Highest growth in profit after tax over three years, Highest Returns to Shareholders over three years

UTILITIES

MEGA FIRST CORP BHD - BRINGING IN MEGA PROFITS AND RETURNS FOR SHAREHOLDERS

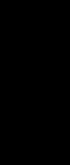
Esther Lee / theedgemarkets.com
December 28, 2021

Mega First Corp Bhd is no stranger to The Edge Billion Ringgit Club. This year, the company bags two awards — the highest growth in profit after tax over three years and the highest returns to shareholders over the past three years from 2018 to 2020.

If an investor had put in his money with Mega First on March 30, 2018, he would have seen his value of investment more than double by March 31, 2021. Its share price climbed to RM1.28 from RM1.25, yielding a return of 32.6% on a three-year compound annual growth rate (CAGR) basis in that period.

Mega First's share price has been on a steady upward trend since June 2019, as its Don Sahong Hydropower Project in Laos — a 260mw run-of-river hydropower project capable of generating about 2,000kwh of electricity per year — was falling into place. Investors began to gain confidence that the company would be able to pull it through in the land-locked Asean nation.

Shortly after the stock price hit an all-time high of RM0.01 on Feb 5, 2021, Mega First proposed a share split — one existing ordinary share into two subdivided shares — to improve liquidity, after which the company's issued share capital ballooned to 947.4 million shares.



In share price was then adjusted to RM3.75 on June 10. Since then, the stock has been hovering around RM3.69 and RM3.75.

The steady climb in share price has been powered by earnings contribution from its hydropower plant at the Sahong channel, one of seven major channels of the Mekong River in the Siphandone (Four Thousand Islands) area. The project utilises 15% of the total Mekong flow.

Mega First's profit after tax had grown steeply between the financial year ended Dec 31, 2017 (FY2017) and FY2020. The company enjoyed its first full year energy sales in FY2020, in which its net profit reached RM52.2 million from RM18.3 million in FY2017 — representing a three-year profit after tax CAGR of 32.4%.

There might have been doubts when Mega First started the hydropower project as the company needed to resolve many issues, including environmental matters. The long wait has proved to be fruitful, the Don Sahong Hydropower plant is now a core earnings contributor with steady and lucrative recurring income.

That said, Mega First does not wish to rely solely on a single project, it wants to diversify its earnings.

Renewable energy (RE) is an area where Mega First wants to spread its wings. The company has been looking out for RE projects in the region and has reiterated that such projects take time to materialise.

Currently, its RE segment derives the bulk of its revenue from the Don Sahong hydropower plant. The segment made up 66.5%, or RM510.21 million, of the group's revenue and 95.7%, or

RM372.09 million, of its pre-tax profit in FY2020.

In addition, the company is involved in the quarrying of limestone and manufacturing lime products; packaging material manufacturing; and electrochemicals, its most recent venture.

While it may be a little quiet on the RE front for now, Mega First has kept itself busy with expansion in other segments.

In 2021, the year that many companies are conserving cash to weather the economic and health crisis brought about by Covid-19, Mega First bought a flexible packaging film manufacturer Stenta Films (M) Sdn Bhd, which is expected to complement its downstream packing business under the Hexachase group.

Mega First, together with 9M Technologies Sdn Bhd, acquired Emery Oleochemicals (M) Sdn Bhd and Emery Specialty Chemicals Sdn Bhd. The two bold equal stakes in the Emery group of companies.

The oleochemical business is currently bleeding losses. However, Mega First says it is confident that it will be able to turn around the oleochemical business in the next 12 months.

PublicInvest Research writes in a Sept 3 research note that the new deals will not only bring in additional earnings contribution to the group, but also assist in lifting the group's return on equity, even as it might experience a slowdown in both the resources and downstream packaging businesses due to escalating cost pressures and more competitive pricing.

The research outfit adds that the company's RE business continues to remain strong. It has an "outperform" call on Mega First, with a target price of RM4.36.

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