

# Megachem Ltd

29 August 2024

## HOLD (Maintained)

<b>BBG</b>	MGCM SP
<b>Market cap</b>	S\$49.2m
<b>Share price</b>	S\$0.37
<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 Choon Tee 35.93% Chori Co Ltd 29.99% Tan Bock Chia 19.08%

<b>P/B (FY23)</b>	1.0x
<b>Net gearing (1H24)</b>	0.3x

Source: Company data, Bloomberg, SAC Capital

## Analyst

Matthias Chan  
[mchan@saccapital.com.sg](mailto:mchan@saccapital.com.sg)

## Stabilising environment

**On more stable footing.** Megachem's macro environment is improving. 1H24 revenue of S\$65.2m rose 7.4% y-y and 4.6% h-h. To recap, 1H23 saw weak demand and the chemicals industry was in an oversupply situation where customers were destocking. Sequentially, 1H24 saw higher demand from almost all markets that Megachem supplies to, notably to Europe where revenue increased by 15.7%. It is interesting to note that 1H24 sales is stronger than pre-Covid levels. 1H19 revenue was S\$55.8m.

**More on the fire.** In total, Megachem has received S\$12.3m in insurance compensation, of which S\$4.4m was paid out in August. To-date, total expenses incurred by Megachem due to the fire amount to S\$15m and Megachem reported the insurer has not completed their assessment.

**Ex-fire, 1H24 results was within expectations.** 1H24 gross profit came in at S\$15.5m, or 49% of our full-year forecast of S\$31.1m. Gross margin came in at 23.8%, close to our forecast of 24%. By geographical breakdown, ASEAN still accounts for the lion's share of 58%.

**Part of the AI future.** Being the basic building block, chemicals are indispensable to the hardware surrounding artificial intelligence. And Megachem is already servicing such needs. In fact, its Surface Technology business accounts for a substantial 21% of total revenue. Besides the AI sector, the Surface Technology business also includes the growing Data Centres and the recovering semi-con and aviation/MRO sectors.

**Green jet fuels getting the attention in Singapore.** Singapore has got strict 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. 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 promising growth.** We lift our FY24 net profit forecast by 2x to S\$6.8m to account for the insurance and kept our FY25 forecast unchanged. We maintain our HOLD rating with a revised price target of S\$39, a 65% discount to its global 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	6.8	5.7
% chg		-24.1%	-195.6%	-217.9%	82.5%
Net margin	5.8%	4.2%	-4.7%	5.3%	4.0%
EPS (S¢)	5.82	4.41	-4.43	5.13	4.27
PER (x)	6.4	8.4	-	7.2	8.7
P/B (x)	0.9	0.8	1.0	0.8	0.8
Dividend (S¢)	2.0	2.0	0.0	1.0	2.0
Dividend yield	5.4%	5.4%	0.0%	2.7%	5.4%



## Impact of fire on Profit & Loss

	H2 2023	H1 2024	To-date
<u>Income:</u>	S\$'000	S\$'000	S\$'000
Insurance claim income	3,149	4,910	8,059
<u>Expenses/loss:</u>			
Inventories written off	(5,919)	-	(5,919)
Property, plant and equipment written off	(811)	-	(811)
Demolition and decontamination costs	(2,320)	(1,031)	(3,351)
Waste disposal costs	(905)	(2,760)	(3,665)
Compensation claims	(805)	-	(805)
Other costs	(127)	(397)	(524)
Total expenses/losses	(10,887)	(4,188)	(15,075)
Net impact before income tax expense	(7,738)	722	(7,016)

Developing Strong Chemistry Worldwide

Source: Company data



## Profit & Loss Highlights

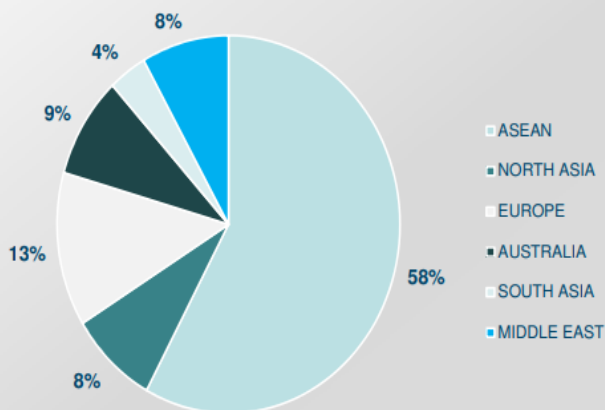
S\$' mil	1H 2023	1H 2024	Var	Var %	
Sales	60.7	65.2	4.5	7.4%	▲
Gross Profit	13.4	15.5	2.1	15.9%	▲
Gross Profit Margin %	22.0%	23.8%	1.8% pts	-	▲
Expenses	13.2	18.7	5.5	42.0%	▲
Expenses(excluding impact of fire)	13.2	14.6	1.4	11.0%	▲
Other Income	0.4	5.4	5.0	>100%	▲
Other income(excluding impact of fire)	0.4	0.5	0.1	12.4%	▲
NPBT	1.3	2.9	1.6	>100%	▲
NPAT	0.9	2.0	1.1	>100%	▲
NPAT(excluding impact of fire)	0.9	1.7	0.8	79.8%	▲

Developing Strong Chemistry Worldwide

Source: Company data



## Sales Breakdown by Geographic Segments



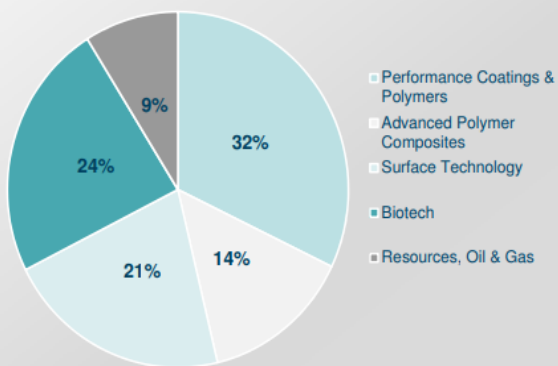
Asia-centric focus.

Developing Strong Chemistry Worldwide

Source: Company data



## Sales Breakdown by Industry Coverage



Diversified Industry Coverage.

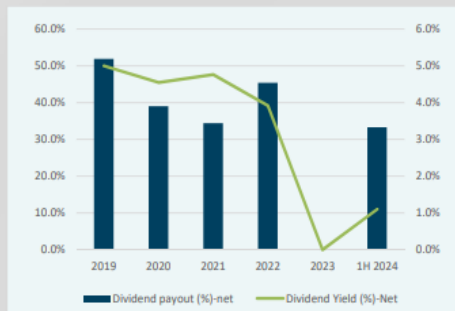
Developing Strong Chemistry Worldwide

Source: Company data



## 1H FY2024 Interim Dividend

1H FY2024	
Interim Dividend (cts/share)	0.5
Dividend Payout	33.3%



\*\* Dividend yield(un-annualized) = 1H FY24 interim dividend per share / price as at 30 June 2024=0.5/47=1.1%.

Developing Strong Chemistry Worldwide

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	5.5	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>8.3</b>	<b>6.9</b>
Income tax expense	(1.2)	(1.8)	(0.5)	(1.4)	(1.2)
<b>Net profit</b>	<b>8.0</b>	<b>6.1</b>	<b>(5.8)</b>	<b>6.8</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	47.3	50.3
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>60.0</b>	<b>63.1</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)	8.3	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>10.5</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>7.4</b>	<b>1.2</b>
Income tax paid	(0.9)	(1.5)	(1.1)	(1.4)	(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>6.1</b>	<b>0.1</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)	-	2.0
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>2.6</b>
<b>Cash flows from finan activ</b>					
Dividends paid	(2.4)	(2.7)	(1.6)	1.3	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>(0.7)</b>	<b>0.6</b>
<b>Net cash increase</b>	<b>(4.8)</b>	<b>0.2</b>	<b>2.3</b>	<b>6.0</b>	<b>3.4</b>
Beginning cash	15.9	11.1	10.9	13.0	19.0
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>19.0</b>	<b>22.4</b>

## DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited (“**SAC Capital**”) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation, we have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.

SAC Capital and its associates, directors, and/or employees may have positions in the securities covered in the report and may also perform or seek to perform other corporate finance and/or capital markets related services for the company whose securities are covered in the report. SAC Capital and its related companies may from time to time perform advisory services or solicit such advisory services from the entity mentioned in this report (“**Other Services**”). This report is therefore classified as a non-independent report. However, the research professionals involved in the preparation of this report are independent of those possible or actual business relationships as they have not and will not participate in the solicitation or provision of such business.

As at the date of this report, SAC Capital does not have proprietary positions or interests in the subject company, except for:

Party	Quantum of position
Nil	Nil

For services rendered in the production and distribution of this Research report, SAC Capital will receive monetary compensation payable by the subject company. The quantum of which was pre-determined prior to the writing and publication of the report and is not dependent on or affected by the recommendation made herein. The future performance of the security will not have a bearing on compensation payable for the purpose of the production of this report.

As at the date of this report, SAC Capital, has had business relations with the subject company within the past 12 months, as disclosed hereunder:

<b>Nature of Business Relation</b>	<b>Date of Business Relation</b>
Continuing Sponsorship	Ongoing relation

As at the date of this report, none of the analysts who covered the securities in this report have any proprietary position or material interest in the subject companies covered here in, except for:

<b>Analyst name</b>	<b>Quantum of position</b>
Nil	Nil

#### **ANALYST CERTIFICATION/REGULATION AC**

As noted above, research analyst(s) of SAC Capital who produced this report hereby certify that

- (i) The views expressed in this report accurately reflect his/her personal views about the subject corporation(s);
- (ii) The report was produced independently by him/her;
- (iii) He/she does not on behalf of SAC Capital or any other person carry out Other Services involving any of the subject corporation(s) or securities referred to in this report; and
- (iv) He/she has not received and will not receive any compensation directly or indirectly related to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. He/she has not and will not receive any compensation directly or indirectly linked to the performance of the securities of the subject corporation(s) from the time of the publication of this report either.