

# HIGHEST RETURNS TO SHAREHOLDERS OVER THREE YEARS: UTILITIES: Mega First Corporation Berhad - Laos cash cow powering growth

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Chester Tay / The Edge Malaysia  
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Mega First Corporation Berhad's (MFCB) 256mw Don Sahong hydropower plant in Laos, which the company is building at a cost of US\$401 million, will be 80% completed by year end.

The plant means steady cash flow for the group from Laos, boosting its earnings for years to come.

To MFCB executive chairman Goh Nan Kioh, the plant is the best power project in the world. "It is environmentally friendly because there is no dam. It is run-of-the-river hydroelectricity. Technically, it is simple to build. It is economically viable and it is affordable," he told The Edge in a previous interview.

It is worth noting that the project has a short payback period of five years compared with the average of 10 years for traditional hydroelectricity projects.

The Don Sahong plant, in which MFCB has an 80% stake, is expected to generate an annual revenue of US\$120 million upon its commercial operation by the company's financial year ending Dec 31, 2020 (FY2020).

In fact, MFCB's earnings already seem to be benefiting from the construction of the plant. Since FY2015, the group has seen double-digit growth in its net profit. In FY2017, net profit was RM138.34 million, up 86.29% from the RM69.9 million reported in FY2014. This translates into a compound annual growth rate (CAGR) of 25.6% over the three years.

"We are currently at about 65% [completion of the plant] and if we can achieve our target of 80% by the end of this year, the construction profit is quite substantial, although it is just accounting profit," MFCB independent director Yeow See Yuen told The Edge in August.

"The first cash coming in from Don Sahong will be through test energy sales by end-2019. The project is slightly ahead of schedule."

The group recognises revenue from construction services during the building phase of the Don Sahong plant under a build-operate-transfer concession with the Laos government. The concession comes with a tariff of 6.15 US cents per kWh.

MFCB's power-related business is its biggest income earner, registering a pre-tax profit of RM180.46 million or 93.5% of the total in FY2017, according to the annual report. It recorded RM172.6 million in pre-tax construction profit from Don Sahong, which will increase to about RM178 million (US\$44.5 million) in FY2018.

While the group will book a larger construction profit from Don Sahong in FY2018, this may be offset by a loss of income from the expiry last year of its two power plant concessions in Shaoxing, China (Oct 22, 2017), and Tawau, Sabah (Dec 2, 2017).

The operational cost of the Laos project is estimated at 2% to 3% of revenue while royalties will cost 5%. Hence, the project should generate about US\$110 million in profit before interest and tax.

Apart from Don Sahong, MFCB's limestone business is also faring well. It has invested about RM80 million over the last three years in doubling its capacity.

Its production facility in Gopeng, Perak, is running at near-full capacity and its eighth kiln there is expected to be commissioned by year end. That will add capacity of 400 tonnes per day, bringing the total to 1,960 tonnes per day.

In FY2017, MFCB's limestone product business contributed 13% to total revenue, down from 16% in FY2016 despite year-on-year growth of 21.7% to RM119.94 million. This was due to higher revenue from the power division, thanks to the Don Sahong project.

Investors clearly like what they see, having chased up MFCB's share price from RM1.85 on June 30, 2015, to RM3.64 on June 29 this year, which means a three-year CAGR of 25.3% — the highest among the company's peers.