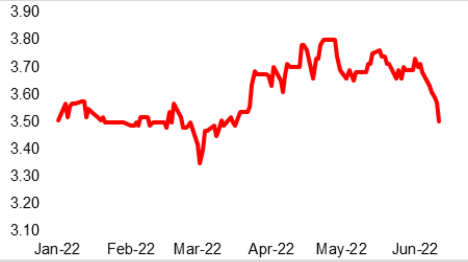
MEGA FIRST CORPORATION *Outperform*

DESCRIPTION

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

12-Month Target Price	RM4.74
Current Price	RM3.47
Expected Return	+36.6%
Market	Main
Sector	Conglomerate
Bursa Code	3069
Bloomberg Ticker	MFCB MK
Shariah-compliant	Yes

SHARE PRICE CHART



52 Week Range (RM)	3.32 – 3.89
3-Month Average Vol ('000)	915.5

SHARE PRICE PERFORMANCE

	1M	**3M**	**6M**
Absolute Returns	-4.9	-0.2	-2.7
Relative Returns	-0.5	8.8	1.6

KEY STOCK DATA

Market Capitalisation (RM m)	3,280.2
No. of Shares (m)	947.4

MAJOR SHAREHOLDERS

	%
Goh Family	33.3
Mega First Corp (Share buy-back a/c)	4.3

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Key Takeaways, Post Conference Call

We recently hosted a virtual briefing for Mega First Corporation (MFCB), with several key highlights shared by management. Despite mounting cost pressures in the limestone and packaging businesses, management continues to pursue new investment opportunities. We laud management's credibility and strong entrepreneurship given its success stories in the solar, packaging and oleochemical businesses which it recently ventured into. Management has indicated its intention of playing its role as an investor in these businesses by sharing its guidance, vision and balance sheet strength. We continue to rate MFCB with an ***Outperform*** call and SOP-based TP of RM4.74. It is currently trading at an undemanding PER of only 8-9x.

- **Risk from looming Laos debt crunch.** Pressure from higher US interest rates which weakens local currencies against the Dollar and makes imports more expensive, and surging oil prices mainly due to Russia's invasion of Ukraine, has brought a time of reckoning to Laos. The country only has USD1.3bn of reserves on hand while external debt repayments total roughly that same amount every year until 2025, the equivalent of about half of total domestic revenue. With its currency, the Kip, down 58% against the Dollar over the past year, Laos is facing inflation at the highest since 2004, hitting almost 13% last month. Moody's Investors Services had recently downgrade Laos's credit rating to Caa3, citing i) weak governance, ii) a very high debt burden and iii) insufficient FX reserves to cover maturing external debt.

  Troubled state-owned electricity operator, Electricite du Laos (EDL) accounted for nearly a third of publicly-guaranteed debt last year and much was owed to the Electricity Generating Authority of Thailand. This raises concerns over the collection for MFCB's 80%-owned Don Sahong Hydropower plant. Nevertheless, we think that it is unlikely to see payment defaults from EDL as the electricity is effectively sold to neighbouring Cambodia under a 700MW G-to-G PPA contract signed in 2019. We understand that there is a legal arrangement for EDL to use the proceeds from the sale of electricity to Cambodia for the payment to Don Sahong Hydropower before it is allowed to be used for other purposes.

- **In advance talks for 5th turbine PPA.** Management guided that it is currently in advance talks for the 5th turbine power purchase agreement (PPA), and is expected to be concluded by year-end. We understand that there will be some compromises compared to the previous PPA. Assuming the PPA was sealed during the construction period, construction profit will need to be recognized. Construction of the 5th turbine, which is expected to see an effective availability factor of 41%, has started with civil works and excavation having taken place since May.

- **Solar segment bags second overseas project.** During the quarter, the solar segment secured additional 27.4MW commercial and industrial solar projects, with 6.4MW slated for completion by Aug/Sept 2022 and the remainder to be progressively completed over 24 months. The notable win is the 11.4MW solar project in Maldives under a World Bank-guaranteed open tender. MFCB owns 99% with the remaining 1% held by Power China, who will be the EPCC contractor. The allocated capex is about RM40m-45m with a targeted IRR of more than 10%.

- **Decade-high solar project cost might put off demand.** The cost of a key material for solar panels in China is nearing its highest level in a decade as the average price of the polysilicon reached 268 yuan/kg (USD40/kg). Last year, it soared 3-fold to as much as 272 yuan, the highest since 2011 as demand outran supply. Certain products have become unprofitable and installations have slowed in some locations, even as global demand remains elevated amid efforts to meet climate targets and reduce dependence on fossil fuels. Some rooftop solar projects in China have already been cancelled or delayed.

- **Not out of the woods yet for limestone business.** Despite seeing higher domestic and overseas sales growth of 5%-10% for limestone products this year, bottomline is expected to remain flattish due to the cost pressures mainly from higher fuel and energy costs. Petcoke cost, which is the largest cost component, has soared more than 59% YoY. Management is proactively and progressively engaging with customers to review and adjust selling prices to defray cost increases.

- **Aggressive expansion underway for packaging.** To support growing demand, the packaging segment is expected to see strong capacity expansion for its upstream and downstream lines. The upstream segment, which is held under 75%-owned Stenta, is currently operating at near full capacity. A new factory will be constructed on a 6.7-acre land adjacent to its current production site in Bangi, Selangor. Construction will commence in the upcoming 3Q and will be completed by June 2023. Under the phase one expansion plan, the company plans to install two new blown-film lines and another two lines a year later. Meanwhile, the 60%-owned downstream packaging, Hexachase Group, will see a new mega factory constructed on a 10.4-acre plot of industrial land in Melaka. The new factory building is expected to be completed by end-2Q 2023 followed by machinery installation starting from 2H 2023. The new factory will double downstream manufacturing space from 207k sq ft to 480k sq ft. Upon completion of full capacity expansion, the potential capacity revenue will jump from RM450m to RM1.2bn.

- **Pleasant surprise from Edenor.** The early turnaround for the 50%-owned oleochemical business has sprung a surprise. In 1QFY22, it registered sales of RM331m with a net profit of RM8m. At current capacity utilization of 65%, the Group aims to take 2 years to gradually increase its net margin from 2% to 5%-10% with periodic price adjustment for basic oleo products and higher productivity coupled with improved cost efficiency. However, we think that it will be quite a challenge for 2Q-3Q performance given the volatility in CPO prices.

- **Venturing into semiconductor space.** The Group has recently acquired a 28.83% stake in Melaka-based Integrated Smart Technology S/B (IST), which is involved in automated test machine design and assembly for the semiconductor, for RM5.5m, valuing the acquisition at a bargain PE of only 2x. The remaining stake in IST is owned by its co-founders. It is expected to generate around RM10m profit per year or around RM2.9m for MFCB's equity portion based on an estimated annual sales of RM40m-50m. MFCB's management indicated that it has no intention to have a full-control over the company as it plans to grow the business to a substantial size with guidance, vision, balance sheet strength.

- **Grooming another potential gem.** MFCB has allocated RM3m to expand 100%-owned auto company, Bloxwich S/B, which offers supply panels, LED and other parts of foreign car companies. The capex will be used to expand CNC machines.

KEY FINANCIAL SUMMARY

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F	CAGR
Revenue	767.1	914.6	1,083.6	1,246.9	1,351.2	15.2%
Gross Profit	450.7	475.5	554.8	603.5	614.8	8.1%
Pre-tax Profit	389.2	539.6	467.1	510.5	522.9	7.7%
Core Net Profit	321.8	339.0	386.2	411.0	418.4	6.8%
EPS (Sen)	34.0	35.9	40.8	43.5	44.3	6.8%
P/E (x)	10.2	9.7	8.5	8.0	7.8	
DPS (Sen)	6.3	6.8	9.0	10.0	10.0	
Dividend Yield (%)	1.8	1.9	2.6	2.9	2.9	

Source: Company, PublicInvest Research estimate

Figure 1: 5th Turbine Construction Progress as of end-May 2022 (65MW)

Source: Company, PublicInvest Research

DECEMBER 2021

MAY 2022

FEBRUARY 2022

MAY 2022

Source: Company, PublicInvest Research

Table 1: SOP-based Valuations

Sum-Of-Parts Valuations	Valuation Basis	Value (RMm)	RM/share
Power	80% stake (WACC: 7%)	2,756.0	2.92
Resources	18x FY23 EPS	429.9	0.45
Packaging & Label	75% stake based on 18x FY23 EPS	640.8	0.68
Oleochemical	50% stake based on 16x FY23 EPS	288.0	0.30
Investment in quoted shares	Book Value	200.0	0.21
Investment Properties	Book Value	165.2	0.17
Target Price (RM/share)		**4,479.9**	**4.74**

No. of shares (m)		988.3
Treasury shares (m)		-43
Share base (m)		**945.3**

Source: Company, PublicInvest Research

KEY FINANCIAL DATA

INCOME STATEMENT DATA

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Revenue	767.1	914.6	1,038.8	1,246.9	1,351.2
Gross Profit	**450.7**	**475.5**	**540.2**	**602.3**	**612.1**
EBIT	411.5	439.6	465.5	516.8	526.0
Finance costs	-22.3	-21.9	-21.8	-23.7	-22.0
Pre-tax Profit	**389.2**	**539.6**	**459.7**	**511.1**	**523.0**
Income Tax	-11.1	-8.9	-13.8	-15.3	-15.7
Effective Tax Rate (%)	2.9	1.6	3.0	3.0	3.0
Minorities	-56.8	-68.3	-59.1	-84.1	-88.9
Core Net Profit	**321.8**	**339.0**	**386.8**	**411.6**	**418.5**
Growth (%)					
Revenue	9.3	19.2	13.6	20.0	8.4
Gross Profit	109.1	6.8	5.9	11.0	1.8
Core Net Profit	114.3	40.4	-16.0	11.2	2.3

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2020A	2021A	2022F	2023F	2024F
Fixed assets	250.2	410.4	540.4	620.4	700.4
Other long-term assets	2,368.7	2,662.1	2,508.1	2,428.1	2,348.1
Cash at Bank	93.6	257.6	445.8	700.6	1,014.5
Other current assets	369.2	539.2	612.2	748.0	822.4
Total Assets	**3,081.7**	**3,869.3**	**4,106.5**	**4,497.1**	**4,885.4**
ST Borrowings	123.4	273.3	273.3	273.3	273.3
LT Borrowings	534.4	504.6	454.6	404.6	354.6
Payables	126.6	119.0	135.1	174.5	200.0
Other Liabilities	100.5	119.5	119.5	119.5	119.5
Total Liabilities	**884.9**	**1,016.4**	**982.5**	**971.9**	**947.4**
Shareholders' Equity	2,165.6	2,739.6	3,100.4	3,501.6	3,914.4
Total Equity and Liabilities	**3,081.7**	**3,869.3**	**4,106.5**	**4,497.1**	**4,885.4**

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2020A	2021A	2022F	2023F	2024F
Book Value Per Share	2.3	2.9	3.3	3.7	4.1
NTA Per Share (Sen)	2.3	2.8	3.2	3.6	4.1
EPS (sen)	34.0	35.9	40.9	43.5	44.3
DPS (sen)	6.3	6.8	9.0	10.0	10.0
Payout Ratio (%)	18.4	18.8	22.0	23.0	22.6
ROA (%)	12.3	13.7	10.9	11.0	10.4
ROE (%)	17.5	19.4	14.4	14.2	13.0

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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