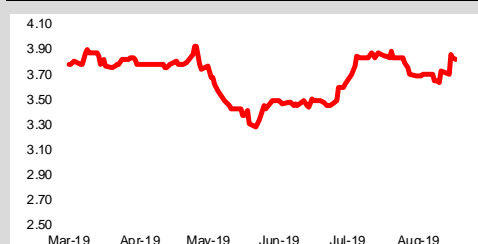


DESCRIPTION

A conglomerate company that is mainly involved in power, resources and property businesses.

12-Month Target Price RM5.04
Current Price RM3.83
Expected Return +31.6%

Market Main
Sector Conglomerate
Bursa Code 3069
Bloomberg Ticker MFCB MK
Shariah-compliant Yes

SHARE PRICE CHART


52 Week Range (RM) 2.99-4.03
3-Month Average Vol ('000) 256.4

SHARE PRICE PERFORMANCE

| | 1M | 3M | 6M |
|------------------|------|------|-----|
| Absolute Returns | -1.0 | 13.6 | 0.3 |
| Relative Returns | 2.7 | 2.6 | 6.2 |

KEY STOCK DATA

Market Capitalisation (RM m) 1,541.5
No. of Shares (m) 397.4

MAJOR SHAREHOLDERS

| | % |
|--------------------------------------|------|
| Goh Family | 36.3 |
| Fidelity Fund | 7.5 |
| Mega First Corp (Share buy-back a/c) | 4.9 |

Chong Hoe Leong

T 603 2268 3015
F 603 2268 3014
E chonghoeleong@publicinvestbank.com.my

Waiting for Energy Test

Mega First (MFCB) registered a lower core net profit of RM54.1m (-23.9% YoY) for the 1HFY19 due to smaller construction earnings contribution from the Don Sahong Hydropower project in Laos as works approach completion by year-end. Nevertheless, the results were in line with our and market expectations, making up 55% and 54% of full-year estimates respectively. Construction of the Laos power plant saw a further 4.8% (vs 8.3% in 2QFY18) completed during the quarter, bringing cumulative physical completion to 92.1% as of June-FY19 (vs 63% in 2QFY18). Despite a decline in construction profit this year, it is worth noting there will be a one-off gain from the sale of test energy, which is expected to kick start before the end of Sept 2019. We have not yet factored in the earnings contribution coming from the test energy sale. On a more cheerful note, management is planning to add a 5th turbine to the project. No dividend was declared for the quarter. Maintain **Outperform** call with an unchanged TP of RM5.04.

§ **2QFY19 revenue (QoQ: -28.3%, YoY: -27.4%).** The group's overall revenue fell 27.4% YoY to RM159m. The power segment, which is solely derived from construction-related revenue in the Don Sahong hydropower project in Laos, saw a decline of 38.9% to RM100.1m, underpinned by lower physical progress in the project. Revenue in the resources segment rose 3.1% YoY to RM38.2m, led by a 2.5% increase in sales of lime products to RM34.6m while contribution from other products was flat. The stronger lime product sales were mainly driven by a 4.3% increase in average selling price owing to a 4.6% rise in the US dollar, which was also partly offset by a 1.7% decline in sales volume as industrial output of existing customers weakened. Sales from the property segment were slightly lower to RM2m due to lower rental following the departure of one tenant from its PJ8 building.

§ **2QFY19 core net profit (QoQ: -29.8%, YoY: -41.8%).** Dragged by weaker earnings contribution from all three segments, the Group's core profit tumbled 41.8% YoY to RM22.1m after stripping out foreign exchange translation gains of RM0.6m. Recognition of construction earnings from the power segment fell 38.5% YoY to RM26.9m. Earnings from resources segment fell 11% YoY to RM4.4m on higher financing costs and lower plant utilization following the completion of Kiln 8 in Dec 2018. Lastly, property earnings also weakened, down 30.8% YoY to RM1.2m, due to the absence of property sale income, recognition of building refurbishment cost and marginally lower rental income.

§ **More potential earnings in the pipeline.** With the commencement of the energy test sale, we estimate additional earnings contribution of USD5m-10m (RM20m-40m) to our FY19 earnings forecasts. The bumper rise in earnings will likely come in the final quarter. Meanwhile, the proposal of adding a 5th turbine could potentially increase our FY22 earnings forecast by 20%-25%. More earnings upside is on the way if management successfully wins a bid for the 100MW solar power project under Malaysia's latest Large Scale Solar 3 (LSS3) open tender scheme.

KEY FINANCIAL SUMMARY

| FYE Dec (RM m) | 2017A | 2018A | 2019F | 2020F | 2021F | CAGR |
|--------------------|-------|-------|-------|-------|-------|-------|
| Revenue | 910.8 | 874.1 | 626.2 | 707.4 | 724.5 | -5.6% |
| Gross Profit | 229.6 | 220.6 | 175.3 | 339.6 | 347.8 | 10.9% |
| Pre-tax Profit | 192.9 | 197.9 | 140.9 | 303.4 | 311.4 | 12.7% |
| Core Net Profit | 110.4 | 143.2 | 98.2 | 232.1 | 238.2 | 21.2% |
| EPS (Sen) | 23.3 | 30.2 | 20.7 | 48.9 | 50.2 | 21.2% |
| P/E (x) | 16.5 | 12.7 | 18.5 | 7.8 | 7.6 | |
| DPS (Sen) | 4.0 | 4.0 | 4.0 | 30.0 | 30.0 | |
| Dividend Yield (%) | 1.0 | 1.0 | 1.0 | 7.8 | 7.8 | |

Source: Company, PublicInvest Research estimates

Figure 1: Results Summary

| FY Dec (RM m) | <u>2Q19</u> | <u>2Q18</u> | <u>1Q19</u> | <u>QoQ chg (%)</u> | <u>YoY chg (%)</u> | <u>YTD FY19</u> | <u>YTD FY18</u> | <u>YoY chg (%)</u> | <u>Comments</u> |
|-------------------------|-------------|-------------|-------------|----------------------------|----------------------------|---------------------|---------------------|----------------------------|--|
| Revenue | 159.0 | 218.9 | 221.8 | -28.3 | -27.4 | 380.9 | 434.1 | -12.3 | Due to a decline in construction revenue recognition |
| Cost of sales | -121.5 | -164.4 | -166.4 | -27.0 | -26.1 | -288.0 | -325.4 | -11.5 | |
| Gross profit | 37.5 | 54.5 | 55.4 | -32.3 | -31.2 | 92.9 | 108.7 | -14.5 | |
| Net income/(expenses) | -0.1 | 3.4 | -1.7 | -94.1 | -102.9 | -1.8 | 1.7 | -205.9 | |
| Operating expenses | -5.9 | -4.4 | -6.8 | -13.2 | 34.1 | -12.7 | -9.9 | 28.3 | |
| Operating profit | 31.5 | 53.5 | 46.9 | -32.8 | -41.1 | 78.4 | 100.5 | -22.0 | |
| Finance costs | -1.5 | -1.9 | -1.9 | -21.1 | -21.1 | -3.4 | -5.6 | -39.3 | |
| Share of results in JV | 0.0 | -0.3 | 0.0 | - | - | 0.0 | 0.1 | - | |
| Pre-tax profit | 30.0 | 51.3 | 45.0 | -33.3 | -41.5 | 75.0 | 95.0 | -21.1 | |
| Tax expense | -5.5 | -8.2 | -7.1 | -22.5 | -32.9 | -12.7 | -14.9 | -14.8 | |
| Net profit | 24.5 | 43.1 | 37.9 | -35.4 | -43.2 | 62.3 | 80.1 | -22.2 | |
| Core net profit | 22.1 | 38.0 | 31.5 | -29.8 | -41.8 | 54.1 | 71.1 | -23.9 | After stripping out non-core items |
| Core EPS (sen) | 4.7 | 8.0 | 6.6 | -29.8 | -41.8 | 11.4 | 15.0 | -23.9 | |
| DPS (sen) | 0.0 | 2.0 | 0.0 | - | - | 0.0 | 2.0 | - | No dividend was declared for the quarter |
| Gross Margin (%) | 23.6 | 24.9 | 25.0 | - | - | 24.4 | 25.0 | - | |
| Pre-tax Margin (%) | 18.9 | 23.4 | 20.3 | - | - | 19.7 | 21.9 | - | |
| Net Margin (%) | 15.4 | 19.7 | 17.1 | - | - | 16.4 | 18.5 | - | |
| Effective tax rate (%) | 18.3 | 16.0 | 15.8 | - | - | 16.9 | 15.7 | - | |

Source: Company, PublicInvest Research

Figure 2: Segmental Breakdown

| Segmental Breakdown (RMm): | <u>2Q19</u> | <u>2Q18</u> | <u>1Q19</u> | <u>QoQ chg (%)</u> | <u>YoY chg (%)</u> | <u>YTD FY19</u> | <u>YTD FY18</u> | <u>YoY chg (%)</u> | <u>Comments</u> |
|------------------------------|--------------|--------------|--------------|--------------------|--------------------|-----------------|-----------------|--------------------|---|
| Revenue: | | | | | | | | | |
| Power | 100.1 | 164.0 | 169.9 | -41.1 | -39.0 | 270.0 | 325.0 | -16.9 | Construction completion was 4.8% vs 8.3% a year ago as Don Sahong project neared completion |
| Resources | 38.2 | 37.1 | 32.8 | 16.5 | 3.0 | 71.1 | 74.3 | -4.3 | Mainly led by a 2.5% increase in sales of lime products |
| Property | 2.0 | 2.6 | 2.1 | -4.8 | -23.1 | 4.1 | 4.7 | -12.8 | Affected by rental income in PJ8 building following the departure of one tenant |
| Investment holdings & Others | 18.6 | 15.1 | 17.0 | 9.4 | 23.2 | 35.6 | 30.0 | 18.7 | |
| | 158.9 | 218.8 | 221.8 | -28.4 | -27.4 | 380.8 | 434.0 | -12.3 | |
| Pre-tax profit: | | | | | | | | | |
| Power | 26.2 | 43.6 | 45.0 | -41.8 | -39.9 | 71.3 | 86.3 | -17.4 | Due to small physical completion |
| Resources | 4.4 | 5.0 | 3.4 | 29.4 | -12.0 | 7.8 | 11.7 | -33.3 | Dragged by higher financing cost and cost pressure due to lower utilisation rate at Kiln 8 |
| Property | 1.2 | 1.7 | 1.2 | 0.0 | -29.4 | 2.3 | 2.8 | -17.9 | Affected by lower rental income and building refurbishment cost |
| Investment holdings & Others | -1.8 | 1.0 | -4.7 | -61.7 | -280.0 | -6.5 | -5.8 | 12.1 | |
| | 30.0 | 51.3 | 44.9 | -33.2 | -41.5 | 74.9 | 95.0 | -21.2 | |

Source: Company, PublicInvest Research

OTHER UPDATES:**Don Sahong Hydropower Project- Almost In The Final Lap**

With an outstanding 7.9% physical completion in the hydropower project remaining, construction revenue and earnings are expected to see sequential decline in the final two quarters as works approach completion by the end of this year. Nevertheless, the decline in construction revenue and earnings will be compensated by the sale of test energy, which is expected to commence by end-Sept 2019 for the first turbine. The other turbines are expected to be commissioned progressively thereafter.

Based on the construction progress of the project and transmission lines by Electricite du Laos (EDL) and Electricite Du Cambodge (EDC), management is confident that the Don Sahong hydropower project will commence according to the Commercial Operation Date (COD), which is 1st Jan 2020.

To our surprise, management is planning to add a 5th turbine to the hydropower project pending approval from the Laos government.

Resources- Facing Headwinds

The limestone segment will continue to face headwinds from slowing industrial activities in the region due to a slowdown in economic activities. Management will continue to secure new customers to minimize the impact.

In the absence of FX changes, average selling prices of lime products are expected to remain stable. There will be increasing margin pressure in 2H due to lacklustre demand and lower capacity utilization of the new plant.

Property- As Steady As Ever

Rental income from PJ8 and Greentown carparks, Ipoh is expected to remain stable. Management will continue to market the remaining completed property units with carrying value of RM11.3m as at 30 June 2019. There are no plans to restart its development segment given the weak residential property market.

Large Scale Solar- Another New Power Project?

On 14 Aug 2019, the company entered into an Option Agreement with Menteri Besar Incorporated, Perak, giving MFCB's 80%-owned subsidiary an option to either buy or lease a large tract of land in Perak for the purpose of developing a large scale solar (LSS) photovoltaic plant. MFCB has submitted a bid under Malaysia's latest LSS3 scheme to develop and operate a 100MW LSS photovoltaic plant. The results of the tender are expected to be announced in 1Q 2020.

Figure 3: Aerial View of 260MW- Don Sahong Hydropower Project, Laos (92.1% completed)



Source: Sinohydro Bureau, PublicInvest Research

Figure 3: SOP-based Valuations

| Sum-Of-Parts Valuations | Valuation Basis | Value (RMm) | RM/share |
|--|--------------------------------------|--------------------|-----------------|
| Resources | CY20 PER of 12x | 140.9 | 0.30 |
| Don Sahong hydropower project | 80% stake & 10% discount (WACC: 10%) | 2,028.1 | 4.28 |
| Investment in quoted shares | Book Value | 43.2 | 0.09 |
| Investment Properties | Book Value | 177.2 | 0.37 |
| Fully-diluted Target Price (RM/share) | | 2,389.4 | 5.04 |
| No. of shares (m) | | 417.6 | |
| Treasury shres (m) | | -20.49 | |
| ESOS (m) | | 24.5 | |
| Full conversion of warrants (m) | | 52.7 | |
| Fully diluted share base (m) | | 474.3 | |

Source: Company, PublicInvest Research estimates

KEY FINANCIAL DATA

INCOME STATEMENT DATA

| FYE Dec (RM m) | 2017A | 2018A | 2019F | 2020F | 2021F |
|------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 910.8 | 874.1 | 626.2 | 707.4 | 724.5 |
| Gross Profit | 229.6 | 220.6 | 175.3 | 339.6 | 347.8 |
| EBIT | 199.7 | 205.1 | 161.3 | 320.4 | 323.7 |
| Finance costs | -6.8 | -7.7 | -21.0 | -17.6 | -12.8 |
| Pre-tax Profit | 192.9 | 197.9 | 140.9 | 303.4 | 311.4 |
| Income Tax | -35.2 | -37.9 | -25.4 | -30.3 | -31.1 |
| Effective Tax Rate (%) | 18.2 | 19.2 | 18.0 | 10.0 | 10.0 |
| Minorities | -47.3 | -24.0 | -17.3 | -41.0 | -42.0 |
| Core Net Profit | 110.4 | 143.2 | 98.2 | 232.1 | 238.2 |
| Growth (%) | | | | | |
| Revenue | -0.5 | -4.0 | -28.4 | 13.0 | 2.4 |
| Gross Profit | -3.0 | 2.7 | -21.3 | 98.6 | 1.0 |
| Core Net Profit | 0.3 | 1.5 | -27.8 | 136.4 | 2.7 |

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

| FYE Dec (RM m) | 2017A | 2018A | 2019F | 2020F | 2021F |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Fixed assets | 260.0 | 287.4 | 266.8 | 241.0 | 215.2 |
| Other long-term assets | 1,241.8 | 1,932.8 | 2,235.3 | 2,245.3 | 2,255.3 |
| Cash at Bank | 138.7 | 130.5 | 23.8 | 11.3 | 44.2 |
| Other current assets | 204.0 | 159.7 | 111.0 | 111.5 | 114.2 |
| Total Assets | 1,844.5 | 2,510.4 | 2,636.9 | 2,609.1 | 2,628.8 |
| ST Borrowings | 108.4 | 112.4 | 112.4 | 112.4 | 112.4 |
| LT Borrowings | 112.7 | 486.3 | 586.3 | 436.3 | 286.3 |
| Payables | 195.9 | 295.8 | 206.8 | 170.4 | 174.3 |
| Other Liabilities | 58.8 | 90.4 | 90.4 | 90.4 | 90.4 |
| Total Liabilities | 475.8 | 984.9 | 995.9 | 809.5 | 663.4 |
| Shareholders' Equity | 1,368.7 | 1,525.5 | 1,641.0 | 1,799.6 | 1,965.5 |
| Total Equity and Liabilities | 1,844.5 | 2,510.4 | 2,636.9 | 2,609.1 | 2,628.9 |

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

| FYE Dec | 2017A | 2018A | 2019F | 2020F | 2021F |
|----------------------|-------|-------|-------|-------|-------|
| Book Value Per Share | 3.6 | 4.0 | 4.3 | 4.7 | 5.2 |
| NTA Per Share (Sen) | 3.6 | 4.0 | 4.3 | 4.7 | 5.1 |
| EPS (sen) | 28.9 | 37.5 | 25.7 | 60.8 | 62.5 |
| DPS (sen) | 4.0 | 4.0 | 4.0 | 30.0 | 30.0 |
| Payout Ratio (%) | 13.8 | 10.7 | 15.5 | 49.3 | 48.0 |
| ROA (%) | 8.5 | 6.4 | 4.4 | 10.5 | 10.7 |
| ROE (%) | 11.5 | 10.5 | 7.0 | 15.2 | 14.3 |

Source: Company, PublicInvest Research estimates

RATING CLASSIFICATION

STOCKS

| | |
|---------------------|--|
| OUTPERFORM | The stock return is expected to exceed a relevant benchmark's total of 10% or higher over the next 12 months. |
| NEUTRAL | The stock return is expected to be within +/- 10% of a relevant benchmark's return over the next 12 months. |
| UNDERPERFORM | The stock return is expected to be below a relevant benchmark's return by -10% over the next 12 months. |
| TRADING BUY | The stock return is expected to exceed a relevant benchmark's return by 5% or higher over the next 3 months but the underlying fundamentals are not strong enough to warrant an Outperform call. |
| TRADING SELL | The stock return is expected to be below a relevant benchmark's return by -5% or more over the next 3 months. |
| NOT RATED | The stock is not within regular research coverage. |

SECTOR

| | |
|--------------------|--|
| OVERWEIGHT | The sector is expected to outperform a relevant benchmark over the next 12 months. |
| NEUTRAL | The sector is expected to perform in line with a relevant benchmark over the next 12 months. |
| UNDERWEIGHT | The sector is expected to underperform a relevant benchmark over the next 12 months. |

DISCLAIMER

This document has been prepared solely for information and private circulation only. It is for distribution under such circumstances as may be permitted by applicable law. The information contained herein is prepared from data and sources believed to be reliable at the time of issue of this document. The views/opinions expressed herein are subject to change without notice and solely reflects the personal views of the analyst(s) acting in his/her capacity as employee of Public Investment Bank Berhad ("PIVB"). PIVB does not make any guarantee, representations or warranty neither expressed or implied nor accepts any responsibility or liability as to its fairness liability adequacy, completeness or correctness of any such information and opinion contained herein. No reliance upon such statement or usage by the addressee/anyone shall give rise to any claim/liability for loss of damage against PIVB, Public Bank Berhad, its affiliates and related companies, directors, officers, connected persons/employees, associates or agents.

This document is not and should not be construed or considered as an offer, recommendation, invitation or a solicitation of an offer to purchase or subscribe or sell any securities, related investments or financial instruments. Any recommendation in this document does not have regards to the specific investment objectives, financial situation, risk profile and particular needs of any specific persons who receive it. We encourage the addressee of this document to independently evaluate the merits of the information contained herein, consider their own investment objectives, financial situation, particular needs, risks and legal profiles, seek the advice of their, amongst others, tax, accounting, legal, business professionals and financial advisers before participating in any transaction in respect of any of the securities of the company(ies) covered in this document.

PIVB, Public Bank Berhad, our affiliates and related companies, directors, officers, connected persons/employees, associates or agents may own or have positions in the securities of the company(ies) covered in this document or any securities related thereto and may from time to time add or dispose of, or may be materially interested in, any such securities. Further PIVB, Public Bank Berhad, our affiliates and related companies, associates or agents do and/or seek to do business with the company(ies) covered in this document and may from time to time act as market maker or have assumed an underwriting commitment in the securities of such company(ies), may sell them or buy them from customers on a principal basis, may have or intend to accommodate credit facilities or other banking services and may also perform or seek to perform investment banking, advisory or underwriting services for or relating to such company(ies) as well as solicit such investment advisory or other services from any entity mentioned in this document. The analyst(s) and associate analyst(s) principally responsible for the preparation of this document may participate in the solicitation of businesses described aforesaid and would receive compensation based upon various factors, including the quality of research, investor client feedback, stock pickings and performance of his/her recommendation and competitive factors. The analyst(s) and associate analyst(s) may also receive compensation or benefit (including gift and company/issuer-sponsored and paid trips in line with the Bank's policies) in executing his/her duties. Hence, the addressee or any persons reviewing this document should be aware of the foregoing, amongst others, may give rise to real or potential conflicts of interest.

Published and printed by:

PUBLIC INVESTMENT BANK BERHAD (20027-W)

9th Floor, Bangunan Public Bank

6, Jalan Sultan Sulaiman

50000 Kuala Lumpur

T 603 2268 3000

F 603 2268 3014

Dealing Line 603 2268 3129