

# Megachem Ltd

05 March 2024

## HOLD (Prev: Buy)

<b>BBG</b>	MGCM SP
<b>Market cap</b>	S\$61.3m
<b>Share price</b>	S\$0.46
<b>52-week range</b>	S\$0.36 – S\$0.55
<b>Shares Outstanding</b>	133.3m
<b>Free Float</b>	14.92%
<b>Major Shareholder</b>	Chew Choo Tee 35.93% Chori Co Ltd 29.99% Tan Bock Chia 19.08%

<b>P/B (FY23)</b>	1.2x
<b>Net gearing (1H24)</b>	0.3x

Source: Company data, Bloomberg, SAC Capital

## Analyst

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## Breaking Dawn

**That's life...** FY23 was a year of circumstances for Megachem due to the fire in July. The impact of the incident is best illustrated between 2H23 and 1H23 numbers. While 2H23 revenue was flat h-h, gross profit fell by 32% to S\$9m; gross margin dropped 7.3 ppt to 14.7%. As an added whammy, expenses increased 49% q-q to S\$20m. The result was a 2H23 net loss of S\$6.7m or a FY23 net loss of S\$5.8m.

**If not for the fire.** Excluding the impact of the fire, 2H23 gross profit would have been up 13% h-h to S\$15m; gross margin reflecting historical average of 24%. FY23 net profit would be a positive S\$1.9m.

**Why breaking dawn?** In the wildly popular Twilight novel series, The Breaking Dawn instalment revolves around Bella's newborn daughter, a new beginning, a new life. Post-fire, we expect Megachem in FY24 and beyond to benefit from green shoots of growth.


**AI is not always about Nvidia.** The hardware surrounding artificial intelligence require chemicals too. And Megachem is primed to service such needs. In fact, its Surface Technology business accounts for a substantial 23% of total revenue. Besides the AI sector, the Surface Technology business also includes the rapidly growing Data Centres and the recovering semi-con and aviation/MRO sectors.

**Green jet fuels all the rage in Singapore.** Singapore has recently announced the requirements for sustainable fuel for the aviation sector. And it is no coincidence that related MNCs have jumped on the bandwagon, making Singapore the largest sustainable aviation fuel refinery in terms of capacity in the world (Straits Times, 26 February 2024). As a home-grown company with 9% of total revenue in the Resources sector, Megachem is a prime beneficiary.

**Short-term valuation overhang; long-term exciting growth.** While new business opportunities will lift profitability beyond FY24, the near-term will be somewhat impacted by the aftermath of the fire. We have thus downgraded our call to a HOLD with a revised price target of S\$50, at a blended FY24/25 fair PER of 15x which is a 35% discount to the valuation of its larger European peers.

Year End 31 Dec (S\$m)	FY21	FY22	FY23	FY24F	FY25F
Revenue	138.9	143.7	123.0	129.4	141.1
% chg		3.5%	-14.4%	5.2%	9.0%
Gross profit	34.1	34.4	22.5	31.1	35.3
% chg		0.9%	-34.6%	38.0%	13.5%
Gross margin	24.6%	23.9%	18.3%	24.0%	25.0%
Net profit	8.0	6.1	-5.8	3.1	5.7
% chg		-24.1%	-195.6%	-153.8%	82.5%
Net margin	5.8%	4.2%	-4.7%	2.4%	4.0%
EPS (S¢)	5.82	4.41	-4.43	2.34	4.27
PER (x)	7.9	10.4	-	19.6	10.8
P/B (x)	1.1	1.0	1.2	1.1	1.1
Dividend (S¢)	2.0	2.0	0.0	2.0	2.0
Dividend yield	4.3%	4.3%	0.0%	4.3%	4.3%

### Impact of the fire

 Profit & Loss Highlights				
S\$'mil	1H 2023	2H 2023	Var.	Var. %
Sales	60.7	62.3	1.6	2.7%
Gross Profit	13.4	9.1	(4.2)	(31.7%)
GP Margin %	22.0%	14.7%	(7.3% pts)	-
Gross Profit(adj)	13.4	15.1	1.7	12.9%
GP Margin %(adj)	22.0%	24.2%	2.2% pts	-
Expenses	13.2	19.6	6.4	49.0%
Expenses(adj)	13.2	14.6	1.4	10.9%
Other Income	0.4	3.3	2.9	676%
Other Income(adj)	0.4	0.3	0.1	(25%)
NPBT	1.3	(6.6)	(7.9)	nm
NPAT	0.9	(6.7)	(7.6)	Nm
NPAT(adj)	0.9	1.0	0.1	8.9%
EPS(cents)	0.61	(5.04)	(5.65)	nm

Developing Strong Chemistry Worldwide

Source: Company data

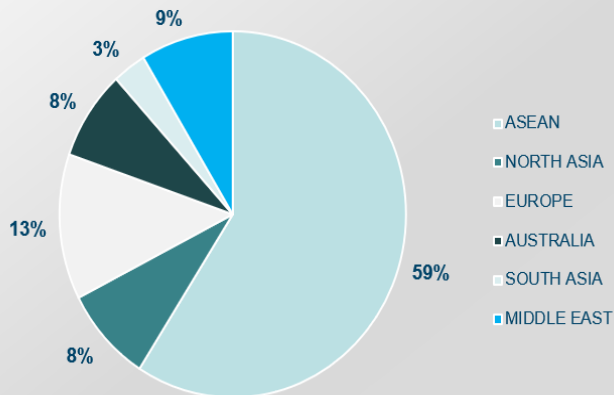
 Profit & Loss Highlights				
S\$'mil	FY22	FY23	Var.	Var. %
Sales	143.7	123.0	(20.7)	(14.4%)
Gross Profit	34.4	22.5	(11.9)	(34.6%)
GP Margin %	23.9%	18.3%	(5.6% pts)	-
Gross Profit(adj)	34.4	28.5	(5.9)	(17.3%)
GP margin %	23.9%	23.1%	(0.8% pt)	-
Expenses	28.7	32.7	4.0	14.1%
Expenses(adj)	28.7	27.7	(0.1)	(3.5%)
Other Income	1.0	3.7	2.7	270%
Other Income(adj)	1.0	0.7	(0.3)	(30%)
NPBT	7.8	(5.3)	(13.1)	Nm
NPAT	6.1	(5.8)	(11.9)	Nm
NPAT(adj)	6.1	1.9	(4.2)	(68%)
EPS(cents)	4.41	(4.43)	(8.84)	nm

Developing Strong Chemistry Worldwide

Source: Company data



### Sales Breakdown by Geographic Segments



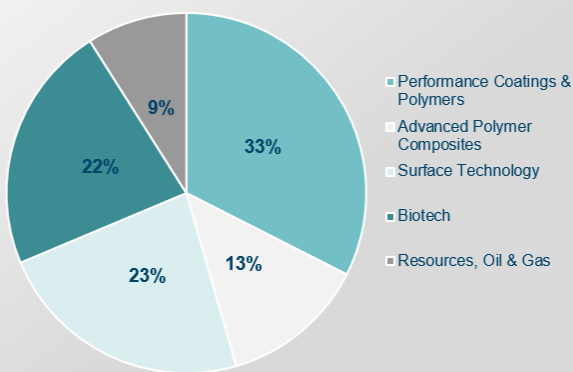
Asia-centric focus.

Developing Strong Chemistry Worldwide

Source: Company data



### Sales Breakdown by Industry Coverage



Diversified Industry Coverage.

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Source: Company data



## Dividend(since IPO)

Dividend	
Total Dividend since IPO (cts/share)	22.5



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Source: Company data

## Income Statement

YE 31 Dec (S\$m)	FY21	FY22	FY23	FY24F	FY25F
<b>Revenue</b>	<b>138.9</b>	<b>143.7</b>	<b>123.0</b>	<b>129.4</b>	<b>141.1</b>
Cost of sales	(104.8)	(109.3)	(100.5)	(98.3)	(105.8)
<b>Gross profit</b>	<b>34.1</b>	<b>34.4</b>	<b>22.5</b>	<b>31.1</b>	<b>35.3</b>
Other income	1.1	1.0	3.8	1.0	1.0
Distribution costs	(17.6)	(17.2)	(21.2)	(18.6)	(19.0)
Administrative expenses	(6.3)	(6.2)	(6.2)	(5.7)	(6.2)
Other operating expenses	(3.0)	(3.9)	(3.4)	(3.2)	(3.4)
Finance costs	(0.8)	(1.4)	(2.0)	(2.0)	(2.0)
Share of profit of associated companies	1.6	1.1	1.2	1.2	1.3
<b>Profit before income tax</b>	<b>9.2</b>	<b>7.8</b>	<b>(5.3)</b>	<b>3.8</b>	<b>6.9</b>
Income tax expense	(1.2)	(1.8)	(0.5)	(0.7)	(1.2)
<b>Net profit</b>	<b>8.0</b>	<b>6.1</b>	<b>(5.8)</b>	<b>3.1</b>	<b>5.7</b>

## Balance Sheet

YE 31 Dec (S\$m)	FY21	FY22	FY23	FY24F	FY25F
Property, plant and equipment	15.2	15.4	14.6	13.6	12.6
Right-of-use assets	2.8	2.6	2.3	1.9	1.5
Investment property	0.1	0.1	0.1	0.1	0.1
Investments in associated companies	8.0	7.9	8.4	8.3	6.7
Finance assets	-	-	1.4	1.4	1.4
Other receivables	-	-	-	-	-
Deferred tax assets	0.6	0.4	0.8	0.0	0.0
<b>Total non-current assets</b>	<b>26.7</b>	<b>26.3</b>	<b>27.6</b>	<b>25.3</b>	<b>22.2</b>
Inventories	36.5	49.3	33.6	37.0	39.5
Trade and other receivables	31.1	27.6	23.7	24.9	27.2
Financial assets at fair value	0.6	0.0	-	-	-
Other current assets	4.5	1.9	1.7	1.7	1.7
Cash and bank balances	11.5	11.9	13.6	14.1	17.1
<b>Total current assets</b>	<b>84.2</b>	<b>90.8</b>	<b>72.6</b>	<b>77.8</b>	<b>85.6</b>
Share capital	15.9	15.9	15.9	15.9	15.9
Other reserves	(4.7)	(6.6)	(7.7)	(6.3)	(6.3)
Retained earnings	46.1	49.3	41.8	42.2	45.3
Minority interests	3.1	3.1	3.2	3.2	3.2
<b>Total equity</b>	<b>60.4</b>	<b>61.7</b>	<b>53.2</b>	<b>55.0</b>	<b>58.0</b>
Borrowings	1.4	0.9	0.4	0.4	0.4
Financial liabilities	2.6	2.4	2.6	2.8	3.0
Deferred tax liabilities	-	0.2	0.4	0.4	0.4
<b>Total non-current liabilities</b>	<b>4.0</b>	<b>3.5</b>	<b>3.5</b>	<b>3.6</b>	<b>3.9</b>
Current income tax liabilities	0.6	0.6	0.1	0.1	0.1
Trade and other payables	18.0	15.3	15.2	16.0	17.4
Borrowings	27.5	35.4	28.1	28.1	28.1
Financial liabilities - lease liabilities	0.4	0.3	0.3	0.3	0.3
Financial liabilities at fair value	0.0	0.1	0.1	0.1	0.1
<b>Total current liabilities</b>	<b>46.5</b>	<b>51.8</b>	<b>43.6</b>	<b>44.4</b>	<b>45.9</b>

## Cash Flow

YE 31 Dec (S\$m)	FY21	FY22	FY23	FY24F	FY25F
Net (loss)/profit pre tax	8.0	7.8	(5.3)	3.8	6.9
Adjustments for:					
Depre of PPE	0.8	0.9	1.0	1.0	1.0
Depre of right-of-use assets	0.4	0.4	0.4	0.4	0.4
Finance costs	(0.0)	1.4	2.0	2.0	2.0
Gain on disposal of shares	-	(0.1)	-	-	-
Gain on disposal of PPE	(0.0)	(0.1)	(0.0)	-	-
Interest income from banks	(1.6)	(0.0)	(0.1)	0.0	(0.0)
Inventory written down	1.2	1.2	8.6	-	-
Loss on PPE written down	(0.1)	-	0.8	-	-
Share of profit of associates	(0.8)	-	(1.2)	(1.2)	(1.3)
Changes in fair value of finan assets	(0.2)	(0.0)	-	-	-
Changes in fair value of finan liab	0.0	0.1	0.1	-	-
<b>Op CF before WC changes</b>	<b>9.3</b>	<b>10.4</b>	<b>6.3</b>	<b>6.0</b>	<b>9.0</b>
Change in op assets and liab					
Trade and other receivables	(6.8)	2.4	3.5	(1.2)	(2.2)
Other current assets	(2.0)	2.6	0.1	(0.7)	(2.0)
Inventories	(11.9)	(15.4)	6.9	(1.9)	(5.0)
Trade and other payables	4.4	(1.7)	0.1	0.8	1.4
Foreign exchanges differences	(0.1)	0.2	0.0	0.0	0.0
<b>Cash from/(used in) ops</b>	<b>(7.1)</b>	<b>(1.5)</b>	<b>16.8</b>	<b>2.9</b>	<b>1.2</b>
Income tax paid	(0.9)	(1.5)	(1.1)	(0.7)	(1.2)
Interest received	0.1	0.0	0.1	0.1	0.1
<b>Net cash from/(used in) op activ</b>	<b>(7.9)</b>	<b>(3.0)</b>	<b>15.8</b>	<b>5.3</b>	<b>1.4</b>
<b>Cash flows from invest</b>					
Divi receiv from assoc	0.6	0.9	0.6	0.6	0.6
Purchase of finan assets	-	-	(1.4)	-	-
Purchase of PPE	(3.4)	(1.7)	(1.2)	-	-
Proceeds from sales of shares	-	0.7	-	-	-
Proceeds from sales of PPE	0.0	0.1	0.0	-	-
<b>Net cash used in invest activ</b>	<b>(2.8)</b>	<b>(0.0)</b>	<b>(1.9)</b>	<b>0.6</b>	<b>0.6</b>
<b>Cash flows from finan activ</b>					
Dividends paid	(2.4)	(2.7)	(1.6)	0.0	2.7
Dividends paid y to MI	-	(0.1)	(0.0)	-	-
Repayments of LT loans	(0.9)	(0.5)	(0.5)	-	-
(Repay)/proceeds from bills	6.7	4.4	(6.4)	-	-
(Repay)/proceeds from ST loans	3.6	3.6	(0.5)	-	-
Lease liabilities paid	(0.5)	(0.5)	(0.6)	-	-
Interest paid	(0.6)	(1.1)	(1.9)	(2.0)	(2.0)
<b>Net cash (used in)/from finan</b>	<b>5.8</b>	<b>3.2</b>	<b>-</b>	<b>(2.0)</b>	<b>0.6</b>
<b>Net cash increase</b>	<b>(4.8)</b>	<b>0.2</b>	<b>2.3</b>	<b>3.9</b>	<b>2.6</b>
Beginning cash	15.9	11.1	10.9	13.0	16.9
Exchange rate effects	0.0	(0.3)	(0.2)	-	5
<b>Ending cash</b>	<b>11.1</b>	<b>10.9</b>	<b>13.0</b>	<b>16.9</b>	<b>19.6</b>

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Nil	Nil

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