BCT Asia advisory

BURSA MidS

4Q FYE DEC 2017 RESULTS REPORT ***26 February 2018***

Name of PLC: *Mega First Corporation Berhad (MFCB)*		***PLC Website:*** *www.mega-first.com*	
Business Summary: *Investment holding group operating in power generation, manufacture of limestone products and property development*			
Top Three Shareholders: *Goh Nan Kioh and deemed interest*			*33.3%*
FMR LLC			*8.6%*
Perbadanan Pembangunan Ekonomi Sabah (SEDCO)			*3.6%*
Market / Sector:	*Trading/Services*	***Stock Code:***	*3069*
		Bloomberg Ticker:	*MFCB:MK*
Market Capitalisation:	*RM 1,405.0m*	***Recommendation:***	*Buy*
Target Price:	*RM 5.50*	***Expected Capital Gain:***	*52.8%*
		Expected Div Yield:	*1.4%*
Current Price:	*RM 3.60*	***Expected Total Return:***	*54.2%*

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Key Stock Statistics	**2015**	**2016**	**2017**	**2018F**
EPS (sen)	29.2	31.7	35.4	37.1
P/E (x)	12.3	11.4	10.2	9.7
Net Dividend/Share (sen)	7.6	5.0	4.0	4.0
NTA/Share (RM)	3.16	3.03	3.10	3.43
Book Value/Share (RM)	3.20	3.06	3.13	3.46
Issued Capital (mil shares)	254.2	381.4	390.3	390.3
52-weeks Share Price Range (RM)				2.72 - 4.02
Estimated free float				50.3%
Average volume (shares)				294,110

Per Share Data	**2015**	**2016**	**2017**	**2018F**
Year-end 31 Dec				
Book Value/Share (RM)	3.20	3.06	3.13	3.46
Operating CF/Share (sen)	51.9	32.3	33.6	6.4
EPS (sen)	29.2	31.7	35.4	37.1
Net Dividend/Share (sen)	7.6	5.0	4.0	4.0
P/E (x)	12.3	11.4	10.2	9.7
P/Cash Flow (x)	6.9	11.1	10.7	56.6
P/Book Value (x)	1.1	1.2	1.2	1.0
Dividend Yield (%)	2.1	1.4	1.1	1.1
Payout Ratio (%)	34.7	15.8	11.3	10.8
ROE (%)	9.6	12.2	11.6	11.3
Net Gearing (%)	(7.1)	(17.4)	6.8	44.6

Remarks - Per-share data adjusted for Rights issue

P&L Analysis (RM mil)	**2015**	**2016**	**2017**	**2018F**
Revenue	588.69	915.46	910.86	929.59
EBITDA	183.64	253.24	215.26	235.33
Depreciation & amort	(36.60)	(52.22)	(19.14)	(15.11)
Net interest income	0.48	(1.39)	(3.19)	(8.43)
Pre-tax Profit	147.52	199.63	192.94	211.78
Net Profit	74.26	120.74	138.34	144.66
EBITDA Margin (%)	31.2	27.7	23.6	25.3
Pre-tax Margin (%)	25.1	21.8	21.2	22.8
Net-Margin (%)	12.6	13.2	15.2	15.6

1. 4QFY17 Results Highlight

	4Q FY17 RMm	**4Q FY16 RMm**	**Chg %**
Revenue	236.36	186.30	26.9
Operating Profit	53.24	50.88	4.6
Finance cost	(2.20)	(1.36)	61.5
Pre-tax Profit	51.04	49.52	3.1
Discontinued Net Profit *	(16.23)	3.37	n.m.
Net Profit	21.50	34.59	(37.8)
Operating Margin (%)	22.5	27.3	
Pre-tax Margin (%)	21.6	26.6	
Net-Margin (%)	9.1	18.6	

** In accordance to FRS 5, P&L of the discontinued operations of China's Shaoxing power plant has been presented as discontinued operations*

- In 4QFY17, turnover grew by 26.9% to RM236.36m due mainly to higher recognition of construction revenue from the construction work on Don Sahong Hydropower Project in Laos.

- As at end-FY17, the Don Sahong Hydropower Project achieved a cumulative physical completion of 46.5%. This translated into an additional progress completion of about 33.5% in FY17 as compared with 30.0% achieved in FY16.

- The operations agreement of Shaoxing power plant expired on 22-Oct-17 and was not extended by MFCB. As such, its net profit was presented under discontinued operations.

- In 4QFY17, PBT only rose marginally by 3.1% to RM51.04m. This was due to the following factors:

  - Construction margin of the **Don Sahong Hydropower Project** was maintained at 27%. Hence, the higher progress billings resulted in a 43% increase in PBT to RM45.44m in 4QFY17;
  - The existing PPA for the **Tawau power plant** between Serudong Power Sdn Bhd (SPSB) (51%-owned subsidiary) and Sabah Electricity Sdn Bhd (SESB) expired on 2-Dec-17. Consequently, SPSB has stopped supplying energy since 2-Dec-17 pending SESB's decision on the proposed extension of the PPA as approved by the Energy Commission (EC) and the Minister of Energy, Green Technology and Water. As such, PBT declined to RM0.60m (4QFY17) from RM2.70m (4QFY16) due to the shorter operating period of only two months and ongoing fixed operating overheads as SPSB has continued to incur operating overheads after 2-Dec-17;
  - PBT at its **resources division** expanded by 11.4% to RM5.30m in 4QFY17. This was attributed to higher sales volume of lime products driven by higher export demand. In FY17, export accounted for 50% of sales as compared with 42% in FY16 due to successful penetration in Australia, India and Indonesia markets. Profitability was squeezed in 4QFY17 due to weaker export margin resulting from a stronger ringgit, higher petcoke, limestone and transportation costs;
  - PBT of **property division** was steady at RM6.0m in 4QFY17, derived pre-dominantly from rental income. There was no contribution from property development;
  - In 4QFY17, MFCB incurred a net forex loss of RM2.91m as compared with a net forex gain of RM12.27m in 4QFY16; and
  - The discontinued China's operation resulted in loss on deconsolidation amounting to RM3.21m in 4QFY17.

FY17 Results Highlight

	FY17 RMm	FY16 RMm	Chg %
Revenue	910.86	600.74	51.6
Operating Profit	199.70	143.65	39.0
Finance cost	(6.77)	(6.09)	11.1
Pre-tax Profit	192.94	137.56	40.3
Discontinued Net Profit *	9.26	41.68	(77.8)
Net Profit	138.34	120.74	14.6
Operating Margin (%)	21.9	23.9	
Pre-tax Margin (%)	21.2	22.9	
Net-Margin (%)	15.2	20.1	

** In accordance to FRS 5, P&L of the discontinued operations of China's Shaoxing power plant has been presented as discontinued operations*

- For FY17, turnover increased by 51.6% to RM910.86m mainly contributed by higher progress billings of the Don Sahong Hydropower Project in Laos, which amounted to RM645.44m (+78.1%) as compared with RM362.44m in FY16. The Tawau power plant only experienced a 4.4% increase in turnover to RM77.77m in FY17 due to shorter operating period. Turnover of resources division expanded by 21.7% to RM119.95m in FY17 due to higher sales volume.

- Excluding the discontinued China's power plant operation, group PBT expanded by 40.3% to RM192.94m in FY17. This was underpinned pre-dominantly by higher construction profit despite a lower PBT contribution from the Tawau power plant, and higher PBT from the resources division.

- While construction profit of Don Sahong jumped to RM172.56m in FY17 (+79.5%), Tawau power plant's PBT declined to RM3.70m (-40.3%). Thanks to the higher sales volume of lime products (+25.7% to 320,020 mt) driven by both higher export and domestic demand, PBT of resources division grew by 28.4% to RM19.30m in FY17.

- PBT of property division was steady at RM12.5m in FY17.

- Other non-operating items impacted the PBT performance of FY17 included the following:-

  - Significantly higher ESOS expenses of RM13.98m in FY17 vs RM2.78m in FY16; and
  - Substantially lower net forex gains of RM3.30m in FY17 vs RM14.41m in FY16

2. Earnings Outlook

- MFCB is a diversified group with 3 core divisions, namely power generation, manufacture of limestone products, property development and investment.

- The physical completion of **Don Sahong Hydropower Project** reached 46.5% as at end-4QFY17. As the management expects the cumulative physical completion to reach about 80% by end-FY18, this translates into an additional progress completion of 33.5% in FY18 as compared with 30% in FY17.

- Update on construction progress:-

  - Completion of concreting works and electrical and mechanical works for the powerhouse have reached 74% and 32% respectively;
  - Excavation works for the embankment and channel have achieved 94% and 80%;
  - The inlet underwater excavation has resumed in Dec-17 after the end of the rainy season in Nov-17;
  - Offsite fabrication of the turbine and generator components are in full swing. The parts will be progressively transported to the site for assembly and installation in 1Q19; and
  - The detailed design of the 28.5km transmission line from the power house to Ban Hat substation has been finalized and physical construction has commenced in January 2018.

- Due to the expiry of the operations agreement of **Shaoxing power plant** on 22-Oct-17, there will be an absence of earnings contribution from FY18 onwards.

- The existing PPA for the **Tawau power plant** between SPSB and SESB expired on 2-Dec-17. Consequently, SPSB has stopped supplying energy since 2-Dec-17 pending SESB's decision on the proposed extension of the PPA as approved by the Energy Commission (EC) and the Minister of Energy, Green Technology and Water. The impact to the group PBT is negligible as the Tawau power plant contributed 1.9% (RM3.70m) to group PBT in FY17. The management is optimistic that the PPA will be extended. However, should the PPA not be extended, the impairment on PPE of SPSB would amount to RM5.36m.

- The completion of another lime kiln capacity (Kiln 7) in Mar-17 has expanded the capacity by 35% (400 mt/hr) to 1,560 mt/day. Going forward, the **resources division** is expected to deliver strong profit growth driven by capacity expansion, improved utilization rate and better cost absorption due to the expected higher production volumes. Currently, the capacity utilisation rate stands at 80%. Backed by its current order flow as well as the favourable expectations in securing new orders overseas, this extra capacity should be well taken up in FY18. There are plans to add Kiln 8 by FY18 with an additional capacity of 400 mt/day on a capex of RM25m. There are some cost pressure arising from higher petcoke, limestone and transportation costs in FY18, and lower export revenue in ringgit terms (due to appreciating ringgit), the negative impact will be offset by efficiency gains from improved plant utilisation rate and selective selling price adjustments.

- Profit contribution from **property division** (mainly rental income) will remain steady.

3. Valuation and Recommendation

- FY18-19 earnings will be underpinned by increased construction profit from the Don Sahong Hydropower Project in Laos, and higher production utilization of its kiln capacity. As such, the negative impact on group earnings from the expiry of its operations agreement for the Shaoxing power plant in China will be mitigated.

- Longer-term, MFCB also looks forward to a steady concession earnings from the Don Sahong Hydropower project from FY20 onwards, when the power plant is expected to be commissioned. The associated risk currently lies with the successful delivery of the project within the project timeline. Funding is largely in place with the securing of US$150m Club Deal Facilities. Concerns over project cost can also be mitigated with the award of the EPCC contract to Sinohydro Corporation Limited for US$265m.

- The stock is currently trading at P/BV of 1.2x based on its book value of RM3.13 as at 4QFY17. Based on our EPS forecast for FY18F, the stock is currently trading at attractive P/E of 9.7x.

- Maintain Buy on MFCB with a target price of RM5.50 using sum-of-parts valuation method.

RNAV valuations for MFCB

RNAV	Equity value (RMm)	Remarks
Resources division	224.13	12x FY18 P/E
Property division	178.06	FY16 net asset value
Investment in quoted shares	40.32	FY16 net asset value
Net cash (including conversion proceeds)	297.28	
Don Sahong Hydropower Project	1,821.23	DCF (WACC of 9.94%) at 20% discount
Total	**2,398.45**	
	mil shares	
Current enlarged shares	390.42	
Outstanding warrants	58.43	
ESOS	13.69	
Fully diluted shares	**462.54**	
RNAV/share (RM)	**5.50**	

Share price chart of MFCB

Disclosures/Disclaimer

Investment ratings:
Buy (generally >10% upside over the next 12 months)
Hold (generally negative 10% downside to positive 10% upside over the next 12 months)
Sell (generally >10% downside over the next 12 months)

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