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Smooth sailing for Orkim in tight tanker market

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BY KANG SIEW LI

As geopolitical tensions in the Middle East send fresh turbulence through global shipping markets, Malaysia's largest clean petroleum tanker operator, Orkim Bhd (KL:ORKIM), is reaping the benefits of a strategy that has been years in the making.

For Orkim, the US-Israeli war against Iran has not weakened demand. Instead, it has tightened an already constrained tanker market and pushed up operating costs, most notably of bunker fuel, which has surged roughly 2½ times since the conflict began on Feb 28.

"The supply is still there but bunker fuel prices have gone up," executive director and CEO Captain Cheah Sin Bi tells *The Edge*.

Despite the inflationary pressure, Orkim says its operations have remained resilient. Fleet utilisation stayed at 92% through 2025 and into the first quarter of 2026, with no material disruptions even amid heightened concern over shipping flow through the Strait of Hormuz.

That stability reflects years of preparation for volatility, Cheah says.

"One of Orkim's key challenges has always been cost exposure such as fuel and port charges. So we needed to have a mechanism to pass through all this volatility," he explains.

To reduce exposure to fuel price swings, Orkim embeds bunker adjustment factors and fuel surcharges into customer contracts, allowing fuel costs to be passed on while keeping earnings tied primarily to freight rates.

"We are not here to earn when bunker prices go up or down. We want only to earn from our freight," Cheah stresses.

This structure has helped preserve margins even as shipping costs surge across Asia. At the same time, port congestion and longer waiting times have increased demurrage income, partially offsetting volatility.

Orkim transports refined petroleum products such as gasoline, diesel, jet fuel and naphtha across regional waters and controls 56% of Malaysia's domestic chemical and petroleum tanker segment. It has emerged as one of the beneficiaries of tightening tanker supply.

The Baltic Clean Tanker Index, a benchmark for refined petroleum shipping costs, had more than doubled this year to 1,685 points as at May 20.

The regional market has moved in tandem. Cheah says spot tanker freight rates across Asia have risen between 30% and 40% since the escalation of the Middle East conflict. Orkim's average daily charter rates have climbed to RM58,900 from RM54,100 at the end of 2025.

Still, Cheah is careful not to frame the gains as opportunistic. "Profiteering from a crisis is not something we want. We want stable growth, earnings visibility and assurance of cash flow," he says.

Rather than just capitalising on higher freight rates, Orkim is trying to lower costs for customers through greater fuel efficiency from fleet renewal.

The company is accelerating a fleet modernisation programme aimed at replacing older, smaller vessels with larger and more fuel-efficient tankers capable of transporting not only conventional petroleum products but also biofuels and alternative fuels such as methanol.

Cheah notes that newer ships consume about 8.5 tonnes of fuel per day compared with roughly 11 tonnes for older vessels. Six newer ships in Orkim's fleet have already generated annual fuel savings of about RM8 million for customers.

The larger issue facing the local tanker industry is structural undersupply, he says.



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Under Malaysia's cabotage policy, in place since 1980, domestic shipping is reserved for Malaysian-flagged vessels, limiting competition from foreign operators. However, the pool of Malaysian-flagged tankers is insufficient to meet market demand, keeping freight rates firm for years.

Unlike some shipping operators that rely heavily on volatile spot markets, Orkim has built what Cheah calls a "steady, recurring income" model combining long-term contracts, medium-term agreements and shorter contracts of affreightment.

"We have long-term contracts of up to 10 years and mid-term contracts of between two and five years. The shorter-term contracts allow us to capture upside when the market is good."

That balance, he says, underpins Orkim's broader philosophy that is based on capital allocation and shareholder returns. "The fundamental values of the company are about growth, cash flow and delivering fast returns to shareholders on what we invest," Cheah says, adding that Orkim's annual dividend payout ranges from 50% to 70% of net profit. In FY2025 ended Dec 31, the company distributed 54 sen per share, or RM54 million, representing a payout ratio of 71%.

Revenue growth has also been steady with a compound annual growth rate of 8% to 10%.

Disciplined fleet expansion

To remain competitive in the tanker business, Cheah says Orkim must continuously rejuvenate its fleet. The company aims to keep its average fleet age below 15 years, with the current average at about 14 years.

Orkim operates 16 clean petroleum product (CPP) tankers and two liquefied petroleum gas carriers. Two new 14,500-tonne CPP tankers ordered in 2024 are scheduled for delivery at the beginning of next year. It plans to increase total fleet capacity from 238,000 tonnes to as much as 300,000 tonnes by 2027.

Through its initial public offering (IPO) on the Main Market of Bursa Malaysia in December 2025, Orkim raised RM92 million, with most of the proceeds earmarked for vessel acquisitions. The company also retains access to an additional RM700 million in unused sukuk facilities.

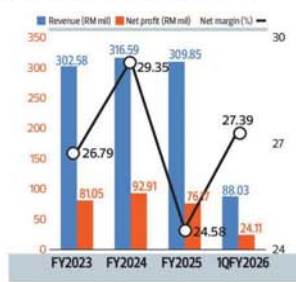
Still, says Cheah, expansion decisions remain highly disciplined.

"The internal rate of return must be double-digit. And the business must have visibility for at least five to seven years. This is not an industry where you simply buy a ship and hope for a contract later," he stresses.

The economics of shipbuilding have shifted sharply since the Covid-19 pandemic. New tanker prices shot up as global shipyards filled up and environmental regulations tightened.

At the same time, uncertainty about fu-

Financial performance



Financial year end Dec 31
COMPANY'S 2025 ANNUAL REPORT AND BURSA MALAYSIA

ture marine fuels has complicated investment decisions across the industry, with operators weighing technologies involving liquefied natural gas, methanol, ammonia and other propulsion systems.

Orkim moved early, placing orders for new vessels in 2024 with China's Fujian Ma-wei Shipbuilding Co Ltd, securing delivery slots starting 2027. The incoming vessels are designed to transport both conventional petroleum products and lower-carbon alternatives such as biofuels and methanol.

"This is where the industry is heading. Future demand may not only be fossil fuels. Our ships must be flexible enough for the energy transition," Cheah says.

IPO strengthened governance and institutional backing

For Cheah, Orkim's public listing was not just about capital raising.

"The listing is not only about getting money. We want to make sure we are more transparent with our partners and clients so they know what we are doing and what we have committed ourselves to," he says.

"We also want stronger governance and a more diverse board with independent directors to guide us."

The listing also marked the transition of ownership from government-linked private equity firm Ekuinas Nasional Bhd (Ekuinas) to Permodalan Nasional Bhd (PNB), which now holds a 30% stake in Orkim, while Amanah Saham Bumiputera owns 11.54%.

Ekuinas, which acquired Orkim for RM346.3 million in 2014, realised RM828 million in gross proceeds following its exit via the IPO. Of this, RM350 million was distributed as dividends to PNB for the benefit of its unit trust holders.

Cheah credits Ekuinas with professionalising the company and helping institutionalise governance and management systems.

Under Ekuinas' stewardship, Orkim expanded its fleet from eight to 23 vessels, laying the groundwork for its eventual listing in late 2025.

What differentiates Orkim from many regional shipping players is its focus on downstream energy logistics rather than upstream offshore services, which tend to be more cyclical and dependent on large oil-and-gas capital expenditure cycles, Cheah says.

"We are not exposed to the volatility of upstream. We transport products tied to consumer demand. As gross domestic product (GDP) grows and consumption rises, demand for transport follows," he adds.

As the company owns, manages and operates its own fleet, it has tight control over operating standards, maintenance and costs. By standardising machinery and safety procedures across vessels, Orkim is able to maintain what Cheah describes as stringent "as-

urance criteria" demanded by oil majors.

That positioning has enabled the company to work with virtually every major oil player in Malaysia, including PETRONAS Group, Shell Group, Petron Malaysia and BHPetrol, while also serving more than 25 overseas clients.

Cheah is unfazed by increased competition from local operators, including container liner operator MTT Shipping and Logistics Bhd (KL:MTSL), which is expanding into dual-fuel methanol tankers.

He believes the real competition is not among Malaysian operators themselves but against foreign-flagged vessels that still dominate much of the country's shipping trade.

"The pie is big. Malaysia still relies heavily on foreign carriers, even for strategic exports like palm oil. We should be competing against foreign flags, not racing each other to the bottom."

He notes that barriers to entry remain high given the industry's capital intensity and stringent operational requirements demanded by oil majors.

Cheah believes the tanker market will remain structurally tight for years due to limited shipyard capacity, stricter environmental regulations and an ageing global fleet. "About 45% of the global tanker fleet is more than 15 years old and about 23% is more than 20 years old."

He also refers to the eventual removal of "shadow fleet" vessels transporting sanctioned cargo as another factor likely to tighten compliant tanker supply. Cheah estimates that about 300 vessels currently operate in this segment.

Orkim posted a first-quarter net profit of RM24.1 million, up 24.8% from RM19.31 million in the preceding quarter. No year-on-year comparison was available as the company had not yet been listed at the time.

In a May 13 report, BMB Securities Research projects Orkim to deliver full-year earnings of RM84.7 million.

Talent shortage a long-term constraint

Beyond fleet expansion, the industry continues to grapple with a chronic shortage of qualified seafarers.

"Since I started sailing, the industry has always talked about a shortage of seafarers," says Cheah, 46, who had joined Orkim in 2011 after leaving sea service. He was appointed Orkim's CEO in 2021.

While technology has reduced crew requirements significantly, the shortage remains acute in senior ranks for positions such as captain and chief engineer. Training a cadet into a senior officer can take seven years or more, yet many leave the industry before reaching that stage.

"Maybe only 30% stay long enough to progress. Many leave after a few years for shore-based careers or family reasons," Cheah says.

Orkim has responded by expanding cadetship and trainee programmes while working with academic institutions on strengthening maritime education. It employs 770 people.

Orkim closed at 90 sen last Friday, below its 92 sen IPO price, giving the company a market value of RM900 million. BMB Securities Research has set a target price of RM1.05 for the stock, implying a 17% upside from the closing price.



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SUMMARIES

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