APEX SECURITIES BERHAD

Mega First Corporation Berhad

Sustainable and eco-friendly investment

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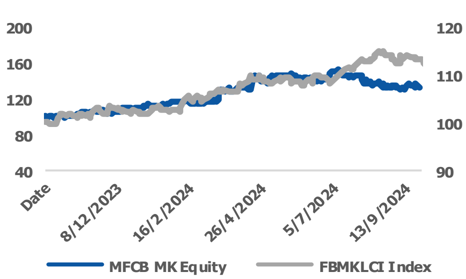
Recommendation:	**BUY**
Current Price:	**RM 4.40**
Previous Target Price:	**N/A**
Target Price:	**RM 5.00**
Upside/Downside:	**13.6%**

Stock information	
Board	MAIN
Sector	Utilities
Bursa / Bloomberg Code	3069 / MFCB MK
Syariah Compliant	Yes
FTSE4Good Index	Yes
FTSE ESG Rating	☆☆★★
Bloomberg ESG Rating	N/A
Shares issued (m)	942.6
Market Cap (RM' m)	4,147.5
52-Week Price Range (RM)	3.33-5.09
Beta (x)	0.7
Free float (%)	40.8
3M Average Volume (m)	0.6
3M Average Value (RM' m)	2.8

Top 3 Shareholders	**(%)**
Rubber Thread Ind M Sdn Bh	20.6
Keen Capital Investments Ltd	8.1
Mega First Corp Bhd	4.8

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	0.0	-6.6	29.4
Relative (%)	1.8	-9.9	11.8

Summary

- **MFCB engages in several core businesses, anchored by the RE segment that is in the midst of entering into a new 25-year Power Purchase Agreement (PPA), which could potentially translate to an average of RM300m/annum in the RE segment's free cash flow to equity.**
- **Future earnings growth and sustainability will be supported long term RE segment revenue visibility, dominant position in quicklime market, transitioning into sustainable resource consumption in packaging segment as part of ESG initiatives, potential turnaround in oleochemical business with upgrading of machines and stronger contribution from plantation segment.**
- **We initiate coverage on MFCB with a BUY recommendation and TP of RM5.00 based on SOP valuation.**

Company Background

- Mega First Corporation Berhad (MFCB) was incorporated in 1966 under the name Mega (Chemicals) Berhad. The Group was listed on Bursa Malaysia in 1970 and re-listed in 1991 under its current name after completing a restructuring exercise. MFCB operates in three main business segments: Renewable Energy (RE), Packaging, and Resources.

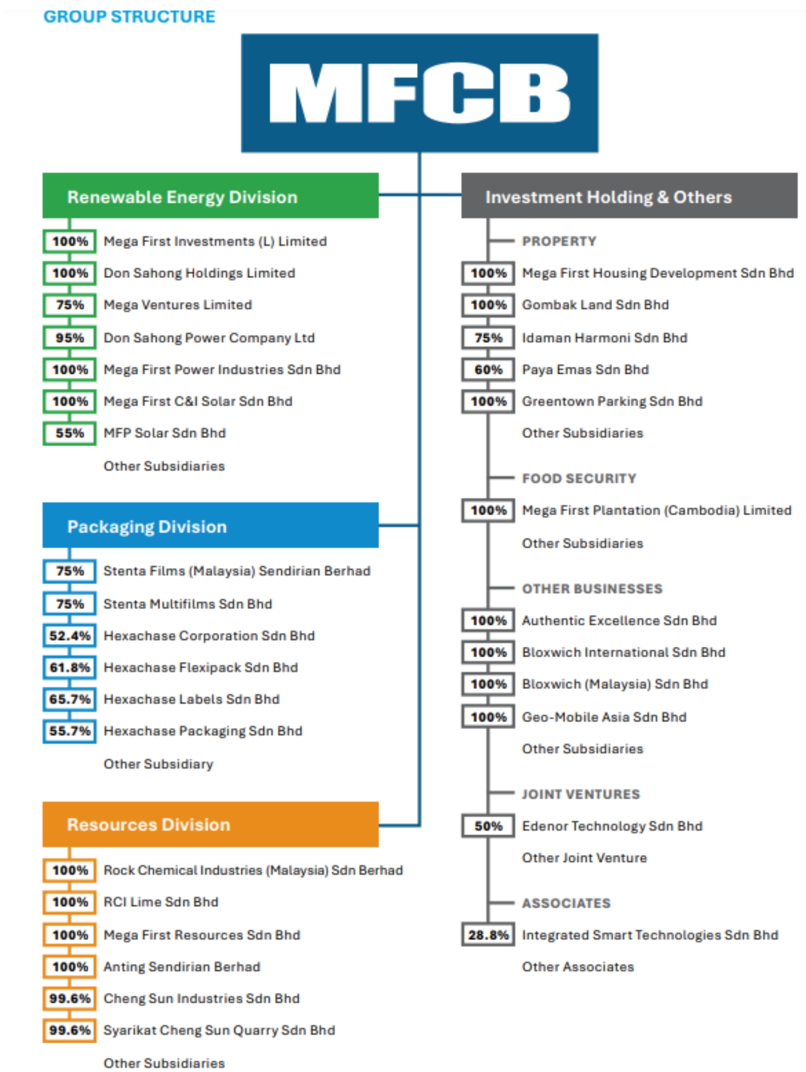
- MFCB's RE segment operates through two types of RE: Hydropower and Solar. In Feb 08, MFCB received the exclusive right to develop the Don Sahong Hydropower Project (DSHP) from the Laos government. DSHP is a run-of-river hydropower project with a generation capacity of 325MW and a total cost of around RM2.1bn. Historically, DSHP has generated 2,000GWh/annum, yielding an average PBT of RM400m over the past three years, which represents 85% of the Group's total PBT.

- In 2019, MFCB has ventured into solar power. The Group progressively expanded its solar portfolio and now owns over 95.9MW of solar capacity across Malaysia, the Maldives, and Cambodia. Of this, 28.3MW is already operational, which contributing c.RM5m in PBT annually. That said figure is expected to grow significantly as MFCB targets to add 15-20MW of C&I projects per annum in coming years.

- MFCB operates in the packaging industry, producing paper bags, flexible packaging, stickers, and labels. The Group ensures top food safety standards by using 100% toluene-free print ink and a solvent-free lamination process. To meet rising demand, two new factories were added in Melaka and Bangi, aiming to increase the current capacity from 60,000 tonnes/annum to 96,000 tonnes/annum, targeted to commence operations from 4QFY24 onwards. The segment has consistently delivered a PBT of RM25m.

- MFCB is one of the largest quicklime producers in Malaysia, commanding c.40% market share in in the country. The segment currently operates eight lime kilns in Perak and has a total installed kiln capacity of 1,960 tonnes/day. Up to 60% of the materials are delivered to reputable overseas clients across the Asia Pacific region. Historically, the segment has achieved an average PBT of RM20m.

Corporate Structure



Source: MFCB

- **Management and shareholdings.** MFCB is led by Executive Chairman Goh Nan Kioh, who oversees the development and growth of the company's core segments. He is supported by his brother, Goh Nan Yang, who has served as an Executive Director since 2003, along with four of his children and the broader team of directors and management.

Business Overview

- **Business Model.** MFCB operates in three core segments: RE, packaging, and resources, with two sub-segments: food security and oleochemicals, the latter through an associate company.

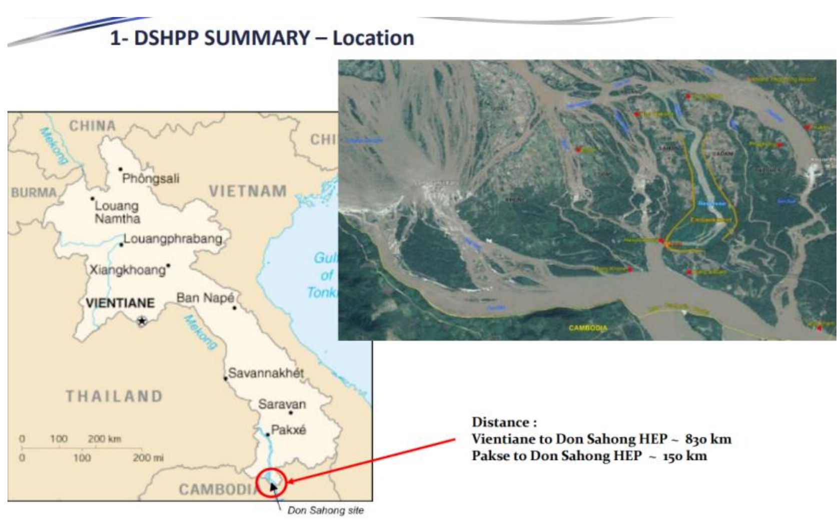
Business Segments	Description
Renewable Energy (RE)	Build, owns, and operates power plants, including hydropower and solar power plants
Resources	Quarrying of limestone, manufacturing and trading lime products, and producing calcium carbonate powder.
Packaging	Manufactures and sells paper bags, flexible packaging products, and stickers and labels.
Food Security	Owns 6,428-ha concession land in Cambodia and 1,100 acres of farmland in Malaysia for various crops.
Oleochemicals	Produces basic oleo products and specialty chemicals used in cosmetics, pharmaceuticals, and home care products.

Source: MFCB, Apex Securities

- **Renewable Energy.** MFCB derives recurring income from two streams: 1) DSHP and 2) solar power plants.

- **Hydro.** DSHP is a 260MW run-of-river hydropower plant located in Laos, operating under a 25-year concession agreement. The plant, costing c.RM2bn, features four 65MW bulb turbines and generates 2,000GWh of output annually. Between 2025 to 2028, each turbine will undergo a major overhaul process and is expected to be out of service for up to four months. To mitigate the impact, MFCB has added a fifth turbine at a cost of c.USD75m. Construction began in Dec 21, and the turbine started commissioning as test energy in Jun 24. This addition increased total capacity to 325MW and annual output to 2,200GWh. The fifth turbine primarily serves as a backup during maintenance, manages excess water, and mimics the natural flow of the Hou Sahong River during the wet season.

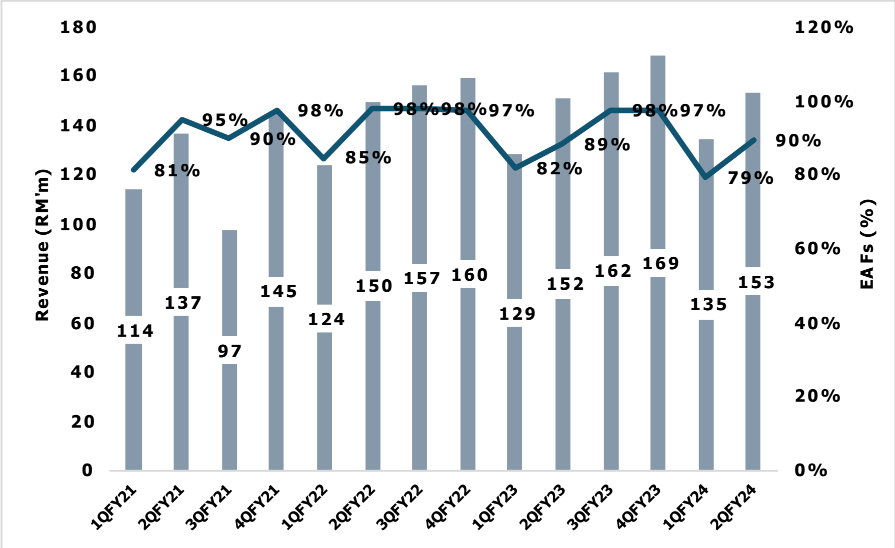
DSHP



Source: MFCB, Apex Securities

- DSHP consistently achieves Equivalent Availability Factors (EAFs) of c.90%, generating revenue of RM120-150m/quarter. EAF typically drops to 80% in Q1 due to turbine maintenance in Feb and the dry season, but recovers to 90-98% in the 2H, driven by seasonal weather patterns. The fifth turbine, is expected to operate at an EAF of around 40% annually, acts as primarily to serve as a backup during maintenance and the wet season.

DSHP's revenue and EAF trend



Source: MFCB, Apex Securities

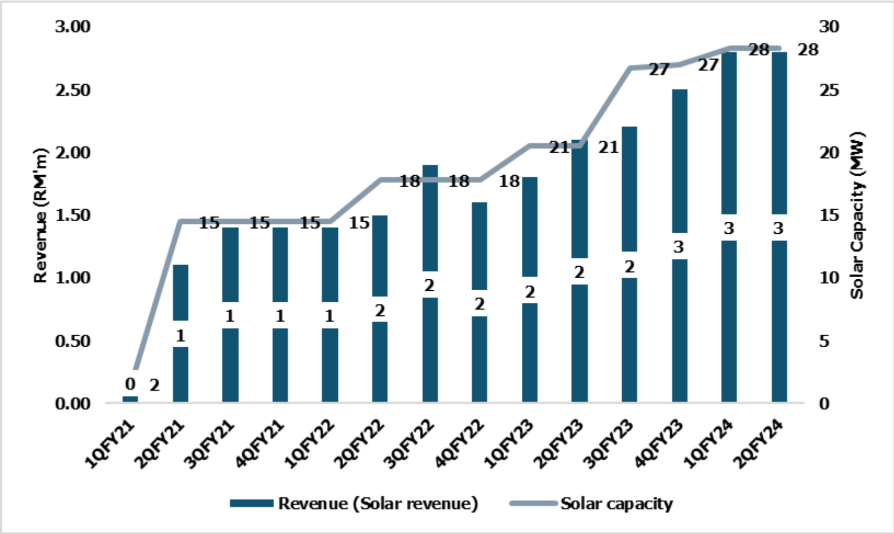
- In Dec 23, MFCB secured a USD55m loan to acquire an additional stake in DSHP, raising its equity interest from 80% to 95%. MFCB is finalising a new PPA, which will include adjustments to the current tariff scheme, concession period, and tax incentives. The existing scheme features a 1% annual increase from 6.15 sen/kWh over 15 years, followed by a one-time 20% reduction, after which the 1% annual increase resumes until the end of the concession period.

- As the new tariff scheme is still under review, our projections use a flat rate based on the existing tariff structure and a stronger MYR to USD, translating to a projected PBT on average of RM400m/annum, consistent with historical performance.

- **Solar.** Since 2019, MFCB has been actively investing in Solar PV projects. The segment is led by MFP Solar, in which MFCB holds a 55% stake, and has formed an exclusive partnership with Pekat Group Berhad. To expand its solar footprint, MFP Solar offers a CAPEX-free solution, serving as the asset owner, while customers sign PPAs to purchase the electricity generated. These PPAs typically span up to 20 years, ensuring stable income for the Group over the next two decades.

- As of 2QFY24, MFCB's solar portfolio has expanded to 95.9MW, nearly ten times the initial 10MW capacity in 2019. At present, the Group solar portfolio revolves around 60% from ground-mounted solar installations and the remainder from rooftop projects across Malaysia, the Maldives, and Cambodia. We are optimistic over the segment and anticipate gradual growth, driven by: (i) the planned addition of 15-20MW of solar capacity annually within the APAC region, (ii) tremendous investment opportunities in Malaysia's solar sector, spurred by the NETR, (iii) the Group's submission of a 50MWp tender for LSS5, and (iv) ongoing government initiatives and incentives for solar energy adoption, which align with MFCB's commitment to reducing greenhouse gas emissions.

Solar's revenue and capacity trend



Source: MFCB, Apex Securities

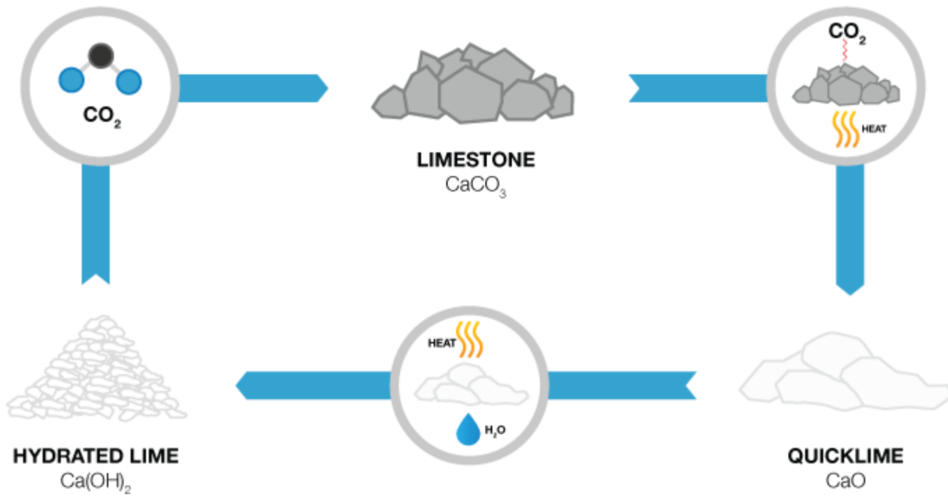
- **Resources.** MFCB, through its wholly owned subsidiaries, holds the largest commercial quicklime production in Malaysia, commanding approximately 40% market share. The resources segment focuses on the extraction, processing, manufacturing, and distribution of high-purity quicklime, hydrated lime, pulverized quicklime, and other limestone-based products. These products are crucial for key industries such as mining and steel.

Main subsidiaries of resources segment

Subsidiaries	Activities
Rock Chemical Industries (M) Sdn Bhd (RCI)	Quarrying of limestone and the manufacturing of lime products e.g. quicklime & hydrated lime
Syarikat Cheng Sun Quarry Sdn Bhd	Quarrying of limestone for processing into fine calcium carbonate (CC) powder.

Source: MFCB, Apex Securities

Limestone Cycle



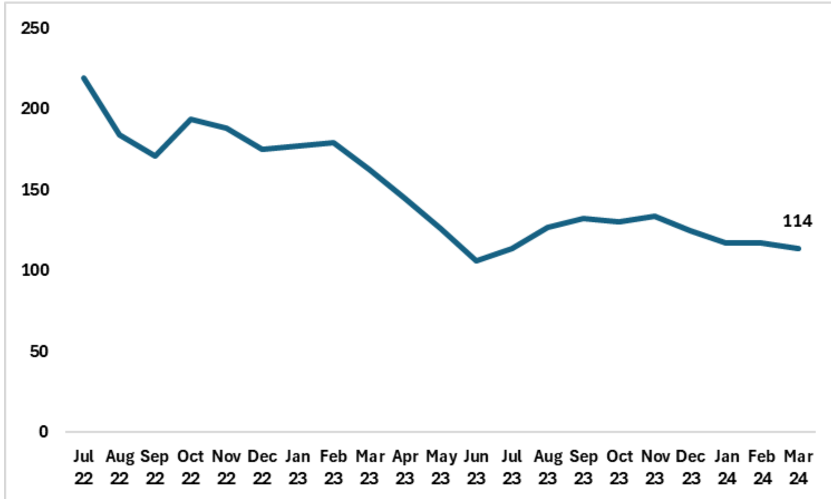
Source: Graymont

(i) **Limestone** a type of sedimentary rock primarily composed of calcium carbonate ($CaCO_3$), usually extracted from quarries.
(ii) **Quicklime** known as calcium oxide (CaO), is a white, powdery substance made by heating limestone.
(iii) **Hydrated lime** known ascalcium hydroxide ($Ca(OH)_2$), is a white, powdery substance created by adding water to quicklime.
(iv) **Calcium carbonate** is a white, odorless, crystalline substance found naturally in rocks such as limestone, chalk, and marble.

- The segment owns and operates eight limestone kilns with a combined capacity of 1,960 tonnes/day, supported by reserves with a lifespan of over 100 years. About 66% of sales value derived from export markets, including key countries like India, Indonesia, Philippines and Australia. Due to the lack of viable substitutes for limestone, the segment achieved revenue growth with a four-year CAGR of 9%, driven by steady sales volumes and demand.

- Petroleum coke (petcoke) is one of the main cost components in lime production, with PETRONAS being the main supplier in Malaysia. Over the past five years, petcoke prices have risen at a CAGR of 5.8%, reaching USD138/MT in 2023. This increase was primarily driven by supply chain imbalances, as petcoke is a by-product of petroleum refining. Historically, the Resources segment has consistently achieved RM50m/quarter in revenue and maintained an average PBT margin c.10%. While petcoke prices have been declining since 2022, we gathered that prices have stabilised at USD115/MT and we expect the trend to persist over the near term.

Petcoke price trend

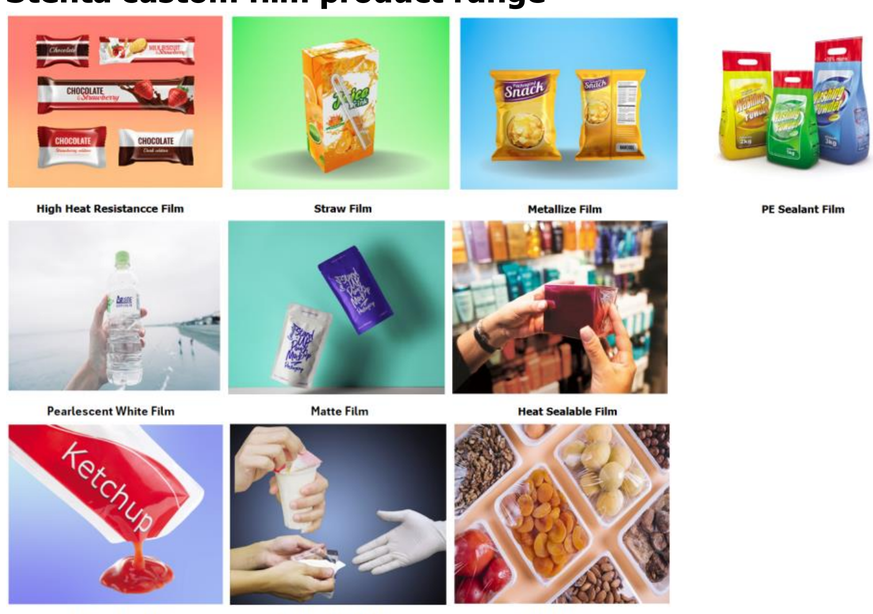


Source: various, Apex Securities

- The closest competitors in quicklime production are Belgium-owned Lhoist Malaysia and Compact, both with production capacities of around 1,200 tonnes, still lower than from RCI's 1,960MT/day.

- **Packaging.** Packaging segments are operated by Senta and Hexachase. Stenta Films, which is 75% owned, specialises in custom and eco-friendly stretch films, including BOPP and LLDPE films used in industries such as food and beverage, pharmaceuticals, and consumer goods. Stenta Films serves clients across Asia, the Middle East, Africa, South America, and Europe. Stenta offers a range of custom films like plain, metallised, sealable, straw, and pearlescent white films. Their recycled films, branded as Starlene and Ekolene, ensure 90% biodegradation in two years without external aids.

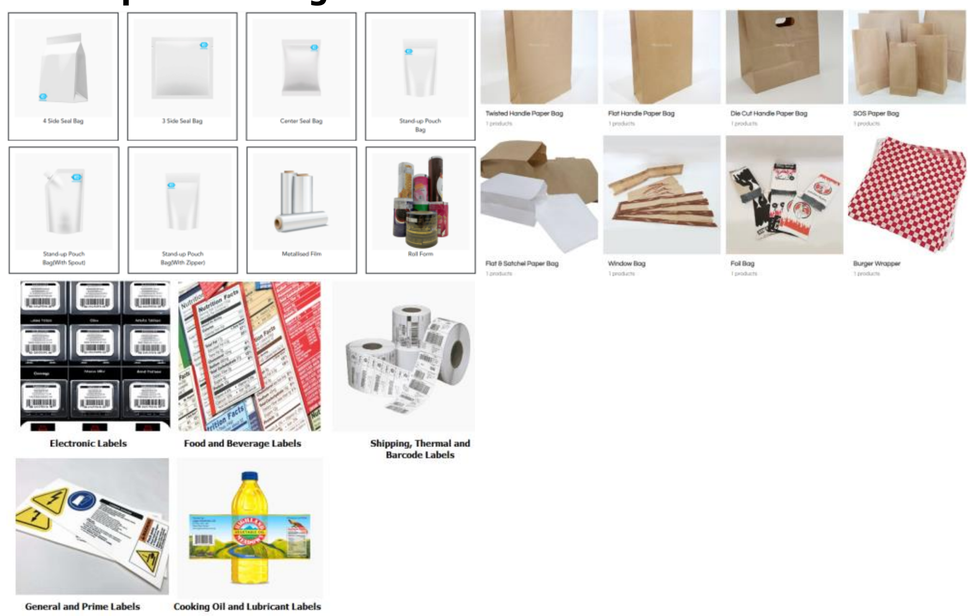
Stenta custom film product range



Source: MFCB, Apex Securities

- Hexachase which is 55% owned, specialised in flexible packaging, label printing, and eco-friendly paper bags, widely utilised in the food, beverage, and FMCG sectors. Hexachase employs advanced printing technology with up to 14 colours and is committed to sustainability. To uphold food safety standards and reduce exposure to harmful substances, Hexachase uses solvent-free plastic packaging to minimise chemical emissions, toluene-free print ink, and solvent-free lamination. As part of their commitment to sustainability, the Group also utilise mono-material films for easier recycling and reduced landfill waste, and source FSC-certified paper to preserve biological diversity. These efforts have secured customers from over 20 countries globally.

Stenta product range



Source: MFCB, Apex Securities

- Production wise, Stenta, based in Bandar Baru Bangi, Selangor, has expanded into a new facility adjacent to its existing one, with two LLDPE lines already operational. This expansion is set to increase production capacity by 1,200 MT/annum. Meanwhile, Hexachase, which operates four factories in Malacca, is constructing a new mega factory expected to begin operations in 1QFY25, targeting the E&E and medical sectors while benefiting from global trade recovery.

- With the addition of two new factories in Melaka and Bangi, total capacity is expected to increase from 60,000 tonnes/annum to 96,000 tonnes/annum, with operations commencing in 4QFY24. Historically, packaging segment has operated at 70% run rate, generating RM100m in quarterly revenue with PBT margins of 8.2%.

- **Food Security.** Since 2018, MFCB (Cambodia) has ventured into the food security segment through an amended agreement with the Ministry of Agriculture, Forestry, and Fisheries. This venture entails a 50-year concession for 6,428-ha of plantation, which commenced in 2013. As of 2QFY24, approximately 2,560-ha have been planted, with 71.5% of planted are comprised of coconuts and the remainder with macadamias.

MFCB's Plantation

Source: MFCB, Apex Securities

- MFCB is focusing on harvesting coconut flower sap, a niche market not widely explored. Coconut sap, used as a natural sweetener in beverages, is processed into various coconut-related products. Using Thai Coconut, a publicly listed company with gross profit margins of 15-25% on coconut products, as a benchmark. We gauge that coconut sap is one of the key inputs contributing to their COGS.

- Coconut palms used for sap collection have a lifespan of around 40 years, with MFCB's trees currently about four years old which expect to reach commercial-scale by year end. Younger palms typically yield more sap, though this also depends on the tapper's skill. The difficulty in processing the sap, which ferments easily, combined with the high skill required by tappers, contributes to the scarcity of raw material, which is one of the factors driving the margins.

- Currently, the Group has a single offtaker, a Thai company that sells and distributes coconut nectar products. As both the coconut nectar segment and the macadamia plantation are still in their early stages, with the latter needing another 1-2 years to reach full maturity, we anticipate it will take some time before these ventures make a significant contribution.

MFCB's Cultivation and Distribution

Source: MFCB, Apex Securities

- In May 24, MFCB acquired a 64% stake in CSC Agriculture Holdings Sdn Bhd, a company engaged in the cultivation and wholesale distribution of fruits and vegetables, for RM25m. CSC operates and manages over 1,100-ac of farmland in Johor (five farms) and Pahang (one farm). Of these, 600-ac planted with long-term crops, including durian, jackfruit, guava, and coconut, have either recently reached maturity or will do so within the next 24 months. Apart from planting activities, CSC is working on a pilot project for modern greenhouse farming of leafy vegetables on 12-ac in Johor, supplying the Singaporean market to meet its high standards.

- At present, the wholly owned Cambodian plantation remains in the red, while the 64%-owned farming business under CSC Agriculture Holdings has reported negligible profit. We believe it will take several more years for the segment to be part of the Group's core business, which aims to generate RM200-RM300m/annum in revenue. At this juncture, we do not expect this to have any significant impact on the Group's bottom line.

- **Oleochemicals.** MFCB and 9M Technologies formed a 50-50 joint venture in Edenor Technology with a total paid-up capital of RM40m to acquire Emery's oleochemicals business from Sime Darby Plantation and PTT GC for RM12.6m. The Emery plant sits on a 34-ac site in Telok Panglima Garang, Klang, and has a production capacity of 300,000 tonnes/annum, producing oleo products and specialty chemicals for cosmetics, pharmaceuticals, and home care products. The segment, led by Mr. AK Yeow, a senior oleochemical specialist with over 35 years of experience, including as Managing Director of KLK Berhad's oleochemical segment in 2018, was acquired at a low valuation due to its loss-making status.

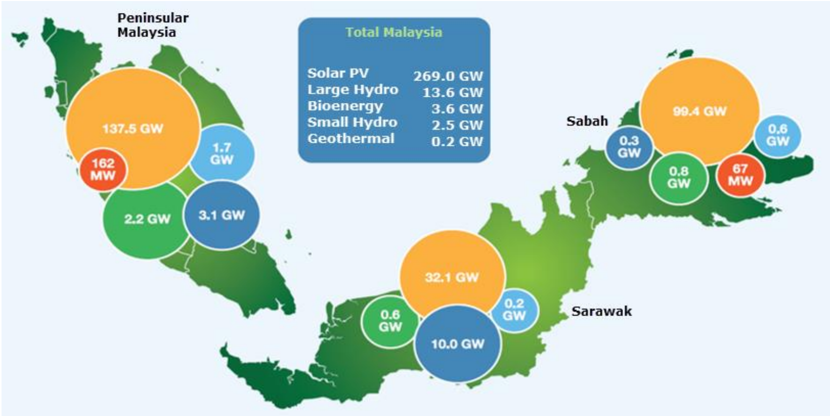
- Key reasons for the underperforming situation include outdated designs, inadequate maintenance, and a volatile hedging policy. However, with ongoing repair and upgrade efforts stabilising the utilisation rate at 80% to 85%, we opine that breakeven is now within reach.

- **Medical.** Since Feb 24, MFCB has entered an SPA with MCE Holdings to acquire a 13,263 sqf freehold hospital land in Setia Alam for RM43.7m. This land is earmarked for the development of a medical centre and related facilities, marking MFCB's entry into the healthcare sector. The Group plans to invest RM250-300m in capex to build a full-fledged medical centre, led by a team of established doctors. Phase 1 will accommodate 125 beds, with plans to expand to 500 beds in Phase 2. The hospital, directly connected to Setia City Mall, is expected to begin operations in 2029. Although the SPA's cut-off date has been extended to Sept 24, we have not factored in any contributions from this venture, as meaningful returns are expected to take several years to materialise.

Industry Overview

- **National Energy Transition Roadmap (NETR).** On 23 Aug 23, Malaysia government launched the NETR as advancing the net-zero ambition with laying out a more aggressive 70% RE capacity mix target by 2050. One significant aspect highlighted in NETR is Malaysia's abundant solar PV potential, with 269GW of potential resources out of a total of 290GW RE resources. Given Malaysia's strategic geographical location near the equator, the country receives solar radiation at a direct 90-degree angle, resulting in dense solar radiation and high energy production per square meter. Therefore, solar energy is poised to play a crucial role in Malaysia's journey towards achieving its net-zero ambition.

RE resource potential in Malaysia

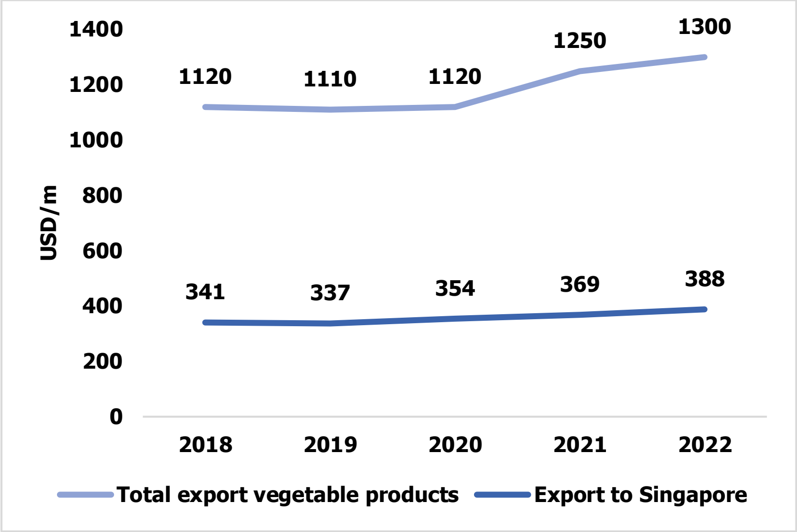


Source: SEDA

- There are several initiatives aimed at promoting RE development, including the FiT programme, SELCO, NEM mechanism, LSS, and CGPP projects. Among these, LSS and CGPP are designed to accelerate the uptake of large-scale solar PV systems. On 24 April 2024, Energy Commission opens the fifth bidding cycle with a massive 2GW allocation, surpassing the combined capacities of LSS1 to LSS3 (1.5GW). LSS5 is divided into four packages, allowing companies to bid based on their scale, with operations scheduled to commence in 2026. Considering Malaysia's commitment to promoting RE affordability and attractiveness, we expect rollout of large-scale solar PV projects remains in place over the longer-term, which we see MFCB is well fitted to leverage onto the industry’s progress. MFCB’s goal is to add 15-20MW of solar capacity annually within the APAC region, which we believe Malaysia will remain a key market.

- **Malaysia’s Vegetable exports to Singapore on the rise.** In 2022, Malaysia exported USD1.3bn in vegetable products, ranking 65th globally. Vegetable products were the 17th most exported products from Malaysia, with the main buyers being Singapore (USD388m), China (USD229m), Japan (USD186m), Thailand (USD87.2m), and Indonesia (USD72.5m). Thanks to Singapore's dependence on imports and its proximity, Malaysia's exports to Singapore have grown at a five-year CAGR of 3.3%, reaching RM388m in 2022.

Malaysia's total export value of vegetable products

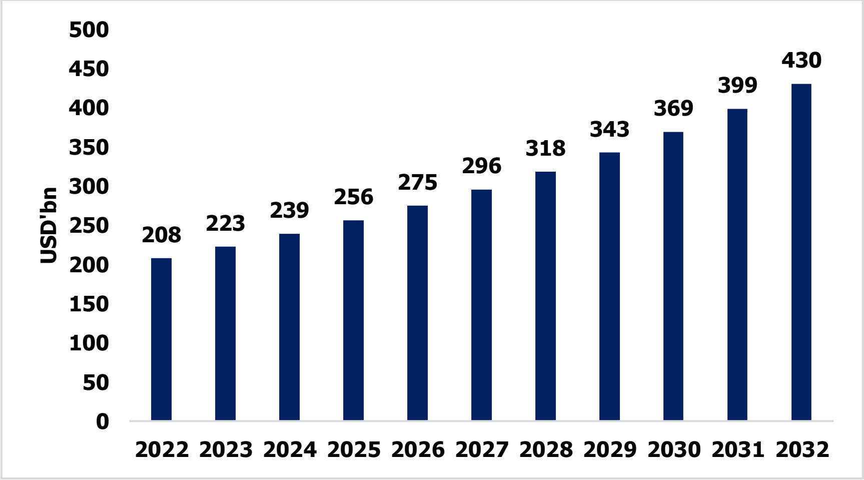


Source: OEC world, Apex Securities

- Fresh vegetables are essential, and value of spending is indirectly impacted by consumer confidence in the overall economy. The IMF forecasts Singapore's GDP growth at 2.1% in 2024 and 2.3% in 2025. Growth prospects imply potential increasing export values to Singapore, benefiting companies like CSCAH. With model farming and established distribution channels to Singapore, CSCAH has strong prospects. CSCAH also benefits from better margins as Singapore's stringent quality requirements are paired with competitive pricing.

- **Growing Awareness of Eco-Friendly Packaging.** Global eco-friendly packaging market is projected to reach USD 430.4bn by 2032, up from USD 207.9bn in 2022, implying a CAGR of 7.6%. Key drivers of this growth include corporate sustainability initiatives, government bans on single-use plastics, and increasing consumer preference for eco-friendly products.

Projection of Eco-Friendly Packaging Solutions



Source: Towards packaging, Apex Securities

- The 12th Malaysia Plan is in sync with this trend, with one of the game changers being Embracing the Circular Economy. This includes measures such as discouraging single-use products in favour of environmentally friendly alternatives, implementing Extended Producer Responsibility (EPR) to promote recycling, and offering incentives like the Green Technology Financing Scheme (GTFS), Green Investment Tax Allowance (GITA), and Green Income Tax Exemption (GITE) to support the production of green products and services.

- Major multinational corporations (MNCs) like Nestle, Unilever, and Ajinomoto are transitioning to 100% recyclable and reusable packaging by 2025 and 2030, respectively. This is a clear indication of the growing demand for sustainable packaging solutions, driven by public pressure on large users of single-use plastics.

- We foresee MFCB is largely in tune with this transition towards environmentally friendly options. With commitment to develop alternative packaging solutions, MFCB focuses on biodegradable and mono-layer plastics, which are easier to recycle. The adoption of solvent-free plastic packaging to minimise chemical emissions, toluene-free print ink, and solvent-free lamination are in place. With increasing public awareness to reduce single-use plastics, demand for environmentally friendly solutions packaging benefits MFCB.

Investment Highlights

- **Long term sustainable recurring income.** MFCB is finalising a new 25-year Power Purchase Agreement (PPA) for the Don Sahong Hydropower Plant (DSHP) in Laos, which includes the addition of a fifth turbine. This will supersede the current agreement, extending from 2045 to 2049 (tentatively new PPA). With the fifth turbine expected to operate at an Effective Availability Factor (EAF) of 40%, increasing the total average EAF to 80%, this segment could generate an average of RM400m in PBT annually, contributing RM300m/annum in the RE segment's free cash flow to equity.

- **High FCF yield backed by stable earnings.** Historically, MFCB on average registered ~7% FCF yield, with net dividend yield of c.2%. Looking forward, we forecast MFCB's dividend payout ratios at 22%/26%/27% resulting in forward yields of 2.2%/2.4%/2.6% for FY24F to FY26F respectively. Pre-tax profit is expected to be sustainable at c.RM450m, driven by: (1) resilient performance from DHSP with a 20% depreciation reduction based on carrying value; (2) gradual commercial operations of its solar portfolio, contributing RM14m to PBT (three-year CAGR 43.4%); (3) stabilising petcoke prices at USD115/MT, supporting PBT margins above 10% in resources segment; and (4) recovery in the packaging segment, contributing 10% to overall PBT.

- **Oleochemicals business expect to turnaround soon.** MFCB holds a 50% stake in a joint venture with 9M Technologies in Edenor Technologies, which acquired Emery's Asia Pacific oleochemicals business from Sime Darby Plantation Berhad and PTT GC International Limited for RM12.6m. This facility, located on a 34-ac site in Klang, has a production capacity of 300,000 tonnes/annum. Current operation is at loss-making status, due to outdated design, which hindered efficient operation. We anticipate the segment will break even by end-FY24 and achieve core net profit of RM21.6m and RM33.6m by 2025 and 2026 respectively, supported by the near-completion of repair and upgrading processes and a stabilised utilisation rate of 80% to 85%.

- **ESG initiative.** MFCB has implemented several initiatives to achieve net zero emissions by 2050, including: (i) DHSP's reduction of 1.2m tonnes of CO2 annually and the generation of 2m RECs; (ii) the use of 90% biodegradable materials, solvent-free plastics, and toluene-free printing inks and laminations in its packaging segment; (iii) targeting the addition of 15-20MW of solar capacity annually, with 95.9MW installed as of 2QFY24, in line with the national clean energy plan; and (iv) mandatory ESG training for 59 Tier 1 suppliers. These initiatives have earned MFCB an ESG rating of 2.9 from FTSE Russell. We believe these credentials will drive long-term growth, particularly as the market shifts toward ESG-focused investments and mandates.

- **Medium term growth by domestic cultivation business.** MFCB acquired a 64% stake in CSCAH, marking its entry into the cultivation and wholesale distribution business. CSCAH operates over 1,100-ac of farmland across Johor (five farms) and Pahang (one farm), with 600-ac planted with long-term crops nearing maturity. CSCAH is in piloting modern greenhouse farming of leafy vegetables on 12-acin Johor, with plans to expand based on the pilot's success. The primary distribution channels include local supermarkets and exports to Singapore, capitalising on higher margins due to stringent quality standards. We expect this initiative to generate RM5.7m and RM6.6m in PBT for FY25F and FY26F (accounting for c.1% of Group’s PBT), with potential for further growth as most long-term crops mature over the next 24 months.

- **Long-term growth through Cambodia plantation business.** MFCB holds a 50-year concession for a 6,428-ha plantation, with 2,560-hacurrently planted. Of these, 71.5% are dedicated to coconuts and the remainder to macadamias. Instead of selling fresh coconuts, MFCB harvests coconut flower sap, which it sells to a Thai F&B company under a sole off-taker agreement, achieving higher margins due to stringent quality requirements. The Group is prepared to invest USD2-3m to scale this operation to commercial levels. Over the next five years, we expect food security segment to generate annual revenues of RM200-300m once all crops reach full commercial capacity, positioning as one of the core business areas.

- **Venture into medical industry.** MFCB is finalising an SPA with MCE Holdings to acquire a 13,263 sqf freehold hospital land in Setia Alam for RM43.7m, with a cut-off date set for Sept 24. The Group plans to invest RM250-300m in capex to develop a full-fledged medical centre, led by a group of established doctors. The centre is expected to have 120-130 beds in Phase 1, with plans to expand to up to 500 beds in Phase 2, which set begin operations in 2029. At this juncture, we have not factored in any contributions from this venture, which could potentially lead to a re-rating, pending further details on the development.

Financial Highlights

- MFCB recorded a core net profit of RM205.7m (+15.4% yoy) in 1HFY24, driven by strong performances across all core divisions except from investment holdings.

- **RE segment** achieved a PBT of RM199m (+2.5% yoy), benefiting from a 6% currency gain, a 1% tariff adjustment at DSHP, and a +30.2% yoy increase in solar revenue. Looking ahead, hydro performance is expected to remain strong, with the fifth turbine commissioned in Jun 24 and the wet season likely to enhance EAFs.

- **Resources segment** saw a significant PBT increase to RM27.1m (+134.1% yoy), driven by a +7.3% yoy rise in lime product sales volume and a 6% currency gain on exports. We anticipate robust demand will persist, underpinned by MFCB's 40% market share and regional expertise.

- **Packaging segment** posted a PBT of RM17.7m (+14.9% yoy), supported by improved margins due to a favorable sales mix. However, the segment faces challenges from a weak consumer market, with constrained purchasing power expected to continue throughout 2024.

- Edenor, MFCB's 50% stake in the **oleochemical business**, showed progress with a reduced net loss from RM13.9m in 1Q to RM9.5m in 2Q. Further improvements are anticipated as the plant, which previously faced shutdowns for repairs and upgrades, is now operating more efficiently.

- **Food Security division** reported a -RM1.3m in PBT but is projected to turnaround and improve significantly over the next five years, driven by the increasing maturity of planted areas in Cambodia and Malaysia, as well as the expansion of greenhouse farming in Perak.

- **FY24F:** We expect MFCB to record -1.4% yoy revenue to RM1.30bn, resulting in a core net profit of RM426.8m (+10.8% yoy). Bottomline improvement will be mainly driven by 1) strong performance in the RE segment, benefiting from a 1% tariff rate increase and higher EAF assumptions, 2) better earnings contribution from the resources segment, backed by stability in petcoke prices and 3) steady contributions from the packaging division, despite a challenging environment, with LDPE currently trading at USD1,309.6/tonne (+14.7% yoy).

- **FY25F:** We expect a revenue decline of -2.5% yoy to RM1.27bn, translating a lower core net profit of RM377.5m (-11.5% yoy). The RE segment is likely to see a marginal decline due to a stronger MYR against the USD, a flat tariff rate, and lower EAFs after factoring in the overhaul process. However, this impact will be cushioned by 1) earnings turnaround from the oleochemicals JV business, 2) higher ASP in the Resources segment, 3) steady contributions from the packaging division and 4) increased contributions from the Food Security segment, supported by better yields from mature coconut plantations.

- **FY26F:** We expect revenue to strengthen by +4.1% yoy to RM1.32bn, resulting in a higher core net profit of RM395.9m (+4.9% yoy). Growth will be primarily attributed to (1) the normalisation of the MYR against the USD, which translates into better earnings contributions, (2) improved contributions from the packaging segment from SKUs expansions in response to the recovery in the E&E sector, and 3) along with steady contributions from the resources and food divisions.

Valuation & Recommendation

- We initiate coverage on MFCB with a **BUY** recommendation and a target price of RM5.00 based on a Sum-of-Parts (SOP) valuation.
    (i) We assigned a 14.0x P/E multiple to the Packaging segment, representing a premium of 24% to the average forward FY25F P/E of respective peers, justified by sustainable packaging solutions with using recyclable or biodegradable materials.

(ii) We assign a 14.0x P/E multiple to Resources segment, reflecting a 70% premium valuation compared to respective peers, premised to MFCB status one of the largest commercial quicklime producers and commands c.40% market share in Malaysia.
(iii) For the Food Security segment, we assigned 9x P/E multiple, representing -1.0 standard deviation to the two-year historical mean average index, considering the smaller market size.
(iv) For Oleochemicals, we assigned a 8.0x P/E multiple, which is the average forward FY25F P/E of respective peers, as we remain bullish on the oleochemicals turnaround with bright prospects moving forward.
(v) For RE, we are derived using the DCF methodology, with key assumptions cost of equity 7.9%.

We believe our valuation is justified premised on:

(i) **Defensive earnings.** As of 1HFY24, c.80% of profit before tax were contributed from RE. We foresee a more stable earnings outlook for MFCB after entering a new 25-year PPA in its DSHP and ongoing efforts to expand solar capacity by 15-20MW annually.
(ii) **Market leadership position in commercial limestone.** MFCB owns and operates the largest limestone reserves in Malaysia, commanding a 40% market share as the largest quicklime producer. This distinction sets it apart as other players do not hold a dominant position in the field.
(iii) **Sustainable player.** MFCB aims to achieve net-zero emissions by 2050. Key practices include transitioning to renewable energy sources, sustainable resource consumption, water and waste management, and biodiversity conservation. These efforts have boosted its FTSE4Good ESG scoring to 2.5-3.6.
(iv) **Willingness to expand.** MFCB is pursuing inorganic growth by venturing into distribution, plantation, and oleochemicals businesses. These efforts aim to achieve an average ROE of 10%.
(v) **Solid business fundamentals.** MFCB consistently delivers a core margin of c.30% and an average free cash flow to equity of RM250m annually.

Peers Comparison

Packaging Division

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x) FY23	P/E (x) FY24F	P/E (x) FY25F	Gross DY (%)	Revenue RM 'm	Net Income RM 'm
Mega First Corporation Bhd	**MAIN**	**Dec**	**4.40**	**4147.5**	**10.8**	**9.7**	**10.7**	**1.99**	**1290.1**	**425.4**
Scientex Bhd	MAIN	Jun	4.32	6701.5	15.3	12.3	10.5	2.78	4475.6	545.2
Thong Guan Industries Bhd	MAIN	Mar	1.57	630.6	8.7	6.5	5.9	3.18	1283.7	74.7
SLP Resources Bhd	MAIN	Dec	0.93	294.8	27.4	16.3	14.1	5.11	167.0	12.3
BP Plastics Holding Bhd	MAIN	Dec	1.26	354.7	10.1	9.9	8.4	4.76	487.2	33.3
Avg ex-Mega First Corporation Bhd					**15.4**	**11.3**	**9.7**	**4.0**	**1603.4**	**166.4**

All companies P/E multiple forecasts based on Bloomberg consensus expectations

Resources Division

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x) FY23	P/E (x) FY24F	P/E (x) FY25F	Gross DY (%)	Revenue RM 'm	Net Income RM 'm
Mega First Corporation Bhd	**MAIN**	**Dec**	**4.40**	**4147.5**	**10.8**	**9.7**	**10.7**	**1.99**	**1290.1**	**425.4**
Hume Cement Industries Berhad	MAIN	Jun	3.38	2452.1	36.3	13.9	12.0	1.78	1205.2	210.9
Malaysia Smelting Corporation Bhc	MAIN	Dec	2.58	1083.6	7.7	6.5	5.9	2.71	1541.9	56.1
Cahya Mata Sarawak Bhd	MAIN	Dec	1.36	1461.7	8.7	4.2	3.2	1.47	1175.1	117.2
Avg ex-Mega First Corporation Bhd					**17.6**	**8.2**	**7.0**	**2.0**	**1307.4**	**128.1**

All companies P/E multiple forecasts based on Bloomberg consensus expectations

Oleochemical Division

Company	Market Group	FYE	Price (RM)	Market Cap (RM 'm)	P/E (x) FY23	FY24F	FY25F	Gross DY (%)	Revenue RM 'm	Net Income RM 'm
Mega First Corporation Bh	**MAIN**	**Dec**	**4.40**	**4147.5**	**10.8**	**9.7**	**10.7**	**1.99**	**1290.1**	**425.4**
FGV Corporation Bhd	MAIN	Dec	1.09	3976.5	36.3	13.9	12.0	2.75	20332.0	175.3
SD Guthrie Bhd	MAIN	Dec	4.79	33126.3	7.7	6.5	5.9	2.23	19361.0	2161.0
Kuala Lumpur Kepong Bhd	MAIN	Sept	20.54	22520.2	8.7	4.2	3.2	2.92	22372.1	700.5
IOI Corporation Bhd	MAIN	Jun	3.76	23325.9	5.2	4.9	4.5	2.53	9603.6	1109.4
Avg ex-Mega First Corporation Bhd					**14.5**	**7.4**	**6.4**	**2.6**	**17917.2**	**1036.6**

All companies P/E multiple forecasts based on Bloomberg consensus expectations

Key Risks

- **Currency risk**. Given that DSHP's revenue costs are denominated USD, any adverse movements in the USD/MYR exchange rate could impact MFCB's RE earnings.

- **Petcoke price fluctuations.** Petcoke is a crucial raw material for the resource segment, accounting for c.70% of the COGS. We use coal consumption as an indicator; rising coal prices make petcoke a preferred fuel substitute. Higher petcoke prices should dampen the segment's earning margins.

- **A slower-than-expected recovery in packaging segment.** Backed by higher interest rates and geopolitical tensions that hinder demand recovery, stiff competition further erodes selling prices in the packaging segment.

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24E	FY25F	FY26F
Revenue	**1339.6**	**1317.6**	**1299.8**	**1279.1**	**1318.4**
Gross Profit	**560.8**	**569.4**	**570.1**	**510.8**	**522.2**
EBITDA	**629.9**	**662.5**	**702.2**	**626.3**	**640.0**
Depreciation & Amortisation	-126.9	-132.1	-141.9	-128.0	-132.9
EBIT	**503.0**	**530.5**	**560.3**	**498.3**	**507.1**
Net Finance Income/ (Cost)	-29.6	-40.1	-30.9	-21.8	-19.4
Associates & JV	17.1	-13.6	-5.1	17.4	27.1
Pre-tax Profit	**490.6**	**476.8**	**524.3**	**494.0**	**514.8**
Tax	-14.8	-25.1	-37.3	-40.2	-41.0
Profit After Tax	**475.7**	**451.6**	**487.0**	**453.7**	**473.9**
Minority Interest	78.9	67.9	60.9	67.8	78.8
Net Profit	**396.8**	**383.7**	**426.1**	**385.9**	**395.1**
Exceptionals	-68.1	1.5	0.0	0.0	0.0
Core Net Profit	**328.7**	**385.2**	**426.1**	**385.9**	**395.1**

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24E	FY25F	FY26F
EBITDA margin	47.0%	50.3%	54.0%	49.0%	48.5%
EBIT margin	37.5%	40.3%	43.1%	39.0%	38.5%
PBT margin	36.6%	36.2%	40.3%	38.6%	39.0%
PAT margin	35.5%	34.3%	37.5%	35.5%	35.9%
NP margin	29.6%	29.1%	32.8%	30.2%	30.0%
Core NP margin	24.5%	29.2%	32.8%	30.2%	30.0%
Dividend yield	1.7%	1.6%	2.0%	2.2%	2.3%
ROE	12.4%	11.9%	11.8%	9.7%	9.1%
ROA	9.3%	8.5%	9.2%	8.0%	7.9%
Net gearing	6.9%	12.2%	1.4%	Net Cash	Net Cash

Valuation

Sum of Parts (SOP)	Equity Value (RM' m)	Valuation method
Renewable Energy	3654.5	Ke = 7.9%
Packaging & Label	452.0	14x FY25F PER
Resources	398.8	14x FY25F PER
Food Security	31.8	9x FY25F PER
Oleochemicals	172.6	8x FY25F PER
Proceeds from exercise of warrants/ESOS	0.0	
SOP Value	4709.7	
Enlarged share base (m share)	942.8	
Fair Value (RM)	**5.00**	

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24E	FY25F	FY26F
Cash	492.3	508.6	591.2	767.4	948.5
Receivables	437.3	488.7	449.6	413.6	380.5
Inventories	147.9	131.7	139.6	148.0	156.9
Other current assets	5.0	20.9	19.0	17.2	15.6
Total Current Assets	**1082.4**	**1149.9**	**1199.4**	**1346.3**	**1501.5**
PPE	481.7	531.9	698.8	789.1	873.0
Other non-current assets	2725.0	2826.5	2736.4	2666.7	2598.2
Total Non-current assets	**3206.6**	**3358.5**	**3435.2**	**3455.9**	**3471.2**
Short-term Debt	316.2	435.2	256.5	179.8	100.7
Payables	155.7	168.8	167.2	176.1	182.5
Other Current Liabilities	7.0	6.0	6.3	6.6	6.9
Total Current Liabilities	**478.9**	**610.0**	**430.1**	**362.5**	**290.1**
Long-term Debt	396.7	466.1	384.8	269.7	151.1
Other non-current liabilities	222.3	208.2	200.6	193.7	187.6
Total Non-current Liabilities	**619.1**	**674.4**	**585.4**	**463.4**	**338.6**
Shareholder's equity	2750.6	3056.9	3391.1	3680.4	3969.4
Minority interest	440.4	167.1	228.0	295.8	374.6
Total Equity	**3191.0**	**3224.0**	**3619.1**	**3976.2**	**4344.0**

Cash Flow

FYE Dec (RM m)	FY22	FY23	FY24E	FY25F	FY26F
Pre-tax profit	**490.6**	**476.8**	**524.3**	**494.0**	**514.8**
Depreciation	37.4	38.3	49.4	55.8	61.7
Changes in working capital	-37.2	-73.7	27.2	33.9	27.9
Others	84.5	143.7	54.8	9.9	-11.7
Operating cash flow	**575.3**	**585.1**	**655.7**	**593.6**	**592.7**
Net capex	-78.1	-113.0	-216.3	-146.1	-145.5
Others	-88.8	-549.0	33.3	45.6	63.0
Investing cash flow	**-166.9**	**-661.9**	**-183.0**	**-100.5**	**-82.6**
Dividends paid	-67.1	-74.1	-91.9	-96.6	-106.1
Net borrowings	-92.3	179.4	-260.0	-191.9	-197.8
Others	-33.2	-66.7	-38.2	-28.4	-25.3
Financing cash flow	**-192.6**	**38.6**	**-390.1**	**-316.8**	**-329.1**
Net cash flow	**215.8**	**-38.2**	**82.6**	**176.3**	**181.1**
Forex	13.0	18.4	45.7	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	254.0	482.8	462.9	591.2	767.4
Ending cash	**482.8**	**462.9**	**591.2**	**767.4**	**948.5**

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain + dividend yield

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER