

MegaChem Limited

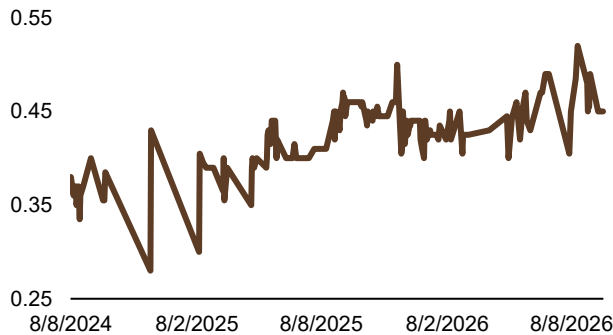
06 October 2026

HOLD (Maintained)

BBG	MGCM SP
Market Cap (S\$m)	60.0
Price (S\$) (30 Sep 2026)	0.450
52-week range (S\$)	0.40 - 0.52
Target Price (S\$)	0.49 (Prev: 0.45)
Shares Outstanding (m)	133.3
Free Float	14.2%
Major Shareholder	Chew Choon Tee 36.7%
	Chori Co Ltd 30.0%
	Tan Bock Chia 19.1%

Source: Company data, Bloomberg, SAC Capital

Stock Price



Source: Company data, Bloomberg, SAC Capital

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Warehouse Savings & Specialty Shift Boost Margin Quality

MegaChem reported a robust set of results for 1H26. The Group's 1H26 revenue increased 2.8% YoY to S\$65.9 million, while gross profit increased 17.2% YoY to S\$18.8 million. The Group's overall gross margin increased from 25.1% in 1H25 to 28.6% in 1H26, mainly due to firmer chemical prices. The Group's net profit increased 167.9% YoY to S\$4.6 million, which included S\$1.2 million of insurance compensation relating to the 2023 fire incident. Excluding this, 1H26 net profit would have increased 100.0% YoY to S\$3.4 million, while EBITDA increased 89.4% YoY to S\$6.4 million. The Group declared an interim dividend of 0.5 Singapore cents per share, unchanged from 1H25, representing a payout ratio of about 15% of 1H26 net profit attributable to shareholders.

New warehouse facility now operational. Following the receipt of its Temporary Occupation Permit on 11 June 2026, MegaChem has moved a major part of its inventory from third-party warehouses into its new facility at 132 Pioneer Road. Early savings are already visible, with warehouse storage charges falling 7.9% YoY to S\$1.6 million in 1H26 despite only a few weeks of operation. We expect storage charges to fall by 70%, or roughly S\$2.4 million annually, from FY25 levels, partly offset by higher depreciation.

Diversified Earnings Base Cushions Against Volatility. MegaChem's multi-region and multi-vertical structure continues to shield earnings from macro headwinds. Earnings held firm in 1H26 despite geopolitical friction in the Middle East, where sales nevertheless rose 10.1% YoY to S\$7.0 million. Growth across core ASEAN operations at 1.5% YoY, representing 55% of sales, and Europe at 9.0% YoY underlines the stability of its 2,000-plus customer base across key sectors like Performance Coatings at 32%, Surface Technology at 27%, and Biotech at 21%. Coupled with a 26.6% YoY increase in profit share from its Thai associate, MegaChem enters 2H26 with a highly defensive, risk-diversified earnings model.

Margin Trajectory Points to a Richer Product Mix. Operational quality is visibly improving as gross margin expanded to 28.6% in 1H26, up from 18.3% in FY23 and 25.6% in FY25, while EBITDA margin expanded to nearly 10%. MegaChem's profitability already surpasses low-margin commodity producers, which typically operate in the single to low double digits. While its gross margins still trail high-value specialty formulators, this spread highlights substantial headroom for structural uplift. A continued strategic pivot toward specialty formulations, characterized by pricing power and feedstock independence, will remain the primary driver of medium-term margin expansion.

KEY FINANCIAL HIGHLIGHTS

Year ended Dec (S\$m)	FY23	FY24	FY25	FY26E	FY27E
Revenue	123.0	128.8	124.4	127.1	131.5
EBIT	(3.3)	10.6	5.7	10.2	10.7
Net profit	(5.8)	7.9	3.9	8.0	8.5
EPS (S\$ cents)	(4.4)	5.9	2.9	5.9	6.3
Dividend per share (S\$ cents)	-	1.0	1.0	1.0	1.5
Net cash / (debt)	(17.6)	(12.0)	(23.4)	(22.5)	(21.0)
Valuation					
Gross profit margin (%)	18.3%	24.2%	25.6%	27.0%	27.0%
Net profit margin (%)	-4.7%	6.1%	3.1%	6.3%	6.5%
EV / EBITDA (x)	(41.7)	5.6	11.9	6.8	6.2
P/E (x)	-	7.6	15.6	7.6	7.2
P/B (x)	1.2	1.0	1.0	0.9	0.8
Dividend yield (%)	-	2.2%	2.2%	2.2%	3.3%
ROE (%)	-11.6%	13.5%	6.4%	11.8%	11.4%

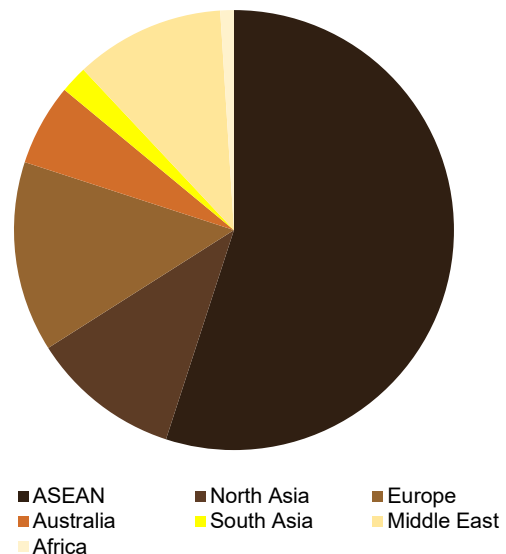
Chemicals Industry: From Glut to Tightness. The chemical sector entered 2026 facing oversupply fears before Middle East tensions disrupted supply chains. Shipping bottlenecks in the Strait of Hormuz, which handles 60 to 70% of Asia's naphtha imports, forced regional producers to reduce run rates and driven Asian ethylene prices up sharply. For distributors like MegaChem, supply constraints enabled stronger selling prices. Looking ahead to 2H26, elevated feedstock and energy costs could compress downstream margins and weigh on end-market demand. However, specialty chemicals continue to exhibit superior pricing discipline relative to commodity grades, supported by long-term structural growth across Asia Pacific.

AI Tailwinds Gathering Pace. The expansion of artificial intelligence infrastructure has accelerated significantly in 2026. According to World Semiconductor Trade Statistics forecasts, the global semiconductor market is projected to reach 1.51 trillion US dollars this year, fuelled by demand for high-bandwidth memory and AI server hardware. Advanced chip manufacturing, printed circuit boards, and data centre hardware require specialized process chemicals, including cleaning and metal-finishing solutions. MegaChem's Surface Technology division, which generated 27% of FY25 revenue, directly services these requirements. While MegaChem is not a pure-play semiconductor stock, it provides valuable exposure to a high-margin, secular growth trend.

Potential risks include (i) macroeconomic & geopolitical headwinds, (ii) volatility in chemical and energy prices, including a normalisation that may unwind recent margin gains, and (iii) regulatory and environmental risks.

Investment recommendation. We maintain our HOLD rating while raising our target price 8.9% to S\$0.49, offering an 8.9% upside from current share price levels. We revised our FY26 net profit forecast up by 72.8% to S\$8.0 million. This upgrade is supported by higher revenue expectations of S\$127.1 million, alongside stronger gross margin assumptions of 27.0%, up from 25.6%. To account for ongoing geopolitical volatility, our target price applies a 40% discount to the peer mean forward PER of 13.9x.

Sales Breakdown by Geography

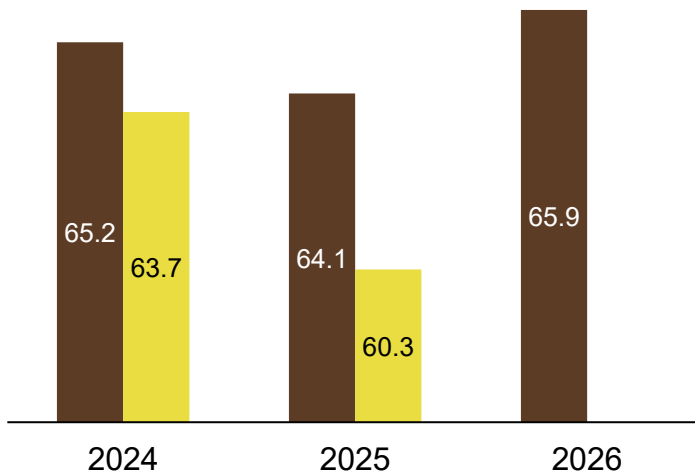


Source: Company

MegaChem Limited

Half-year Sales (S\$'mil)

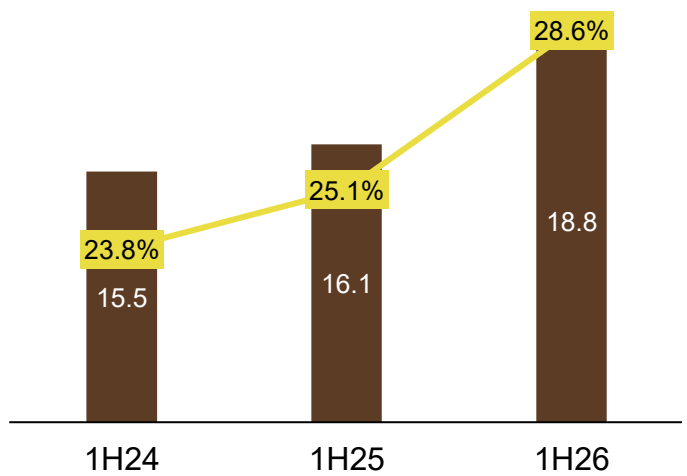
■ 1H ■ 2H



Source: Company

Gross Profit (S\$'mil)

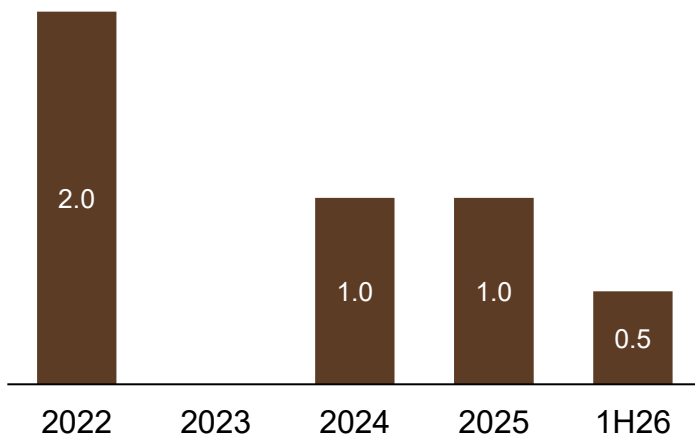
■ Gross Profit — Gross Margin



Source: Company

Half-year Sales (S\$'mil)

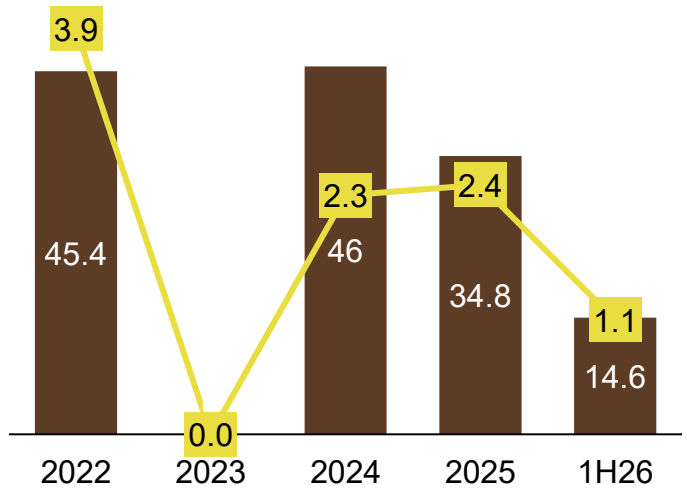
■ Dividend/Share (Cents)



Source: Company

Gross Profit

■ Dividend Payout (%) — Dividend Yield (%)



Source: Company

Income Statement

FY ended 31 Dec (\$\$m)	FY23	FY24	FY25	FY26E	FY27E
Revenue	123.0	128.8	124.4	127.1	131.5
Cost of sales	(100.5)	(97.6)	(92.6)	(92.8)	(96.0)
Gross profit	22.5	31.2	31.8	34.3	35.5
Other income	3.7	10.7	0.5	1.7	0.5
Distribution costs	(21.2)	(22.2)	(17.8)	(17.7)	(17.1)
Administrative expenses	(6.2)	(6.4)	(6.4)	(6.4)	(6.4)
Other operating expenses	(3.3)	(3.9)	(3.6)	(3.6)	(3.8)
Finance costs	(2.0)	(1.9)	(1.4)	(1.4)	(1.4)
Share of profit of associated companies	1.2	1.2	1.2	1.9	2.0
Profit before income tax	(5.3)	8.7	4.3	8.8	9.3
Income tax expense	(0.5)	(0.8)	(0.4)	(0.7)	(0.8)
Net profit	(5.8)	7.9	3.9	8.0	8.5

Balance Sheet

FY ended 31 Dec (\$\$m)	FY23	FY24	FY25	FY26E	FY27E
Non-current assets					
Property, plant and equipment	14.6	16.8	30.4	29.3	27.6
Right-of-use assets	2.3	2.3	2.3	2.0	1.8
Investment property	0.1	0.1	0.1	0.1	0.1
Investments in subsidiaries	-	-	-	-	-
Investments in associated companies	8.4	9.4	10.2	10.2	10.2
Finance assets at fair value	1.4	1.4	1.4	1.4	1.4
Transferable club memberships	0.0	0.0	0.0	0.0	0.0
Deferred tax assets	0.8	0.9	1.0	1.0	1.0
Total non-current assets	27.6	30.9	45.3	44.0	42.0
Current assets					
Inventories	33.6	31.7	29.0	29.6	30.9
Trade and other receivables	23.7	23.3	24.1	24.9	25.6
Financial assets at fair value	-	0.0	0.0	-	-
Other current assets	1.7	2.6	2.5	8.7	14.1
Cash and bank balances	13.6	16.0	14.0	14.5	15.6
Total current assets	72.6	73.7	69.7	77.7	86.2
Total assets	100.2	104.5	115.0	121.7	128.2
Share capital	15.9	15.9	15.9	15.9	15.9
Other reserves	(7.7)	(6.3)	(6.0)	(6.0)	(6.0)
Retained earnings	41.8	48.9	51.4	58.1	64.6
Non-controlling interests	3.2	1.9	1.8	1.8	1.8
Total equity	53.2	60.5	63.1	69.8	76.3
Non-current liabilities					
Borrowings	0.4	-	6.3	5.8	5.3
Financial liabilities	2.6	2.7	2.7	2.8	2.9
Deferred tax liabilities	0.4	0.5	0.6	0.6	0.6
Total non-current liabilities	3.5	3.2	9.5	9.1	8.7
Current liabilities					
Current income tax liabilities	0.1	0.3	0.1	0.1	0.1
Trade and other payables	15.2	14.9	13.6	14.0	14.4
Borrowings	28.1	25.2	28.4	28.4	28.4
Financial liabilities - lease liabilities	0.3	0.4	0.3	0.3	0.3
Financial liabilities at fair value	0.1	0.0	0.0	0.0	0.0
Total current liabilities	43.6	40.8	42.4	42.8	43.3
Total liabilities	47.1	44.0	51.9	51.9	51.9
Total equity and liabilities	100.2	104.5	115.0	121.7	128.2

Cash Flow Statement

FY ended 31 Dec (\$\$m)	FY23	FY24	FY25	FY26E	FY27E
Cash flows from operating activities					
Net (loss)/profit before tax	(5.3)	8.7	4.3	8.8	9.3
Adjustments for:					
Depre of PPE	1.0	1.0	1.0	1.7	2.0
Depre of right-of-use assets	0.4	0.3	0.3	0.3	0.3
Finance costs	2.0	1.9	1.4	1.4	1.4
Gain on disposal of shares	-	-	-	-	-
Gain on disposal of PPE	(0.0)	(0.6)	(0.0)	(0.2)	(0.2)
Interest income from banks	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Inventory written down	8.6	1.7	0.2	-	-
Loss on PPE written down	0.8	-	-	-	-
Share of profit of associates	(1.2)	(1.2)	(1.2)	(1.9)	(2.0)
Changes in fair value of finan assets	-	(0.0)	(0.0)	-	-
Changes in fair value of finan liab	0.1	0.0	0.0	-	-
Net effect of exchange rate changes in consolidating foreign operations	-	0.1	0.4	-	-
Operating cash flows before working capital changes	6.3	11.6	6.2	9.9	10.6
capital changes					
Change in op assets and liab					
Trade and other receivables	3.5	0.7	(1.2)	(1.0)	(1.1)
Other current assets	0.1	(0.9)	0.2	-	-
Inventories	6.9	0.4	2.2	-	-
Trade and other payables	0.1	(0.3)	(1.2)	0.4	0.4
Other WC / capex - balancing to net debt estim	-	-	-	(6.2)	(5.4)
Foreign exchanges differences	0.0	-	-	-	-
Cash (used in)/generated from operations	16.8	11.5	6.1	3.1	4.5
Income tax paid	(1.1)	(0.6)	(0.6)	(0.7)	(0.8)
Interest received	0.1	0.1	0.2	0.2	0.2
Net cash (used in)/provided by operating activities	15.8	11.0	5.7	2.6	3.8
Cash flows from investing activities					
Divi receiv from assoc	0.6	0.5	0.5	0.5	0.5
Purchase of finan assets	(1.4)	(1.2)	-	-	-
Purchase of PPE	(1.2)	(2.7)	(14.2)	-	-
Proceeds from sales of shares	-	-	-	-	-
Proceeds from sales of PPE	0.0	0.9	0.0	-	-
Net cash provided by/(used in) investing activities	(1.9)	(2.4)	(13.7)	0.5	0.5
Cash flows from financing activities					
Dividends paid	(1.6)	(0.7)	(1.3)	(1.3)	(2.0)
Dividends paid by subsidiary to non-controlling interests	(0.0)	(0.3)	(0.2)	-	-
Repayments of LT loans	(0.5)	(0.5)	6.6	(0.5)	(0.5)
(Repay)/proceeds from bills	(6.4)	1.9	(1.3)	-	-
(Repay)/proceeds from ST loans	(0.5)	(4.7)	4.9	-	-
Lease liabilities paid	(0.6)	(0.5)	(0.6)	-	-
Interest paid	(1.9)	(1.8)	(1.3)	(1.4)	(1.4)
Net cash provided by financing activities	(11.6)	(6.5)	6.8	(3.2)	(3.9)
Net increase/(decrease) in cash and cash equivalents	2.3	2.1	(1.2)	(0.2)	0.4
Cash and cash equivalents at beginning of financial year	10.9	13.0	15.3	14.0	13.8
Effects of currency translation on cash and cash equivalents	(0.2)	0.1	(0.1)	-	-
Cash and cash equivalents at end of financial year	13.0	15.3	14.0	13.8	14.2

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