

Megachem Limited

Date: 28 February 2023

BUY (Maintained)

BBG	MGCM SP
Market Cap	S\$73.3m
Price (28 February 2023)	S\$0.55
52-week range	S\$0.38-0.56
Target Price	S\$0.62
Shares Outstanding	133.3m
Free Float	15.0%
Major Shareholder	Chew Choon Tee 35.3% Chori Co. Ltd 29.9% Tan Bock Chia 19.1%
P/BV (02/23)	1.3x
Net Debt to EBITDA (02/23)	2.6x

Source: Company data, Bloomberg, SAC Capital

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FY22 revenue reaches all-time high, heightened pressure observed on bottom-line

Megachem recorded lower 2H22 revenue of S\$68.6m, down 6.1% yoy as demand for specialty chemical declined, with companies switching their strategy to destocking of inventory on the back of economic uncertainty.

Revenue Breakdown (S\$m)	2H22	2H21	% change
Distribution	66.6	70.5	(5.5)
Manufacturing	2.0	2.5	(22.5)
Total	68.6	73.0	(6.1)

Source: Company Data, SAC Capital

Revenue for FY22 stood at S\$143.8m, up 3.5% yoy as economies reopened in 1H22.

Revenue Breakdown (S\$m)	FY22	FY21	% change
Distribution	139.8	133.9	4.4
Manufacturing	4.0	5.0	(20.7)
Total	143.8	138.9	3.5

Source: Company Data, SAC Capital

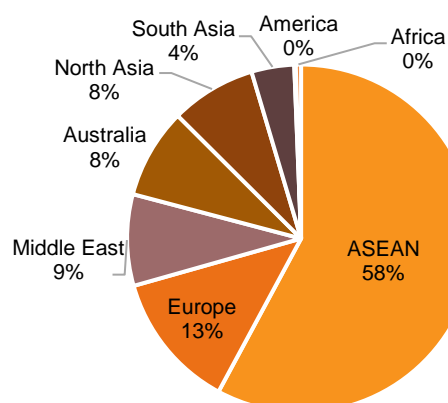
Revenue in 2H22 and FY22 were up 18.1% and 26.3% above pre-pandemic levels respectively as a result of diversification of products and services.

The top-line was mainly bolstered by the ASEAN market, up 8.7% yoy and forming 58% of sales. Middle East and Australia also recorded healthy growth of 35.1% and 10.3% yoy respectively.

Revenue by Geography

Revenue Breakdown (S\$m)	FY22	FY21	% change
ASEAN	83.1	76.4	8.7
Europe	18.3	18.6	(1.2)
Middle East	12.2	9.0	35.1
Australia	12.0	10.9	10.3
North Asia	11.4	17.0	(32.6)
South Asia	5.7	6.4	(10.8)
America	0.2	0.6	(62.6)
Africa	0.7	0.1	NM

Source: Company Data, SAC Capital



Source: Company Data, SAC Capital

2H22 gross profit stood at S\$15.8m, down 10.9% yoy due to the higher costs of raw materials as inflation hiked. Gross profit margin was 23.0%, down 130 bps yoy. Net profit was S\$1.6m, down 61.8% yoy on the back of higher warehouse storage charges, interest rate and stronger US dollar. Net profit margin was 2.3%, down 350 bps yoy.

Profitability	2H22	2H21	% change
Gross Profit (S\$m)	15.8	17.7	(10.9)
Gross Profit Margin (%)	23.0	24.3	(1.3%)
Net Profit (S\$m)	1.6	4.2	(61.8)
Net Profit Margin (%)	2.3	5.8	(3.5%)

Source: Company Data, SAC Capital

The bottom-line for FY22 observed better results, propped up in 1H22. Gross and net profit margins were down 70 and 160 bps yoy respectively.

Profitability	FY22	FY21	% change
Gross Profit (S\$m)	34.4	34.1	0.9
Gross Profit Margin (%)	23.9	24.6	(0.7%)
Net Profit (S\$m)	6.1	8.0	(24.1)
Net Profit Margin (%)	4.2	5.8	(1.6%)

Source: Company Data, SAC Capital

Notwithstanding, we have raised our ASP and volume forecast to 7% growth from 0% and 2% respectively due to key drivers:

- (i) Sticky relationships and higher pricing power
- (ii) Increasing focus on customized solution
- (iii) Shift towards higher margin segments indifferent to economic cycles (eg. Biotech – FY17: 17% of sales, FY22: 22% of sales)
- (iv) Ventures into new industries (eg. Automobiles, Renewables)
- (v) Limited competitors
- (vi) China's reopening

As its products are generally price inelastic, the higher costs can be easily passed on to its customers upon renewal of contracts. Margins should improve in the next 2 years with better cost management and healthier orderbooks.

We note several potential risks to the company, namely economic uncertainty, geopolitical risks, rising interest rates, high inflation and the continued strength of the US dollar.

As such, we estimate FY23E net profit to increase to S\$6.2m, up 2.0% yoy, with FY24E net profit reaching S\$7.9m, up 27.5% yoy. We maintain our BUY rating and upgrade our target price to S\$0.62 from S\$0.58 on the back of stronger operating margins (+13.4% from current S\$0.55).

Year ended Dec (S\$m)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenue	105.2	138.9	143.7	159.0	182.1
% change	-7.5%	32.0%	3.5%	10.7%	14.5%
EBIT	6.9	10.2	9.4	10.0	12.1
% change	11.2%	48.1%	-7.8%	7.1%	20.3%
Net profit	5.3	8.0	6.1	6.2	7.9
% change	32.1%	49.1%	-23.9%	2.0%	27.5%
EPS (cents)	3.9	5.8	4.4	4.2	5.4
% change	33.4%	48.5%	-24.1%	-4.9%	30.4%
DPS (cents)	1.5	2.0	2.0	2.0	2.0
% change	25.0%	33.3%	0.0%	0.0%	0.0%
Net Cash / (Debt)	(3.1)	(17.4)	(24.4)	(16.9)	(11.9)
% change	11.8%	-456.8%	-40.2%	30.8%	29.6%
Valuation					
EBIT Margin (%)	6.5	7.3	6.5	6.3	6.6
% change	20.3%	12.2%	-10.9%	-3.2%	5.1%
P/E (x)	14.1	9.5	12.5	13.2	10.1
% change	-25.0%	-32.6%	31.7%	5.2%	-23.3%
Dividend Yield (%)	2.7	3.6	3.6	3.6	3.6
% change	25.0%	33.3%	0.0%	0.0%	0.0%

Income Statement (\$\$m)

FYE Dec	FY20	FY21	FY22	FY23E	FY24E
Revenue	105.2	138.9	143.7	159.0	182.1
Cost of sales	(78.7)	(103.6)	(108.0)	(118.0)	(134.9)
Gross profit	26.5	34.1	34.4	41.0	47.2
Other income	2.0	1.1	0.9	1.0	1.0
Distribution cost	(14.9)	(17.6)	(17.2)	(20.5)	(23.4)
Administrative expenses	(5.7)	(6.3)	(6.2)	(7.4)	(8.4)
Other expenses	(2.8)	(3.0)	(3.9)	(3.9)	(3.9)
Share of profit of joint venture	1.6	1.6	1.1	1.1	1.1
Finance expenses	(0.7)	(0.8)	(1.4)	(0.4)	(0.4)
Profit before tax	5.9	9.2	7.8	8.1	7.7
Income tax expense	(0.6)	(1.2)	(1.7)	(1.1)	(1.1)
Profit for the year	5.3	8.0	6.1	6.2	7.9
Profit/(loss) attributable to:					
Owners of the Company	5.2	7.8	5.9	5.6	7.3
Non-controlling interests	(0.1)	(0.2)	(0.2)	(0.6)	(0.6)
Basic and diluted earnings per share (\$\$ cents)					
	3.9	5.8	4.4	4.2	5.4

Balance Sheet (\$\$m)

FYE Dec	FY20	FY21	FY22	FY23E	FY24E
Cash and bank balances	16.2	11.5	11.9	19.5	24.5
Financial Assets	0.4	0.6	0.0	0.0	0.0
Trade and Other Receivable	24.2	31.1	27.6	33.1	37.9
Inventories	24.4	36.5	49.3	45.3	44.4
Others	2.5	4.5	1.9	1.9	1.9
Total current assets	67.7	84.2	90.8	99.7	106.2
PPE	12.7	15.2	15.4	16.6	15.7
ROU assets	2.7	2.8	2.6	2.7	2.6
Investment in associate	7.6	8.0	7.9	8.6	9.2
Others	0.6	0.6	0.4	0.4	0.4
Total non-current assets	23.6	26.7	26.3	28.3	28.0
Total assets	91.3	110.9	117.1	128.1	134.3
Bank Borrowings	16.8	27.5	35.4	35.4	35.4
Trade and Other Payables	13.5	18.0	15.3	17.8	20.3
Finance leases	0.2	0.0	0.1	0.1	0.1
Others	0.4	1.0	0.9	4.9	2.8
Total current liabilities	30.9	46.5	51.8	58.2	58.7
Bank Borrowings	2.6	1.4	0.9	0.9	0.9
Others	2.6	2.6	2.6	2.4	2.4
Total non-current liabilities	5.1	4.0	3.5	3.3	3.3
Share capital	15.9	15.9	15.9	15.9	15.9
Reserves	(4.2)	(4.7)	(6.6)	(6.6)	(6.6)
Retained earnings	40.7	46.1	49.3	53.3	58.4
Equity attributable to owners of the Company	52.4	57.3	58.6	62.6	67.7
Non-controlling interests	2.9	3.1	3.3	3.9	4.5
Total equity	55.3	60.4	61.9	66.5	72.2
Total equity and liabilities	91.3	110.9	117.1	128.1	136.7

Cash Flow Statement (\$\$m)

FYE Dec	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	5.9	9.2	7.8	8.1	7.7
Depreciation charges	1.2	1.2	1.4	1.4	1.5
Share of profit of joint ventures	(1.6)	(1.6)	(1.1)	(1.1)	(1.1)
Others	0.6	0.9	1.2	1.1	1.1
Changes in working capital	0.6	(16.3)	(10.8)	1.0	(1.3)
Net Cash (used in)/ from operations	6.1	(7.9)	(3.0)	10.1	8.3
Purchase of PPE	(2.8)	(3.5)	(1.7)	(0.5)	(0.5)
Others	0.4	0.7	1.69	0.0	0.0
Net Cash (used in)/ from investing	(2.4)	(2.8)	(0.01)	(0.5)	(0.5)
Net Increase in Debt	(0.1)	8.8	6.9	0.0	0.0
Dividends paid	(2.1)	(2.4)	(2.7)	(2.2)	(2.7)
Net Cash (used in)/ from financing	(2.8)	5.8	3.2	(2.2)	(2.7)

Ratios

FYE Dec	FY20	FY21	FY22	FY23E	FY24E
Profitability (%)					
Gross profit/(loss) margin	26.4	24.6	23.9	25.8	25.9
Profit/(loss) before tax margin	5.8	6.7	5.4	5.6	6.0
Net margin	5.1	5.8	4.2	3.9	4.3
Liquidity (x)					
Current ratio	2.2	1.8	1.8	1.8	1.8
Quick ratio	1.4	1.0	0.8	1.0	1.1
Interest coverage ratio	9.4	12.6	6.8	9.2	11.1
Net Debt to Equity (%)	5.7	30.0	42.0	25.4	19.8
Valuation (x)					
P/E	14.1	9.5	12.5	13.2	10.1
P/B	1.40	1.28	1.25	1.17	1.08
Returns (%)					
Return on equity	10.4	14.5	10.4	10.2	12.1
Return on asset	6.0	9.3	8.4	8.4	9.5
<u>Dividend payout ratio</u>	39.0	30.2	45.4	35.0	35.0

n.m.: not meaningful

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