MFCB

MEGA FIRST CORPORATION BERHAD

Management's Discussion and Analysis

Financial Results

The following table sets forth a summary of the results of the Group's continuing operations for the financial years ended 31 December 2021 and 2020:

Financial Year Ended 31 December	2021 RM'000	2020 RM'000 (restated)	Changes RM'000	%
Revenue	914,673	767,126	147,547	19.2
Other income/(expenses), net	10,574	(8,781)	19,355	220.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	540,633	510,354	30,279	5.9
Operating profit	439,583	411,607	27,976	6.8
Profit before tax	539,580	389,265	150,315	38.6
Profit after tax	530,665	378,180	152,485	40.3
Profit after tax attributable to owners of the Company	462,330	321,290	141,040	43.9
Revenue				
Renewable Energy	533,864	510,214	23,650	4.6
Resources	154,880	142,819	12,061	8.4
Packaging	208,217	97,775	110,442	113.0
Subtotal	896,961	750,808	146,153	19.5
Investment Holding and Others	17,712	16,318	1,394	8.5
Total	**914,673**	**767,126**	**147,547**	**19.2**
Profit Before Tax				
Renewable Energy	385,585	372,086	13,499	3.6
Resources	16,725	18,766	(2,041)	-10.9
Packaging	22,219	9,461	12,758	134.8
Subtotal	424,529	400,313	24,216	6.0
Investment Holding and Others	115,051	(11,048)	126,099	1141.4
Total	**539,580**	**389,265**	**150.315**	**38.6**

The Group registered an annual turnover of RM914.7 million in 2021, 19.2% higher than RM767.1 million recorded in 2020. The increase was attributable to a 4.6% increase in the Renewable Energy Division to RM533.9 million, a 113.0% increase in the Packaging Division to RM208.2 million and an 8.4% increase to RM154.9 million in the Resources Division.

Group pre-tax profit rose 38.6% from RM389.3 million to RM539.6 million, in part due to RM122.0 million share of profit in joint venture (boosted by unallocated bargain gain arising from Edenor's acquisition of Emery group of companies). Excluding the share of profit in joint venture, pre-tax profit grew 7.3% to RM417.6 million on a 3.6% increase in the Renewable Energy Division to RM385.6 million and a 134.8% jump in the Packaging Division to RM22.2 million, partially offset by a 10.9% decline in the Resources Division to RM16.7 million.

Renewable Energy Division

Revenue of the Renewable Energy Division came in 4.6% higher at RM533.9 million in 2021 (2020: RM510.2 million). Hydro energy sales rose 3.9% from RM510.0 million to RM529.8 million, while solar energy sales reached RM4.0 million in 2021 compared to RM0.2 million in 2020.

The Don Sahong hydropower plant achieved an average EAF of 91.0% in 2021, compared to 86.4% in 2020. Despite a longer period of scheduled turbine maintenance in 2021, the average EAF improved significantly due to higher average water levels during the year, improvements made to water flow management and a more effective power distribution system following the completion of EDL's 500KV transmission line from Ban Hut substation to the Cambodian border in November 2020.

During the year, the Group commissioned two new C&I Solar PV projects totalling 13.0 MW. This brought the Group's cumulative solar generation capacity to 14.5 MW at 31 December 2021 (as at 31.12.2020: 1.5 MW).

Pre-tax profit of the division increased RM13.5 million or 3.6% to RM385.6 million. The increase was attributable to higher energy sales, partially offset by the absence of RM8.2 million income from the write back of over-accrued project cost in 2020. Excluding the write-back income in 2020, the Renewable Energy Division would have posted a 6.0% or RM21.7 million improvement in profit before tax.

Resources Division

Revenue expanded 8.4% from RM142.8 million in 2020 to RM154.9 million in 2021, led mainly by a 5.5% increase in lime products to RM137.5 million. Sales of the other products, comprising mainly calcium carbonate powder, limestone and cement bricks, posted a 39.2% increase to RM17.4 million (2020: RM12.5 million) on demand recovery post more severe MCO measures in 1H2020.

Lime product sales volume rose 5.9% year-on-year, bolstered by a 19.1% increase in domestic demand, which more than offset by a 1.5% decline in export volume. Domestic sales staged a robust recovery during the year on economic activity recovery post harsher MCO measures in 1H2020. Exports, on the hand, were adversely affected by escalating shipping costs which eroded the division's price competitiveness in several key regional markets. The decline in export volume would have been more pronounced if not for successful volume diversion to alternative export markets that were less affected by the increase in shipping charges.

During the year, management adjusted selling prices to help defray sharp increases in fuel and shipping costs. Nonetheless, the overall ASP of lime products declined marginal by 0.3% as the price adjustment was more than offset by a stronger Ringgit (versus the US Dollar) and the effects of a change in the customer sales mix.

Pre-tax profit came in 10.9% lower to RM16.7 million (2020: RM18.8 million) as selling price adjustments and productivity gains arising from higher sales volume were not sufficient to offset a sharp increase in fuel costs and higher kilns repair expenses. The average fuel cost in 2021 was 33.5% higher when compared to 2020.

Packaging Division

Revenue grew 113.0% to RM208.2 million (2020: RM97.8 million), spurred by a 5-month sales contribution of RM83.2 million from Stenta and a 27.8% revenue growth of Hexachase to RM125.0 million.

Despite a relatively weak 3Q2021 caused by COVID-19-related plant shutdown by several key domestic customers, Hexachase delivered a robust top-line growth for the full year on the back of an expanding customer base and increasing sales penetration of existing customers in both the domestic and export markets.

Pre-tax profit came in 135% higher at RM22.2 million in 2021 (2020: RM9.5 million), comprising RM11.3 million from the 5-month consolidation of Stenta (2020: nil) and RM10.9 million from Hexachase (y-o-y: +14.7%). During the year, the pre-tax profit margin of Hexachase was impacted by higher raw material costs. Given the competitive nature of the converting business, Hexachase was unable to fully pass on these cost increases to its end customers.

Financial Position

Assets and Liabilities

Changes in key assets and liabilities during the financial year 2021 are explained below:

Asset/Liability Items	As At 31.12.2021 RM'000	As At 31.12.2020 RM'000	Changes RM'000	Explanation
Service concession asset	1,922,289	1,932,044	(9,755)	The decrease was due to RM80.5 million amortisation charge, partially offset by RM70.8 million translation gain.
Property, plant and equipment ("PPE")	410,393	250,229	160,164	The increase was primarily due to consolidation of Stenta (+RM76.3 million), RM105.8 million CAPEX and translation gain of RM1.8 million, partly offset by RM22.9 million depreciation charge. CAPEX allocation: (a) Packaging Division RM45.9 million; (b) Solar projects RM34.5 million; (c) Plantation development RM16.4 million; and (d) Others RM9.0 million.
Right-Of-Use ("ROU") assets	129,325	104,298	25,027	The increase was largely due to consolidation of Stenta (+RM33.0 million) and RM4.0 million CAPEX, partially offset by RM7.0 million amortisation charge and RM5.2 million write-offs/impairment loss.
Investment properties	165,203	177,212	(12,009)	The decrease was due to RM10.1 million fair value loss and RM1.9 million disposal.
Inventories (non-current)	43,443	43,443	-	No movement in the current year.
Investment in quoted shares	200,067	98,790	101,277	The increase was primarily due to fair value gain of quoted securities.
Inventories (current)	128,858	61,802	67,056	The increase was mainly due to consolidation of Stenta (+RM38.8 million) and higher inventories in the Packaging and Resources Divisions on higher revenue base.
Receivables	408,666	306,995	101,671	The increase was mainly due to consolidation of Stenta (+RM42.5 million), prepayment for Don Sahong expansion and generally higher receivable in the Packaging, Renewable Energy and Resources Divisions on higher revenue base.
Deferred tax liabilities	119,508	100,536	18,972	The increase was mainly due to the consolidation of Stenta (+RM14.3 million) and additional deferred tax arising from Packaging Division CAPEX.
Payables (current)	118,515	126,063	(7,548)	The decrease was mainly due to RM31.5 million payment to Don Sahong's EPCC contractor, partially offset by consolidation of Stenta (+RM19.6 million).

Group Borrowings and Debt Securities

The Table below sets out the salient information of the Group's bank borrowings:

	Long-term		Short-term		Total
	USD RM'000	**RM** RM'000	**USD** RM'000	**RM** RM'000	**As at 31.12.2021** RM'000
Secured Loans					
Trade financing and loans	-	-	-	57,823	57,823
Term loans	-	83,921	-	22,417	106,338
Bank overdrafts	-	-	-	930	930
Revolving credit	-	-	-	88,000	88,000
	-	83,921	-	169,170	253,091
Unsecured Loan					
Term loan	420,665	-	104,125	-	524,790
Total Borrowings	**420,665**	**83,921**	**104,125**	**169,170**	**777,881**

At 31 December 2021, total borrowings (excluding lease liabilities) amounted to RM777.9 million, a RM120.0 million increase from RM657.9 million at the beginning of the year, The increase was primarily due to additional borrowings to part finance the acquisition of Stenta and the Group's capex and RM21.7 million translation loss on USD-denominated loan.

Interest rates of the Group's bank borrowings are floating in nature.

The Group has no debt securities as at 31 December 2021.

Cash Flow Analysis

The Group generated a total cash of RM496.0 million in 2021, comprising:

(a) RM469.7 million after-tax cash from its operating activities, representing a 59.5% increase from RM294.5 million in 2020. The significant improvement was attributable mainly to higher collection of energy sale revenue from EDL;

(b) RM17.8 million net cash inflow from non-operating investment activities; and

(c) RM8.5 million new capital from minority shareholders of subsidiaries.

During the year, RM329.2 million was allocated for investment activities, comprising:

(a) RM157.5 million for the acquisition of Stenta (inclusive of RM3.7 million net debt assumed);

(b) RM20.0 million for investment in oleochemical joint venture;

(c) RM112.5 million for CAPEX, as detailed above; and

(d) RM39.2 million for Don Sahong, being partial settlement of project cost and prepayment for the 5th turbine expansion.

A total of RM103.4 million was allocated to the following stakeholders:

(a) RM69.3 million comprising RM61.6 million dividends paid to shareholders of the Company and RM7.7 million distribution to minority shareholders of a subsidiary;

(b) RM27.3 million finance costs (including repayment of lease liabilities) paid to lenders of the Group; and

(c) RM6.8 million to buy back shares of the Company.

After factoring in translation loss on USD-denominated loans, net debt of the Group decreased RM44.1 million from RM564.3 million to RM520.2 million.

Foreign Currency Exposure

The Group's main exposure to foreign currency exchange fluctuation is from Don Sahong since the Group's results are reported in Ringgit Malaysia while the functional currency of Don Sahong is the US Dollar.

The Group was slightly impacted (-1.4%) by a weaker US Dollar in terms of reported earnings for financial year 2021. The average RM:USD exchange rate for the year was 4.14 (2020: 4.20).

Dividend Policy

For the financial year 2021, the Company declared and paid a total dividend of 6.75 sen per ordinary share, representing an 8% increase from 6.25 sen (after Share Split) in 2020. Subject to the future cash flow from operating activities, cash outlay commitments and future plans of the Group, the Company intends to continue to gradually step-up dividend distribution by circa. 10% per annum to eventually reach a payout ratio of at least 30%.

Forward-Looking Statement

The Group's prospects and future plans can be found in the Chairman's Statement.