufacturing
Facilities
4

Export to Over
70 Countries Worldwide

Combined Annual Oleochemical Capacity
890,000 MT

The principal activities of the Group’s oleochemical sub-segment are manufacturing and sales of fatty acids, glycerine, soap noodles and downstream oleochemical products such as fatty esters and specialty derivatives. These versatile products are used in a wide variety of applications from industrial sectors such as automotive, construction and plastic to food, nutrition, pharmaceutical and cosmetic. Our oleochemical products are exported to more than 70 countries worldwide. Our main customers are located in Japan, China, Europe and the United States (“US”), which include some of the world’s most esteemed and well-known multinational corporations.

The Group’s oleochemical manufacturing activities are undertaken by four manufacturing facilities - two are located in Peninsular Malaysia while another two are in Germany - with a total combined production capacity of up to 890,000 MT per annum. The Penang and Johor plants are exclusively palm oil-based whereas the plants in Germany use mainly palm oil supplemented by other vegetable oils such as coconut oil, rapeseed oil and sunflower oil. These plants complement and add value to each other through technical know-how collaborations and application of basic oleochemicals into niche derivatives.

All our manufacturing facilities are certified and accredited by globally recognised bodies in various aspects of quality and international standards compliance. Apart from ISO 9001, ISO 14001 and ISO 50001 certifications, the Penang, Johor and Wittenberge sites have obtained the Food Safety System Certification (“FSSC”) 22000 on food safety management, while the Witten site is certified by the European Union-Good Manufacturing Practice (“EU-GMP”) and the US Food and Drug Administration (“FDA”) for the production of Active Pharmaceutical Ingredient (“API”).

KEY FOCUS AREAS



Drive business growth by increasing sales and expanding new market segments



Enhance cost efficiency by optimising plant capacity and improving operational efficiency



Develop niche markets by exploring new product applications and launching new products

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KEY BUSINESS HIGHLIGHTS

- Our fatty acids business unit fared well with strong profit. This unit performed well in the first half of the financial year with strong profitability due to the continuation of high demand for short-chain fatty acids from last year. The demand for the rest of the product groups was considerably fair as well. However, the situation has somewhat reversed in the second half of the financial year with a marked slowdown in overall demand all over the world. Among the causes are high inventory by customers, stiff competition, inflationary pressures and high interest rate environment. As a result, overall sales volume and margins were affected by the softened global demand.
- Our soap business unit continued to underperform although sales volume has improved over the last year. We recorded higher sales from multinational customers. The intense competition from the Indonesian oleo manufacturers remained prevalent but the impact of the Indonesian palm oil duty and levy was less severe in this year compared to last year. On the production front, our new state-of-the-art soap noodles plant was successfully commissioned during the year which has extended our product portfolio.
- Our ester business unit achieved a remarkable result with better profitability than last year despite a drop in sales volume. Similar to the fatty acids business unit, sales during the first half of the year were brisk but not in the second half. Overall demand was impacted by China’s export slump and weak economic performance. This has reverberated across to the neighbouring countries such as South Korea and Japan, and eventually the world in general. Our industrial and cosmetic esters sales were affected as well as the food esters albeit at a lesser extent.
- Our German business turned in yet another outstanding performance with record profit. The flagbearer business unit in our fold is the pharmaceutical business unit. Main pharma product sales were good notably in the suppositories and API segments. Contribution margin achieved was also higher on the back of favourable raw material prices whilst new high-potential pharma products were being evaluated by more and more prominent customers. The personal care business unit recorded good sales of high-margin products too. The exception is the nutrition business unit due to the falling price of its main product. Lastly, a positive development is seen in the EU energy sector. The energy crisis has abated and as a consequence, utility costs have normalised since the second half of the financial year.

BUSINESS PERFORMANCE REVIEW 2023

STRATEGIC OBJECTIVES	KEY INITIATIVES	ACHIEVEMENTS IN FY2023
 Drive business growth	<ul style="list-style-type: none"> • Optimising plant manufacturing capacity. • Enhancing cost efficiency through plant automation and digitalisation. 	<p>IOI Oleochemical Industries Berhad, Penang:</p> <ul style="list-style-type: none"> • Successfully commissioned new fatty acid and glycerin plants. • Reduced waste disposal by installing sludge dryer.
 Enhance cost and plant efficiency	<ul style="list-style-type: none"> • Embarking on energy efficiency and water recycling projects. • Revamping and replacing aging equipment. • Embarking on new fatty acid and soap noodles plants expansions. 	<p>IOI Pan-Century Oleochemicals Sdn Bhd, Johor:</p> <ul style="list-style-type: none"> • Successfully commissioned a new soap noodles plant which has a usage of less than 50% of energy consumption and minimal wastage. • Successfully installed solar photovoltaic panel on the rooftop of the main office building which generates sustainable green energy and reduces GHG emissions. • Successfully commissioned a water jet vacuum system in the soap noodles plant. • Introduced a new soap noodles product that targets developing countries to enable access to affordable speciality products.
 Develop new products/formulations	<ul style="list-style-type: none"> • Filing patents for new product applications. • Developing new product formulations in CARE Studio. 	<p>IOI Oleo GmbH, Germany:</p> <ul style="list-style-type: none"> • Successfully filed a patent for Tricaprylin Powder for food and cosmetic applications, and a patent family for Polyglycerol Esters to be used in Expanded Polystyrene (“EPS”) applications. • Developed 14 new formulations for personal care and cosmetic applications – 10 were launched in FY2023 and a further four will be launched in FY2024. • CARE Studio launched SOFTISAN® MagicPOWDER S, a cold-processable transforming ingredient allowing the formation of simple powder to emulsion.

CHALLENGES/RISKS	MITIGATION ACTIONS
Risk of declining sales.	<ul style="list-style-type: none"> Seek new business opportunities and expand customer base globally.
Risk of eroding contribution margin.	<ul style="list-style-type: none"> Focus on high-margin products.
Risk of increase in production cost due to inflationary factors.	<ul style="list-style-type: none"> To implement new energy conservation projects and management programmes to optimise natural gas, electricity and steam consumption.

OUTLOOK & PROSPECTS

The global economic outlook is pointing to a slower economic growth under the weight of high inflation and the tightening monetary policies led by the US and EU. The outlook for our oleochemical sub-segment remains subdued amid the weak global economic environment and rising geopolitical tensions that undermine the global trade. Despite these challenges, the expected better demand from China will help to alleviate some of the global demand slowdown.

In addition, we will remain steadfast and focus on protecting our market share and key customers whilst continuing to seek pockets of growth opportunities in selective segments where we are strong, namely the pharmaceutical and personal care businesses. Concurrently, we will continue to drive for cost efficiency and productivity, namely through our new fatty acid and soap noodles plants, which will help to lower our production cost and give us the flexibility to tailor our products to meet customer requirements. The recent drop in the energy costs, i.e., natural gas in Germany and Malaysia, also augurs well for our plant processing cost.

SPECIALTY OILS & FATS



Our associate company, Bunge Loders Croklaan Group BV (“BLC”) is a leading global producer and supplier of sustainable plant-based specialty oils and fats for the food manufacturing and food service industry globally, and its products are used in a variety of applications from bakery and confectionery to culinary and infant nutrition. Oils and fats are indispensable ingredients that shape taste, nutrition and culinary experience and BLC’s specialty oils and fats solutions meet evolving dietary needs and trends, delivering the functionality that the food and nutrition industry demands, and satisfying the diverse tastes of consumers in every part of the world.

Our partnership with Bunge Limited (“Bunge”) to build BLC into a global leader in oil and fat ingredients for B2B customers and supplier of choice for many food manufacturers, bakeries, restaurants and food service operators has culminated to its unmatched global presence, with differentiated and comprehensive product offerings based on tropical and seed oils and world-class formulation and application capabilities.

We anticipate improved performance for BLC in FY2024, driven by the newly acquired refinery facility in North America and the introduction of innovative product applications. In addition, its performance is less dependent on global economic growth as demand for food is more resilient.