Megachem Ltd

3 March 2025

HOLD (Maintained)

BBG	MGCM SP
Market cap	S$52.0m
Share price	S$0.39
52-week range	S$0.39.3 – S$0.49
Shares Outstanding	133.3m
Free Float	14.9%
Major Shareholder	Chew Choon Tee 35.93% Chori Co Ltd 29.99% Tan Bock Chia 19.08%

P/B (FY24)	0.9xx
Net gearing (FY24)	0.3x

Source: Company data, Bloomberg, SAC Capital

Analyst

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Normalcy returning

On stable ground. Megachem's macro environment is stabilising. 2H24 revenue was similar y-y and h-h at S$62.3m. To recap, 2H23 continued the situation in 1H23 where we saw weak demand and the chemicals industry was in an oversupply situation where customers were destocking.

Tail-end of the fire incident. In total, Megachem has received S$12.5m. To-date, total expenses incurred by Megachem due to the fire amount to S$15.3m. Going forward, there will be little financial impact from the fire.

Ex-fire, FY24 profitability was higher y-y and within expectations. Stripping out the impact of the fire, FY24 gross profit came in at S$31.2m or 39% higher y-y. Gross margin came in at a pre-fire level of 24.5%, 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.

Improving operating metrics against an uncertain environment. We are heartened at the sales resilience and normalized margins. And with dividends at S¢1/share in FY24, the company has taken the first step to returning to pre-fire dividends of S¢2/share which we forecast in FY26. We maintain our HOLD rating and price target of S¢39.

Year End 31 Dec (S$m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	143.7	123.0	128.8	135.3	142.0
% chg		*-14.4%*	*4.7%*	*5.0%*	*5.0%*
Gross profit	34.4	22.5	31.2	32.5	34.1
% chg		*-34.6%*	*38.8%*	*4.0%*	*5.0%*
Gross margin	23.9%	18.3%	24.2%	24.0%	24.0%
Net profit	6.1	(5.8)	7.9	4.6	5.1
% chg		*-195.6%*	*-236.4%*	*-41.9%*	*9.9%*
Net margin	4.2%	-4.7%	6.1%	3.4%	3.6%
EPS (S¢)	4.41	-4.43	5.94	3.45	3.79
PER (x)	8.8	-	6.6	11.3	10.3
P/B (x)	0.9	1.0	0.9	0.8	0.8
Dividend (S¢)	2.0	0.0	1.0	1.5	2.0
Dividend yield	5.1%	0.0%	2.6%	3.8%	5.1%

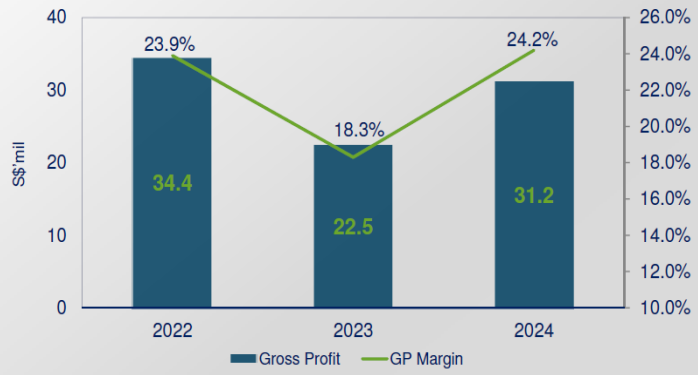
Profit & Loss Highlights

S$'mil	2H 2023	2H 2024	Var	Var %	
Sales	62.3	63.7	1.4	2.2%	▲
Gross Profit	9.1	15.7	6.6	72.2%	▲
Gross Profit(excluding impact of fire)	15.1	15.9	0.8	5.3%	▲
Gross Profit Margin %	14.7%	24.7%	10.0% pts	-	▲
Gross Profit Margin %(excluding impact of fire)	24.2%	25.0%	0.8% pts	-	▲
Expenses	19.6	15.7	(3.9)	(19.9%)	▼
Expenses(excluding impact of fire)	14.6	15.7	1.1	7.5%	▲
Other income	3.3	5.3	1.9	57.7%	▲
Other income(excluding impact of fire)	0.2	0.9	0.7	>100%	▲
NPBT	(6.6)	5.8	12.4	nm	▲
NPAT	(6.7)	5.9	12.6	nm	▲
NPAT(excluding impact of fire)	1.0	1.3	0.3	29.3%	▲

Developing Strong Chemistry Worldwide

Source: Company data

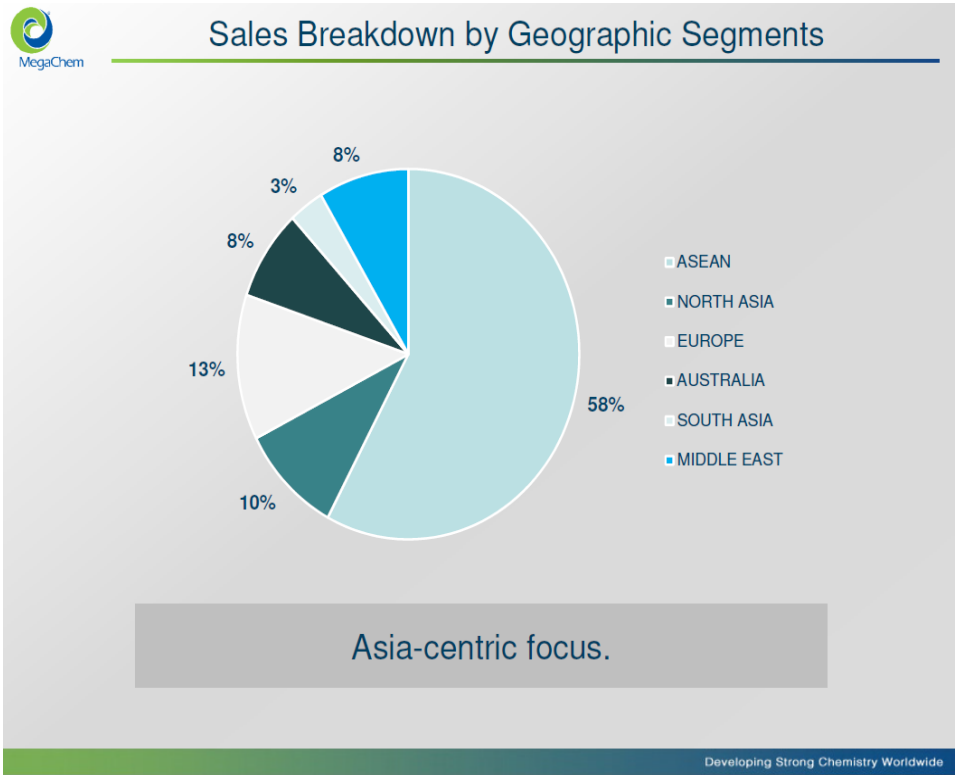
Gross Profit



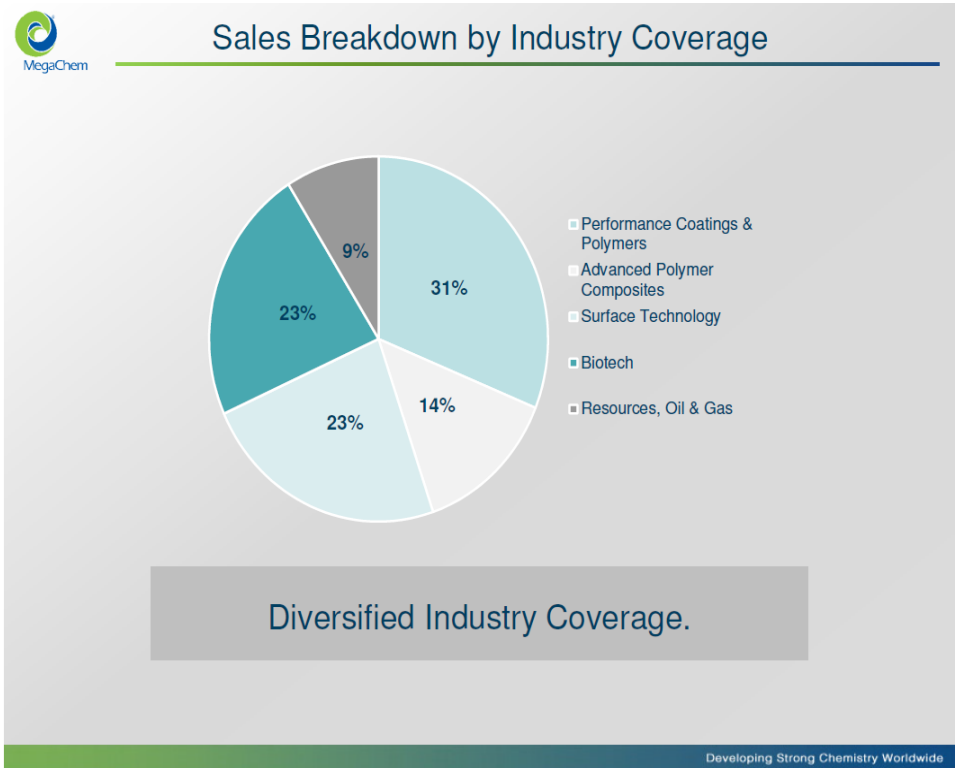
- Gross profit and margin decreased in 2023 due mainly to write-off of inventory destroyed in the fire
- Excluding the write-off of inventory(approximately S$5.9 mil) due to the fire in 2023, GP and GP margin in 2024 would be S$3 mil and 1.4% pts higher respectively.
- GP margin recovered to normal level of about 24% in 2024.

Developing Strong Chemistry Worldwide

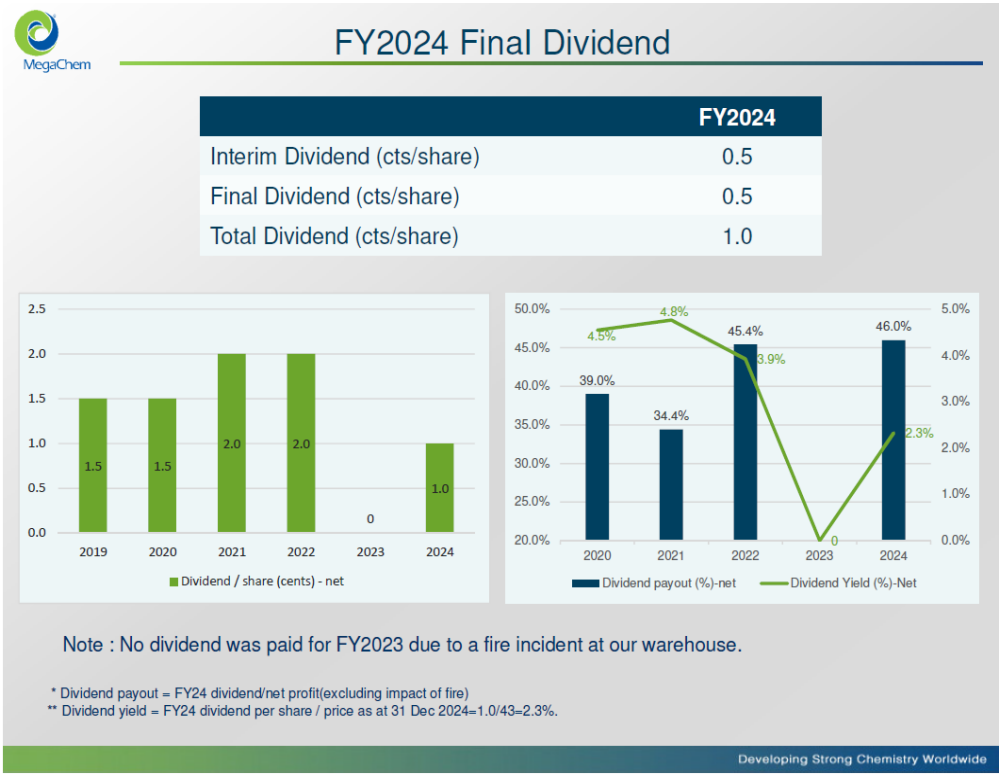
Source: Company data



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Source: Company data



Source: Company data

SAC CAPITAL

Income Statement

YE 31 Dec (S$m)	FY22	FY23	FY24	FY25F	FY26F
Revenue	**143.7**	**123.0**	**128.8**	**135.3**	**142.0**
Cost of sales	(109.3)	(100.5)	(97.6)	(102.8)	(108.0)
Gross profit	**34.4**	**22.5**	**31.2**	**32.5**	**34.1**
Other income	1.0	3.8	10.7	0.0	0.0
Distribution costs	(17.2)	(21.2)	(22.2)	(16.2)	(17.0)
Administrative expenses	(6.2)	(6.2)	(6.4)	(5.8)	(6.1)
Other operating expenses	(3.9)	(3.4)	(3.9)	(3.9)	(3.9)
Finance costs	(1.4)	(2.0)	(1.9)	(1.9)	(1.9)
Share of profit of associated companies	1.1	1.2	1.2	1.3	1.3
Profit before income tax	**7.8**	**(5.3)**	**8.7**	**5.9**	**6.5**
Income tax expense	(1.8)	(0.5)	(0.8)	(1.3)	(1.5)
Net profit	**6.1**	**(5.8)**	**7.9**	**4.6**	**5.1**

Balance Sheet

YE 31 Dec (S$m)	FY22	FY23	FY24	FY25F	FY26F
Property, plant and equipment	15.4	14.6	16.8	15.8	14.8
Right-of-use assets	2.6	2.3	2.3	2.0	1.6
Investment property	0.1	0.1	0.1	0.1	0.1
Investments in associated companies	7.9	8.4	9.4	7.8	6.2
Finance assets		1.4	1.4	1.4	1.4
Other receivables	-	-	-	-	-
Deferred tax assets	0.4	0.8	0.9	0.0	0.0
Total non-current assets	**26.3**	**27.6**	**30.9**	**27.0**	**24.0**
Inventories	49.3	33.6	31.7	35.3	38.1
Trade and other receivables	27.6	23.7	23.3	24.4	25.7
Financial assets at fair value	0.0	-	-	-	-
Other current assets	1.9	1.7	2.6	2.6	2.6
Cash and bank balances	11.9	13.6	16.0	18.6	21.0
Total current assets	**90.8**	**72.6**	**73.6**	**81.0**	**87.3**
Share capital	15.9	15.9	15.9	15.9	15.9
Other reserves	(6.6)	(7.7)	(6.3)	(6.3)	(6.3)
Retained earnings	49.3	41.8	48.9	51.5	53.9
Minority interests	3.1	3.2	1.9	1.9	1.9
Total equity	**61.7**	**53.2**	**60.5**	**63.1**	**65.5**
Borrowings	0.9	0.4	0.0	0.0	0.0
Financial liabilities	2.4	2.6	2.7	2.9	3.0
Deferred tax liabilities	0.2	0.4	0.5	0.5	0.5
Total non-current liabilities	**3.5**	**3.5**	**3.2**	**3.3**	**3.5**
Current income tax liabilities	0.6	0.1	0.3	0.3	0.3
Trade and other payables	15.3	15.2	14.9	15.7	16.5
Borrowings	35.4	28.1	25.2	25.2	25.2
Financial liabilities - lease liabilities	0.3	0.3	0.4	0.4	0.4
Financial liabilities at fair value	0.1	0.1	0.0	0.0	0.0
Total current liabilities	**51.8**	**43.6**	**40.8**	**41.6**	**42.4**

Cash Flow

YE 31 Dec (S$m)	FY22	FY23	FY24	FY25F	FY26F
Net (loss)/profit pre tax	7.8	(5.3)	8.7	5.9	6.5
Adjustments for:					
Depre of PPE	0.9	1.0	1.0	1.0	1.0
Depre of right-of-use assets	0.4	0.4	0.3	0.4	0.4
Finance costs	1.4	2.0	1.9	1.9	1.9
Gain on disposal of shares	(0.1)	-	-	-	-
Gain on disposal of PPE	(0.1)	(0.0)	(0.6)	-	-
Interest income from banks	(0.0)	(0.1)	(0.1)	0.0	(0.0)
Inventory written down	1.2	8.6	1.7	-	-
Loss on PPE written down	-	0.8	-	-	-
Share of profit of associates	-	(1.2)	(1.2)	(1.3)	(1.3)
Changes in fair value of finan assets	(0.0)	-	(0.0)	-	-
Changes in fair value of finan liab	0.1	0.1	0.0	-	-
Op CF before WC changes	**10.4**	**6.3**	**11.6**	**8.0**	**8.5**
Change in op assets and liab					
Trade and other receivables	2.4	3.5	0.7	-	-
Other current assets	2.6	0.1	(0.9)	-	-
Inventories	(15.4)	6.9	0.4	-	-
Trade and other payables	(1.7)	0.1	(0.3)	0.7	0.8
Foreign exchanges differences	0.2	0.0	0.1	-	-
Cash from/(used in) ops	**(1.5)**	**16.8**	**11.5**	**8.8**	**9.3**
Income tax paid	(1.5)	(1.1)	0.0	(1.3)	(1.5)
Interest received	0.0	0.1	0.0	0.0	0.0
Net cash from/(used in) op activ	**(3.0)**	**15.8**	**11.5**	**7.4**	**7.8**
Cash flows from invest					
Divi receiv from assoc	0.9	0.6	0.5	0.5	0.5
Purchase of finan assets	-	(1.4)	(1.2)	(1.2)	(1.4)
Purchase of PPE	(1.7)	(1.2)	-	-	-
Proceeds from sales of shares	0.7	-	(2.7)	-	-
Proceeds from sales of PPE	0.1	0.0	0.9	-	-
Net cash used in invest activ	**(0.0)**	**(1.9)**	**(2.4)**	**(0.7)**	**(0.9)**
Cash flows from finan activ					
Dividends paid	(2.7)	(1.6)	(0.7)	(2.0)	(2.7)
Dividends paid y to MI	(0.1)	(0.0)	(0.3)	-	-
Repayments of LT loans	(0.5)	(0.5)	(0.5)	-	-
(Repay)/proceeds from bills	4.4	(6.4)	1.9	-	-
(Repay)/proceeds from ST loans	3.6	(0.5)	(4.7)	-	-
Lease liabilities paid	(0.5)	(0.6)	(0.5)	-	-
Interest paid	(1.1)	(1.9)	(1.8)	(1.9)	(1.9)
Net cash (used in)/from finan	**3.2**	**-**	**(6.5)**	**(3.9)**	**(4.6)**
Net cash increase	**0.2**	**2.3**	**2.6**	**2.9**	**2.4**
Beginning cash	11.1	10.9	13.0	15.8	18.6
Exchange rate effects	(0.3)	(0.2)	0.1	-	-
Ending cash	**10.9**	**13.0**	**15.8**	**18.6**	**21.0**

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