



MEGA FIRST CORPORATION BERHAD

Management's Discussion and Analysis

The following table sets forth a summary of the results of the Group for the financial years ended 31 December 2022 and 2021:

Financial Year Ended 31 December	2022 RM'000	2021 RM'000	Changes RM'000	%
Revenue	1,339,635	914,673	424,962	46.5
Other (loss)/income, net	(6,620)	9,473	(16,093)	N.M.
Earnings before interest, taxes, depreciation and amortisation ("EBITDA")	607,063	539,532	67,531	12.5
Operating profit	503,018	438,482	64,536	14.7
Profit before tax	490,569	539,580	(49,011)	-9.1
Profit after tax	475,727	530,665	(54,938)	-10.4
Profit after tax attributable to owners of the Company	396,804	462,330	(65,526)	-14.2
Revenue				
Renewable Energy	596,925	533,864	63,061	11.8
Resources	206,324	154,880	51,444	33.2
Packaging	398,964	208,217	190,747	91.6
Sub-total	1,202,213	896,961	305,252	34.0
Investment Holding and Others	137,422	17,712	119,710	676.0
Total revenue	1,339,635	914,673	424,962	46.5
Profit Before Tax				
Renewable Energy	419,698	385,585	34,113	8.8
Resources	17,385	16,725	660	3.9
Packaging	33,546	22,219	11,327	51.0
Sub-total	470,629	424,529	46,100	10.9
Investment Holding and Others	19,940	115,051	(95,111)	-82.7
Total profit before tax	490,569	539,580	(49,011)	-9.1
Additional Information:				
Share of profit in equity accounted investments	17,140	121,964	(104,824)	-85.9
Writeback of provision for restoration costs	-	16,650	(16,650)	-100.0
Fair value gain/(loss) on put option liability	4,955	(1,101)	6,056	N.M.
Fair value loss on investment properties	-	(10,109)	10,109	-100.0
Gain/(Loss) on foreign exchange	11,305	(321)	11,626	N.M.

Group turnover rose sharply by 46.5% to RM1.34 billion in 2022 (2021: RM914.7 million) on improved sales performance across all divisions. The Renewable Energy Division expanded 11.8% to RM596.9 million, while the Packaging Division and the Resources Division recorded a 91.6% increase to RM399.0 million and a 33.2% increase to RM206.3 million, respectively.

Turnover of Investment Holding & Others Division was boosted by RM111.8 million revenue contribution from the restart of the Tawau power plant in May 2022.

Excluding unallocated bargain gain (RM16.9 million in 2022 versus RM125.1 million in 2021) arising from the acquisition of Emery's oleochemical business in Malaysia, Group PBT grew 14.3% from RM414.4 million in 2021 to RM473.6 million in 2022, mainly on the back of improved profit contributions from all core divisions.

Excluding unallocated bargain gain in both years, the Group's share of earnings from joint venture and associates swung from a loss of RM3.2 million to a profit of RM0.2 million. The share of loss of Edenor improved from RM3.2 million in 2021 to RM1.2 million in 2022.

Edenor had a good start in the first half of the year. Despite an inherited capacity constraint, the business environment was nonetheless favourable. Together with tighter cost control, management was able to rapidly turnaround the operations to achieve a PBT margin of 3.0% in first half of 2022. This profit was however largely erased in the second half as Edenor was hit by collapsing commodity prices and further capacity loss due to various intensified refurbishment and technology upgrade, which management believes are necessary to substantially improve the plant's efficacy and efficiency. Although hedging of raw material was done sufficiently to protect against the commodity price collapse in the second half, it was insufficient to protect against several other emerging issues such as defaults and offtake delays by customers.

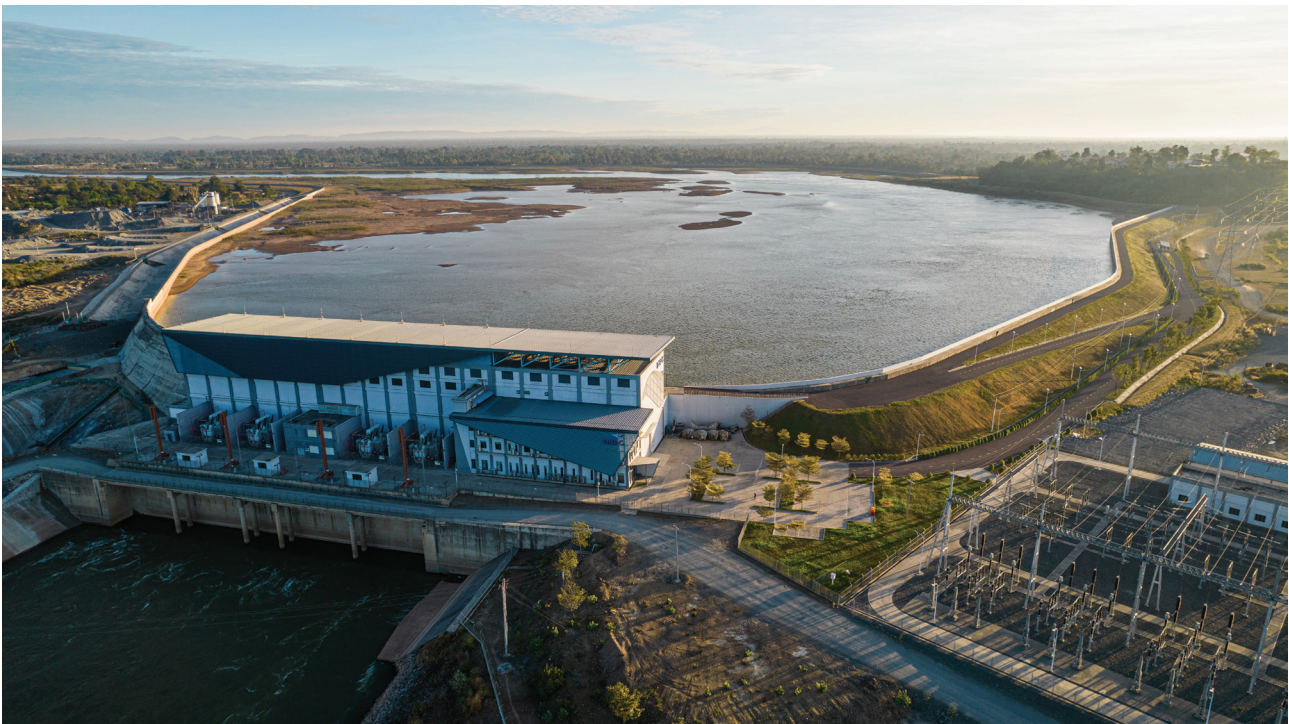
Renewable Energy Division

Revenue in 2022 came in 11.8% higher at RM596.9 million (2021: RM533.9 million). The increase was attributable to a 6.2% strengthening of the US Dollar against Ringgit Malaysia, a 3.9% increase in hydro energy sales volume and 1% hydro tariff adjustment. Solar energy sales jumped 58.7% to RM6.4 million (2021: RM4.0 million).

EAF improved to 94.6% in 2022, from 91.0% a year ago. Aside from higher water levels during the dry season in 2022, the EAF for the current year was also boosted by the deferment of the annual turbine maintenance initially scheduled for 3Q2022 to 1Q2023. The delay in maintenance is not expected to compromise the plant's future effectiveness and efficiency.

During the year, the division added 3.3 MW to its C&I rooftop solar capacity, bringing the cumulative generating capacity to 17.8 MW at 31 December 2022 (As at 31.12.2021: 14.5 MW).

Pre-tax profit for the division grew 8.8% year-on-year to RM419.7 million (2021: RM385.6 million) mainly on higher hydro-energy sales revenue, partially offset by higher interest expense (due to interest rate hike) and ECL.

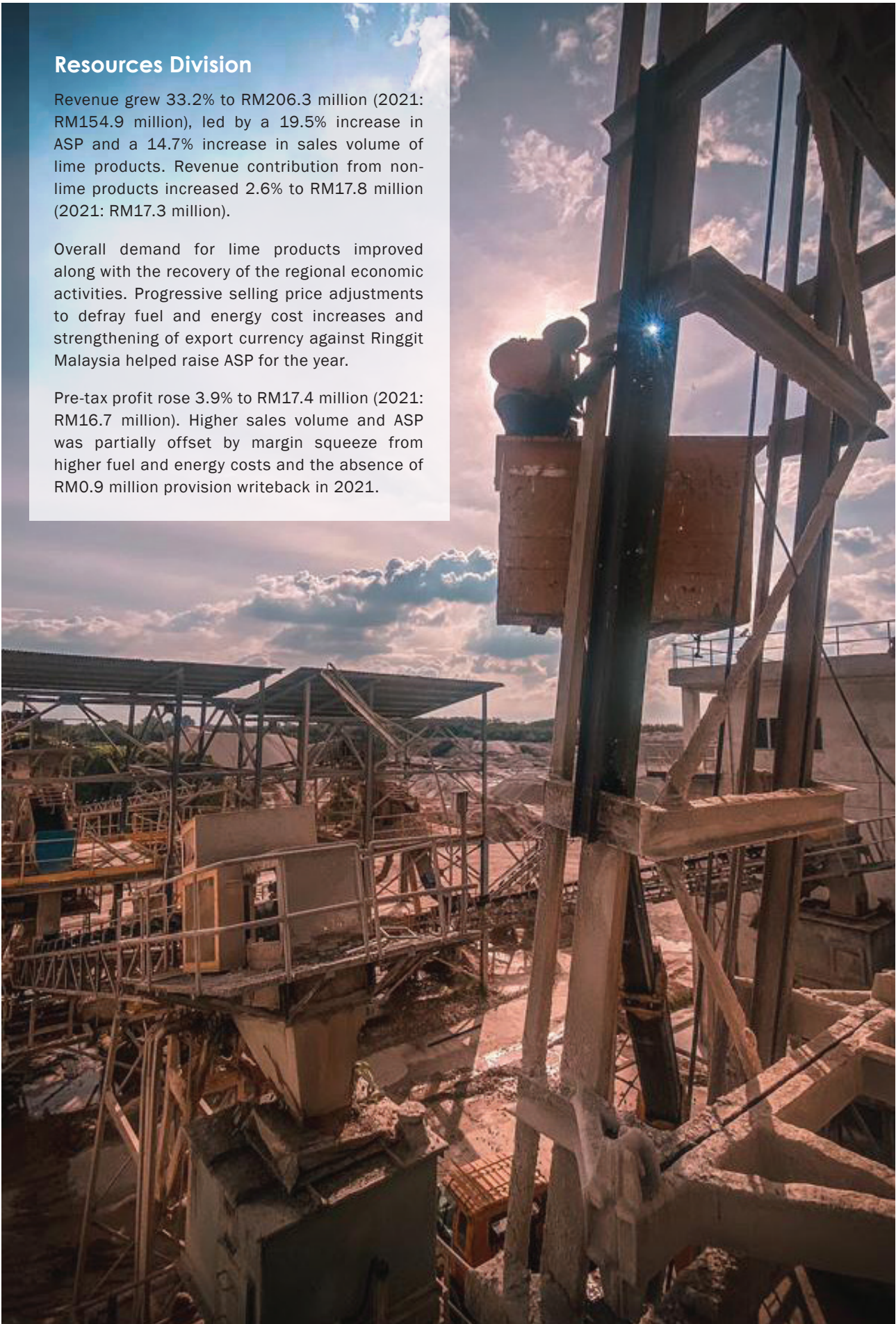


Resources Division

Revenue grew 33.2% to RM206.3 million (2021: RM154.9 million), led by a 19.5% increase in ASP and a 14.7% increase in sales volume of lime products. Revenue contribution from non-lime products increased 2.6% to RM17.8 million (2021: RM17.3 million).

Overall demand for lime products improved along with the recovery of the regional economic activities. Progressive selling price adjustments to defray fuel and energy cost increases and strengthening of export currency against Ringgit Malaysia helped raise ASP for the year.

Pre-tax profit rose 3.9% to RM17.4 million (2021: RM16.7 million). Higher sales volume and ASP was partially offset by margin squeeze from higher fuel and energy costs and the absence of RM0.9 million provision writeback in 2021.



A photograph of a male worker in a white polo shirt with red trim, dark trousers, a blue surgical mask, and a white hairnet. He is standing in a factory setting, holding a small object up to inspect it. In the background, there is industrial machinery, including a large rotating component and a blue metal frame. A vertical light tower with green, yellow, and red lights is visible in the upper left.

Packaging Division

Revenue almost doubled to RM399.0 million (2021: RM208.2 million), spurred by a full year consolidation of Stenta's revenue of RM215.2 million (against 5-month consolidation of RM83.2 million in 2021) and a 47.0% increase in revenue of Hexachase to RM183.7 million (2021: RM125.0 million).

The surge in Hexachase's turnover was underpinned by higher demand across all its products categories.

Pre-tax profit expanded by more than half from RM22.2 million in 2021 to RM33.5 million in 2022, underpinned mainly by Stenta's full-year earnings contribution of RM23.3 million (against 5-month PBT of RM11.1 million), partly offset by an 8.0% fall in profit from Hexachase to RM10.2 million (2021: RM11.1 million). Despite a higher revenue base and production efficiency gains, margins of Hexachase were negatively impacted by increases in raw material and other costs. Management was unable to fully pass on these cost increases to customers due to the competitive nature of the converting business.

Assets and Liabilities

Changes in key assets and liabilities during the financial year ended 2022 are explained below:

Asset/Liability Items	As At 31.12.2022 RM'000	As At 31.12.2021 RM'000	Changes RM'000	Explanation
Service concession asset	1,940,823	1,922,289	18,534	The increase was due to RM104.1 million translation gain, partially offset by amortisation charge of RM85.5 million.
Property, plant and equipment ("PPE")	481,679	410,393	71,286	The increase was mainly due to RM78.1 million CAPEX and RM31.6 million reclassification from ROU assets, partially offset by RM37.3 million depreciation charge. CAPEX for the year comprised mainly the followings: (a) RM41.3 million by Packaging Division for capacity expansion; (b) RM13.8 million for plantation development; (c) RM11.8 million by Renewable Energy Division mainly for C&I solar projects; and (d) RM9.1 million by other manufacturing arms mainly for construction of new factory and warehouse.
Investment properties	165,203	165,203	-	No movement in the current year.
Right-Of-Use ("ROU") assets	119,021	129,325	(10,304)	The decrease was mainly due reclassification of RM31.6 million to PPE and RM4.1 million depreciation charge, partially offset by RM25.1 million land acquisitions by the Packaging and Resources divisions.
Development expenditures	74,574	633	73,941	The increase was due substantially to construction costs incurred for Don Sahong 5th turbine expansion project.
Investment in joint ventures and associates	174,561	145,952	28,609	The increase was due to RM11.5 million additional equity investment and share of RM17.1 million profit for the year.
Investment in quoted shares	152,305	200,067	(47,762)	The decrease was due mainly to fair value loss of quoted securities.
Inventories (non-current)	43,443	43,443	-	No movement in the current year.
Inventories (current)	147,882	128,858	19,024	The increase was in line with higher revenue base of the Group's manufacturing activities.
Receivables	437,252	408,666	28,586	The increase was mainly due to higher receivable recorded by Tawau Power Plant and higher receivable from Électricité du Laos ("EDL") substantially due to translation difference resulting from a stronger US Dollar against Ringgit Malaysia.
Deferred tax liabilities	124,320	119,508	4,812	The increase was mainly due to translation difference arising from the strengthening of the US Dollar against Ringgit Malaysia.
Payables (current)	155,726	118,515	37,211	The increase was mainly due to recommencement of Tawau power plant, more payables recorded by the manufacturing arms (led by greater revenue base) and higher capex from Renewable Energy Division.

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 31.12.2022 RM'000
Secured Loans					
Trade financing and loans	-	-	-	53,287	53,287
Term loans	-	89,449	-	28,754	118,203
Revolving credit	-	-	-	98,073	98,073
	-	89,449	-	180,114	269,563
Unsecured Loan					
Term loan	307,300	-	136,090	-	443,390
Total Borrowings	307,300	89,449	136,090	180,114	712,953

At 31 December 2022, total borrowings (exclude lease and hire purchase liabilities) amounted to RM713.0 million, a decrease of RM64.9 million from RM777.9 million at the end of 2021. The decrease was mainly due to RM87.6 million net loan repayment, partially offset by RM22.7 million translation loss on USD-denominated loan.

Interest rates on the Group's bank borrowings are floating in nature. The Group has no debt securities as at 31 December 2022.

Cash Flow Analysis

The Group generated RM575.3 million after tax cash from its operating activities during the financial year ended 2022, 22.5% higher than RM469.7 million in 2021. Investment income totalled RM25.0 million during the year (2021: RM11.2 million) and RM3.5 million was raised from new equity issued to non-controlling interest of subsidiaries.

Of the total RM603.8 million funds made available to the Group, RM288.8 million was deployed in the following manner:-

1. RM175.6 million for Capex (as explained above);
2. RM16.5 million for strategic investments;
3. RM67.1 million for dividends to shareholders of the Company; and
4. RM29.6 million for financing costs paid to lenders.

The balance was retained by the Group resulting in a 57.6% decline (after effects of forex translation on loan and bank balances) in net debt position from RM520.2 million at the beginning of the year to RM220.6 million at 31 December 2022.

Foreign Currency Exposure

1. Translation of profit or loss of the Group's foreign operations in various functional currencies into the Company's reporting currency. Notably, the 6.2% appreciation of the US Dollar against Malaysia Ringgit in 2022 contributed substantially to the 11.8% and 8.8% improvement in revenue and PBT of the Renewable Energy Division during the year, respectively.
2. Foreign currency risks in transactions and balances of non-foreign operations that are denominated in currencies other than Ringgit Malaysia. Notably,
 - a) the Resources Division and the Packaging Division derived RM342.1 million or 25.5% of their combined revenue from foreign currencies in 2022. In the same year, the two divisions spent RM178.7 million on purchases in foreign currencies.
 - b) As at 31 December 2022, the non-foreign operations have a net exposure in financial assets (after setting off financial liabilities) of RM131.8 million denominated in foreign currencies. Further details are provided in Note 40.1(a)(i) of the Financial Statements 2022.

Dividend Policy

The Company declared a total dividend of 7.45 sen per ordinary share for the financial year ended 31 December 2022. This is a record high and represents more than 10% increase from 6.75 sen in 2021. Subject to the future cash flow and future plans of the Group, the Company intends to continue to gradually step-up dividend distribution by circa. 10% per annum until the pay-out ratio reaches at least 30%.

Forward-Looking Statement

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