

MEGA FIRST CORP

(MFCB MK EQUITY, MEGA.KL)

HOLD

(Maintained)

Price: RM3.40

Target Price (% return): RM3.65 (7.4%)

52-week High/Low: RM4.60/RM3.12

Power

Rationale for report: Company Update

Lower USD to affect 4Q earnings

We think that MFCB's 4QFY25 net pro fit would be lower than 3QFY25 as the weak USD is expected to affect the translation of DSHP's (Don Sahong Hydropower Plant) earnings back into MYR. According to Bloomberg, the USD depreciated by about 1.7 % from an average of US\$1.00: RM4.23 in 3QFY25 to US\$1.00: RM4.15 in 4QFY25. On a brighter note, we reckon that MFCB's share of losses in the Edenor Oleo JV would ease in 4QFY25 supported by cost-cutting measures. Comparing FY25F against FY24, we forecast MFCB's share of oleo losses to narrow slightly from RM66mil to RM60mil. We maintain HOLD with a target price of RM3.65/share as the 26.1% drop in MFCB's share price from the peak, has already reflected all of the negatives.

- HOLD with an unchanged TP of RM3.65/share.** Our TP of RM3.65/share is based on a FY26F PE of 10x, which is the five-year average. In the past five years, MFCB's PE ranged from a low of 6x to a high of 11x.
- A recovery in the USD would boost DSHP's EBIT, which is more than RM400mil/year.** We estimate that a 10 sen rise in the USD vs. MYR would improve the RE division's (mainly DSHP) EBIT by 2%. Operationally, we think that DSHP would continue to enjoy high sales volumes driven by healthy water levels. This coupled with a rise in water tariff are expected to compensate for an increase in DSHP's tax rate from 0% in FY25F to 5% in FY26F.
- Resources EBIT is envisaged to be flat at RM31mil in FY26F.** Although demand for lime products from steel and mining customers is weak, cost of petcoke, which is the main raw material, is stable. Petcoke prices are US\$160/tonne currently vs. the peak of US\$260/tonne during the Ukraine War in 2022. We forecast an EBIT margin for FY26F, which is similar to FY25F.
- Packaging EBIT may improve by 10% in FY26F.** This is expected to be driven by demand from new markets such as the USA. Despite the 19% import tariff on Malaysian products, we gather that demand for paper packaging from the US has been growing. On the flip side, competition from China in the flexible packaging segment is stiff. Also, the packaging division's customers have been facing soft demand for their consumer products, which has resulted in lower demand for plastic packaging.

Analyst (s)

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Key Changes

Target Price: ↕
EPS: ↕

Stock and Financial Data

Shares Outstanding (million)	945.2
Market Cap (RMmil)	3,213.7
Book Value (RM/Share)	3.52
P/BV (x)	0.9
ROE (%)	14.4
Net Gearing (%)	26.4
Free Float	65.0
Avg Daily Value (RMmil)	1.3

Major Shareholders

Goh Nan Kioh	35%
EPF	11%
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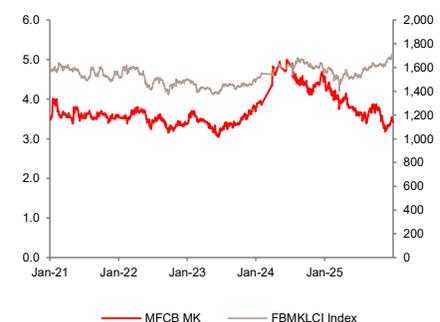
Price performance	3mth	6mth	12mth
Absolute (%)	-0.3	-5.7	-23.6
Relative (%)	-14.2	-15.7	-29.6

Source: MEGA FIRST CORP, AmInvestment Bank

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	1,741.9	1,327.2	1,314.5	1,443.9
Core net profit (RM mil)	459.2	360.3	344.1	372.2
FD Core EPS (sen)	48.6	38.1	36.4	39.4
FD Core EPS growth (%)	19.7	(21.5)	(4.5)	8.2
Consensus Net Profit (RM mil)	-	399.3	413.8	428.0
DPS (sen)	9.0	9.5	9.5	10.0
PE (x)	7.0	8.9	9.3	8.6
EV/EBITDA (x)	6.6	6.0	5.9	5.2
Div yield (%)	2.6	2.8	2.8	2.9
ROE (%)	14.4	10.4	9.2	9.3
Net Gearing (%)	26.4	30.4	25.6	21.8

Source: MEGA FIRST CORP, AmInvestment Bank

Price Chart



Company profile

Mega First Corporation (MFCB) is involved in hydropower plant, solar, lime mining and packaging activities. Apart from these, MFCB has coconut, macadamia, vegetable and fruit farms.

About 93% of MFCB's FY23 EBIT (ex-investment holding) came from the renewable energy (RE) division while the balance 7% came from the resources (lime mining) and packaging divisions. The RE division consists of hydropower and solar activities.

MFCB's Don Sahong Hydropower Plant (DSHP) sells electricity to Electricite du Laos (EDL). EDL in turn sells the electricity to Cambodia.

MFCB's operations are in Laos, Malaysia and Cambodia.

MFCB's competitive advantage lies in its recurring income from DSHP, which are denominated in USD. MFCB also has one of the largest lime mines in Malaysia. MFCB has high exposure to RE via its hydropower and solar operations.

Investment thesis and catalysts

We have a HOLD on MFCB as the losses at the oleo joint venture are a drag on the group's net profit. On a positive note, DSHP's cash flows are healthy at about RM400mil to RM500mil per year.

Share price kickers are an earnings turnaround at the oleochemical joint venture and an appreciation of the USD.

Valuation methodology

We applied a FY26F PE of 10x to arrive at MFCB's target price of RM3.65/share. The PE of 10x is the five-year average

Risk factors

Key risks are losses in the oleochemical joint venture and increases in logistics and petcoke costs.

We estimate that a 10 sen depreciation in the USD vs. MYR would affect the RE division's EBIT by 2%, assuming everything else is the same.

EXHIBIT 1. VALUATIONS

Target PE (x)	10
FY26F EPS	36.4
ESG premium	-
12-month TP (RM)	3.65

EXHIBIT 2. ESG MATRIX

	Assessment	Parameters	Weightage	Rating					Rationale
				*	*	*	*	*	
1	GHG emissions	Net zero by 2050F	25%	*	*	*			Scope 1, 2 and 3 emissions were 799,204 tCO2e in FY24 vs. 800,773 tCO2e in FY23
2	Exposure to renewables	More than 20% of generation mix or capacity	25%	*	*	*	*	*	High exposure to hydro and solar
3	Contribution of coal to earnings	Less than 20%	25%	*	*	*	*	*	Zero coal
4	Workplace noise and chemical exposure - resource division	Noise exposure limit of 85 dB(A)	25%	*	*	*	*		Zero case of non-compliance in FY24
Weighted score for environmental assessment			100%	*	*	*	*		
1	Workers welfare	Learning and development hours	50%	*	*	*			Average training hours per executive was 25.8 in FY24 vs. 24.6 in FY23
2	Work related injuries	Zero	50%	*	*				13 work related injuries to hands and legs in FY24 vs. 12 in FY23; one fatality of third-party contractor in FY24
Weighted score for social assessment			100%	*	*	*			
1	Related party transactions	Value of RPTs	40%	*	*	*			RM97.2mil in FY24, mainly repayment of loan to shareholder
2	Women in workforce	% in workforce	30%	*	*	*			23.9% of workforce were women in FY24 vs. 23% in FY23
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*			RM2.8mil in FY24 vs. RM3mil in FY23
Weighted score for governance assessment			100%	*	*	*			
	Environmental score		50%	*	*	*	*		
	Social score		30%	*	*	*			
	Governance score		20%	*	*	*			
	Overall ESG Score		100%	*	*	*			

Source: Company, AmInvestment Bank Bhd

Financial Summary

Income Statement (RMmil)

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Revenue	1,317.6	1,741.9	1,327.2	1,314.5	1,443.9
EBITDA	530.8	624.7	715.8	713.8	790.4
Depreciation/Amortisation	(132.1)	(144.0)	(229.3)	(251.9)	(290.9)
Operating income (EBIT)	398.8	480.6	486.5	461.9	499.5
Other income & associates	94.5	34.9	(10.0)	(10.0)	(10.0)
Net interest	(16.5)	(38.0)	(62.3)	(65.2)	(61.7)
Exceptional items	-	31.8	-	-	-
Pretax profit	476.8	509.3	414.2	386.7	427.9
Taxation	(25.1)	(18.3)	(20.7)	(11.6)	(21.4)
Minorities/pref dividends	(67.9)	(31.8)	(33.1)	(30.9)	(34.2)
Net profit	383.7	459.2	360.3	344.1	372.2
Core net profit	383.7	427.4	360.3	344.1	372.2

Balance Sheet (RMmil)

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	531.9	775.8	1,408.3	1,685.7	1,946.7
Intangible assets	54.7	57.9	57.9	57.9	57.9
Other long-term assets	2,771.9	3,441.3	3,379.7	3,318.1	3,256.6
Total non-current assets	3,358.5	4,275.1	4,845.9	5,061.7	5,261.2
Cash & equivalent	528.2	268.3	167.3	401.7	627.2
Stock	131.7	185.9	145.4	129.6	142.4
Trade debtors	488.7	391.8	309.1	288.1	316.5
Other current assets	1.4	0.3	-	-	-
Total current assets	1,150.0	846.3	621.8	819.4	1,086.0
Trade creditors	168.8	214.5	140.7	142.6	158.0
Short-term borrowings	435.2	615.5	677.1	744.8	819.3
Other current liabilities	6.0	3.8	3.8	3.8	3.8
Total current liabilities	610.0	833.8	821.6	891.2	981.0
Long-term borrowings	466.1	530.9	584.0	642.4	706.7
Other long-term liabilities	208.4	212.1	214.1	214.2	214.2
Total long-term liabilities	674.5	743.1	798.1	856.6	920.8
Shareholders' funds	3,056.9	3,324.5	3,595.1	3,849.4	4,127.1
Minority interests	167.1	219.9	253.1	284.0	318.2
BV/share (RM)	3.23	3.52	3.80	4.07	4.37

Cash Flow (RMmil)

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	476.8	509.3	414.2	386.7	427.9
Depreciation/Amortisation	132.1	144.0	229.3	251.9	290.9
Net change in working capital	(99.4)	(227.5)	28.6	27.1	(47.2)
Others	77.3	53.6	3.4	(2.2)	(8.5)
Cash flow from operations	586.8	479.4	675.5	663.4	663.1
Capital expenditure	(238.4)	(617.5)	(300.0)	(300.0)	(300.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Others	(432.1)	(154.1)	(437.8)	(136.1)	(147.2)
Cash flow from investing	(670.5)	(771.6)	(737.8)	(436.1)	(447.2)
Debt raised/(repaid)	179.4	218.9	114.6	126.1	138.7
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(81.7)	(97.5)	(71.8)	(71.8)	(75.6)
Others	(52.3)	(58.1)	(56.6)	(62.2)	(68.5)
Cash flow from financing	45.5	63.4	(13.8)	(7.9)	(5.4)
Net cash flow	(38.2)	(228.8)	(76.1)	219.4	210.5
Net cash/(debt) b/f	482.8	462.9	228.4	167.3	401.7
Forex	18.4	(5.7)	15.0	15.0	15.0
Net cash/(debt) c/f	462.9	228.4	167.3	401.7	627.2

Key Ratios

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	-1.6	32.2	-23.8	-1.0	9.8
EBITDA growth (%)	-4.8	17.7	14.6	-0.3	10.7
Pretax margin (%)	36.2	29.2	31.2	29.4	29.6
Net profit margin (%)	29.1	26.4	27.2	26.2	25.8
Interest cover (x)	32.2	16.4	11.5	10.9	12.8
Effective tax rate (%)	5.3	3.6	5.0	3.0	5.0
Dividend payout (%)	20.3	18.5	24.9	26.1	25.4
Debtors turnover (days)	135.4	82.1	85.0	80.0	80.0
Stock turnover (days)	36.5	39.0	40.0	36.0	36.0
Creditors turnover (days)	82.3	72.2	72.0	72.0	72.0

Source: Company, AmInvestment Bank

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