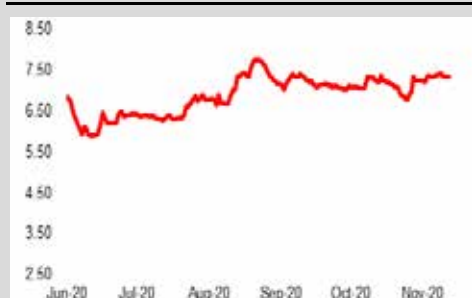


MEGA FIRST CORPORATION
Outperform
DESCRIPTION

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

12-Month Target Price	RM8.62
Previous Target Price	RM8.58
Current Price	RM7.35
Expected Return	+17.3%

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

SHARE PRICE CHART


52 Week Range (RM)	3.10 – 7.83
3-Month Average Vol ('000)	1,040.4

SHARE PRICE PERFORMANCE

	1M	3M	6M
Absolute Returns	0.3	4.4	29.6
Relative Returns	-3.3	3.9	12.9

KEY STOCK DATA

Market Capitalisation (RM m)	3,481.5
No. of Shares (m)	473.7

MAJOR SHAREHOLDERS

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

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A Commendable Set of Results

Mega First's 9MFY20 core earnings surged 3-fold to RM228.5m, bolstered by strong earnings contributions from the power and packaging segments while resources remained steady. The stellar results were in line with our and market's full-year expectations, making up 71% and 76% respectively. The Don Sahong hydropower plant achieved 83.3% energy availability factor in 9M20 and is expected to hit more than 94% in the final quarter on the back of high water levels and absence of scheduled turbine maintenance. No dividend was declared for the quarter. We maintain our **Outperform** call with a higher SOP-based TP of RM8.62 following the expiry of all available ESOS.

§ **3QFY20 revenue (QoQ: +16.6%, YoY: +68.3%).** The Group's revenue jumped 68% higher YoY to RM211m, mainly contributed by all three core segments, namely power, resources and packaging. 3Q energy sales to Electricite du Laos stood at RM137m, which is based on the average energy availability factor of 92.4%, a significant improvement from 86.7% in 2QFY20 as a result of the onset of the annual wet season in June. Revenue from the resources segment inched 2.2% higher YoY to RM41.1m, due to a 2.7% YoY increase in sales of lime products to RM37.2m while contribution from other lime products came in flat at RM2.9m. The average selling price of lime products was 4.8% YoY lower due mainly to a change in the sales mix while volume rose 7.8% YoY as orders from new customers more than offset weaker demand from existing customers. The packaging & labels segment sales jumped 53% YoY to RM28.1m, underpinned by increased orders of flexible plastic and paper packaging products from both new and existing customers.

§ **3QFY20 core profit leapt 6-fold.** All core segments contributed to the core earnings of RM90.8m. The power segment, which contributed more than 93% of the Group's bottomline, saw its pre-tax profit surge 7-fold to RM102m. The hydropower energy business commanded a lucrative pre-tax margin of 74.4%. Packaging & labels segment posted a pre-tax profit of RM3.5m compared to a small earnings of RM0.1m in the same period last year on i) higher turnover, ii) improved plant efficiency and iii) lower wastage. Resources segment rose 29.6% YoY to RM7m on i) improved sales and ii) higher plant capacity utilization, resulting in lower unit production cost.

§ **Bullish outlook.** The recorded energy availability factor of Don Sahong Hydropower plant stood at 83.3% for the first 9 months and is expected to hit more than 94% in 4Q, bringing the full-year average to 86%. Meanwhile, water level at the Pakse substation has recently subsided to 3.1m after hitting the peak of 7.74m last month. Nevertheless, we think the current water level is still sufficiently high to run four turbines at near full capacity level of 260MW. Packaging segment is expected to continue with the strong earnings momentum while resources segment will likely see margin pressure due to slower offtake by existing customers and a hike in freight rates of several key shipping routes due to container shortage. (refer to page 4)

KEY FINANCIAL SUMMARY

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F	CAGR
Revenue	874.1	701.9	756.5	835.7	915.2	1.2%
Gross Profit	220.6	230.1	431.2	459.6	485.0	21.8%
Pre-tax Profit	197.4	188.4	378.4	407.4	435.9	21.9%
Core Net Profit	143.2	105.0	321.1	343.9	367.9	26.6%
EPS (Sen)	30.2	22.2	67.8	72.6	77.7	26.6%
P/E (x)	24.3	33.2	10.8	10.1	9.5	
DPS (Sen)	4.0	6.0	30.0	30.0	30.0	
Dividend Yield (%)	0.5	0.8	4.1	4.1	4.1	

Source: Company, PublicInvest Research estimates

Figure 1: Results Summary

<u>FY Dec (RM m)</u>	<u>3Q20</u>	<u>3Q19</u>	<u>2Q20</u>	<u>QoQ chg (%)</u>	<u>YoY chg (%)</u>	<u>YTD FY20</u>	<u>YTD FY19</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue	211.2	125.5	181.2	16.6	68.3	553.1	506.4	9.2	Bolstered by all three core businesses
Cost of sales	-88.3	-97.8	-73.6	20.0	-9.7	-239.8	-385.8	-37.8	
Gross profit	122.9	27.7	107.6	14.2	343.7	313.3	120.6	>100	
Net income/(expenses)	-2.4	-0.7	1.5	<-100	>100	-2.6	-2.5	4.0	
Operating expenses	-7.0	-6.2	-6.8	2.9	12.9	-20.9	-18.9	10.6	
Operating profit	113.5	20.8	102.3	10.9	>100	289.8	99.2	>100	
Finance costs	-4.4	-1.8	-5.0	-12.0	>100	-17.0	-5.2	>100	
Share of results in JV	0.0	0.0	0.0	-	-	0.0	0.0	-	
Pre-tax profit	109.1	19.0	97.3	12.1	>100	272.8	94.0	>100	
Tax expense	-1.3	-3.4	-2.0	-35.0	-61.8	-4.5	-16.1	-72.0	
Net profit	107.8	15.6	95.3	13.1	>100	268.3	77.9	>100	Contributed by stronger earnings from power, resources and packaging
Core profit	90.8	14.9	80.7	12.5	>100	228.5	68.9	>100	After stripping out FX changes
Core EPS (sen)	19.1	3.1	17.0	12.5	>100	48.0	14.5	>100	
DPS (sen)	0.0	0.0	6.0	-	-	6.0	0.0	-	No dividend was declared for the quarter
Gross Margin (%)	58.2	22.1	59.4	-	-	56.6	23.8	-	
Pre-tax Margin (%)	51.7	15.1	53.7	-	-	49.3	18.6	-	
Net Margin (%)	51.0	12.4	52.6	-	-	48.5	15.4	-	
Effective tax rate (%)	1.2	17.9	2.1	-	-	1.6	17.1	-	The energy sales from Laos is entitled to tax incentive until the 5th anniversary of COD

Source: Company, PublicInvest Research

Figure 2: Segmental Breakdown

<u>FY Dec (RM m)</u>	<u>3Q20</u>	<u>3Q19</u>	<u>2Q20</u>	<u>QoQ chg (%)</u>	<u>YoY chg (%)</u>	<u>YTD FY20</u>	<u>YTD FY19</u>	<u>YoY chg (%)</u>	<u>Comments</u>
Revenue:									
Power	137.5	61.0	130.4	5.4	>100	371.2	331.1	12.1	Contributed by electricity sales from Don Sahong Hydropower plant and maiden contribution of RM0.1m from solar energy
Resources	41.1	40.2	26.6	54.5	2.2	102.2	111.3	-8.2	Led by a 7.8% increase in sales vol of lime products, which offset a 4.8% decline in ASP
Packaging & Labels	28.1	18.4	21.6	30.1	52.7	68.9	49.7	38.6	Driven by increased orders of flexible plastic and paper packaging products from both new and existing customers
Investment holdings & Others	4.5	5.9	2.6	73.1	-23.7	10.8	14.3	-24.5	
	211.2	125.5	181.2	16.6	68.3	553.1	506.4	9.2	
Pre-tax profit:									
Power	102.3	14.1	93.7	9.2	>100	260.7	85.4	>100	
Resources	7.0	5.4	1.9	>100	29.6	13.3	13.3	0.0	On the back of higher customer demand and improved plant utilisation rate, resulting in lower production cost
Packaging & Labels	3.5	0.1	1.7	>100	>100	5.6	-0.7	<-100	Lifted by improved plant efficiency and lower wastage
Investment holdings & Others	-3.8	-0.7	0.0	-	>100	-6.8	-4.1	65.9	
	109.0	18.9	97.3	12.0	>100	272.8	93.9	>100	
Pre-tax Margins:									
Power	74.4	23.1	71.9	-	-	70.2	25.8	-	
Resources	17.0	13.4	7.1	-	-	13.0	11.9	-	
Property	12.5	0.5	7.9	-	-	8.1	-1.4	-	
Investment holdings & Others	-	-	-	-	-	-	-	-	

Source: Company, PublicInvest Research

OTHER UPDATES:

Don Sahong Hydropower Project – Expecting higher energy availability factor in 4QFY20

In the absence of any scheduled turbine maintenance and with the water level expected to remain sufficiently high throughout the year, management estimates the average energy availability factor of Don Sahong will likely further improve to 94%-95% in the final quarter of this year. This will likely translate into stronger power earnings on a QoQ basis.

In view of the Covid-19 related restrictions and strict border control enforcement by the Government of Laos, management has decided to defer its plan to construct the 5th turbine by a year.

Participating in LSS4, with 5 solar panel projects in the bag

The Group has submitted a bid to build a 50MW large scale solar photovoltaic plant under the Energy Commission's 4th cycle Large-Scale Solar development scheme (LSS4) in Malaysia. The results are expected to be announced in Jan 2021. If successful, the project, which carries a term of 21 years, is expected to be commissioned in 2023.

Meanwhile, management continues to source for new business opportunities to expand its investments in solar photovoltaic projects. The Group has secured 5 commercial and industrial solar panel projects with a total installed capacity of 17MW. The first project of 1.5MW has commenced commercial production in Aug 2020 with a maiden contribution of RM0.1m in 3QFY20. The remaining projects are expected to be progressively implemented over the next 12-15 months.

Resources – Anticipating margin pressure in 4QFY20

Management expects sales volume of lime products in the 4QFY20 to weaken sequentially. This is mainly due to slower offtake by existing customers as a result of plant maintenance and repair works and container shortages in some of the export routes. In addition, margins are expected to under pressure as a result of recent sharp increases in freight rates of several key shipping routes due to container shortages.

Packaging & Label – Embarking aggressive expansion mode

Production of flexible plastic packaging products and paper bags are currently running **near full capacity** after two quarters of strong sequential growth. 4QFY20 performance is expected to be sustained on steady domestic and export demand while awaiting new production capacities to kick-in starting from 1QFY21.

To cope with growing domestic and overseas demand, the packaging business has embarked on a major expansion programme to increase the production capacity of **paper bags** by 200% by end-2021 and production capacity of **flexible packaging** by 100% by end-2021. The expansion, including the construction costs of two new factories, is expected to cost about RM120m over the next 2 years.

Figure 3: SOP-based Valuations

Sum-Of-Parts Valuations	Valuation Basis	Value (RMm)	RM/share
Power	80% stake (WACC: 7%)	3,288.7	6.94
Resources	18x FY21 EPS	390.3	0.82
Packaging & Label	60% stake based on 18x FY21 EPS	177.3	0.37
Investment in quoted shares	Book Value	49.4	0.10
Investment Properties	Book Value	177.2	0.37
Target Price (RM/share)		4,082.8	8.62
No. of shares (m)		494.1	
Treasury shares (m)		-20.49	
Share base (m)		473.6	

Source: Company, PublicInvest Research

KEY FINANCIAL DATA
INCOME STATEMENT DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Revenue	874.1	701.9	756.5	835.7	915.2
Gross Profit	220.6	230.1	431.2	459.6	485.0
EBIT	205.1	196.8	397.8	425.5	452.6
Finance costs	-7.7	-8.4	-19.5	-18.1	-16.7
Pre-tax Profit	197.4	188.4	378.4	407.4	435.9
Income Tax	-37.9	-12.0	-5.7	-8.1	-8.7
Effective Tax Rate (%)	19.2	6.4	1.5	2.0	2.0
Minorities	-23.9	-26.5	-51.6	-55.4	-59.3
Core Net Profit	143.2	105.0	321.1	343.9	367.9
Growth (%)					
Revenue	-4.0	-19.7	7.8	10.5	9.5
Gross Profit	2.7	-4.0	102.2	6.9	6.4
Core Net Profit	1.1	10.6	111.3	7.1	7.0

Source: Company, PublicInvest Research estimates

BALANCE SHEET DATA

FYE Dec (RM m)	2018A	2019A	2020F	2021F	2022F
Fixed assets	287.4	222.8	217.7	212.7	192.7
Other long-term assets	1,932.8	2,426.8	2,346.8	2,266.8	2,186.8
Cash at Bank	130.5	91.0	271.6	578.8	930.7
Other current assets	159.7	164.4	151.2	169.4	188.0
Total Assets	2,510.4	2,905.0	2,987.2	3,227.7	3,498.3
ST Borrowings	112.4	718.2	718.2	718.2	718.2
LT Borrowings	486.3	27.9	-22.1	-72.1	-122.1
Payables	295.8	315.3	217.5	251.4	287.5
Other Liabilities	90.4	96.8	96.8	96.8	96.8
Total Liabilities	984.9	1,158.2	1,010.4	994.3	980.4
Shareholders' Equity	1,525.5	1,711.9	1,941.9	2,198.5	2,483.0
Total Equity and Liabilities	2,510.4	2,905.0	2,987.2	3,227.7	3,498.2

Source: Company, PublicInvest Research estimates

PER SHARE DATA & RATIOS

FYE Dec	2018A	2019A	2020F	2021F	2022F
Book Value Per Share	3.2	3.6	4.1	4.6	5.2
NTA Per Share (Sen)	3.2	3.6	4.1	4.6	5.2
EPS (sen)	30.2	22.2	67.8	72.6	77.7
DPS (sen)	4.0	6.0	30.0	30.0	30.0
Payout Ratio (%)	13.2	27.1	44.2	41.3	38.6
ROA (%)	6.4	6.1	12.5	12.4	12.2
ROE (%)	10.5	10.3	19.2	18.2	17.2

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.

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