PUBLIC INVESTMENT BANK

PublicInvest Research *Results Review* — Friday, November 19, 2021

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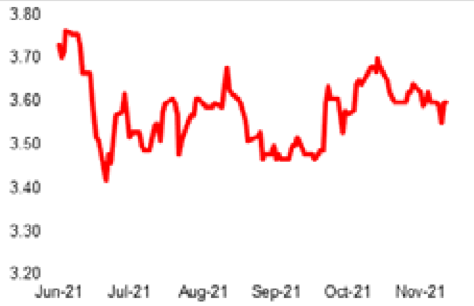
MEGA FIRST CORPORATION — *Outperform*

DESCRIPTION

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

12-Month Target Price	RM4.36
Current Price	RM3.60
Expected Return	+21.1%
Market	Main
Sector	Conglomerate
Bursa Code	3069
Bloomberg Ticker	MFCB MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	3.28 – 4.05
3-Month Average Vol ('000)	630.7

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	-2.2	-2.1	5.4
Relative Returns	3.1	-2.2	8.7

KEY STOCK DATA

Market Capitalisation (RM m)	3,410.5
No. of Shares (m)	947.4

MAJOR SHAREHOLDERS

	%
Goh Family	34.0
Mega First Corp (Share buy-back a/c)	4.3

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

Steady Quarter

Mega First posted core earnings of RM248m (YoY: +7.9%) for 9MFY21, making up 70% and 72% of our and consensus full-year expectations respectively. The results, which were broadly in line with full-year expectations, were boosted by both renewable energy and packaging segments despite weaker performance from the resources segment. On a positive note, energy availability factor for the Don Sahong hydropower plant for 9MFY21 rose from 83.3% to 88.9% on the back of improved water flow management system due to favourable weather conditions. Meanwhile, the long-awaited construction of the 5th turbine will kick start next month and is expected to be completed by 3Q 2024. No dividend was declared for the quarter. Maintain ***Outperform*** call with an unchanged TP of RM4.36.

- **3QFY21 revenue (QoQ: +11.9%, YoY: +10.1%).** The Group's revenue rose 10.1% YoY to RM233m, boosted by a 2-fold jump in packaging sales despite weaker renewable energy (YoY: -2%) and resources (YoY: -23.4%) sales. The weaker renewable energy sales were dragged by the lower average energy availability factor for Don Sahong hydropower plant at 90.1% (vs 3QFY20: 92.5%) due to a longer period of annual scheduled maintenance. Solar energy sales surged from RM0.1m to RM1.4m following the commissioning of an additional 13.1MW rooftop solar projects during the quarter (vs 3QFY20: 1.48MW).

  Meanwhile, resources sales fell 23.3% YoY to RM31.5m, due to a 40.4% contraction in export sales of lime products, affected by the maintenance shut down by a key customer and steep increases in freight rates which also eroded its price competitiveness in certain key export markets. Revenue contribution from other products was flat at RM3.6m. The average selling price of lime products was 3.4% higher due mainly to upward price adjustments in response to higher input costs.

  Packaging sales doubled to RM63.4m, bolstered by the consolidation of 2-month sales from newly acquired upstream packaging company, Stenta. Excluding the maiden sales contribution from Stenta, Hexachase Group's revenue would have registered only single-digit growth rate as demand was affected by Covid-related plant shutdowns.

- **Slight decline in 3QFY21 core earnings.** All core segments except packaging contributed to the marginally weaker core earnings of RM88m. The renewable energy segment, which contributed almost 91% of the Group's bottomline, saw its pre-tax profit fall by 3.4% YoY to RM98.8m. The hydropower energy business commanded an incredible pre-tax margin of 73.3%. Resources earnings tumbled 71% YoY to RM2m on higher unit overhead costs due to lower plant utilization and significantly higher fuel, freight and packaging costs. Packaging earnings doubled to RM7.5m, bolstered by Stenta's maiden contribution. Excluding the earnings contribution from Stenta, earnings of Hexachase would have dropped 28.3% to RM2.5m due to a sharp increase in raw material costs.

KEY FINANCIAL SUMMARY

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F	CAGR
Revenue	701.9	767.1	933.9	1,091.5	1,290.7	16.5%
Gross Profit	230.1	450.8	494.9	543.6	596.3	26.9%
Pre-tax Profit	188.4	389.0	423.2	465.9	513.5	28.5%
Core Net Profit	105.0	322.7	351.8	386.0	410.1	40.6%
EPS (Sen)	11.1	34.1	37.1	40.7	43.3	40.6%
P/E (x)	32.5	10.6	9.7	8.8	8.3	
DPS (Sen)	5.0	6.3	8.0	9.0	10.0	
Dividend Yield (%)	1.4	1.7	2.2	2.5	2.8	

Source: Company, PublicInvest Research estimate

Table 1: Results Summary

FYE Dec (RM m)	3Q21	3Q20	2Q21	QoQ chg (%)	YoY chg (%)	YTD FY21	YTD FY20	YoY chg (%)	Comments
Revenue	232.5	211.2	207.8	11.9	10.1	634.0	553.2	14.6	Mainly led by stronger packaging sales
Cost of sales	-112.1	-88.3	-89.7	25.0	27.0	-296.6	-239.8	23.7	
Gross profit	**120.4**	**122.9**	**118.1**	**1.9**	**-2.0**	**337.4**	**313.4**	**7.7**	
Net income/(expenses)	3.9	-2.4	1.3	>100	<-100	8.0	-2.6	<-100	
Operating expenses	-10.7	-7.0	-10.7	0.0	52.9	-31.4	-21.0	49.5	
Operating profit	**113.6**	**113.5**	**108.7**	**4.5**	**0.1**	**314.0**	**289.8**	**8.4**	
Finance costs	-5.3	-4.4	-5.0	6.0	20.5	-15.3	-16.9	-9.5	
Share of results in JV	0.0	0.0	0.0	-	-	0.0	0.0	-	
Pre-tax profit	**108.3**	**109.1**	**103.7**	**4.4**	**-0.7**	**298.7**	**272.9**	**9.5**	
Tax expense	-2.0	-1.3	-1.1	81.8	53.8	-4.4	-4.5	-2.2	
Net profit	**106.3**	**107.8**	**102.6**	**3.6**	**-1.4**	**294.3**	**268.4**	**9.6**	
Core profit	88.0	89.6	87.4	0.7	-1.8	247.6	229.4	7.9	After stripping out exceptional items
Core EPS (sen)	9.3	9.5	9.2	0.7	-1.8	26.1	24.2	7.9	
DPS (sen)	0.0	0.0	3.3	-	-	3.3	3.0	8.3	No dividend was declared for the quarter
Gross Margin (%)	51.8	58.2	56.8	-	-	53.2	56.7	-	
Pre-tax Margin (%)	46.6	51.7	49.9	-	-	47.1	49.3	-	
Net Margin (%)	45.7	51.0	49.4	-	-	46.4	48.5	-	
Effective tax rate (%)	1.8	1.2	1.1	-	-	1.5	1.6	-	

Table 2: Segmental Breakdown

FY Dec (RM m)	3Q21	3Q20	2Q21	QoQ chg (%)	YoY chg (%)	YTD FY21	YTD FY20	YoY chg (%)	Comments
Revenue:									
Renewable Energy	134.8	137.5	138.1	-2.4	-2.0	387.2	371.2	4.3	Affected by a 2.4% decline in energy availability factor due to scheduled maintenance
Resources	31.5	41.1	35.5	-11.3	-23.4	111.5	102.1	9.2	Export sales were adversely affected by maintenance shut down by a key customer
Packaging & Labels	63.4	28.1	30.0	>100	>100	124.1	69.0	79.9	Attributed to the consolidation of 2-month sales contribution from Stenta
Investment holdings & Others	2.7	4.5	4.2	-35.7	-40.0	11.2	10.8	3.7	
	232.4	**211.2**	**207.8**	**11.8**	**10.0**	**634.0**	**553.1**	**14.6**	
Pre-tax profit:									
Renewable Energy	98.8	102.3	98.6	0.2	-3.4	275.7	260.7	5.8	Primarily due to weaker hydropower sales
Resources	2.0	7.0	4.4	-54.5	-71.4	12.3	13.3	-7.5	Dragged by weaker demand, higher unit overhead costs due to lower plant utilisation and higher fuel, freight and packaging costs
Packaging & Labels	7.5	3.5	1.4	>100	>100	11.5	5.6	>100	Excluding the new earnings contribution from Stenta, the packaging PBT would have dropped 28% YoY
Investment holdings & Others	-0.2	-3.9	-0.7	-	-	-0.8	-6.8	-88.2	
	108.1	**108.9**	**103.7**	**4.2**	**-0.7**	**298.7**	**272.8**	**9.5**	

OTHER UPDATES:

Don Sahong Hydropower Project –Construction of 5th turbine to kick start

Following the completion of the annual maintenance in 3Q 2021, the energy availability factor (EAF) of Don Sahong hydropower plant is expected to recover in the final quarter to levels similar to the same period last year. Management expects the EAF to be higher than 86.4% reported for 2020.

Meanwhile, the long-awaited **construction of the 5th turbine** is expected to commence in Dec 2021 and completed in 3Q 2024.

Solar- Rooftop solar projects are hitting 20.8MW

Solar energy sales revenue is expected to improve further with the progressive completion of an **additional 6.3MW** rooftop solar project for a public utility company in 4Q 2021 and 1Q 2022. This will bring **the total installed solar capacity to 20.8MW** by the end of 1Q 2022.

Resources- Expecting to stage a strong recovery in 4Q

Sales volume of lime products is expected to improve sequentially in the final quarter. **Export sales are expected to stage a strong recovery** following the completion of maintenance works by a key export customer and management's ability to divert export volume adversely affected by high freight rates to the other regional markets. Following the resumption of steel-related and construction activities in Malaysia, **domestic sales** are expected to register a gradual recovery.

Margin pressure arising from higher fuel and logistic costs is expected to ease in the final quarter following some selling price adjustments and projected efficiency gains from higher sales and production volume.

Packaging- Expecting record revenue and profits for FY21

Packaging earnings in 4QFY21 will be driven by the full quarterly earnings contribution from Stenta. Management expects **domestic sales** of existing packaging products to improve sequentially while **export sales** are expected to continue to face challenges from container shortages and exorbitant shipping costs.

Nevertheless, margins are expected to remain under pressure from high raw material costs and freight charges, albeit mitigated by progressive selling price adjustments.

Overall, it expects the packaging segment to deliver **record revenue and profits for FY21,** underpinned by 5-month consolidation of Stenta's earnings and continued earnings improvements in Hexachase.

Hexachase is on target to complete its ongoing capacity expansion before the year-end**. Management has also decided to proceed with the planned construction of a new mega factory** on the recently acquired 10.4 acre land in 2022. In addition, there are plans to expand production capacities for Stenta given that sales and production volume of the newly acquired subsidiary has almost reached its full capacity.

Table 3: SOP-based Valuations

Sum-Of-Parts Valuations	Valuation Basis	Value (RMm)	RM/share
Power	80% stake (WACC: 7%)	2,990.1	3.16
Resources	18x FY22 EPS	407.0	0.43
Packaging & Label	60% stake based on 18x FY22 EPS	460.3	0.49
Investment in quoted shares	Book Value	98.8	0.10
Investment Properties	Book Value	177.2	0.19
Target Price (RM/share)		**4,133.5**	**4.36**

No. of shares (m)	988.2
Treasury shares (m)	-40.98
Share base (m)	**947.2**

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Revenue	701.9	767.1	933.9	1,091.5	1,290.7
Gross Profit	**230.1**	**450.8**	**494.9**	**543.6**	**596.3**
EBIT	196.8	411.3	440.2	481.3	526.8
Finance costs	-8.4	-22.3	-17.0	-15.6	-14.2
Pre-tax Profit	**188.4**	**389.0**	**423.2**	**465.6**	**512.5**
Income Tax	-12.0	-10.8	-12.7	-14.0	-15.4
Effective Tax Rate (%)	6.4	2.8	3.0	3.0	3.0
Minorities	-24.6	-56.8	-58.7	-65.9	-88.0
Core Net Profit	**105.0**	**322.7**	**351.8**	**385.8**	**409.2**
Growth (%)					
Revenue	-19.7	9.3	21.7	16.9	18.3
Gross Profit	-4.0	109.0	7.0	9.3	9.5
Core Net Profit	10.6	114.4	8.5	10.0	10.1

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2019A	2020A	2021F	2022F	2023F
Fixed assets	222.8	250.2	480.2	610.2	690.2
Other long-term assets	2,426.8	2,368.7	2,288.6	2,208.6	2,128.6
Cash at Bank	91.0	93.6	177.1	374.2	629.3
Other current assets	164.4	369.2	459.9	544.3	652.6
Total Assets	**2,905.0**	**3,081.7**	**3,405.8**	**3,737.3**	**4,100.8**
ST Borrowings	718.2	123.4	123.4	123.4	123.4
LT Borrowings	27.9	534.4	484.4	434.4	384.4
Payables	315.3	126.6	175.5	218.9	277.3
Other Liabilities	96.8	100.5	100.5	100.5	100.5
Total Liabilities	**1,158.2**	**884.9**	**883.8**	**877.2**	**885.6**
Shareholders' Equity	1,711.9	2,165.6	2,490.8	2,828.8	3,183.9
Total Equity and Liabilities	**2,905.0**	**3,081.7**	**3,405.8**	**3,737.3**	**4,100.8**

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2019A	2020A	2021F	2022F	2023F
Book Value Per Share	3.6	4.6	5.3	6.0	6.7
NTA Per Share (Sen)	3.6	4.6	5.2	6.0	6.7
EPS (sen)	22.2	68.1	74.3	81.5	86.4
DPS (sen)	6.0	12.5	18.0	24.0	30.0
Payout Ratio (%)	27.1	18.3	24.2	29.5	34.7
ROA (%)	6.1	12.3	12.1	12.1	12.1
ROE (%)	10.3	17.5	16.5	16.0	15.6

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 12months.
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.

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PUBLIC INVESTMENT BANK BERHAD (20027-W)
26th Floor, Menara Public Bank 2
78, Jalan Raja Chulan,
50200 Kuala Lumpur
T 603 2268 3000
F 603 2268 3014