

## Mega Fortris Berhad

### Sealing The Path Towards A Mega Fortress

- **Mega Fortris Berhad primarily involved in the manufacturing and distribution of security seals and related products, serving wide range of industries, including agriculture, F&B, gaming & hospitality, manufacturing, logistics, retail, and petrochemical etc.**
- **We project a 3-year earnings CAGR of 16.7%, with core PAT anticipated to reach RM23.2-RM30.3m over the next three years. This growth is underpinned by (i) a global trade expansion driven by e-commerce and economic growth, (iii) its expansion plans in the UK, and (ii) the new business venture in Macao.**
- **We assign a fair value of RM0.85 per share for Mega Fortris, indicating a 26.9% upside from the IPO price of RM0.67. This valuation is based on an EV/EBITDA ratio of 14x.**

### Investment highlights

**Strong market position with no concentration risk.** With over 28 years of experience, Mega Fortris has firmly established itself as a leading player in the security seal industry, offering a diverse product range that includes security seals, security bags and security boxes tailored for casinos. The company serves customers across 120 countries in various industries, effectively mitigating concentration risks related to (i) customers, (ii) industries, and (iii) geographical markets.

**UK expansion boosts sales in Europe.** With RM42.98m IPO proceeds allocated for a new factory in the UK, Mega Fortris aims to enhance lead times and delivery of seals across Europe, regaining momentum that declined since FY2022 due to the pandemic. The new factory is expected to achieve an annual production capacity of c.200 million security seals, driving stronger sales volumes for the company.

**Increasing footprint in the gaming industry through Macao business venture.** Mega Fortris is expanding its presence in the gaming industry by transitioning from manufacturing security boxes and seals, providing a comprehensive end-to-end solution for casino playing cards, which includes (i) manufacturing playing cards and card separators, (ii) pre-shuffling cards and placing them into security boxes, (iii) delivering sealed security boxes to casinos, (iv) maintaining a tracking software system for the security boxes, and (v) disposing of used playing cards. With a strong partnership with 39 casino operators in the region and a growing number of tourists visiting Macao, the new venture, supported by an allocation of RM45.0m, is expected to increase the company's revenue share from the gaming industry, surpassing the current 6.3% of total revenue.

**Highest revenue in the Malaysia security seals industry.** According to the Vital Factor Consulting IMR report and based on the latest available data, Mega Fortris leads the security seals sector in Malaysia with the highest revenue at RM166.7m, followed by Envotech Network (RM18.5m) and Wesglow Industries (RM17.6m). With a strong global presence serving customers across 120 countries, the group is positioned as one of the leading players in its industry.

**Increasing global demand for tamper-evident solutions.** According to Statistics MRC, the global security seals market is projected to grow from USD1.20bn in 2023 to USD2.24bn by 2030, reflecting a CAGR of 9.3%. As regulatory requirements for security seals tighten globally, businesses across various industries are increasingly adopting tamper-evident packaging solutions to safeguard their products against tampering, theft and contamination.

IPO Note – Not rated

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### Non-Rated

Share price	RM0.67
Target price	RM0.85
Previous TP	-
Capital upside	26.9%
Dividend return	1.3%
Total return	28.2%

### Company profile

Started since 1995, Mega Fortris Berhad specialises in the design, manufacture and supply of high-quality security seals, and also supply of load securement products and other related products and services.

### Stock information

Bursa Code	5327
Bloomberg ticker	MEGAFB MK
Listing market	MAIN
Share issued (m)	147.9
Market Cap (m)	566.1
Shariah compliant	NO

### Major shareholders

	%
Mega Fortris Global	65.0

### Earnings snapshot

FYE (Dec)	FY24	FY25f	FY26f
PATMI (m)	19.0	23.2	25.7
EPS (sen)	2.25	2.74	3.04
P/E (x)	29.7	24.4	22.0

### Timetable of IPO

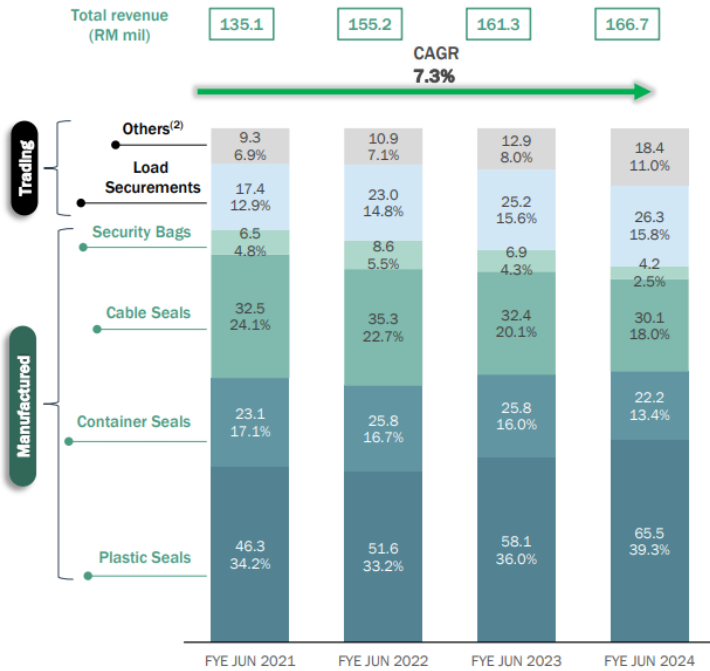
Opening of application	21 October
Closing of application	28 October
Balloting of application	30 October
Allotment of the IPO shares	7 November
Listing on the ACE market	11 November



## Company background

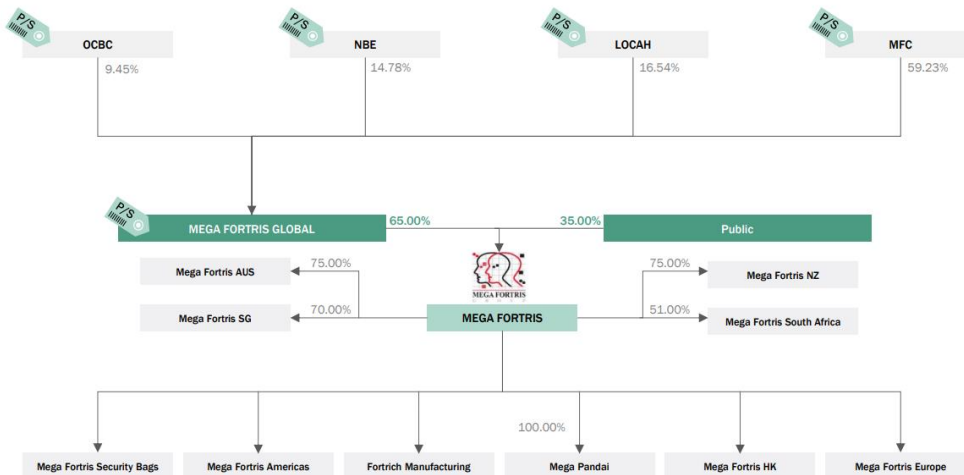
Mega Fortris Berhad specializes in the design, manufacturing, and supply of high-quality security seals, trading of load securement products and also other related products and services. With over 28 years of experience, the company has established an extensive global footprint, operating with offices across 12 countries and serving customers over 120 countries. Mega Fortris offers a diverse range of products, including (i) in-house designed and manufactured security seals, (ii) trading of load securement products, and also (iii) other customized security products for various industries, positioning itself as a key player in the global security solutions market.

**Fig #1 Revenue contribution of each segment**



Source: Mega Fortris Berhad

**Fig #2 Post-IPO shareholding structure**

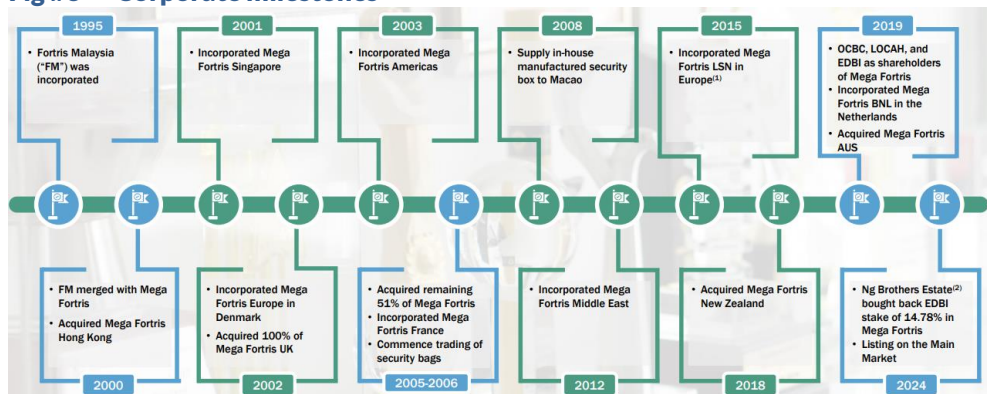


Source: Mega Fortris Berhad



Friday, 25 Oct, 2024

**Fig #3 Corporate milestones**



Source: Mega Fortris Berhad

**Fig #4 Utilisation of proceeds**

Use of proceeds	RM'm	%	Estimated time frame
New Business Venture in Macao	45.0m	45.4	Within 36 months
Establishment of new UK Factory	43.0m	43.4	Within 36 months
Defray listing expenses	11.1m	11.2	Immediate
<b>Total</b>	<b>99.1m</b>	<b>100.00</b>	

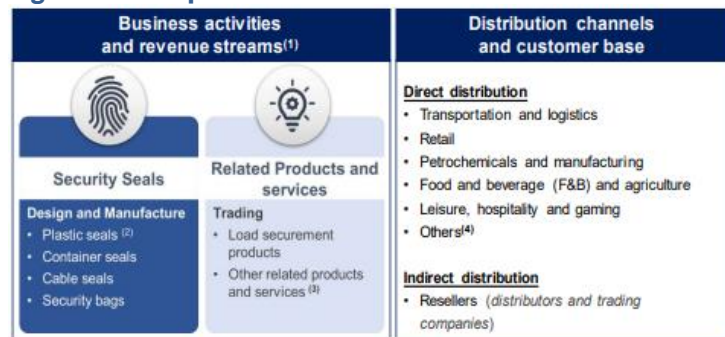
Source: Mega Fortris Berhad

## Business overview

**In-house design and manufacturing (73.2% of FY24 revenue).** The group designs and manufactures security seals to prevent tampering and unauthorized access, ensuring the integrity of goods during transportation and storage. Their product range includes (i) plastic seals, (ii) container seals, (iii) cable seals, and (iv) security bags. The group has in-house capabilities for end-to-end design and manufacturing, including market needs assessment, product conceptualization, prototyping using 3D printing and full-scale production. It also complies with ISO 17712 standards for various security classes, ensuring adherence to stringent design requirements that enhance tamper-evidence and seal strength.

**Trading and related services (26.8% of FY24 revenue).** The group engages in trading activities that enhance its product offerings by providing load securement products, including (i) dunnage bags, (ii) polyester cord strapping and (iii) lashing systems, essential for securing cargo during transportation. The company also trades related products such as (i) security tapes, (ii) labels, (iii) security boxes, (iv) TITO tickets and (v) UV casino scanners. Also, Mega Fortris distributes the Mega Casino Management System, a software solution that enables casino operators to track and monitor the movement and status of playing card security boxes throughout the supply chain.

**Fig #5 Principal business activities and industries served**



Source: Mega Fortris Berhad



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## Financials

**Revenue highlights.** The group reported a 3.35% YoY increase in revenue, growing from RM161.3m in FY23 to RM166.7m in FY24. This growth was primarily driven by the trading and related services segment, which saw a significant increase from RM38.1m in FY23 to RM44.7m in FY24, reflecting a 17.4% YoY growth. Notably, both GP margin and EBITDA were the highest in FY24, indicating improved operational performance for the group over the years.

**Earnings forecasts.** Moving forward, we project a 3-year earnings CAGR of 16.7%, with core PATMI expected to reach RM23.2m, RM25.7m, and RM30.3m over the next three years, largely supported by (i) global trade expansion after the Covid-19 period, which has led to an increasing demand for tamper-evident solutions, (ii) its new factory in the UK to increase delivery and market share in Europe, and (iii) new business venture in Macao to further expand the company's revenue.

**Fig #6 Financial Highlights**

FYE Jun (RM m)	FY23	FY24	FY25f	FY26f	FY27f
Revenue	161.3	166.7	186.6	218.4	261.2
EBITDA	32.6	38.5	47.0	54.0	63.6
EBIT	23.5	29.8	36.0	39.7	46.8
PBT	19.7	25.2	31.3	34.8	40.9
PAT	14.1	19.6	23.8	26.4	31.1
PATMI – Core	12.5	19.0	23.2	25.7	30.3
% change YoY – Core PATMI	184.5%	52.3%	21.8%	10.9%	17.8%
Core EPS (sen)	1.48	2.25	2.74	3.04	3.58
P/E (x)	45.3	29.7	24.4	22.0	18.7
EV/EBITDA (x)	16.9	14.3	11.8	10.2	8.7
DPS (sen)	0.4	0.2	0.8	0.9	1.1
Yield (%)	0.5%	0.2%	1.2%	1.4%	1.6%
BVPS (RM/share)	0.09	0.12	0.46	0.28	0.30
P/B (x)	5.4	4.5	2.4	2.2	2.0
ROE (%)	13.9%	16.6%	12.8%	10.5%	11.4%
Net Gearing (%)	0.24	0.35	CASH	CASH	0.06

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## Valuations

As there are no direct peers in this industry listed on the Bursa exchange, we can only compare Mega Fortris Berhad to Abric Berhad, a company with a similar business segment, which was delisted in 2017 after its subsidiary was acquired by Essentra Plc in 2014 for RM146m. At the time, Abric Berhad's net profit and EBITDA stood at RM1.8m and RM10.4m, respectively, translating to a P/E ratio of 70x and an EV/EBITDA of 14x.

Based on this comparison, **we assign a fair value of RM0.85 to Mega Fortris Berhad, representing an upside potential of 26.9% from its IPO price of RM0.67.** This valuation is derived from applying an EV/EBITDA multiple of 14x to our projected mid-FY26 EBITDA of RM50.5m. We believe this multiple is justified, given that Mega Fortris demonstrates stronger financial metrics, with a profit margin of 11.4% (FY24) and a lower gearing ratio of 0.34x, compared to Abric Berhad's profit margin of 1.7% and gearing ratio of 0.62x.



## Investment risks

**Exposed to potential damaged brand reputation and products imitation.** As a recognized specialist in security seals across 120 countries, any issues such as product defects, negative publicity or challenges in maintaining product quality could erode customer trust and brand equity for Mega Fortris.

**Exposed to unfavourable foreign exchange risks.** With over 75% of its revenue derived from foreign operations, fluctuations in exchange rates could adversely affect the group's financial performance, especially when the group has no hedging instruments in place to mitigate this risk.

**Risks associated with rising sea freight rates and potential disruptions.** Mega Fortris relies heavily on sea freight for sourcing raw materials and delivering products to foreign subsidiaries; any delays caused by adverse weather, political turmoil or port congestion could prolong replenishment times and hinder product delivery

**Risks associated with non-renewal of certifications.** A number of the group's products must meet ISO 17712:2013 and ISO 9001:2015 standards; any failure to uphold these certifications could prevent the group from fulfilling customer requirements.

## Disclaimer

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## Stock recommendation guide

<b>BUY</b>	The share price is expected to appreciate more than 10% over the next 12 months
<b>HOLD</b>	The stock price is expected to range between -10% and +10% over the next 12 months
<b>SELL</b>	The share price is expected to fall more than 10% over the next 12 months
<b>TRADING BUY</b>	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
<b>TRADING SELL</b>	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
<b>NOT RATED</b>	No recommendation is assigned

