

**DISCOUNTED CASH FLOW VALUATION OF  
MEGA LIFESCIENCES PUBLIC COMPANY LIMITED**

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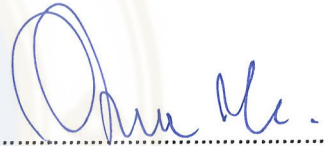
**A THEMATIC PAPER SUBMITTED  
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**DISCOUNTED CASH FLOW VALUATION OF  
MEGA LIFESCIENCES PUBLIC COMPANY LIMITED**

was submitted to the College of Management, Mahidol University for the degree of  
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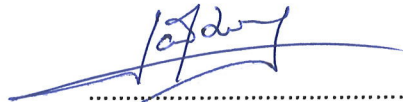
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Kittipas Teeyahirunwattana

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MEGA LIFESCIENCES PUBLIC COMPANY LIMITED**

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THEMATIC PAPER ADVISORY COMMITTEE: PROF. ROY KOUWENBERG,  
Ph.D., ASST. PROF. SIMON ZABY, Ph.D., EAKAPAT MANITKAJORNKIT, Ph.D.**ABSTRACT**

This thematic paper aims to estimate the intrinsic value of Mega Lifesciences Public Company Limited (MEGA) by using discounted cash flow valuation method (FCFF). The estimated share value should reflect the company's fundamentals, expected future performance and the risk. MEGA is operating in developing countries or emerging markets, and the nominal GDP growth of these countries are relatively high. Moreover, the awareness of health concern due to covid-19 and aging population trends are another factor that will lead to high demand for dietary supplement products as the company's sales is directly related to disposable income and health concerns based on historical information. The target price of MEGA based on a five-year forecast was estimated to be 81.23 baht per share with an upside of 121.04% when compared to the market price 36.75 baht per share on July 11th, 2024. Accordingly, we recommend to BUY the shares of MEGA.

As a limitation, the DCF approach still has several drawbacks even if the valuation result shows the company's high underlying value, because it depends on several assumptions about unknown future growth and risks. As a result, the valuation estimate needs to be assessed carefully and critically.

**KEY WORDS: SET-MEGA / DIETARY SUPPLEMENT/ PHARMACEUTICAL/  
VALUATION/ DISCOUNT CASH FLOWS**

65 Pages

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# CHAPTER I

## INTRODUCTION

### 1.1 Company Introduction

Mega Lifesciences is a leading manufacturer and distributor of consumer healthcare, nutraceutical, and pharmaceutical products. Established in 1982, the corporation has its headquarters located in Bangkok, Thailand. Its operations span over 30 countries, with a notable emphasis on Southeast Asia, Africa, and Latin America. The business segments of the company are as follows: Branded Products under the "Mega We Care" brand; OEM services; and Distribution Services under the "Maxxcare" brand throughout Indochina, which includes Myanmar, Vietnam, and Cambodia. Mega Lifesciences is known for its focus on emerging markets, particularly in Asia and Africa. The company's strong distribution network and deep understanding of these markets have allowed it to establish a significant market presence.

The company is listed for public trading under the ticker symbol "MEGA" on the Stock Exchange of Thailand with a market capitalization of 32,041 million baht (as of 11 July 2024)

### 1.2 Recent Development of MEGA

MEGA Lifesciences, a company listed on the Stock Exchange of Thailand (SET) under the ticker symbol MEGA, has recently reported significant developments. In their Q1 2024 financial results, the company showed a strong performance, reflecting their continuous growth in the pharmaceutical and health supplements sectors.

The company's stock has also seen positive movement, with a recent increase in share price, driven by strong sales and expansion efforts in key markets. MEGA

continues to focus on sustainable growth, emphasizing their commitment to delivering health and well-being through their products.

In December 2022, MEGA has acquired PT Futamed Pharmaceuticals, an Indonesian company as part of MEGA's strategy to expand its presence in Southeast Asia, particularly in Indonesia, where the pharmaceutical market has been growing steadily. The acquisition of PT Futamed Pharmaceuticals allowed MEGA to strengthen its portfolio in the prescription drug market, complementing its existing business in over-the-counter medicines and health supplements. This move was aimed at leveraging PT Futamed's established distribution network and local market knowledge to enhance MEGA's growth in the region.

According to our earnings forecast, total income will have a compound growth rate of 4.06% between 2024E and 2028E. The gross profit margin is around 45.79% to 46.42%, higher due to the expansion expectation of a higher margin business segment, which is brand products. The SG&A is approximately 26.57% of sales. EBIT and net profit have been constantly growing following an increase in revenue and a better margin, as shown in **Table 1.1 MEGA's Income Statement Forecast**.

**Table 1.1 MEGA's Income Statement Forecast**

<i>*Year End 31 December</i>	2566	2567	2568	2569	2570	2571
<i>(Unit: Million Baht)</i>	2023	2024E	2025E	2026E	2027E	2028E
<b>Income</b>						
Revenue from sales of goods and rendering services	15,681.17	16,226.08	16,902.13	17,610.68	18,353.43	19,132.14
Investment Income	60.69	60.69	60.69	60.69	60.69	60.69
Other income	34.41	34.41	34.41	34.41	34.41	34.41
<b>Total Income</b>	<b>15,776.27</b>	<b>16,321.18</b>	<b>16,997.23</b>	<b>17,705.78</b>	<b>18,448.53</b>	<b>19,227.25</b>
Cost of sales of goods and rendering of services	8,585.80	8,848.30	9,187.24	9,542.00	9,913.41	10,302.33
<b>Gross Profit</b>	<b>7,190.48</b>	<b>7,472.88</b>	<b>7,809.99</b>	<b>8,163.79</b>	<b>8,535.13</b>	<b>8,924.92</b>
SG&A	4,191.05	4,335.81	4,515.40	4,703.63	4,900.95	5,107.82
Selling expenses	2,539.30	2,627.00	2,735.82	2,849.87	2,969.42	3,094.75
Administrative expenses	1,651.75	1,708.80	1,779.58	1,853.77	1,931.53	2,013.06

Net foreign exchange gain	0.00	0.00	0.00	0.00	0.00	0.00
Net foreign exchange loss	706.57	706.57	481.41	320.94	213.96	142.64
Share of profit of JV (Equity Method)	0.07	0.07	0.07	0.07	0.07	0.07
<b>EBIT</b>	<b>2,292.93</b>	<b>2,430.57</b>	<b>2,813.25</b>	<b>3,139.28</b>	<b>3,420.29</b>	<b>3,674.53</b>
Finance costs	31.25	31.25	31.25	31.25	31.25	31.25
<b>EBT</b>	<b>2,261.67</b>	<b>2,399.32</b>	<b>2,782.00</b>	<b>3,108.03</b>	<b>3,389.04</b>	<b>3,643.28</b>
Tax Expense	269.06	337.52	391.35	437.21	476.74	512.51
<b>Profit for the year</b>	<b>1,992.62</b>	<b>2,061.81</b>	<b>2,390.65</b>	<b>2,670.82</b>	<b>2,912.30</b>	<b>3,130.77</b>

% changes      -11.05%      3.47%      15.95%      11.72%      9.04%      7.50%

### 1.3 Valuation Result and Investment Recommendations

Our analysis leads us to recommend a strong BUY for the stock, with a target price of 81.23 baht per share, representing a potential upside of 121.04%. On July 11th, 2024, the stock price was 36.75 baht less than our anticipated intrinsic value. This indicates that the stock is now trading below its future cash flow-based intrinsic value. Please note that it is quite sensitive to the cost of equity assumption. (Refer to **Table 1.2 MEGA's Target Share Price (DCF Method)**)

**Table 1.2 MEGA's Target Share Price (DCF Method)**

Share Price (as of 11-July-24)	Bt 36.75
Target Share Price	Bt 81.23
Up Side (Down Side)	+121.04%

## **CHAPTER II**

### **COMPANY DESCRIPTION**

#### **2.1 Business Lines**

Mega Lifesciences Public Company Limited (MEGA), a global healthcare corporation, headquartered in Bangkok, Thailand. Established as Vikas Co., Ltd. in 1982 by Vivek Dhawan. The company name was officially changed to "MEGA Life Science Co., Ltd in 2015 and Listed on the Stock Exchange of Thailand (SET) in 2013. The company provides a variety of products for improving health and well-being. There are several products which can be categorized into three business segments: Mega We Care branded products business, Maxxcare distribution business and OEM.

##### **2.1.1 Mega We Care Branded Products Business**

MEGA We Care focuses on producing, marketing, and selling their own products of nutraceuticals, complementary medicines, pharmaceuticals and over-the-counter health products (OTC) under the MEGA We Care brand. The details of the three main categories are as follows:

1. **Complementary Medicine:** focuses on preventive healthcare and wellness, providing a variety of dietary supplements such as Omega-3 Fatty Acids, Probiotics, Vitamins and Herbal products. These products are created to help a variety of health functions such as increased immunity to improved cognitive ability and general well-being.
2. **Prescription Pharmaceutical Products:** The products in the Pharmaceuticals segment require an order for medicine written by a doctor and given to a pharmacist to prepare and administer. These products cover a variety of therapeutic areas such as diabetes and heart disease, providing high levels of quality and effectiveness.

3. Over-the-Counter (OTC) Products: are drugs available without a prescription. MEGA offers over-the-counter medications for pain relief, cough cures, and allergy relief. They aim to provide accessible and reliable self-care options.

Mega we care strategically positions itself as a major participant in the pharmaceutical business, with a strong presence in key South East Asian regions like Thailand, Vietnam, Myanmar, Malaysia, and Cambodia. These markets are critical to Mega's branded business, and Myanmar, Vietnam, and Cambodia play an important role in distribution. Diversifying its global reach, Mega we care has successfully expanded into the CIS region, building a strong corporate presence in markets such as Ukraine. Additionally, the corporation has achieved significant progress throughout Latin America, particularly in Colombia and Peru.

### **2.1.2 Maxxcare Distribution Business**

Maxxcare is a distribution business which focuses on the marketing, sales, and distribution of a variety of branded prescription drugs, over-the-counter (OTC) medications, and fast-moving consumer goods (FMCG) across key markets such as Vietnam, Cambodia, and Myanmar.

Mega comprehensive array of services includes warehouse management, effective collections, and value-added activities such as specific marketing services for large pharmaceutical and fast-moving consumer goods companies.

In Myanmar, Mega is considered as the leading international distributor of pharmaceuticals and OTC products and ranks among the top two for distributors of FMCG products. In both Vietnam and Cambodia, Maxxcare stands out as the leading distributor of pharmaceuticals and over-the-counter items. The distribution network connects drug dispensers, which include pharmacies, hospitals, and other pharmaceutical sales locations.

The current Maxxcare distribution business operates a strategic footprint covering a total of 14 strategically positioned warehouses across Myanma, Vietnam, and Cambodia to ensure an efficient process of selling and distribution to the market.

### 2.1.3 OEM Business

The company manufactures their own branded product in Thailand, Australia, and Indonesia. Moreover, the company takes production orders from third-party customers. The OEM business allows mega to diversify the sources of revenue and utilizing its resources more efficiently such as manufacturing capacity. Which result in increased productivity and efficiency of machinery usage as well as reduce production costs due to economic scales.

## 2.2 Mega Presence and Key Market

Mega's present global footprint for Mega We Care branded products includes over 34 developing nations in Asia, Africa, Australia, South America, and Europe. Maxxcare's distribution business encompasses three countries: Myanmar, Vietnam, and Cambodia. Furthermore, Mega has three manufacturing and development facilities in Thailand, Indonesia, and Australia, as illustrated in below **Figure 2.1 MEGA's Global Presence**.

**Figure 2.1 MEGA's Global Presence**



According to the latest 1Q24 revenue announcement by Mega, the portion of revenue contributed by South East Asia is around 79.3% of total Mega revenue followed by 10.1% contributed from Africa and the remaining 10.6% consists of other regions. Refer to **Table 2.1 MEGA's Revenue Breakdown by Segment**.



## 2.3 Revenue Breakdown

### 2.3.1 Revenue Breakdown by segments.

In 2023, Mega Lifesciences Public Co. Ltd. had the following revenue breakdown across its business segments. The total revenue for the year 2023 was 15,776.3 million THB. The majority of the revenue came from the Mega We Care™ branded products business (50.7%) and the Maxxcare™ distribution business with (46.9%), which together accounted for 97.6% of the total revenue. The OEM business and other revenues contributed a smaller portion for 2.4% of the total revenue. When comparing the revenue breakdown from 2021 to 2023, the average portion of total revenue from Mega We Care™, Maxxcare™, OEM and Other revenues contributed approximately 50%, 47%, 2% and 1% respectively.

**Table 2.1 MEGA's Revenue Breakdown by Segment**

Business segment	Year ended December 31,				2023	
	2021		2022		Total Revenue	% of total <sup>1</sup>
	Total Revenue	% of total <sup>1</sup>	Total Revenue	% of total <sup>1</sup>		
(in million THB, except percentages)						
Our Mega We Care™ branded products business	6,909.0	48.3%	8,052.8	51.0%	8,004.8	50.7%
Our Maxxcare™ distribution business	6,906.2	48.3%	7,319.5	46.5%	7,396.9	46.9%
Our OEM business	320.5	2.2%	314.0	2.0%	279.5	1.8%
Other revenues <sup>2</sup>	165.2	1.2%	80.5	0.5%	95.1	0.6%
<b>Total</b>	<b>14,300.9</b>	<b>100.0%</b>	<b>15,766.7</b>	<b>100.0%</b>	<b>15,776.3</b>	<b>100.0%</b>

Source: MEGA Annual Report(2023)

### 2.3.2 Revenue Breakdown by regions.

In 2023, Mega Lifesciences Public Co. Ltd. had the following revenue breakdown across regions. The Mega We Care™ Branded Products Business generates 78.5% of its income from Southeast Asia, while Africa and other regions contribute 12.0% and 9.5%, respectively. The Maxxcare™ Distribution Business generates 100% of its income from Southeast Asia, in which 73% of sales come from Myanmar, 15% from Vietnam and 12% from Cambodia. The OEM business generates 3% of its income from Southeast Asia and 97% from other regions.

**Table 2.2 MEGA's Revenue Breakdown by Region**

Business segment	Year ended December 31, 2021		Year ended December 31, 2022		Year ended December 31, 2023	
	Amount	% of total <sup>1</sup>	Amount	% of total <sup>1</sup>	Amount	% of total <sup>1</sup>
<b>Maxxcare™ distribution business<sup>2</sup></b>						
Southeast Asia <sup>4</sup>	6,906.2	100.0	7,319.5	100	7,396.9	100
Africa <sup>4</sup>	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>Total</b>	<b>6,906.2</b>	<b>100.0</b>	<b>7,319.5</b>	<b>100.0</b>	<b>7,396.9</b>	<b>100.0</b>
<b>Mega We Care™ branded products business<sup>3</sup></b>						
Southeast Asia <sup>4</sup>	5,333.1	77.2	6,364.5	79.0	6,281.3	78.5
Africa <sup>4</sup>	845.2	12.2	948.9	11.8	961.0	12.0
Others	730.7	10.6	739.4	9.2	762.6	9.5
<b>Total</b>	<b>6,909.0</b>	<b>100.0</b>	<b>8,052.8</b>	<b>100</b>	<b>8,004.8</b>	<b>100</b>
<b>OEM business</b>						
Southeast Asia <sup>4</sup>	14.6	4.6	8.9	2.8	8.4	3.0
Africa	-	-	-	-	-	-
Others	305.8	95.4	305.1	97.2	271.1	97.0
<b>Total</b>	<b>320.5</b>	<b>100.0</b>	<b>314.0</b>	<b>100.0</b>	<b>279.5</b>	<b>100.0</b>
<b>Total revenue</b>	<b>14,135.7</b>	<b>100.0</b>	<b>15,686.2</b>	<b>100.0</b>	<b>15,681.2</b>	<b>100.0</b>

Source: MEGA Annual Report(2023)

**Table 2.3 MEGA's Revenue Breakdown in Details**

(Unit: Million Baht)	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Income</b>	7,944.74	8,810.23	9,597.36	10,181.66	11,129.78	12,589.41	14,135.66	15,686.22	15,681.17
% changes		10.89%	8.93%	6.09%	9.31%	13.11%	12.28%	10.97%	-0.03%
<b>Brand Business (Mega We Care)</b>	3,805.00	4,142.00	4,954.00	5,267.00	5,476.00	5,848.00	6,909.00	8,052.80	8,004.80
% changes		8.86%	19.60%	6.32%	3.97%	6.79%	18.14%	16.56%	-0.60%
- SEA	3,081.00	3,292.00	3,943.00	4,197.00	4,255.00	4,528.00	5,333.10	6,364.50	6,281.30
% changes		6.85%	19.78%	6.44%	1.38%	6.42%	17.78%	19.34%	-1.31%
- Africa	444	470	587	574	653	670	845.2	948.9	961
% changes		5.86%	24.89%	-2.21%	13.76%	2.60%	26.15%	12.27%	1.28%
- Others	280	380	424	496	568	649	730.7	739.4	762.6
% changes		35.71%	11.58%	16.98%	14.52%	14.26%	12.59%	1.19%	3.14%
<b>Distribution Business (Maxxcare)</b>	3,575.13	4,140.81	4,044.00	4,631.00	5,414.00	6,502.00	6,906.20	7,319.50	7,396.90
% changes		15.82%	-2.34%	14.52%	16.91%	20.10%	6.22%	5.98%	1.06%
- Myanmar	2,109.30	2,484.50	2,305.10	2,963.80	3,843.90	4,876.50	5,386.80	5,343.20	5,399.70
% changes		17.79%	-7.22%	28.58%	29.69%	26.86%	10.46%	-0.81%	1.06%
- Vietnam	1,108.30	1,242.20	1,253.60	1,111.40	974.5	975.3	828.7	1,097.90	1,109.50
% changes		12.08%	0.92%	-11.34%	-12.32%	0.08%	-15.03%	32.48%	1.06%
- Cambodia	357.5	414.1	485.3	555.7	595.5	650.2	690.6	878.3	887.6
% changes		15.83%	17.19%	14.51%	7.16%	9.19%	6.21%	27.18%	1.06%
<b>OEM Business</b>	564.61	527.42	599.36	283.66	239.78	239.41	320.5	314	279.5
% changes		-6.59%	13.64%	-52.67%	-15.47%	-0.15%	33.87%	-2.03%	-10.99%
- SEA							14.6	8.9	8.4
- Africa							0	0	0
- Others							305.8	305.1	271.1

Source: MEGA Annual Report

## 2.4 Strategies

Mega Lifesciences Public Company Limited (MEGA) has a very clear strategy plan and main emphasis to suit its vision, purpose, and core values in order to outperform its competitors and provide the best possible service to its customers. In this session, we will be discussing their core strategies and future outlook of the company based on management guidance.

### 2.4.1 Mega Vision, Mission, and Core Value

- **Vision:** Create a thinking organization that will change before it is forced to change. An organization which will live and grow beyond each one of us' (Source: 2023 Annual Report).
- **Mission:** Mega's Objective is to create value by marketing and selling medicines and medicinal supplements in developing countries (Source: 2023 Annual Report)
- **Core Values:** The Company believes and lives by its core values of 'Truth', 'Trust', 'Respect' and 'Freedom' (Source: 2023 Annual Report)
  - In which the company has carefully designed its training programs, employment policies and CSR activities to constantly encourages all employees and other stakeholders to practice these core values

### 2.4.2 Corporate Strategies

#### 2.4.2.1 Strategic Plan and Key Focus

In the current business environment, Mega has concentrated on its core businesses, such as Mega We Care branded products, Maxxcare distribution, and OEM business. They also focus on developing and underdeveloped countries due to considerable growth opportunities. Based on Mega experience, the emerging country's pharmaceutical and nutraceutical markets will rise rapidly in parallel with strong economic growth and demographic shifts driven by health trends. Mega also uses a backward integration strategy to strengthen its supply chain, increasing opportunities and synergies across business segments and selected markets such as Indonesia and Vietnam. Most significantly, Mega focuses on developing high-quality products using advanced technology production at affordable prices for consumers.

### **2.4.2.2 Growth Strategies**

According to the latest announcement of Mega's growth strategies in the 2023 annual report, the company focuses on Six key strategies as below:

1. Human Capital: continue to invest in human capacity building as human resources are the major company driver.
2. Stakeholder corporation: continues to engage with stakeholders for mutually exclusive growth to sustain business partnerships.
3. Organic and Inorganic growth: Continue to expand revenue streams by introducing specialty pharmaceutical and supplement products in our existing and new markets.
4. Market Leader: Aim to be the top player in developing and underdeveloped markets, offering high-tech, niche products at affordable prices.
5. High-Quality Product: Aim to enhance the quality of products under Mega We Care and services under Maxcare by adhering to higher GMP standards and adopting advanced technology.
6. Optimize Cost: Mega Lifesciences plans to optimize costs to ensure sustainable existence and growth in its operating markets.

### **2.4.2.3 Financial Performance Target**

According to the Q1/2024 Mega Opportunity Day seminar, Mega expects its consolidated earnings to double from 2019 levels by 2025, totaling THB 2,400 million. The Branded Product Business expects to double its consolidated net profit, as does the Distribution Business. In terms of SG&A expenses, the business projected to maintain an SG&A to sales ratio of roughly 27%, which is historical average. In 2024, the company plans to launch a total of 42 products, including 13 supplements and 29 prescription medications. According to its research and development, there are a total of 170 goods in the pipeline that are awaiting introduction.

According to the firm's announcement of fresh investment in PT Futamed Pharmaceuticals, Indonesia in 2022, the company is now growing its manufacturing capacity in Indonesia to serve the Indonesian market. Management expects that the investment will break even within 2025 and start to generate profit in 2026. At the same

time, the firm is seeking for additional land opportunities in Vietnam to establish new manufacturing facilities, with site acquisition likely to be completed soon and building beginning in 4Q24.

## 2.5 Management and Governance

### 2.5.1 Management Structure

The list of board members of Mega as of 6 June 2024 consists of Mr. Vivek Dhawan fulfilling the role of Chief Executive Officer. The Board of MEGA is led by Mr. Mechai Viravadya, serving as the Chairman of the Board Directors. The Shah family, among Thailand's 50 Riches in 2023, is the largest individual shareholder of the company, followed by Mr. Vivek Dhawan and family, as illustrated in **Figure 2.2 MEGA's Management Structure**.

**Figure 2.2 Mega's Management Structure**

Name	Position
Mr. MECHAI VIRAVADIYA	CHAIRMAN OF BOARD OF DIRECTOR, INDEPENDENT DIRECTOR
Mr. ALAN CHI YIM KAM	VICE CHAIRMAN OF THE BOARD OF DIRECTORS, INDEPENDENT DIRECTOR, CHAIRMAN OF AUDIT COMMITTEE
Mr. VIVEK DHAWAN	CHIEF EXECUTIVE OFFICER, DIRECTOR
Mr. KIRIT SHAH	DIRECTOR
Mr. ISHAAN SHAH	DIRECTOR
Miss SAMEERA SHAH	DIRECTOR
Mr. SHIRAZ ERACH POONEVALA	DIRECTOR
Mr. THOMAS ABRAHAM	DIRECTOR
Mr. VIJAY PAUL KARWAL	INDEPENDENT DIRECTOR, AUDIT COMMITTEE
Mr. THOR SANTISIRI	INDEPENDENT DIRECTOR, AUDIT COMMITTEE
Miss NITHINART SINTHUDEACHA	INDEPENDENT DIRECTOR

MEGA has a structured management system with clearly defined duties. The main components including The Board of Directors is responsible for determining strategic direction, managing operations, hiring leaders, authorizing large transactions, and guaranteeing shareholder responsibility. Executive Management such as Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Operating Officer (COO) will implement board-approved strategies, control daily operations, evaluate

staff performance, and report to the board. Finally, employees are responsible for fulfilling assigned tasks and contributing to the achievement of company objectives.

The Major shareholders as of 30 April 2024 hold over 76.092% of total trading share in the stock market. With a total of 10,585 minor shareholders (Free float) or equal to 39.02%, as illustrated in **Figure 2.3 MEGA's Top 10 Shareholders**.

**Figure 2.3 MEGA's Top 10 Shareholders**

List of top 10 shareholders as on April 30, 2024 is as below:			
No.	Name of Shareholder	# Shares	% Shares
1	SHAH FAMILY (1)	437,098,156	50.133
2	MR. VIVEK DHAWAN AND FAMILY (2)	57,824,516	6.632
3	THAI NVDR COMPANY LIMITED	52,578,276	6.031
4	THE BANK OF NEW YORK MELLON	27,391,200	3.142
5	STATE STREET BANK AND TRUST COMPANY	18,876,839	2.165
6	STATE STREET EUROPE LIMITED	15,728,330	1.804
7	BNP PARIBAS, LONDON BRANCH	15,688,800	1.799
8	MR.PARAMJIT SINGH SAWHNEY	13,085,395	1.501
9	MISS DUANGNAPA TONGSIRI	12,883,095	1.478
10	SOUTH EAST ASIA (TYPE C) NOMINEES LIMITED	12,270,700	1.407
<b>Total</b>		<b>663,425,307</b>	<b>76.092</b>

**Figure 2.4 MEGA's Major Shareholders**

Source: Thailand Securities Depository Co. Limited
<p>1. Shah family's shareholding comprises of:</p> <ul style="list-style-type: none"> <li>• 434,311,400 Shares of Mega Lifesciences Public Company Limited held by Unistretch Limited. Unistretch Limited shares are held by Miss Sameera Shah 30.76%, Mr. Ishaan Shah, 29.23% and Globlex Corporation Limited 40%.</li> <li>• Miss Nishita Shah holds 99.99% shares of Globlex Corporation Limited. She is daughter of Mr.Kirit Shah and Sister of Mr.Ishaan Shah and Miss Sameera Shah.</li> <li>• 2,786,756 Shares of Mega Lifesciences Public Company Limited in Thai NVDR Company Limited is owned by Mr.Ishaan Shah.</li> </ul> <p>2. Mr. Vivek Dhawan holds 45,982,716 shares under his name, his wife, Mrs. Rashi Dhawan holds 2,440,000 shares, his son Mr. Tarun Dhawan holds 3,000,000 shares, his son Mr. Udit Dhawan holds 3,070,000 shares and his son Mr. Anuj Dhawan holds 3,331,800 shares.</p>

Source: MEGA website (2023)

### 2.5.2 Corporate Governance

The company is focused on operating with the greatest professional standards and doesn't compromise on responsibility, ethics, or transparency. As a set of rules, the company has comprehensive policies on corporate governance, business ethics, and code of conduct, following the standards of Stock Exchange of Thailand's regulations. Furthermore, The company constantly encourages all of its stakeholders and employees to live and practice its core values of "Truth," "Trust," "Respect," and "Freedom" by carefully developing its training programs, employment regulations, and CSR efforts. These are some highlighted policies of Mega.

- **Corporate Governance Policies:** Mega We Care has strong corporate governance principles to encourage transparency, accountability, and ethical behavior. These policies aim to protect the interests of shareholders and other stakeholders.
- **Audit Committee:** An independent audit committee is formed to monitor the financial reporting process, audit functions, internal controls, and compliance to laws and regulations.
- **Remuneration Committee:** This committee is responsible for setting the compensation for the company's executives and directors, ensuring that it aligns with the company's performance and industry standards.
- **Risk Management Committee:** This committee is responsible for detecting, evaluating, and managing risks to the company's operations and financial performance.
- **Sustainability and CSR:** Mega We Care focuses on sustainability and corporate social responsibility. The company operates in a variety of activities that support environmental sustainability, health, and community welfare.
- **Business Ethics & Code of Conduct:** Mega provides the expected behavior for all employees at every level, promoting ethical, transparent, and responsible conduct.
- **Dividend Policy:** The company has a policy to pay out a dividend at least 25% of Net Income.

## CHAPTER III

### MACRO-ECONOMIC INDUSTRY AND COMPETITION ANALYSIS

#### 3.1 Macro-Economic Analysis

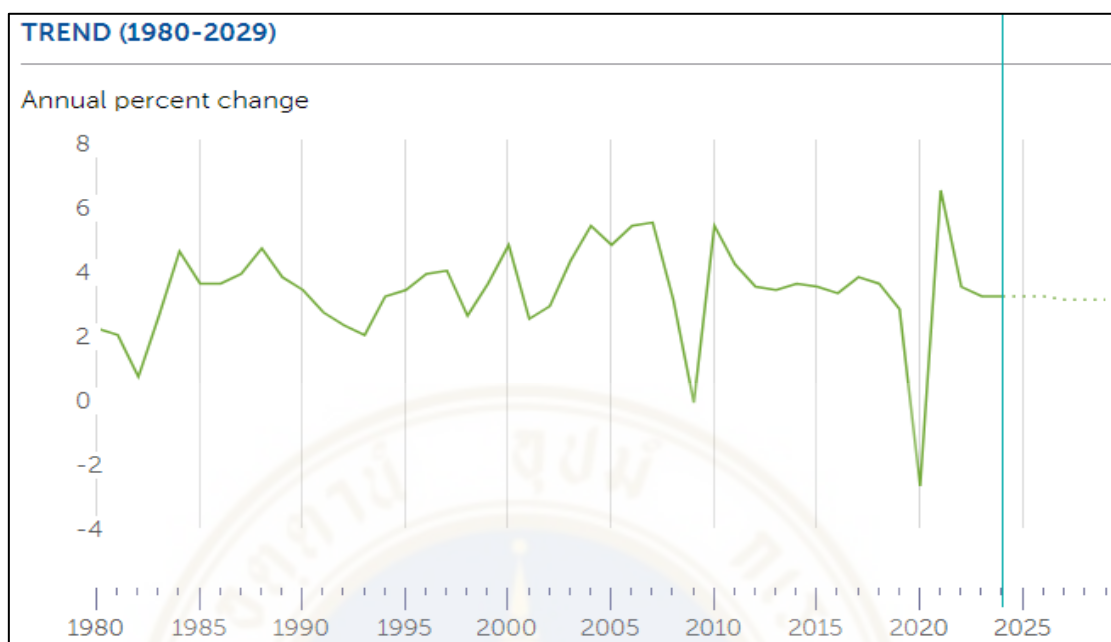
##### 3.1.1 Global Economy

The global economy remains resilient, with steady growth and inflation returning to target levels. The journey has been eventful, starting with supply-chain disruptions in the aftermath of the epidemic, a Russian-initiated war on Ukraine, triggering a global oil and food crisis, and a significant surge in inflation, followed by a global monetary policy tightening.

Global growth reached the lowest level of the year, 2.3 percent, at the end of 2022, just after median headline inflation reached its highest point of 9.4 percent. The most recent IMF estimates indicate that global growth, which was anticipated to be 3.2% in 2023 (**Figure 3.1 Global GDP growth**), will likely continue at the same rate in 2024 and 2025. The January 2024 World Economic Outlook (WEO) Update and the October 2023 WEO both showed 0.1 percentage point and 0.3 percentage point increases, respectively, in the projection for 2024. By historical standards, the rate of expansion is slow due to a combination of short-term issues like the COVID-19 pandemic and Russia's invasion of Ukraine, as well as long-term ones like weak productivity growth and growing geoeconomic fragmentation. Global headline inflation is predicted to decline from 6.8% annually in 2023 to 5.9% annually in 2024 and 4.5% annually in 2025, with developed nations hitting their inflation targets earlier than developing and emerging economies. The IMF (2024) has released its most recent prediction for global growth in five years, and it comes in at 3.1%, the lowest level in decades.



**Figure 3.1 Global GDP growth**



Despite rising central bank interest rates intended to restore price stability, global economies have been sustained by favorable changes in supply and demand, which has resulted in continuous growth in employment and earnings. A tightening of fiscal policies aimed at reducing high levels of government debt, with more taxes and lower government expenditure, is projected to impact on GDP as inflation converges around target levels and central banks shift toward policy easing. In addition, the long-term effects of the COVID-19 epidemic, Russia's invasion of Ukraine, sluggish productivity growth, and growing geoeconomic fragmentation are all likely to contribute to the expansion's low historical pace [IMF 2024].

### 3.1.2 Emerging Market and Developing Economies

The forecast for 2024 and 2025 is 4.2% growth in emerging markets and developing countries, which will be largely countered by higher growth in the economies of sub-Saharan Africa, emerging and developing Asia, and the Middle East and Central Asia. According to estimates from the Asia Development Bank, low-income developing countries should expect gradually increasing growth from 4.0 percent in

2023 to 4.7 percent in 2024 and 5.2 percent in 2025, as some short-term economic limitations ease.

Following a minor modification upward from the January 2024 WEO Update, growth in emerging and developing Asia is predicted to decline from an estimated 5.6 percent in 2023 to 5.2 percent in 2024 and 4.9 percent in 2025. China's growth is predicted to decrease from 5.2% in 2023 to 4.6% in 2024 and 4.1% in 2025 as the favorable impacts of one-time events—such as the post-pandemic surge in spending and fiscal stimulus—as well as the easiness and fragility of the real estate market continue. India's growth is expected to continue to be robust, with forecasts for 6.8 percent in 2024 and 6.5 percent in 2025. This robustness is attributed to both expanding working-age population and persistently strong domestic demand.

Myanmar's growth is predicted to slow down to 0.8 percent in 2023 from 2.4 percent in 2022, with forecasts for 2024 and 2025 indicating 1.2 percent and 2.2 percent, respectively. This is because of internal political difficulties that have caused continued instability and conflict. In addition to having an effect on inflation and currency rate volatility, the problem also hinders trade and logistics.

Thailand's economy is predicted to expand in 2024 and 2025, driven mostly by robust domestic demand, which will be supported by ongoing tourism growth, a resurgence in goods exports, and government budget spending in 2024. The real GDP is expected to grow by 3.0% in 2025 and 2.6% in 2024, according to estimates from the Asia Development Bank.

Europe's emerging and developing economies are expected to grow by 3.2% in 2023 and 3.1% in 2024, before slowing to 2.8% in 2025. These projections have been revised upward since January by 0.5 percentage points for 2023 and 0.3 percentage points for 2024 and 2025. The reduction is a reflection of Russia's projected growth slowing down from 3.2% in 2024 to 1.8% in 2025 as the effects of strong private consumption and high investment fade and are bolstered by wage growth in a tight labor market. According to estimates from the Asia Development Bank, Turkey's economy would grow by 3.1 percent in 2024 and 3.2 percent in 2025. The second half of 2024 is

expected to see economic activity pick up as monetary tightening eases and consumption begins to rebound.

The growth projection for Latin America and the Caribbean is revised upward by 0.1 percentage point for 2024, from an estimated 2.3 percent in 2023 to 2.0 percent in 2024, and then rising again to 2.5 percent in 2025. Growth in Brazil is predicted to slow down to 2.2 percent in 2024 as a result of fiscal austerity, the delayed consequences of the country's continued tight monetary policy, and a declining role for agriculture. With the help of a fiscal expansion, growth in Mexico is predicted to reach 2.4 percent in 2024 before dropping to 1.4 percent in 2025 as the government is anticipated to tighten fiscal policy. Due to lower-than-expected results for the end of 2023 and the beginning of 2024, the projection for Mexico is revised downward.

The growth rate in the Middle East and Central Asia is anticipated to increase from 2.0 percent in 2023 to 2.8 percent in 2024 and 4.2 percent in 2025. The January 2024 estimates for 2024 have been revised downward by 0.1 percentage point. The revision represents a downward adjustment to the growth estimate for Iran (Asia Development Bank Estimate) for 2024, due to decreased oil income and non-oil activity, as well as for other smaller economies.

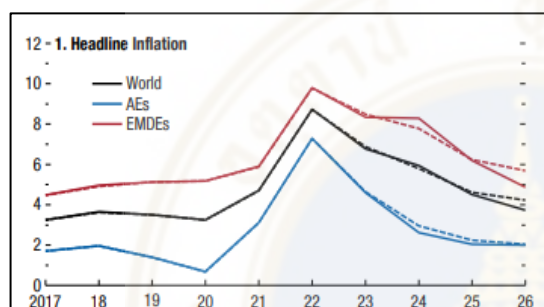
Growth in sub-Saharan Africa is predicted to accelerate from an expected 3.4 percent in 2023 to 3.8 percent in 2024 and 4.0 percent in 2025 as supply constraints gradually become better and the negative impacts of previous weather shocks fade. The forecast for 2024 remains the same as it was in the January 2024 WEO Update because an upward revision to Nigeria more than offsets a negative revision to Angola due to a contraction in the oil sector.

### **3.1.3 Inflation rate**

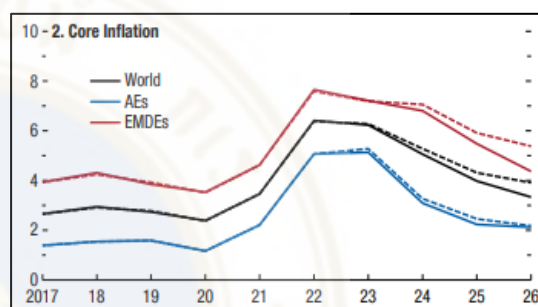
According to **Figure 3.2 Headline Inflation**, the annual average rate of global headline inflation is predicted to decrease from 6.8% in 2023 to 5.9% in 2024 and 4.5 percent in 2025. In developed economies, a greater front-loaded reduction is anticipated, with inflation falling by 2.0 percentage points in 2024, compared to a

decline of only 1% in emerging market and developing nations in 2025. It is anticipated that advanced economies will also return to rates closer to their pre-pandemic (2017–19) average sooner. In 2025, inflation is forecast to average 2.0 percent, approximately a year ahead of emerging market and developing economies, which are anticipated to return to rates closer to 5.0 percent (**Figure 3.4 Headline Inflation by EMDM Region**). In addition, there will likely be significant differences between developing and emerging market economies in terms of inflation projections.

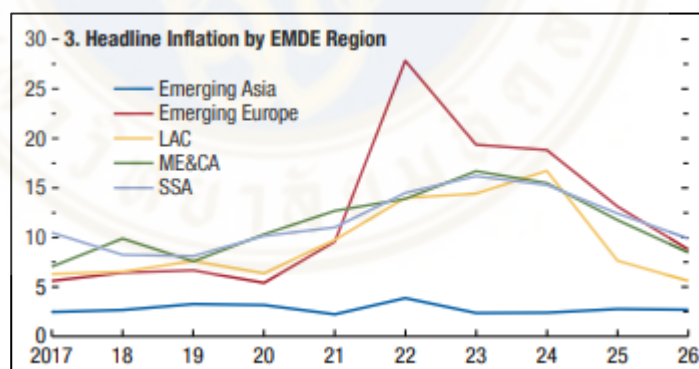
**Figure 3.2 Headline Inflation**



**Figure 3.3 Core Inflation**



**Figure 3.4 Headline by EMDM Region**



### 3.1.4 Thai Baht and Other Asian Currencies

A trend of Fed rate hikes outperforming Asian central banks has caused the Thai Baht and other Asian currencies to lately fall by 5.0–8.5% to their lowest levels in years (the JPY dropped by 15.2%). With the Baht pegged at 36.35 against the US dollar, it fell to its lowest level against the US currency in about six and a half years. In parallel, other Asian currencies have seen substantial decline over time. For instance, the

Philippine Peso dropped to a new low of sixteen and a half years, the Korean Won dropped to a new low of thirteen years, the Malaysian Ringgit dropped to a new low of five years, and the Japanese Yen dropped to a new low in nearly twenty-four years (K-Bank Research). While Myanmar's kyat is expected to depreciate by 15% on average per year in 2024-2025, amid persistent balance of payment pressure (Economist Intelligence Unit).

The devaluation of Asian currencies has direct consequences on inflation, but it also has variable implications on trade differentials. Due to their need to import necessities like commodities and energy, certain nations have seen a decline in their trade balances. This is because imports have become more expensive as a result of currency depreciation. Using Thailand as an example, the trade deficit in the first five months of 2022 was USD4.73 billion, which is the same as the trade deficits of South Korea, Japan, and the Philippines. However, due to the high proportion of electronic products and commodities in the export commodity structure and the relatively low depreciation of each currency, Malaysia, Indonesia, and Vietnam still have trade surpluses (K-Bank Research).

While certain Asian nations are experiencing excess trade, it is important to recognize that the Fed's more rapid rate increase has resulted in pressures on capital flight from all Asian nations. This is partially evidenced by the ongoing decrease in foreign exchange reserve levels in many Asian nations since the start of 2022. About USD 28 billion less had been saved by Thailand as of June 24, 2022, when net foreign exchange reserves (including net forward positions) were taken into account (K-Bank Research).

### **3.1.5 World Population and Aging Society**

The population of the globe has increased by more than three times since the middle of the 20th century. After adding 1 billion since 2010 and 2 billion since 1998, the anticipated population of humans worldwide increased to 8.0 billion in mid-November 2022 from 2.5 billion in 1950. The population of the world is predicted to rise by almost 2 billion people over the course of the next 30 years, from the present 8

billion to 9.7 billion in 2050, with a potential peak of roughly 10.4 billion in the middle of the 1980s.

This dramatic growth has been driven largely by increasing numbers of people surviving to reproductive age, the gradual increase in human lifespan, increasing urbanization, and accelerating migration. Major changes in fertility rate have accompanied this growth. These trends will have far-reaching implications for generations to come (United Nation).

Africa is predicted to account for more than half of the increase in world population between now and 2050. Of the major regions, Africa is experiencing the fastest pace of population expansion. By 2050, it is expected that sub-Saharan Africa's population will have doubled. Notwithstanding the uncertainty surrounding future fertility trends in Africa, the continent will continue to be a major force in determining the size and distribution of the global population in the ensuing decades due to the large number of young people who will mature into adults and have children of their own in the near future (United Nation).

Global estimates indicate that the population 65 years of age or older will more than double by 2050, from 761 million in 2021 to 1.6 billion. Even more people are becoming 80 years of age or older. Global population aging is a trend that cannot be reversed. Even in nations with relatively young populations, it is an inevitable byproduct of the demographic shift, which is characterized by a trend toward longer lifespans and smaller families. Over the world, 10% of individuals were 65 years of age or older in 2021. It is estimated that 1 in 6 persons worldwide will belong to this age group in 2050. In terms of projected population increase over the next three decades, Northern Africa, Western Asia, and sub-Saharan Africa are anticipated to have the highest rates of aging. As of right now, the combined population of Europe and North America is the oldest (United Nation).

### **3.1.6 Economic Impact on Company Performance**

The pharmaceutical sector is positively impacted by the aging population. This is a result of the rising demand for medical services. People usually need more

medical services, including prescription drugs, as they get older. The aging population represents a significant market opportunity for pharmaceutical companies, particularly those that can innovate in areas such as geriatric care, personalized medicine, and treatments for age-related conditions.

On the other hand, ongoing political issues in Myanmar, MEGA largest country for its distribution business, contribute over 73% of total distribution sales equal to 5,343.20 million baht in 2022. It has had significant impacts on MEGA performance due to depreciation of Myanmar Kyat against Thai Baht in which it has created over 138.16 million in 2022 and 706.57 million in 2023 loss in foreign exchanges.

## 3.2 Industry Analysis

According to MEGA's major product group, this session will assess trends for each of its product categories, which include dietary supplements, prescription medicines, and over-the-counter products.

### 3.2.1 Complementary Medicine (Dietary Supplement)

A dietary supplement is a product intended to supplement the diet and provide nutrients that may not be consumed in sufficient quantities from food alone (Facts & Factor analysis). According to a Facts & Factors analysis, the global Dietary Supplements Market was worth over USD 149.50 billion in 2021 and is expected to increase to around USD 240.90 billion by 2028, with a compound annual growth rate (CAGR) of approximately 8.50% between 2022 and 2028 refer to **Figure 3.5 Dietary Supplement Market Size**. This growth is being driven by expanding consumer health consciousness, an aging population, and the rising prevalence of chronic diseases, all of which push people to seek preventative health measures. The market is additionally aided by the growing fitness trend and increased interest in nutritional assistance for athletic performance.

North America, notably the United States, is the largest and most influential region in the dietary supplement business. The US market is expected to grow at a CAGR of 6.1% during the forecast period. This region benefits from high consumer awareness of health and wellbeing, significant health-care spending, and a strong regulatory framework aided by the FDA.

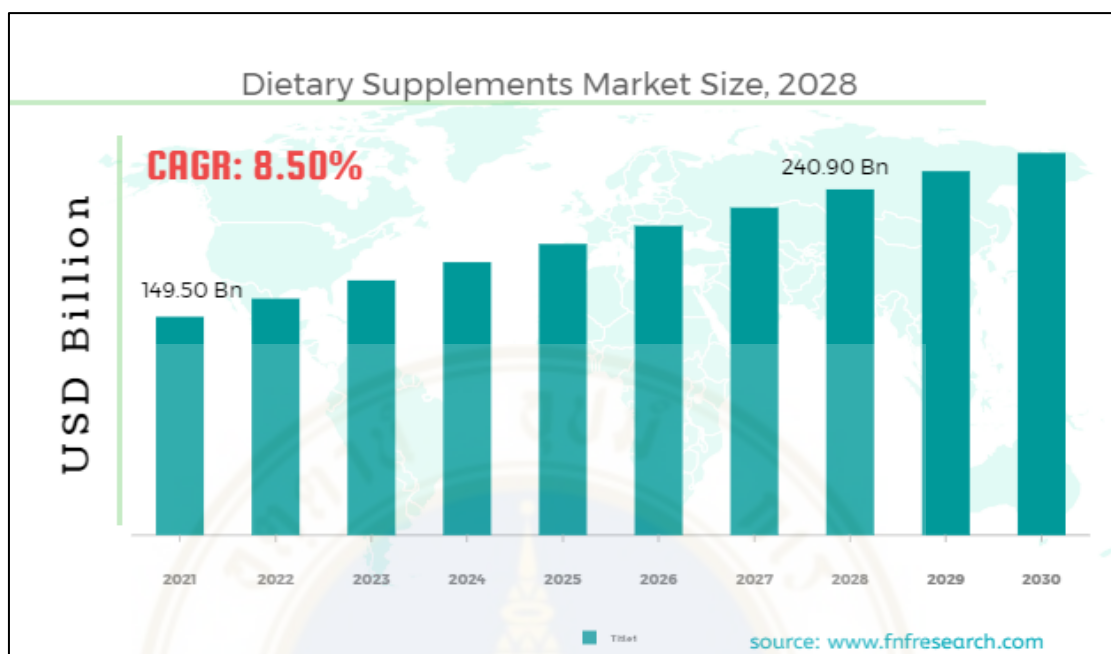
Europe dominates the worldwide dietary supplement industry, owing to a growing emphasis on preventative healthcare and high consumer buying power. This region is predicted to expand at a CAGR of 6.8% between 2024 and 2032. Western European countries, including Germany, the United Kingdom, and France, have the highest market penetration due to improved healthcare infrastructure and consumer awareness.

The Asia-Pacific area is the fastest expanding in the worldwide dietary supplement industry, with the highest CAGR of all regions. This region will have a market share of approximately 35.4% in 2023. This expansion is being driven by rising disposable incomes, increased health consciousness, and urbanization, particularly in China and India. In 2023, China dominated Asia's dietary supplement industry, accounting for more than 39.6% of the total. The region has a big and diversified population, including a growing middle class that is increasingly using nutritional supplements as part of a healthy lifestyle. Traditional herbal supplements are very popular in this region because they complement cultural eating practices.

The Middle East and Africa (MEA) area is gradually developing, despite its small worldwide market share. Between 2024 and 2032, this region will grow at a CAGR of 11.3%. Economic development is driving expansion in this region, particularly in Gulf Cooperation Council (GCC) countries such as the UAE and Saudi Arabia, which have a growing expatriate population and rising disposable incomes. The market's growth is also aided by more awareness of health supplements and improved retail infrastructure.



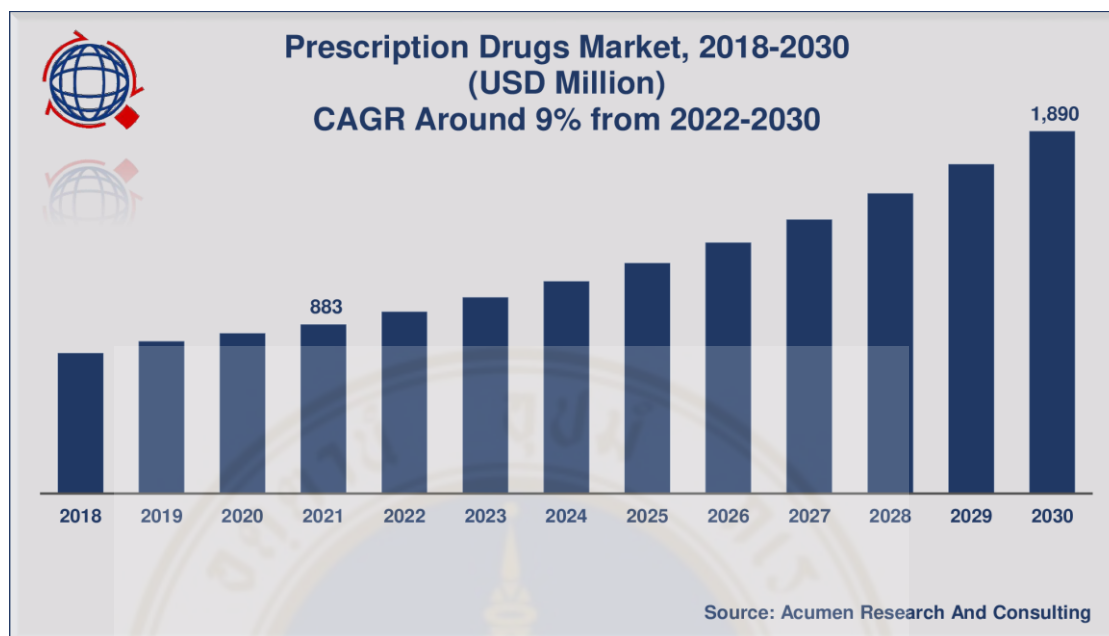
**Figure 3.5 Dietary Supplements Market Size**



### 3.2.2 Prescription Medicine

The Global Prescription Drugs Market Size accounted for USD 883 Mn in 2021 and is estimated to garner a market size of USD 1,890 Mn by 2030 rising at a CAGR of 9% from 2022 to 2030 (Acumen Research). This growth is being driven by an aging population, and the rising prevalence of chronic diseases. As many countries' populations age, the prevalence of chronic diseases and ailments that require continued medication rises. These factors drive a high demand for prescription drugs to treat chronic illnesses and improve quality of life in aging populations. Pharmaceutical companies respond by creating new pharmaceuticals, refining existing therapies, and adjusting to the complicated healthcare needs that come with age and the burden of chronic diseases. This simultaneous demographic and health trend highlights the importance of the aging population and rising disease load in determining the prescription medication market's growth trajectory.

**Figure 3.6 Prescription Drugs Market, 2018-2030**

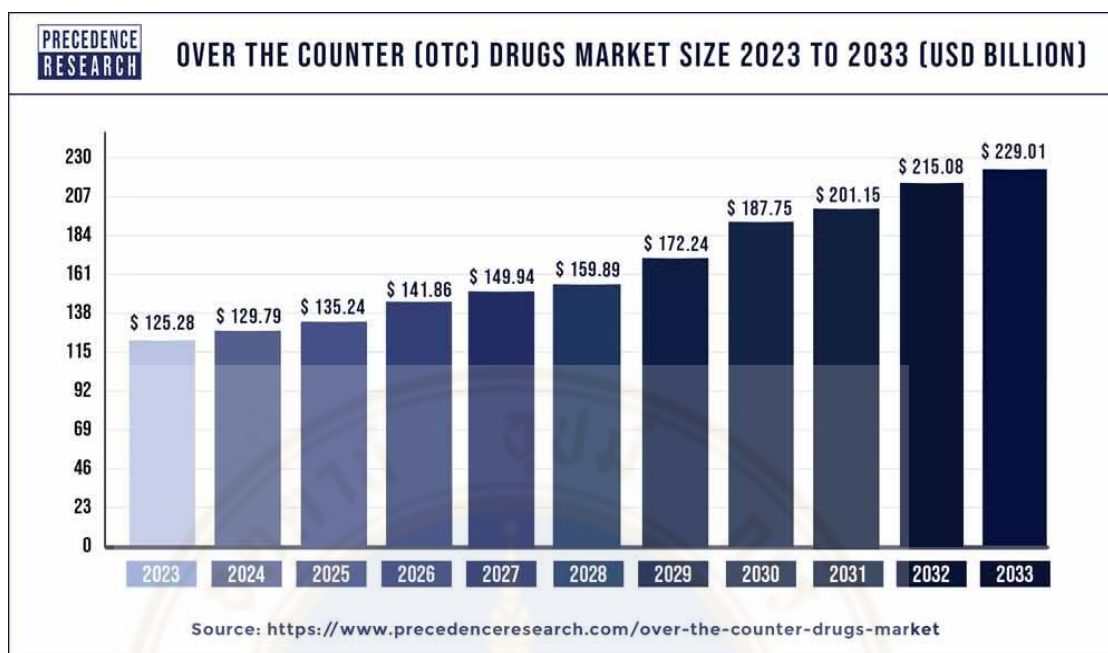


### 3.2.3 Over the Counter Medicine (OTC)

The global over the counter (OTC) drugs market size was valued at USD 125.28 billion in 2023 and is projected to grow at a compound annual growth rate (CAGR) of 6.51% from 2024- 2030 and is expected to reach over USD 229.01 billion by 2033 (Precedence Research).

The growing availability and production of over-the-counter (OTC) medications for a wide range of common medical conditions will drive the industry. The frequency of common colds and flu drives up demand for medicines. Furthermore, growing awareness and demand for weight loss and vitamin supplement products will drive growth in the over-the-counter (OTC) pharmaceuticals industry. Moreover, the global over-the-counter (OTC) medications and dietary supplements industry is being driven by advances in the healthcare and pharmaceutical industries, as well as new understanding regarding general health issues. Furthermore, an increasing preference among consumers for over-the-counter (OTC) medications for minor diseases contributes to market growth.

**Figure 3.7 Over the Counter (OTC) Drugs Market size**



### 3.3 Competition Analysis

#### 3.3.1 Porter's Five Force Analysis

##### 3.3.1.1 Threat of New Entry (Low)

The threat of new entry for pharmaceutical or medicine production is considered low due several factors such as high barrier to entry, high research and development cost, regulation compliant and market access and distribution.

The pharmaceutical sector often has significant entry barriers due to tight regulatory standards. New entrants must traverse complicated and time-consuming approval processes for drug research and production. Developing new medications necessitates significant investment in research and development (R&D). Established organizations may have strong R&D capabilities and resources, posing a challenge for new entrants lacking sufficient funding. Compliance with regulatory standards, such as Good Manufacturing Practices (GMP) and strict quality controls, is critical in

pharmaceutical production. Established pharmaceutical firms have built relations with healthcare practitioners, wholesalers, and pharmacies. New entrants may encounter difficulties in acquiring access to these distribution platforms.

### **3.3.1.2 Bargaining Power of Suppliers (Moderate)**

The bargaining power of suppliers for pharmaceutical or medicine production is considered as Moderate based on each type of raw material and due several factors such as Unique or Specialized Materials, Supplier Concentration and Regulatory Compliance.

In case of MEGA, it doesn't have long-term raw material procurement agreements with the suppliers. Hence this could lead to major risk of the firm to face supply chain disruption from supply shortage or spike in market price.

### **3.3.1.3 Bargaining Power of Buyers (Moderate to High)**

The bargaining power of buyers for pharmaceutical or medicine production can vary depending on several factors, but generally, it tends to be moderate to high. First of all, large volumes of pharmaceutical items are frequently purchased by buyers in the healthcare industry, including government health programs and hospitals, the same as MEGA key consumers. Moreover, because of financial limitations and efforts to manage costs, healthcare payers and providers are frequently very price-sensitive. Moreover, In many therapeutic areas, there are multiple pharmaceutical companies offering similar products or therapeutic alternatives.

### **3.3.1.4 Threat of Substitute (Moderate)**

The threat of substitution for pharmaceutical or medicine production is considered as Moderate based on each type of product. As many pharmaceutical products offer unique therapeutic benefits that cannot be easily substituted by alternatives. Moreover, pharmaceutical products are subject to stringent regulatory approval processes, ensuring safety, efficacy, and quality. Substitutes, such as generic drugs or alternative therapies, must meet similar regulatory standards to gain market approval, which can pose barriers to entry for substitutes.

However, as per the nature of MEGA products which are similar to other products available by the competitor. Hence, movement in price would have a significant impact on the demand of the consumer.

### **3.3.1.5 Industry Rivalry (High)**

The industry rivalry for pharmaceutical or medicine production is considered as high even though the industry has high barriers to entry due to: The pharmaceutical industry is highly competitive with numerous global and local companies competing for market share. This includes large multinational pharmaceutical corporations, mid-sized companies, and smaller biotech firms. The competition is also fueled by continuous investments in research and development (R&D) to discover and develop new drugs.

### **3.3.2 Industry Peer Comparison**

In this session, we will provide an overview of MEGA industry peers that can be used for further study in the subsequent session. The industry peer study is divided into two parts: direct comparison (companies with comparable core businesses) and indirect comparison (companies with distinct core businesses but in the same industry).

#### **3.3.2.1 Direct Comparison**

The direct comparison company consists of Interpharma Public Company Limited (SET: IP) and Healthlead Public Company Limited (SET: HL). Both of the selected companies are listed in SET Index.

Interpharma PCL,. operate its business in the development, invention, and distribution of health and innovative beauty products for people and health products for pets and livestock consisting of pharmaceuticals, nutraceuticals, cosmeceuticals, healthy foods, and medical devices for both human health and animal health under “Interpharma” trademark. The expansion strategy of the company is to expand its distribution channel to oversea market to find more opportunity in CLMV and other Asia countries and adding more variety of product in its portfolio.

Healthlead PCL, has operated pharmacies that sell more than 10,000 stock-keeping units (SKUs) of medicine, medical supplies, cosmeceuticals, dietary supplements, medical equipment, and healthcare products. Its pharmacies are operated under four brands namely “iCare”, “Pharma”, “Vitamin Club” and “Super Drug”. The expansion strategy of the company is to open 20 new stores in Bangkok and Metropolitan area in 2024 and expand the new innovative products into Healthiness’s portfolio and expand channels of distribution for Prime and Besuto outside the group (Q124 Opportunity Day).

### **3.3.2.2 Indirect Comparison**

The selected indirect comparison companies consist of Bangkok Dusit Medical Services Public Company Limited (SET: BDMS) and Bangkok Chain Public Company Limited (SET: BCH) which are the major private hospital operators in Thailand. The selection was made based on the industries to which the corporation is exposed, specifically the healthcare sector, which is anticipated to have a favorable influence on ageing society.

Bangkok Dusit Medical Service PCL operates in the major private hospital sector, with networks in Thailand and Cambodia. The company operates six hospital groups: Bangkok Hospital Group, Samitivej Hospital Group, BNH Hospital, Phyathai Hospital Group, Paolo Hospital Group, and Royal Hospital Group. In addition, the company's network includes businesses that assist medical treatment, such as medical laboratories, drug manufacturing, and saline manufacture.

Bangkok Chain PCL operates its business as a group of hospitals that consists of fifteen hospitals and two polyclinics in Bangkok, upcountry, and Laos to provide medical services at the level of primary-tertiary care under four hospital groups: 1. World Medical Hospital Group 2. Kasemrad International Hospital Group. 3. Kasemrad Hospital Group. 4. The Karunvej Hospital Group will provide medical services to general patients, both Thai and international, as well as Social Security patients.

## CHAPTER IV

### VALUATION

#### 4.1 Financial Analysis

The healthcare industry's revenue trend has been positive during the COVID-19 pandemic, driven by increased demand for health supplements and nutraceuticals, steady demand for pharmaceutical products, and successful navigation of operational challenges. However, in the post-covid period, when the market returned to normal, the industry faced a lot of challenges for maintaining their performance, such as small increases in demand for nutraceutical and pharmaceutical products. Furthermore, rising inflation caused a challenge with cost control.

##### 4.1.1 Growth Analysis

We focus on MEGA's financial performance throughout three time periods: pre-COVID (2015-2019), during COVID (2020-2022), and post-COVID (2023). There are 5 main financial metrics that we select to analyze, including Total Revenue, Total Expense, Net Income, Earnings Per Share (EPS), and Free Cash Flow.

**Table 4.1 MEGA's Key Financial Indicator**

	MEGA									Pre-covid	During Covid	Post-covid
	2015	2016	2017	2018	2019	2020	2021	2022	2023	CAGR 2015-2019	CAGR 2020-2022	CAGR 2023
Total Revenue	7,994.81	8,842.40	9,639.82	10,305.97	11,179.17	12,624.96	14,182.36	15,766.69	15,776.27	7.55%	12.14%	0.06%
Total Expense	7,299.07	8,047.46	8,527.00	9,099.90	10,040.64	11,236.51	12,241.51	13,526.64	13,783.65	6.82%	10.44%	1.90%
Net Income	695.74	794.94	1,112.83	1,206.07	1,138.53	1,388.45	1,940.86	2,240.04	1,992.62	15.75%	25.31%	-11.05%
EPS (in Baht)	0.80	0.92	1.29	1.39	1.31	1.60	2.23	2.57	2.29	15.77%	25.19%	-10.89%
Free Cash Flow	515.68	565.86	477.67	559.53	1,247.92	1,006.45	2,197.69	2,453.47	2,356.73	29.65%	25.28%	-3.94%

## **4.1.2 Key Financial Metrics and CAGR Analysis**

### **4.1.2.1. Total Revenue Analysis**

Before the COVID-19 pandemic, MEGA saw rapid revenue growth, showing a strong market presence and excellent management strategies. During the pandemic, revenue growth grew even stronger, most likely due to people being concerned about their health during the pandemic, which resulted in an increase in demand for health-related products and services of MEGA such as Vitamin C, zinc, and Echinacea. Mega also offers a variety of immunity-boosting products that effectively meet the consumer need. Even though Mega We Care achieved significant success between 2020-2022, their revenue stagnated in Post-COVID (in 2023). The reasons are high base from previous years, global economic slowdown, increased competition in the healthcare and wellness industry, and violent civil war in Myanmar. However, although Mega has faced a lot of challenges this year, their management is able to maintain stable revenue in 2023.

Overall, from 2015 to 2019 (prior to the Covid pandemic), the MEGA's income CAGR increased by more than 7.55%. In line with the trends in health concerns, the expansion will expand to 12.14% in 2020–2022 (Covid). The high base during the epidemic caused the CAGR to dip to 0.06% in the prior year, 2023.

### **4.1.2.2. Total Expense Analysis**

The growth in total expenses mirrored the revenue trend, with a significant increase during the pandemic, indicating higher operation cost to meet increased demand. Post-pandemic, the expense growth rate decelerated, aligning more closely with revenue, which reflect their improvement in cost control and efficiency measures.

In summary, while revenue increased, MEGA's expenses CAGR increased by more than 6.88% between 2015 and 2019 (prior to the Covid pandemic). According to revenue patterns and health concern trends, the expense has expanded by 10.44% in 2020–2022 (Covid). Owing to a high base during the pandemic that followed the revenue, the expense CAGR in 2023 has fallen to 1.90% from that year.



#### **4.1.2.3. Net Income Analysis**

Net income growth exceeded both revenue and expense growth pre-pandemic, demonstrating effective cost management and increasing profitability. The pandemic further amplified net income growth, likely due to higher margins on increased sales volume. However, net profitability fell significantly after the pandemic, which might be attributed to demand normalization, increasing competition, or growing costs that were not properly offset by revenue growth.

In summary, the MEGA's net income CAGR has increased by more than 15.75% between 2015 and 2019 (prior to the Covid pandemic) as a result of higher revenue. In 2020–2022, the CAGR has expanded to 25.31% (Covid) in accordance with revenue patterns related to health concerns. Due to high base during the pandemic after the sales, the Net Income CAGR in 2023 has fallen to -11.05%.

#### **4.1.2.4. EPS (Earnings Per Share) Analysis**

EPS trends are consistent with net income trends, reflecting the company's profitability per share. The sharp increase during the pandemic highlights strong performance and shareholder value creation during this period. The subsequent fall in post-pandemic aligns with the reduction in net income, impacting returns to shareholders.

In summary, the MEGA's EPS has a CAGR of 15.75% between 2015 and 2019 (prior to the Covid pandemic) as a result of higher revenue. In 2020–2022, the CAGR has expanded to 25.31% (Covid) in accordance with revenue patterns related to health concerns. Due to high base during the pandemic after the sales, the EPS CAGR rate in 2023 fell to -10.089%.

#### **4.1.2.5. Free Cash Flow Analysis**

Free cash flow demonstrated increased significantly before and during the pandemic, highlighting MEGA's strong cash generation capabilities and efficient capital management. The decline post-pandemic caused by potential reinvestments into the business, increased capital expenditures, increased exchange rate which led to difficulty in maintaining past cash flow levels under normalized market conditions. FCF had a

CAGR of 29.65% from 2015 to 2019; however, under COVID in the years 2020 to 2022, this number plummeted to 25.28%. The CAGR for the post-Covid period is now -3.94%.

In conclusion, MEGA's financial performance over the past decade reflects strong growth and resilience, particularly during the COVID-19 pandemic. The pre-pandemic period showed consistent growth in revenue, expenses, and profitability, driven by effective strategic initiatives. The pandemic period saw an acceleration in growth, demonstrating its ability to profit from increasing market demand for health-related products. However, the post-pandemic period is challenging, with a fall in net income, EPS, and free cash flow growth. This shows that MEGA must adjust to the new market conditions, potentially by exploring new growth opportunities, improving operational efficiencies, and more efficiently managing costs, in order to maintain long-term profitability and shareholder value.

#### 4.1.3. Peer Growth Comparison

To compare the growth analysis with peers of the company. We selected the two main competitors of MEGA as direct competitors in Thailand which are Interpharma Public Company Limited (IP) and Healthlead Public Company Limited (HL).

**Table 4.2 Compound Annual Growth Rate**

	CAGR 2020-2022 (During Covid)			CAGR 2023 (Post-Covid)		
	MEGA	IP	HL	MEGA	IP	HL
Total Revenue	12.14%	59.82%	19.34%	0.06%	17.23%	7.87%
Total Expense	10.44%	62.07%	17.53%	1.90%	23.51%	11.60%
Net Income	25.31%	39.98%	50.67%	-11.05%	-57.41%	-36.83%

Source: <https://www.setsmart.com>

Mega's revenue grew at a CAGR of 12.14% during Covid, while IP's revenue grew at a much faster rate of 59.82%. HL's revenue grew at 19.34%. However, post-Covid, Mega's revenue growth slowed down significantly to 0.06%. IP's revenue growth also slowed down to 17.23%, while HL's revenue growth remained the highest at 7.87%. In terms of net income, Mega had a CAGR of 25.31% during Covid, while IP's net

income grew at 39.98% and HL's net income grew the fastest at 50.67%. However, post-Covid, Mega's net income fell by 11.05%, IP's net income fell by 57.41%, and HL's net income dropped by 36.83%.

The help to ensure that this industry grew during COVID 2020-2022 and then dropped after COVID in 2023. When comparing the Compound Annual Growth Rates of three companies (**Table 4.2 Compound Annual Growth Rate**). IP and HL seem to be more effective than MEGA in terms of increasing revenue and net income, but the pain point was cost management because overall expenses have risen more than revenue.

However, when we look deeper into the number of all companies (**Table 4.3 Peer's Key Financial Indicator**), we found that their competitors have a much lower market share of overall revenue than MEGA, but MEGA must be more careful because their peers have grown rapidly and will be competing for market share in the long run. Therefore, MEGA must continue to maintain the revenue growth such as exploring new markets or customer segments, while keeping control of the cost management as well. In terms of cash flow management, MEGA has been very strong, but IP and HL have fluctuated in this period, leading to more liquidity risk.

**Table 4.3 Peer's Key Financial Indicator**

(Unit: Million Baht)

	MEGA					During Covid	Post-covid
	2019	2020	2021	2022	2023	CAGR 2020-2022	CAGR 2023
Total Revenue	11,179.17	12,624.96	14,182.36	15,766.69	15,776.27	12.14%	0.06%
Total Expense	10,040.64	11,236.51	12,241.51	13,526.64	13,783.65	10.44%	1.90%
Net Income	1,138.53	1,388.45	1,940.86	2,240.04	1,992.62	25.31%	-11.05%
EPS (in Baht)	1.31	1.60	2.23	2.57	2.29	25.19%	-10.89%
Free Cash Flow	1,247.92	1,006.45	2,197.69	2,453.47	2,356.73	25.28%	-3.94%

Source: <https://www.setsmart.com>

(Unit: Million Baht)

	IP					During Covid	Post-covid
	2019	2020	2021	2022	2023	CAGR 2020-2022	CAGR 2023
Total Revenue	375.88	446.94	920.98	1,534.45	1,798.78	59.82%	17.23%
Total Expense	332.41	393.16	815.76	1,415.21	1,747.99	62.07%	23.51%
Net Income	43.47	53.78	105.22	119.24	50.79	39.98%	-57.41%
EPS (in Baht)	0.28	0.26	0.36	0.36	0.14	8.74%	-61.11%
Free Cash Flow	310.20	(190.32)	21.55	602.81	(364.20)		

Source: <https://www.setsmart.com>

**Table 4.3 Peer's Key Financial Indicator (Con't)**

	(Unit: Million Baht)					During Covid	Post-covid
	HL					CAGR	CAGR
	2019	2020	2021	2022	2023	2020-2022	2023
Total Revenue	-	1,080.11	1,216.41	1,538.21	1,659.31	19.34%	7.87%
Total Expense	-	1,028.03	1,136.75	1,419.98	1,584.63	17.53%	11.60%
Net Income	-	52.08	79.66	118.23	74.68	50.67%	-36.83%
EPS (in Baht)	-	0.32	0.39	0.43	0.27	15.92%	-37.21%
Free Cash Flow	-	7.42	670.16	(558.65)	188.46		

Source: <https://www.setsmart.com>

#### 4.1.4 Dupont Analysis (ROE)

The DuPont Return on Equity (ROE) analysis decomposes ROE into three critical components: Net Profit Margin, Total Asset Turnover, and Equity Multiplier. This decomposition allows for a detailed examination of the factors driving changes in ROE. The following analysis for MEGA over the period from 2014 to 2023.

**Table 4.4 Mega's Dupont ROE Analysis**

Dupont ROE	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Net Profit Margin (%)	7.05%	8.70%	8.99%	11.54%	11.70%	10.18%	11.00%	13.69%	14.21%	12.63%
Total Asset Turnover (x)	1.15	1.05	1.11	1.11	1.07	1.06	1.09	1.07	1.08	1.12
Equity Multiplier (x)	1.69	1.76	1.70	1.66	1.68	1.71	1.66	1.65	1.67	1.52
ROE	13.77%	16.05%	16.99%	21.22%	21.07%	18.44%	19.89%	24.18%	25.52%	21.42%

##### 4.1.4.1 Net Profit Margin

The Net Profit Margin has shown a general upward trajectory, increasing from 7.05% in 2014 to 12.63% in 2023 with peak at 14.21% in 2022 and Low at 7.05% in 2014. The significant increase in the Net Profit Margin suggests improved operational efficiency and effective cost management. The overall upward trend shows that MEGA has been successful in enhancing its profitability over the years. Moreover, the key drivers ROE could include cost reduction initiatives, economies of scale, and better pricing strategies.

##### 4.1.4.2 Total Asset Turnover

Total Asset Turnover has been relatively stable, fluctuating between 1.05 and 1.15. The stability in Total Asset Turnover indicates consistent efficiency in using assets

to generate revenue. This consistency suggests that MEGA has good asset management, maintaining a stable level of asset productivity. The small fluctuations can be attributed to periodic changes in asset acquisition or disposal, as well as variations in sales growth rates.

#### **4.1.4.3 Equity Multiplier**

The Equity Multiplier has shown a declining trend from 1.69 in 2014 to 1.52 in 2023 with Highest at 1.76 in 2015 and Lowest at 1.52 in 2023. A decreasing Equity Multiplier indicates a reduction in financial leverage, meaning MEGA has been relying less on debt and more on equity for its financing needs. This trend can enhance financial stability and reduce the company's risk profile, leading to a lower cost of capital.

#### **4.1.4.4 Return on Equity (ROE)**

ROE has generally increased from 13.77% in 2014 to 21.42% in 2023, with peak at 25.52% in 2022 and low at 13.77% in 2014. The overall increase in ROE indicates that MEGA has been successful in enhancing shareholder value over this period. The major contributor to this growth has been the rising Net Profit Margin, which has more than compensated for the stable Total Asset Turnover and the decreasing Equity Multiplier. This suggests that the company's strategic focus on improving profitability has been effective.

For summary, the DuPont analysis of MEGA from 2014 to 2023 reveals a company that has made significant strides in improving profitability and shareholder value while maintaining stable asset efficiency and reducing financial leverage. These positive trends reflect strong management practices and a strategic focus on sustainable growth.

#### **4.1.5. Peer Financial Comparison as of 2023**

To provide a competitive analysis of MEGA, we will compare some financial ratios to their competitors (IP, HL, BDMS, and BCH). The ratios under consideration are Gross Profit Margin, Debt to Equity, Price to Earnings (PE) ratio, and Return on Equity (ROE).

**Table 4.5 MEGA's Key Financial Ratios**

Ratios	MEGA	IP	HL	BDMS	BCH
<b>GROSS PROFIT MARGIN (%)</b>	45.58%	37.02%	23.06%	37.12%	31.25%
<b>DEBT TO EQUITY (x)</b>	0.52	0.39	0.43	0.45	0.29
<b>PE (x)</b>	18.30	37.50	35.86	32.65	44.80
<b>ROE (%)</b>	21.42%	2.65%	7.82%	15.51%	11.23%

Source: <https://www.setsmart.com>

MEGA has the highest gross profit margin of 45.58% compared to its peers. This demonstrates that MEGA is more efficient in managing production costs and pricing strategies. It also shows that MEGA has strong competitive advantages as potentially in economies of scale. MEGA's debt-to-equity ratio of 0.52 is higher than all of its peers. Although MEGA has the highest debt-to-equity, it still has moderate leverage. It implies that MEGA also has more ability to increase financial risk to expand the company. However, MEGA has a PE ratio of 18.30, which is significantly lower than its peers. This could be reflected by a variety of factors, such as MEGA's stock being undervalued relative to its earnings or investors expecting MEGA to grow at a slower rate than its peers. In this scenario, we believe that the stock price may be undervalued because MEGA has a better gross profit margin and ROE than its peers. The market may not be fully recognizing MEGA's financial strengths and growth potential. For Return on Equity, (ROE). MEGA has the highest of 21.42% compared to its peers, indicating that MEGA is very efficient in generating profits from its shareholders' equity. Furthermore, it reflects the high management ability for utilizing the equity base to generate high returns. Overall, MEGA has great financial health and a solid return on investment, making it an attractive investor who seeking for a balance of profitability and growth.

## 4.2 DCF Valuation

DCF valuation, also known as Discounted Cash Flow valuation, is a method for estimating an investment's worth based on predicted future cash flows. It is commonly used in finance and investment analysis, particularly when appraising businesses or projects. According to the DCF valuation approach, Mega's current share

price is estimated to be 91.00 baht per share. The sections below will provide specifics on each assumption used to get the desired result.

#### 4.2.1 Revenue Forecasts

To forecast MEGA revenue we are considering key economic growth as a revenue driver for each of MEGA sales segments which are breaking down into each geographic area and country that MEGA has exposes to such as Emerging and Developing Asia, Europe Emerging and Developing Economies, Latin American and the Caribbean, Middle East and Central Asia and Sub Saharan Africa as per below **Table 4.6 Key Economic Data** (Reference to economic information in Chapter 3).

**Table 4.6 Key Economic Data**

<b>Economic Data</b>	<b>2023A</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>Global Economy Growth</b>	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
<i>Headline Inflation</i>	6.8%	5.9%	4.5%	3.1%	3.1%	3.1%
<b>Emerging Market and Developing Economic</b>	4.0%	4.7%	5.2%	5.2%	5.2%	5.2%
<b>Emerging and Developing Asia</b>	5.6%	5.3%	4.9%	4.9%	4.9%	4.9%
China	5.2%	4.6%	4.1%	4.1%	4.1%	4.1%
India	6.8%	6.8%	6.5%	6.5%	6.5%	6.5%
Myanmar	0.8%	1.2%	2.2%	2.2%	2.2%	2.2%
Thailand		2.6%	3.0%	3.0%	3.0%	3.0%
Vietnam		5.5%	6.5%	6.5%	6.5%	6.5%
Cambodia		5.8%	6.0%	6.0%	6.0%	6.0%
<b>Europe Emerging and Developing Economies</b>	3.2%	3.1%	2.8%	2.8%	2.8%	2.8%
Russia		3.2%	1.8%	1.8%	1.8%	1.8%
Turkey		3.1%	3.2%	3.2%	3.2%	3.2%
<b>Latin American and the Caribbean</b>	2.3%	2.0%	2.5%	2.5%	2.5%	2.5%
Brazil		2.2%	2.2%	2.2%	2.2%	2.2%
Maxico		2.4%	1.4%	1.4%	1.4%	1.4%
<b>Middle East and Central Asia</b>	2.0%	2.8%	4.2%	4.2%	4.2%	4.2%
<b>Sub Saharan Africa</b>	3.4%	3.8%	4.0%	4.0%	4.0%	4.0%

Since we now have all of the economic data for each sales area and country, we can forecast each sales segment, which includes Brand Business (Mega We Care), Distribution Business (Maxxcare), and OEM Business as per **Table 4.7 MEGA's Revenue forecast**. The actual sales growth in 2023 is used as a baseline. The details for each business segment are as follows.

Brand Business (Mega We Care), which includes SEA, Africa, and Others, is centered on the major economic growth of Emerging and Developing Asia for SEA, Sub-Saharan Africa for Africa, and Emerging Market and Development Economic for Others. SEA, which accounted for more than 78% of total Brand Business revenues in 2023, has grown from 8,004 million baht in 2023 to 10,199 million baht in 2028, or almost 28%. Arica, which accounted for around 12% of overall Brand Business revenues in 2023, has grown from 961 million baht in 2023 to 1,166 million baht in 2028, or about 21%. Others, which include other countries with developing economies, have climbed from 762 million baht in 2023 to 977 million baht in 2028, or almost 28%. The overall Brand Business has increased from 8,004 million baht in 2023 to 10,199 million baht in 2028 or around 27.42%.

Distribution Business (Maxxcare), which consists of three countries: Myanmar, Vietnam and Cambodia. Myanmar, which accounted for more than 73% of total Distribution Business revenue in 2023, has grown from 5,399 million baht in 2023 to 5,961 million baht or around 10% lower than other countries due to the current political situation in Myanmar. Vietnam, which accounted for 15% of Distribution Business in 2023, has grown from 1,109 million baht in 2023 to 5,961 million baht in 2028 or around 35.17%. Cambodia, which accounted for 12% of Distribution Business in 2023, has grown from 887 million baht in 2023 to 1,185 million baht in 2028 or around 33.57%. The overall Distribution Business has increased from 7,396 million baht in 2023 to 8,652 million baht in 2028 or around 16.98%.

OEM Business, which accounts for only 1.78% of total sales in 2023. With relation to the low proportion, it is not considered a vital strategic expansion of MEGA. We would keep the same amount of 279 million baht as in 2023 from 2024 to 2028.



MEGA's total revenue climbed by approximately 22.01%, from 15,681 million baht in 2023 to 19,132 million baht in 2028. The primary driver is the Brand Business (Mega We Care), which has a growth of 27.42% during the five years forecasts. Distribution Business (Maxxcare), at 16.98%, and OEM Businesses remaining constants.

**Table 4.7 MEGA's Revenue Forecast**

<b>Revenue Driver</b>						
<i>(Unit: Million Baht)</i>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>Total Income</b>	15,681.17	16,226.08	16,902.13	17,610.68	18,353.43	19,132.14
<i>% changes</i>	-0.03%	3.47%	4.17%	4.19%	4.22%	4.24%
<b>Brand Business (Mega We Care)</b>	8,004.80	8,372.48	8,795.88	9,240.82	9,708.39	10,199.76
<i>% changes</i>	-0.60%	4.59%	5.06%	5.06%	5.06%	5.06%
<b>- SEA</b>	6,281.30	6,576.52	6,918.50	7,278.26	7,656.73	8,054.88
<i>% changes</i>	-1.31%	4.70%	5.20%	5.20%	5.20%	5.20%
<b>- Africa</b>	961	997.52	1,037.42	1,078.92	1,122.07	1,166.95
<i>% changes</i>	1.28%	3.80%	4.00%	4.00%	4.00%	4.00%
<b>- Others</b>	762.6	798.44	839.96	883.64	929.59	977.93
<i>% changes</i>	3.14%	4.70%	5.20%	5.20%	5.20%	5.20%
<b>Distribution Business (Maxxcare)</b>	7,396.90	7,574.10	7,826.75	8,090.37	8,365.54	8,652.88
<i>% changes</i>	1.06%	2.40%	3.34%	3.37%	3.40%	3.43%
<b>- Myanmar</b>	5,399.70	5,464.50	5,584.72	5,707.58	5,833.15	5,961.48
<i>% changes</i>	1.06%	1.20%	2.20%	2.20%	2.20%	2.20%
<b>- Vietnam</b>	1,109.50	1,170.52	1,246.61	1,327.64	1,413.93	1,505.84
<i>% changes</i>	1.06%	5.50%	6.50%	6.50%	6.50%	6.50%
<b>- Cambodia</b>	887.6	939.08	995.43	1,055.15	1,118.46	1,185.57
<i>% changes</i>	1.06%	5.80%	6.00%	6.00%	6.00%	6.00%



**Table 4.9 MEGA's Historical Product Margin by Business Segments**

<b>Margin</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
GPM	42.88%	41.85%	45.02%	43.12%	41.14%	39.61%	41.81%	44.88%
Brand Business (Mega We Care)	63.90%	62.90%	63.90%	63.20%	62.90%	63.60%	66.20%	67.00%
Distribution Business (Maxxcare)	20.90%	21.30%	22.20%	21.10%	20.60%	18.60%	17.50%	20.80%
OEM Business	40.35%	37.81%	42.86%	29.73%	7.84%	24.05%	40.08%	38.78%

According to revenue and product margin by segment, we have concluded cost of goods sold forecasts for each business segment as per **Table 4.10 MEGA's Cost of Goods Sold Forecasts**. The cost of goods sold by the brand business and distribution business has increased following the increase in revenue forecasts. COGS of brand business has increased from 2,801 million baht in 2023 to 3,569 million baht in 2028, or around 27.42% of the same portion as revenue forecasts. COGS of the distribution business has increased from 5,584 million baht in 2023 to 6,532 million baht in 2028, or 16.98% of the same portion as revenue forecasts. COGA of OEM Business has remained constant at 199 million baht. The total COGS has increased from 8,585 million baht from 2023 to 10,302 million baht in 2028 or around 19.99% which is lower than total revenue growth of 22.01% due to higher portion of higher margin business (Brand Business) making the overall GPM of MEGA has increase from 45.25% in 2023 to 46.15% in 2028 or increase around 2.00%.

**Table 4.10 MEGA's Cost of Good Solds Forecasts**

<i>(Unit: Million Baht)</i>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>COGS</b>	8,585.83	8,848.30	9,187.24	9,542.00	9,913.41	10,302.33
<i>% changes</i>	-0.70%	3.06%	3.83%	3.86%	3.89%	3.92%
Brand Business (Mega We Care)	2,801.68	2,930.37	3,078.56	3,234.29	3,397.94	3,569.92
<i>% changes</i>	5.43%	4.59%	5.06%	5.06%	5.06%	5.06%
Distribution Business (Maxxcare)	5,584.66	5,718.45	5,909.19	6,108.23	6,315.98	6,532.92
<i>% changes</i>	-3.66%	2.40%	3.34%	3.37%	3.40%	3.43%

OEM Business	199.49	199.49	199.49	199.49	199.49	199.49
% changes	3.78%	0.00%	0.00%	0.00%	0.00%	0.00%

#### 4.2.2.2 Selling and Administrative Expenses (SG&A)

The most recent Selling expenditure to sales ratio and Admin expense to sales ratio are the bases upon which we compute the SG&A subsequent to sales estimates, allowing us to estimate the MEGA SG&A for each forecast period. Our expectation is that SG&A expenditure will be necessary to sustain corporate operations and boost sales. In contrast, the SG&A to sales ratio has been declining over the last ten years as a result of rising sales and improved business economics of scales. Therefore, keeping the company's SG&A to sales ratio at the same level would be prudent. SG&A to sales ratio would remain at 26.7% of sales which included 16.10% of sales from Selling expense and 10.47% of sales from Admin expense as per **Table 4.11 MEGA's SG&A to Sales Ratio** and **Table 4.12 MEGA's Historical SG&A to Sales Ratio**.

**Table 4.11 MEGA's SG&A to Sales Ratio**

	2023	2024E	2025E	2026E	2027E	2028E
SG&A to Sales	26.57%	26.57%	26.57%	26.57%	26.57%	26.57%
- Selling expense to Sales	16.10%	16.10%	16.10%	16.10%	16.10%	16.10%
- Admin expense to Sales	10.47%	10.47%	10.47%	10.47%	10.47%	10.47%

**Table 4.12 MEGA's Historical SG&A to Sales Ratio**

	2014	2015	2016	2017	2018	2019	2020	2021	2022
SG&A to Sales	31.81%	34.00%	30.24%	30.75%	29.61%	28.41%	26.13%	26.58%	27.64%
- Selling expense to Sales	20.14%	21.48%	18.47%	19.25%	18.30%	17.58%	16.46%	16.35%	16.79%
- Admin expense to Sales	11.68%	12.52%	11.77%	11.50%	11.31%	10.84%	9.68%	10.23%	10.86%

According to the above-mentioned SG&A to Sales Ratio. MEGA selling expense has increase from 2,539 million baht in 2023 to 3,094 million baht in 2028 or

around 21% following the increase in total revenue. MEGA administrative expenses has increase from 1,651 million baht in 2023 to 2,013 million baht in 2028 or around 21% following the increase in total revenue as per **Table 4.13 MEGA's SG&A Expenses**.

**Table 4.13 MEGA's SG&A Expense**

<i>(Unit: Million Baht)</i>	2023	2024E	2025E	2026E	2027E	2028E
SG&A	4,191.05	4,335.81	4,515.40	4,703.63	4,900.95	5,107.82
Selling expenses	2,539.30	2,627.00	2,735.82	2,849.87	2,969.42	3,094.75
Administrative expenses	1,651.75	1,708.80	1,779.58	1,853.77	1,931.53	2,013.06

### 4.2.3 FCFF Projection

Forecasting free cash flow to firm, or FCFF, is estimating future cash flows that a business will produce after deducting capital expenditures that are required to keep it operating. Therefore, EBIT, tax, depreciation, change in NWC, and CAPEX make up the model used to calculate FCFF. The upcoming section will have the details for every element.

#### 4.2.3.1 EBIT and Tax Projection

Following the major revenue and cost driver computations in the previous section, those assumptions are considered crucial parts of defining EBIT and tax for calculating the forecast FCFF. To complete the fixture of EBIT and tax projection, income statement forecasts have been used for the computation. Total income is based on the revenue forecasts. Investment income and other income will be kept constants due to the low proportion. Cost of goods sold (COGS) and selling and administrative expenses are based on the COGS forecast and SG&A forecast. The net foreign exchange gain will be kept constant due to the low proportion. Net foreign exchange loss in 2024 will be constant following 2023 due to the ongoing political crisis in Myanmar, and then start to drop by around 33% in the following years due to expectations of better management of foreign currency exchange. The share of profit of JV will be kept constant as there will be no new investment or divestment during the period of forecasts. Finance costs will also be kept constant, as there will be no new fund-raising or principal

repayment. Tax expenses will be based on a 10-year historical average of an effective tax rate of 14.07%. The details of the income statement forecast can be seen in **Table 4.14 MEGA's Income Statement Projection**.

**Table 4.14 MEGA's Income Statement Projection**

**MEGA LIFESCIENCES PLC.**

**Income Statement**

<i>*Year End 31 December</i>	<b>2566</b>	<b>2567</b>	<b>2568</b>	<b>2569</b>	<b>2570</b>	<b>2571</b>
<i>(Unit: Million Baht)</i>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
<b>Income</b>						
Revenue from sales of good and rendering service	15,681.17	16,226.08	16,902.13	17,610.68	18,353.43	19,132.14
Investment Income	60.69	60.69	60.69	60.69	60.69	60.69
Other income	34.41	34.41	34.41	34.41	34.41	34.41
<b>Total Income</b>	<b>15,776.27</b>	<b>16,321.18</b>	<b>16,997.23</b>	<b>17,705.78</b>	<b>18,448.53</b>	<b>19,227.25</b>
Cost of sales of goods and rendering of services	8,585.80	8,848.30	9,187.24	9,542.00	9,913.41	10,302.33
<b>Gross Profit</b>	<b>7,190.48</b>	<b>7,472.88</b>	<b>7,809.99</b>	<b>8,163.79</b>	<b>8,535.13</b>	<b>8,924.92</b>
SG&A	4,191.05	4,335.81	4,515.40	4,703.63	4,900.95	5,107.82
Selling expenses	2,539.30	2,627.00	2,735.82	2,849.87	2,969.42	3,094.75
Administrative expenses	1,651.75	1,708.80	1,779.58	1,853.77	1,931.53	2,013.06
Net foreign exchange gain	0.00	0.00	0.00	0.00	0.00	0.00
Net foreign exchange loss	706.57	706.57	481.41	320.94	213.96	142.64
Share of profit of JV (Equity Method)	0.07	0.07	0.07	0.07	0.07	0.07
<b>EBIT</b>	<b>2,292.93</b>	<b>2,430.57</b>	<b>2,813.25</b>	<b>3,139.28</b>	<b>3,420.29</b>	<b>3,674.53</b>
Finance costs	31.25	31.25	31.25	31.25	31.25	31.25
<b>EBT</b>	<b>2,261.67</b>	<b>2,399.32</b>	<b>2,782.00</b>	<b>3,108.03</b>	<b>3,389.04</b>	<b>3,643.28</b>
Tax Expense	269.06	337.52	391.35	437.21	476.74	512.51
<b>Profit for the year</b>	<b>1,992.62</b>	<b>2,061.81</b>	<b>2,390.65</b>	<b>2,670.82</b>	<b>2,912.30</b>	<b>3,130.77</b>
<i>% changes</i>	<i>-11.05%</i>	<i>3.47%</i>	<i>15.95%</i>	<i>11.72%</i>	<i>9.04%</i>	<i>7.50%</i>

### 4.2.3.1 Analysis Forecast comparison

Comparing our projected income statement for the years 2024 and 2025 with the opinions of seven analysts from brokerages. Our estimated earnings per share (EPS) for 2024 is 2.36 baht, which is less than the 2.76 baht industry average. Our estimated EPS for the year 2025 is 2.74 baht per share, which is less than the industry average of 2.99 baht per share. Please refer to **Table 4.15 MEGA's EPS Forecast Comparison** for further details.

**Table 4.15 MEGA's EPS Forecast Comparison**

EPS	2567	2568
<i>*Year End 31 December</i>	2024E	2025E
<b>Our Assumption</b>	2.36	2.74
KSS	2.80	3.10
TISCO	3.16	3.43
FSSIA	2.80	2.98
CGSI	2.65	
DAOLSEC	2.42	2.67
DBSV	2.60	2.76
PI	2.92	3.00
<b>Average</b>	2.76	2.99
<b>Median</b>	2.76	2.97
<b>High</b>	3.16	3.43
<b>Low</b>	2.42	2.67

### 4.2.3.2 Depreciation and Capex Projection

The management guidance provided in the 2024 annual report served as the foundation for the capex projection. The capital expenditure plan will not change in order to sustain the current physical assets. Therefore, as there are no significant acquisitions or investments, amortization and depreciation will also remain unchanged as per **Table 4.16 MEGA's Depreciation and CAPEX Projection**.

**Table 4.16 MEGA's Depreciation and CAPEX Projection**

MEGA LIFESCIENCES PLC.

Statement of cash flows

(Unit: Million Baht)

	2023	2024E	2025E	2026E	2027E	2028E
<b>Cash flows from operating activities</b>						
Depreciation and amortization	285.87	285.87	285.87	285.87	285.87	285.87
<b>Cash flows from investing activities</b>						
Acquisition of property, plant and equipment	(274.65)	(274.65)	(274.65)	(274.65)	(274.65)	(274.65)

### 4.2.3.3 Change in NWC Projection

Accounts payable, inventory, and receivable make up net working capital and are shown on the balance sheet. The projection of the balance sheet is utilized to determine the aforementioned items in order to define the change in NWC.

Based on a 21.13% AR to revenue ratio, the amount of accounts receivable would remain same as of 2023. This part would provide us flexibility with regard to accounts receivable in the event that overall revenue changes. According to the results, after a rise in sales, accounts receivable increased from 3,313 million baht in 2023 to 4,4042 million baht in 2028 as per **Table 4.17 MEGA's Working Capital Projection**.

Inventory is computed based on a 39.34% Inventory to COGS ratio, the amount of inventory would remain same as of 2023. The computation is predicated on the goal of COGS for the following year in order to supply the ideal amount of inventory for sales in the subsequent year as per **Table 4.17 MEGA's Working Capital Projection**.

Account payable is computed based on a 22.42% Account Payable to COGS ratio, the amount of Account payable would remain same as of 2023. It would provide for flexibility in account payable in the event that total income changes. According to the results, account payable increased as a result of higher sales, going from 1,924 million baht in 2023 to 3,048 million baht as per **Table 4.17 MEGA's Working Capital Projection**.



**Table 4.17 MEGA's Working Capital Projection**

<i>(Unit: Million Baht)</i>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Total Revenue	15,681.17	16,226.08	16,902.13	17,610.68	18,353.43	19,132.14
AR	3,313.75	3,428.90	3,571.76	3,721.50	3,878.45	4,043.01
AR to Revenue	21.13%	21.13%	21.13%	21.13%	21.13%	21.13%
COGS	8,585.80	8,848.30	9,187.24	9,542.00	9,913.41	10,302.33
Total Inventory	3,377.38	3,480.64	3,613.97	3,753.52	3,899.62	4,052.61
Inv to COGS	39.34%	39.34%	39.34%	39.34%	39.34%	39.34%
COGS	8,585.80	8,848.30	9,187.24	9,542.00	9,913.41	10,302.33
AP	1,924.81	1,983.66	2,059.64	2,139.18	2,222.44	2,309.63
AP to COGS	22.42%	22.42%	22.42%	22.42%	22.42%	22.42%

As a result of an increase in all components, including accounts receivable, inventory, and accounts payable, as well as an increase in sales revenue, the change in net working capital MEGA over the forecast period has increased from constantly throughout 5 years from 159.56 million baht in 2024, 200.21 million baht in 2025, 209.75 million baht in 2026, 219.79 million baht in 2027 and 230.36 million baht in 2028 following increase in sales revenue (**Table 4.18 MEGA's Net Working Capital Computation**).

**Table 4.18 MEGA's Net Working Capital Computation**

<i>(Unit: Million Baht)</i>	<b>2023</b>	<b>2024E</b>	<b>2025E</b>	<b>2026E</b>	<b>2027E</b>	<b>2028E</b>
Account Receivable (A/R)	3,313.75	3,428.90	3,571.76	3,721.50	3,878.45	4,043.01
Change in AR	206.53	115.15	142.86	149.73	156.96	164.56
Inventory	3,377.38	3,480.64	3,613.97	3,753.52	3,899.62	4,052.61
Change in Inv	(731.14)	103.26	133.33	139.55	146.10	152.99
Account Payable (A/P)	1,924.81	1,983.66	2,059.64	2,139.18	2,222.44	2,309.63
Change in AP	(868.57)	58.85	75.99	79.53	83.26	87.19
<b>NWC</b>	<b>4,766.32</b>	<b>4,925.88</b>	<b>5,126.09</b>	<b>5,335.84</b>	<b>5,555.63</b>	<b>5,785.99</b>
<b>Change in NWC</b>	<b>343.96</b>	<b>159.56</b>	<b>200.21</b>	<b>209.75</b>	<b>219.79</b>	<b>230.36</b>

As per the above-mentioned assumption, after deducted EBIT from tax, change in NWC, Capex and add back depreciation. MEGA FCF has increased from 1,944.72 million baht in 2024 to 2,942.89 million baht in 2028 or around 51.32% following the increase in sales revenue. (**Table 4.19 MEGA's FCF Projection**).

**Table 4.19 MEGA's FCF Projection**

*Year End 31 December	1	2	3	4	5
(Unit: Million Baht)	2024E	2025E	2026E	2027E	2028E
EBIT	2,430.57	2,813.25	3,139.28	3,420.29	3,674.53
(-) Tax	(337.52)	(391.35)	(437.21)	(476.74)	(512.51)
(+) Depreciation	285.87	285.87	285.87	285.87	285.87
(+/-) Change in NWC	(159.56)	(200.21)	(209.75)	(219.79)	(230.36)
(-) Capex	(274.65)	(274.65)	(274.65)	(274.65)	(274.65)
<b>FCF</b>	<b>1,944.72</b>	<b>2,232.92</b>	<b>2,503.54</b>	<b>2,734.97</b>	<b>2,942.89</b>

#### 4.2.4 Terminal Growth Rate of FCF

MEGA terminal value is computed based on perpetual method as per below formula. The terminal value equation depends on perpetual growth rate. The average annual growth rate of the total income predicted for the years 2024 to 2028, or 4.09%, is the basis for the terminal growth assumption for MEGA. Please refer to **Table 4.20 MEGA's Growth Rate Assumption**.

$$Terminal\ Value = \frac{FCFF_{Latest} \times (1 + g)}{(WACC - g)}$$

Where:

$g$  = Perpetual Growth Rate

$WACC$  = Weighted Average Cost of Capital

**Table 4.20 MEGA's Growth Rate Assumption**

(Unit: Million Baht)	2024E	2025E	2026E	2027E	2028E
Total Income	16,226.08	16,902.13	17,610.68	18,353.43	19,132.14
% changes	3.47%	4.17%	4.19%	4.22%	4.24%
Growth Rate (Forecast Period)	4.09%				

### 4.2.5 WACC

WACC is a financial metric used to measure a company's cost of capital, representing the average cost a company expected to pay to finance its assets. In term of valuation, WACC is used for define terminal value of the company as per perpetual method. Most importantly, WACC is use as a discount rate with in DCF module to define the present value of free cash flow and terminal value. The formula for WACC could be written as below and more information will be cover in following section.

$$WACC = W_d K_d (1 - Tax) + W_e K_e$$

Where:

$W_d$  = Weight of Debt

$K_d (1 - Tax)$  = Cost of Debt after Tax

$W_e$  = Weight of Equity

$K_e$  = Cost of Equity

According to the formula, WACC consists of the cost of debt and the cost of equity based on the weighting of debt and equity that the company has.

#### 4.2.5.1 Capital Structure

The combination of debt and equity that a business utilizes to fund its operations and expansion is referred to as its capital structure. In order to determine the capital structure of a corporation, we must examine its balance sheet to identify any interest-bearing debt items that would be classified as debt. According to **Table 4.21 MEGA's Liability and Equity**, the company has a total of 251.84 million baht to fund its operations.

**Table 4.21 MEGA's Liability and Equity**

<i>*Year End 31 December</i>	<b>2566</b>
<i>(Unit: Million Baht)</i>	<b>2023</b>
<b>Liabilities and shareholders' equity</b>	
<b><u>Current liabilities</u></b>	
Bank overdrafts and short-term loans from financial institutions	76.00
Current portion of lease liabilities	43.78
Current portion of long-term loans	-
<b>Total current liabilities</b>	<b>4,436.57</b>
<b><u>Non-current liabilities</u></b>	
Long-term loans from financial institutions	-
Lease liabilities	132.06
<b>Total non-current liabilities</b>	<b>376.12</b>
<b>Total liabilities</b>	<b>4,812.69</b>

In terms of equity funding, MEGA's market capitalization as of July 11, 2024, stands at 32,041.20 million baht. Regarding that, 99.22% of MEGA's capital structure is made up of stock, and the remaining 0.78% is made up of debt (Table 4.22 MEGA's Capital Structure).

**Table 4.22 MEGA's Capital Structure****Capital Structure**

<b>Total Debt</b>	<b>251.84</b>	
Price	36.75	<< As of 11 July
# Shares (mn)	871.87	
<b>Total Equity (mn)</b>	<b>32,041.20</b>	
<b>Weight of Debt</b>	<b>0.78%</b>	
<b>Weight of Equity</b>	<b>99.22%</b>	

#### 4.2.5.2 Cost of Equity Estimation

Cost of equity for MEGA is calculate based on CAPM method. The Capital Asset Pricing Model (CAPM) is a financial model that determines the expected return on an investment based on its risk relative to the market. The formula is as below:

$$E_i = R_f + \beta_i (R_m - R_f)$$

Where:

$E_i$  = Expected Return on Investment

$R_f$  = Risk Free Rate

$\beta_i$  = Beta of Investment

$R_m$  = Market Expected Return

$(R_m - R_f)$  = Market Risk Premium

Cost of Equity for MEGA is equal to 7.49%. It is consisting of 2.61% risk free based on 10 years Thai Government Bond as of 11-July-24. Beta is equal to 0.878 as of 11-July-24 based on the information provided by the SET website and Bloomberg for MEGA historical performance compared to the performance of the market. Market Premium or Market Risk Premium is provided by Bloomberg as part of emerging market equity risk data (**Table 4.23 Cost of Equity Computation**).

**Table 4.23 Cost of Equity Computation**

**Cost of Equity (CAPM):**

Risk Free	2.61%
Beta	0.878
Market Premium	5.56%
<b>Cost of Equity:</b>	<b>7.49%</b>

#### 4.2.5.3 Cost of debt

Based on the most recent MEGA effective interest rate, as shown in **Table 4.24 Effective Interest Rate**. To compute the effective interest rate, Interest expense is based on interest cost reported in the income statement, while total IBD is based on the

actual balance sheet. Following that, divide the interest expense by the previous of interest-bearing debt that is carrying interest from the previous periods to obtain the effective interest rate. The outcome demonstrates that MEGA's most recent effective interest rate is 7.43%, which is greater than the cost of equity. Then it is use for calculate Cost of Debt after Tax based on earlier computation of effective tax rate as per **Table 4.25 Cost of Debt after Tax**.

**Table 4.24 Effective Interest Rate**

<u>Cost of Debt:</u>	2018	2019	2020	2021	2022	2023
Total IBD	959.82	890.48	647.47	356.33	420.87	251.84
Interest Expense	33.98	65.15	72.28	28.28	28.73	31.25
Effective Interest Rate	6.63%	6.79%	8.12%	4.37%	8.06%	7.43%

**Table 4.25 Cost of Debt after Tax**

Cost of Debt:

Effective Interest Rate	7.43%
Effective Tax Rate	14.07%
<b>Cost of Debt after Tax</b>	<b>6.38%</b>

#### 4.2.5.4 WACC Estimation

Following the computation of the cost of debt and the cost of equity. With the previously defined capital structure in consideration the WACC formula can be used to calculate WACC as follows. 7.48% is the WACC for mega. (**Table 4.26 WACC Computation**)

$$WACC = (0.78\% \times 6.38\%) + (99.22\% \times 7.49\%)$$

$$WACC = 7.48\%$$

Where:

WACC = Weighted average cost of capital

**Table 4.26 WACC Computation**

<b>WACC</b>	<b>7.48%</b>
<b>Cost of Debt:</b>	
Effective Interest Rate	7.43%
Effective Tax Rate	14.07%
<b>Cost of Debt after Tax</b>	<b>6.38%</b>
<b>Cost of Equity (CAPM):</b>	
Risk Free	2.61%
Beta	0.878
Market Premium	5.56%
<b>Cost of Equity:</b>	<b>7.49%</b>
<b>Capital Structure</b>	
<b>Total Debt</b>	<b>251.84</b>
Price	36.75
# Shares (mn)	871.87
<b>Total Equity (mn)</b>	<b>32,041.20</b>
<b>Weight of Debt</b>	<b>0.78%</b>
<b>Weight of Equity</b>	<b>99.22%</b>

#### 4.2.6 DCF Valuation Result

Following the calculation of all DCF-related assumptions, including FCF, Terminal Value, and WACC. Compiling all the numbers and applying a WACC discount would yield the current MEGA Enterprise value. The subsequent section will display the consolidation details of DCF.

##### 4.2.6.1 Discount Cash Flow Valuation

After applying the discount rate, the enterprise value (EV) of Mega for the five-year future cash flow from 2024 to 2028 is equivalent to 72,929.73 million baht, as shown in **Table 4.27 DCF Model**. The target price for Mega is then calculated using the valuation methodology, as shown in the equation below, based on its intrinsic price.

$EV = \text{Value of Equity} + \text{Value of Debt} - \text{Cash and Short Term Investments}$

$$72,929.73 = (P * \#Share\ mn) + 251.84 - 2,356.73$$

$$P = \frac{72,929.73 - 251.84 + 2,356.73}{\#Share\ mn}$$

$$P = 81.23\ \text{baht per share}$$

According to my projection, MEGA's target price per share is 81.23 baht, with a potential upside of 121.04% when compared to the share price on July 11, 2024, as per **Table 4.28 Valuation Result**.

**Table 4.27 DCF Model**

*Year End 31 December	1	2	3	4	5
(Unit: Million Baht)	2024E	2025E	2026E	2027E	2028E
EBIT	2,430.57	2,813.25	3,139.28	3,420.29	3,674.53
(-) Tax	(337.52)	(391.35)	(437.21)	(476.74)	(512.51)
(+) Depreciation	285.87	285.87	285.87	285.87	285.87
(+/-) Change in NWC	(159.56)	(200.21)	(209.75)	(219.79)	(230.36)
(-) Capex	(274.65)	(274.65)	(274.65)	(274.65)	(274.65)
<b>FCF</b>	<b>1,944.72</b>	<b>2,232.92</b>	<b>2,503.54</b>	<b>2,734.97</b>	<b>2,942.89</b>
Terminal Value					<b>90,460.81</b>
<b>Total FCF</b>	<b>1,944.72</b>	<b>2,232.92</b>	<b>2,503.54</b>	<b>2,734.97</b>	<b>93,403.70</b>
<b>Enterprise Value (EV)</b>	<b>72,929.73</b>				
WACC	7.48%				
(g) Growth Rate	4.09%				

**Table 4.28 Valuation Result**

Enterprise Value (EV) (mn)	72,929.73	#Share (mn)	871.87
IBD (mn)	251.84	Price	81.23
Cash (mn)	2,356.73	Current Share Price (as of 11-July-24)	36.75
Equity Value (Market Cap) (mn)	70,824.84	Up side	121.04%

#### 4.2.6.2 Sensitivity Analysis



Major independent variables including cost of debt, cost of equity, WACC, and terminal growth are listed in the sensitivity table as per **Table 4.29 Sensitivity Data**. The low percentage of debt in the MEGA capital structure means that changes in the cost of debt have little or no effect on the target price. In a 50% variation, the share price can rise from 81.23 baht per share to 81.86 baht per share, or fall to 80.61 baht per share. Nonetheless, the target price is significantly impacted by changes in the cost of equity. The target price will decrease by 10% for every 5% increase in the cost of equity. However, the target price will rise by 12% if the cost of equity drops by 5%. Since stock makes up the majority of the MEGA capital structure, WACC and Cost of stock are similarly sensitive. Finally, terminal growth significantly affects the MEGA target price; a 5% change in terminal growth will result in a 5% difference in the target price.

**Table 4.29 Sensitivity Data**

Deviation	Cost of Debt	Price (Baht)	Cost of Equity	Price (Baht)	WACC	Price (Baht)	Terminal Growth	Price (Baht)
50%	9.57%	80.61	11.23%	36.89	11.22%	36.75	6.14%	195.36
40%	8.93%	80.74	10.48%	41.61	10.47%	41.47	5.73%	151.16
30%	8.30%	80.86	9.74%	47.58	9.72%	47.44	5.32%	123.73
20%	7.66%	80.98	8.99%	55.37	8.98%	55.25	4.91%	105.05
10%	7.02%	81.11	8.24%	65.97	8.23%	65.89	4.50%	91.50
5%	6.70%	81.17	7.86%	72.85	7.85%	72.80	4.30%	86.04
0%	<b>6.38%</b>	<b>81.23</b>	<b>7.49%</b>	<b>81.23</b>	<b>7.48%</b>	<b>81.23</b>	<b>4.09%</b>	<b>81.23</b>
-5%	6.06%	81.30	7.11%	91.69	7.11%	91.77	3.89%	76.98
-10%	5.74%	81.36	6.74%	105.08	6.73%	105.29	3.68%	73.18
-20%	5.10%	81.48	5.99%	147.59	5.98%	148.39	3.27%	66.69
-30%	4.47%	81.61	5.24%	244.70	5.24%	247.95	2.87%	61.35
-40%	3.83%	81.73	4.49%	690.22	4.49%	725.25	2.46%	56.89
-50%	3.19%	81.86	3.74%		3.74%		2.05%	53.10

### 4.3 Valuation Recommendation

Our analysis leads us to recommend a strong BUY for the stock, with a target price of 81.23 baht per share, representing a potential upside of 121.04%. On July 11th, 2024, the stock price was 36.75 baht less than our anticipated intrinsic value. This indicates that the stock is now trading below its future cash flow-based intrinsic value. Please note that it is quite sensitive to the cost of equity assumption.



## **CHAPTER V**

### **INVESTMENT RISKS**

To evaluate the investment risks associated with Mega We Care, there are four critical risks that we concern including regulatory changes, research and development, increasing competitors, and risks associated with doing business in Myanmar.

#### **5.1 Risk of Regulatory Changes**

Regulatory changes may have a significant impact on Mega's operations. The health and wellness industry are subject to strict regulations implemented by both local and international organizations. The regulations aim to ensure the safety, efficacy, and quality of health products but they can change often and become stricter all the time. Health products, especially pharmaceuticals and dietary supplements, must go through extensive research and approval processes before they can be launched in the market. Changes in regulatory requirements can extend the time and increase the cost associated with launching new products to market. MEGA operates in many nations, each with its own regulatory framework. This complicates the company's efforts to comply with regulatory requirements. Integration of operations across several regulatory environments requires a strong regulatory affairs department capable of navigating and aligning with many international standards, such as those established by the World Health Organization (WHO) and local health authorities.

Source: MEGA Annual Report (2023)

## **5.2 Risk of Research and Development**

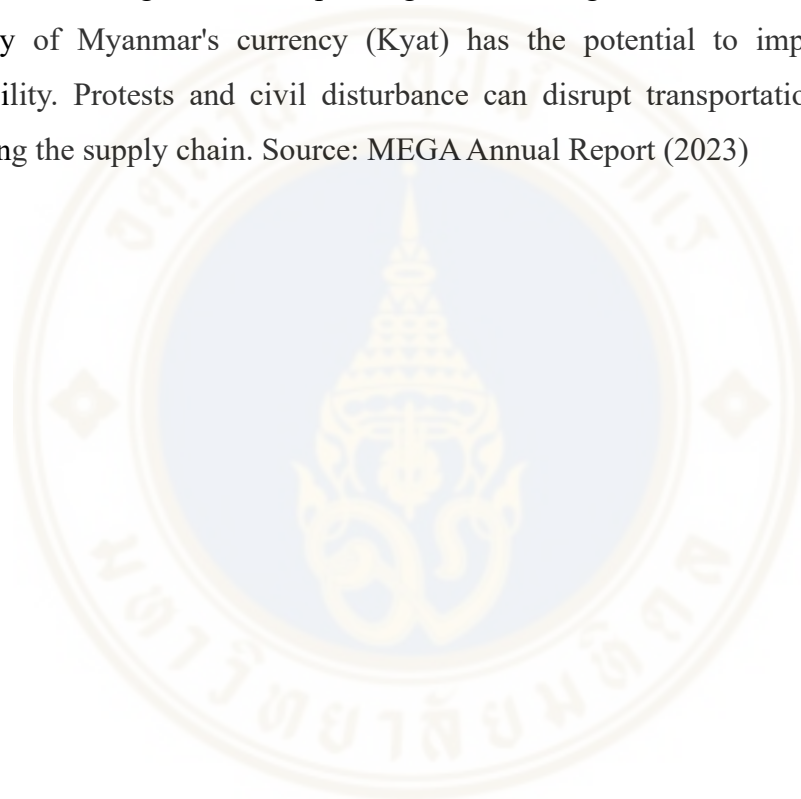
MEGA's growth and innovation strategy relies heavily on research and development (R&D). The capacity to create new and effective health products is critical for retaining a competitive advantage and satisfying the changing requirements of consumers. However, R&D in the health and wellness industry is expensive and time consuming. Creating a new pharmaceutical product, for example, can take several years and need a substantial financial commitment. This covers preliminary research, preclinical testing, clinical trials, and the regulatory approval process. Moreover, there is uncertainty in the R&D process. Not all projects produce successful products. Scientific obstacles, such as identifying effective chemicals or formulations, might cause project delays or failures. Even good ideas can fail in clinical trials, resulting in sunk cost without return on investment. Also, protecting intellectual property is crucial for securing the returns on R&D investments. Patents and trademarks provide exclusive rights to launch new products, leading to additional costs. Source: MEGA Annual Report (2023)

## **5.3 Risk of Increased Competition and New Entrants**

The health and wellness sector are highly competitive with competitors ranging from global corporations to small firms. Especially after post covid-19, the rise of healthcare trends has led to the increasing number of competitors in the industry. MEGA must continuously innovate and differentiate its products to maintain and grow its market share. Competitors are constantly developing new products and improving existing ones. MEGA must invest in R&D to stay ahead in terms of product efficacy, safety, and consumer appeal. Unique formulations, patented technologies, and superior health benefits are critical differentiators. Also, Price competition is intense in the health and wellness industry. MEGA has to maintain a balance between offering competitive prices and maintaining profit margins. Efficient production processes, cost-effective sourcing of raw materials, and economies of scale are essential for cost control, leading many challenges to MEGA. Source: MEGA Annual Report (2023)

#### **5.4 Risk Associated with Doing Business in Myanmar**

Approximately 40% of MEGA's group revenues came from Myanmar in fiscal year 2023. Currently, Myanmar presents a complex and high-risk environment for businesses. The ongoing political instability, economic downturn, and low security situation lead to significant challenges to operations. The ongoing military coup and civil unrest have created a highly unstable political environment, impacting MEGA's operations and supply chains. Also, the political crisis has resulted in a major economic downturn, lowering consumer spending and affecting overall market conditions. The volatility of Myanmar's currency (Kyat) has the potential to impact pricing and profitability. Protests and civil disturbance can disrupt transportation and logistics, impacting the supply chain. Source: MEGA Annual Report (2023)



## CHAPTER VI

### CONCLUSIONS

#### 6.1 Investment Recommendation

After completing an analysis of MEGA, the investment recommendation is "BUY". The company is poised for strong growth, driven by its expansive market reach, commitment to health and wellness innovation, and diverse product portfolio. There are some reasons to support the buy recommendation.

1. **Diverse Product Range:** MEGA's extensive product line, which includes nutraceuticals, herbal medicines, and prescription drugs, allows the company to effectively meet the varied needs of consumers across different market segments. The scientific backing for products like probiotics and herbal medicines enhances consumer trust and demand.
2. **Geographic Expansion:** Operating in over 30 developing countries, MEGA enjoys a broad market base that provides significant growth opportunities. This wide reach helps mitigate risks associated with reliance on a single market, allowing the company to benefit from economic growth in multiple regions.
3. **Investment in R&D:** Continuous investment in research and development ensures that MEGA remains at the top rank of health and wellness innovation. This commitment to R&D is critical for maintaining a competitive edge and introducing effective new products to the market.
4. **Alignment with Health and Sustainability Trends:** Mega We Care's focus on preventive health and wellness aligns well with global trends toward holistic health management and sustainability. This strategic alignment ensures the company's long-term market relevance and appeal.

## 6.2 Triggers for Re-Assessment

There are several factors that could lead to the re-assessment of MEGA's DCF valuation model which will result in the adjustment of target price and investment decision as follows:

1. **Change in Revenue Projections:** If there are significant changes in the market conditions due to macroeconomic factors. The changes could impact MEGA earnings forecasts, it may necessitate a reassessment of MEGA's revenue forecasts.
2. **Change in Cost Structure:** Significant changes in costs of goods sold (COGS), SG&A expense, or other operating expenses can impact MEGA's gross profit margin and profit margin, requiring a reassessment of the DCF model.
3. **Change in CAPEX:** If MEGA needs to invest more (or less) in capital expenditures than previously anticipated, it could impact the free cash flow projections used in the DCF model. Included the modifications to the company's expansion strategy, such as scaling back or accelerating growth plans, can trigger a reassessment of capital expenditure forecasts.
4. **Change in Working Capital:** If there are changes in the company's working capital requirements such as changes in level of inventory, accounts receivable, or account payable could impact free cash flow projections.
5. **Interest Rate Fluctuations:** Changes in interest rates affect the discount rate (typically the Weighted Average Cost of Capital or WACC) used in the DCF analysis, directly impacting the valuation.
6. **Changes in the Discount Rate:** Changes in the company's cost of equity, cost of debt, or overall WACC due to shifts in interest rates, changes in company risk, or capital structure adjustments can trigger a reassessment of the DCF valuation.
7. **Regulatory Changes:** Significant alterations in health regulations or pharmaceutical laws in key markets could affect product approvals, marketing strategies, and sales approaches, necessitating operational adjustments.
8. **Market Competition:** Increased competition from new entrants or aggressive strategies by existing competitors may decrease MEGA's market share and pricing power, impacting revenue growth.

9. **Economic Instability:** Economic downturns in major markets could reduce consumer spending on health and wellness products, negatively affecting the company's revenue growth.
10. **Product Recall or Safety Issues:** Many product recalls or safety concerns could damage the brand's reputation and financial performance, leading to potential legal penalties and loss of consumer trust.
11. **Technological Advancements:** Rapid technological advancements that MEGA fails to adopt could make its products obsolete or less competitive, impacting the company's market position.
12. **Supply Chain Disruption:** Issues such as raw material shortages or logistical problems could affect production schedules and product availability, disrupting the company's operations.

## 6.3 Valuation Limitations

### 6.3.1 Limitations on Discounted Cash Flow

The assumption used in the DCF model is the constraint of discounted cash flow valuation since access to the company's internal information is limited, hence the input data was completely based on publicly available information. When appraising MEGA using the Discounted Cash Flow (DCF) technique, a variety of limits must be considered and compensated for in order to generate a more accurate and realistic value. The following are the major problems and suggested changes:

1. **Forecast Accuracy:** The DCF is dependent on extremely speculative projections of future cash flows. Modest adjustments to growth rates, profit margins, or capital spending can have a big impact on the valuation.
2. **Discount Rate Selection:** Selecting the right discount rate is difficult and important. The expected cash flows' riskiness is reflected in the discount rate, and any variations in this rate can have a significant impact on the



valuation. Examples include adjustments to the country risk premium, debt rollover costs, and the change in the risk-free rate as a result of central bank action.

3. **Terminal Value:** The expected value of the investment at the conclusion of the projection period, or the terminal value, might account for a sizable amount of a DCF valuation. The selected growth rate after the projection period will have a significant impact on this value.
4. **Assumes Constant Capital Structure:** DCF frequently makes the assumption that a company's capital structure will remain unchanged during the forecast period, which may not be feasible for businesses that intend to make big changes to their debt or equity funding.
5. **Static Model:** After the model is constructed, DCF analysis finds it difficult to account for alterations in market conditions, unforeseen events, or changes in strategy. It can be difficult to modify the model to account for such changes.

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