



MEGA FIRST CORPORATION BERHAD

Chairman's Statement

Dear Valued Shareholders,

I am delighted to present Mega First Corporation Berhad's Annual Report for the financial year ended 31 December 2022 ("FY2022") on behalf of our Board of Directors.

Despite the lingering headwinds posed by the COVID-19 pandemic and a changing global economic landscape, we are proud to report a strong record performance for our core divisions in FY2022. We have continued to deliver sustainable growth and create value for you, while also making a positive impact on the communities and surrounding environments in which we operate in.

Financial Performance

Our focus on delivering value to our stakeholders has resulted in significant growth and profitability.

In FY2022, I am pleased to report on our strong financial results as we achieved:-

- a) A record recurrent revenue (excluding Serudong Power) of RM1.23 billion, representing an increase of 34.2% from FY2021;
- b) a pre-tax profit (excluding Edenor's one-off bargain gain) of RM473.6 million, representing an increase of 14.3% from FY2021;
- c) an all-time high after-tax cash flow from operating activities of RM575 million, representing an increase of 22.5% from FY2021; and
- d) a sharp decline in net debt-to-equity to 6.9% at the end for FY2022 from 19.0% at the start of FY2022, despite our allocation of RM193.4 million for expansionary capex and investments.

Looking ahead, we are excited to continue our growth trajectory by leveraging on our strong balance sheet and talented workforce to further develop our core strengths, while also exploring new opportunities to expand our reach and impact. Having said that, we recognise that the business environment in FY2023 will continue to be challenging and uncertain, and will therefore stay focused on maintaining a strong financial position, delivering long-term value to our stakeholders, and building a sustainable and resilient business for the future, in accordance to our strategic roadmap.

Please refer to the Management's Discussion and Analysis on pages 18-24 in this Annual Report for further details on the Group's financial performance.

Prospects and Future Plans

Renewable Energy ("RE") Division

Our RE Division delivered yet another year of strong financial performance, whereby it continued to be the largest contributor to the Group's overall income, contributing 85.6% (2021: 92.3%) to the Group's total PBT (excluding our JV share of profit as a result of unallocated bargain gain). Similarly, Don Sahong Hydropower Plant ("DSHP") remained the strongest contributor in our RE Division.



Some highlights of our RE Division's achievements in FY2022 include:

i. Improved Energy Availability Factor ("EAF") of DSHP

DSHP achieved a record high PBT of RM419 million (2021: RM385 million) on an average EAF of 94.6% (2021: 91.0%) in FY2022. Assuming a stable RM:USD exchange rate at around FY2022 levels of RM4.401/USD, Management expects PBT in FY2023 to be marginally lower on an expected lower EAF and higher interest expense (due to interest rate hikes), offset by a 1% tariff adjustment (annually on 1 October) and lower-than-expected credit loss.

The average EAF in FY2023 is expected to be about 2% lower than that in FY2022 due to the deferment of DSHP's annual turbine maintenance period from August/September 2022 to February/March 2023.

ii. Construction of DSHP's Fifth Turbine

Construction of DSHP's fifth turbine commenced smoothly and is progressing according to schedule. It is expected to be completed in 3Q2024.

iii. Additions to Commercial & Industrial Solar Photovoltaic ("C&I Solar PV") Investment Portfolio

Solar energy sales revenue grew 58.7% to RM6.4 million in FY2022 and is expected to increase in FY2023 with the progressive energisation of the new C&I Solar PV projects we embarked on in FY2022. A total of 6.0 MW has been energised since 1Q2022, while the remaining 19.9 MW with executed PPAs are expected to be commissioned over the next 18 months. Upon completion, our cumulative capacity is expected to reach 40.4 MW by the middle of FY2024. This is in line with our long-term target of adding at least 15 to 20 MW of C&I Solar PV investments each year to grow our solar portfolio.

As we look to the future, we will continue to build on our expertise and experience in the growing RE space within the APAC region, by reinvesting our strong cash flows into other RE projects. We will continue to actively look for good RE projects that can generate healthy and sustainable returns for shareholders, while also making a positive impact on the environment. We will only invest in RE projects that pass our stringent risk assessments and meet our strict requirements, in order to ensure that we invest our resources wisely and minimise any potential risks to our business.

At our core, we believe that we have a collective responsibility to reduce our carbon footprint and contribute to a more environmentally sustainable future. We recognise that a transition towards RE is necessary and not an easy feat, but we are committed to exploring new and innovative ways to generate and utilise clean energy. Our long-term goal is to make RE an integral part of our business strategy, which we believe will not only benefit us and our stakeholders, but also the planet. We look forward to the opportunities that lie ahead for us as we continue to lead the way in sustainable and clean energy.

Packaging Division

Our Packaging Division's performance in FY2022 has been exceptional, with revenue hitting a record level of RM399.0 million, despite the challenges presented to us by the increasingly difficult business environment we found ourselves in FY2022. We managed to exceed our targets and achieve this breakthrough thanks to our commitment to innovation and sustainability that has allowed us to differentiate ourselves in the market and attract new customers, while our focus on operational efficiency enabled us to improve productivity.

While we expect to encounter an increasingly difficult economic landscape and stiffer regional competition in FY2023, we are confident that we can emerge from this stronger due to our proactive approach in anticipating our customer's sustainable packaging needs that is on the rise and our commitment to staying ahead of the curve. By closely monitoring trends, engaging with our customers, and investing heavily in R&D, we have been able to develop innovative, more environmentally-friendly, and efficient packaging solutions that meet the growing and changing needs of our customers. As such, we expect to further grow our market share moving forward, build stronger relationships with our customers and ultimately register yet another healthy performance in FY2023 despite the headwinds we may face. In fact, to fulfil expected demand, the construction of two new factories for the Division in Melaka and Bangi is proceeding smoothly as planned, with completion expected to be at the end of FY2023.

Since we made sustainability the forefront of our strategy, we have made significant strides in reducing our environmental footprint and meeting our environmental goals. We will continue to prioritise the development and implementation of sustainable packaging solutions which are better for the planet, and look forward to continuing to work closely with our customers to meet their evolving needs. With all the hard work and support of our employees and stakeholders, I am confident we will continue to create value for our customers and shareholders.

Resources Division

Our Resources Division made healthy progress in FY2022, whereby the total sales volume of our lime products rose by 14.7%, despite the various challenges faced by the industry, such as high fuel and logistics costs. Our ability to deliver better results this year is a testament to the resilience and determination of our management team and employees, who have worked tirelessly to improve our operational efficiency, reduce costs and identify new opportunities for growth. We are optimistic that we will continue to perform better going forward, as demand for lime products will remain robust as the world leaves the COVID-19 pandemic behind for good in FY2023 and whatever related logistical difficulties we faced are expected to taper off.

We are the largest commercial quicklime producer in Malaysia with abundant amount of reserves to last for at least another 100 years, which we fully intend to responsibly utilise for as long as is viable. We remain confident in the resilience and long-term value of the industry and our mines respectively, as there is simply no substitute to limestone, which has been used for centuries up to now in strategically important and vital industries, including mining, construction, agriculture, and manufacturing.

Moving forward, we do expect some obstacles in the form of increasing labour costs and a steep rise in electricity surcharge that was implemented at the start of FY2023, but we will continue to focus on delivering healthy earnings for the Division, by closely monitoring our costs, optimizing our operations, and improving efficiency.

Finally, as we continue to derive economic value from our mining activities, we will also remain committed to responsible and sustainable practices that minimises our impact on the environment and prolongs the life of our mines to ensure that this irreplaceable resource is available for future generations to use in the years to come.



Resilient Business Model

MFCB has demonstrated remarkable resilience in the face of great economic uncertainty and pressure over the past few years. I am particularly proud that we have emerged from the pandemic and beyond stronger and more determined than ever, which is due in large part to the resilience of our business model and the dedication of our employees. We were able to quickly adapt to changing market conditions and pivot our business strategies to focus on key areas of growth instead. As a result of our efforts, we have managed to register two consecutive years of record core earnings (excluding one-off unallocated bargain gain, via share of joint venture profit from Edenor).

Looking ahead, we recognise that our challenges are far from over as the economic outlook is as uncertain as ever, so we must and will remain vigilant, agile and adaptable to continue to thrive in the ever-changing business environment we operate in. To this end, we are always taking steps and looking for ways to further strengthen our business resilience, whether it be investing in new technology, exploring new markets, or diversifying our revenue streams.

All in all, I am confident in our ability as a Group to navigate through whatever difficult times we may encounter together in the future and am sure that we will always come out of them better than before.

Delivering Shareholder Value

I am pleased to report that our Board of Directors and Management have stayed committed to delivering long-term value to our shareholders, even in the face of unprecedented challenges and uncertainty.

Over the past year, we have delivered yet another strong financial performance, with solid revenue growth and consistent profitability, indicating that our efforts to diversify our revenue streams and strengthen our existing businesses have paid off. This would not have been possible without our experienced management teams. Each of our divisions is headed by qualified independent professionals, who are experts with a deep understanding of their respective industries, and who are empowered to make their own timely and informed decisions to ensure that we are able to adapt quickly to evolving customer needs and industry dynamics. I believe that our commitment to independent management has been a key driver of our success and will continue to deliver value to shareholders in the years to come.

Our commitment to independent management is also reflected in our strong corporate governance practices. We have a diverse, dedicated and independently qualified Board of Directors who provide oversight and guidance to our management teams, ensuring that we remain focused on creating long-term value to our shareholders and safeguard the interests of our stakeholders.

I recognise that good governance alone is not enough to ensure the longevity of our business and create value for shareholders. It is equally important for us to consider our social and environmental impact to stay relevant and compete in today's world. Therefore, we are committed to adopting responsible business practices that promote sustainable development and minimise any negative impacts on the environment. This includes reducing our carbon footprint, promoting diversity and inclusion, and supporting social and environmental initiatives. For a more in-depth analysis and detailed understanding on our ESG efforts, kindly refer to pages 25-69 of our Sustainability Report.

I am also proud to share that MFCB has once again been awarded twice at The Edge's Billion Ringgit Club Corporate Awards 2022 for the fifth year running for Highest Return to Shareholders over three years and Highest Growth in Profit after Tax over three years, and will do our very best to carry on this winning streak.

Finally, to reward shareholders, I am pleased to share that the Board has approved and declared a record-high total dividend of 7.45 sen per ordinary share for FY2022, representing a double-digit increase from 6.75 sen in FY2021. We are committed to delivering value to our shareholders, and understand the importance of dividends as a means of providing a return to shareholders. We will strive to maintain a fine balance between distributions and our financial performance and growth prospects.

Acknowledgement and Appreciation

As we close yet another successful year, I would like to take a moment to express my sincere appreciation and thanks to our shareholders for your continued support. We have achieved many milestones and made significant progress over the past year, and none of it would have been possible without your unwavering support.

I would like to extend my gratitude to our dedicated employees, who have worked tirelessly to ensure our success. Their hard work, commitment, and professionalism have been instrumental in driving our company forward and achieving our goals.

I would like to express my sincere appreciation to all our financiers, customers, suppliers and business partners for their continued support and commitment to us through the good and bad times.

I would also like to thank our management teams for their leadership, vision, and strategic thinking. They have demonstrated exceptional expertise, and their dedication has been crucial in navigating the challenges we have faced throughout the years.

Finally, I would like to express my appreciation to the Board of Directors for their guidance, support, and commitment to our success. Their extensive experience and knowledge have been invaluable in driving us forward.

As we move forward, we are confident that with the support of our shareholders, stakeholders, employees, management teams, and Board of Directors, we will achieve even greater heights together in the future.

Thank you again for your continued support and trust in us.