

# Malakoff Corporation (MLK MK)

## A strong showing

### Improved contribution from coal plants

2Q22 results were above our/consensus expectations. We believe the beat was due to better-than-expected earnings contribution by the two coal plants. Maintain HOLD with an unchanged MYR0.65 TP pending briefing updates. We see current risk-reward as being merely balanced. In the sector, we prefer Mega First (MFCB MK, BUY, CP: MYR3.56, TP: MYR4.30).

### Above expectation

Malakoff's 2Q22 net profit of MYR119m (+1% YoY, +134% QoQ) brings 1H22 net profit to MYR170m (-5% YoY), 70/59% of our/consensus full-year forecasts respectively. While operating details have not yet been disclosed, we believe the beat was due to better-than-expected contribution by both Tj Bin Power (TBP) and Tj Bin Energy (TBE). An interim DPS of 2.8sen (-10% YoY) was declared.

### Sequentially stronger

Malakoff will only host its briefing this morning. Thus, the capacity payment breakdown by plant and other details remain unknown at the time of writing. The results commentary alluded to improved QoQ contribution from both TBP (possibly improved fuel margin due to higher coal prices) and TBE (higher QoQ availability following outage in 1Q22). Meanwhile, sequentially higher associate income was offset by lower QoQ PAT from Alam Flora.

### Awaiting further disclosures

Our earnings forecasts and MYR0.65 TP (based on a sum-of-parts with each entity valued on a DCF assuming 8.9% WACC) are unchanged pending further updates/disclosures by management from the results briefing. Recall 2H21 eventually accounted for just 30% of FY21 net profit after a hefty write-off of deferred expense in 4Q21.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,277	6,463	6,415	6,149	6,061
EBITDA	2,054	2,093	2,045	1,926	1,913
Core net profit	287	255	244	294	359
Core EPS (sen)	5.9	5.2	5.0	6.0	7.3
Core EPS growth (%)	(10.5)	(11.2)	(4.3)	20.5	22.1
Net DPS (sen)	5.1	5.1	4.2	5.1	6.2
Core P/E (x)	15.3	13.8	13.1	10.9	8.9
P/BV (x)	0.7	0.6	0.5	0.5	0.5
Net dividend yield (%)	5.7	7.1	6.5	7.8	9.5
ROAE (%)	4.6	4.1	3.9	4.7	5.7
ROAA (%)	1.1	1.1	1.1	1.4	1.8
EV/EBITDA (x)	5.4	4.5	4.3	4.2	3.9
Net gearing (%) (incl perps)	100.2	87.4	80.8	71.2	62.3
Consensus net profit	-	-	288	321	331
MKE vs. Consensus (%)	-	-	(15.4)	(8.4)	8.4

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# HOLD

Share Price	MYR 0.66
12m Price Target	MYR 0.65 (+5%)
Previous Price Target	MYR 0.65

### Company Description

Malakoff Corp owns a portfolio of independent power and water producers.

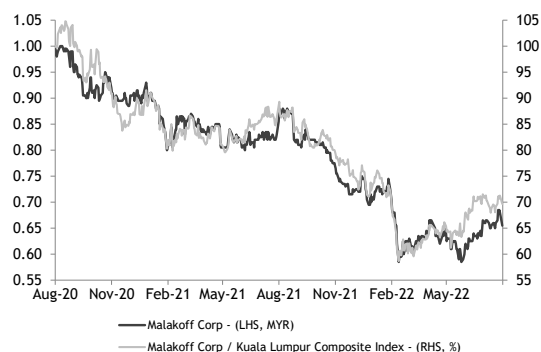
### Statistics

52w high/low (MYR)	0.88/0.59
3m avg turnover (USDm)	0.3
Free float (%)	39.7
Issued shares (m)	4,888
Market capitalisation	MYR3.2B USD713M

### Major shareholders:

MMC Corp. Bhd.	37.6%
Employees Provident Fund	12.3%
Lembaga Tabung Haji	10.2%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	2	(23)
Relative to index (%)	(3)	6	(22)

Source: FactSet

## Malakoff Corp: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	2Q22	2Q21	%YoY	1Q22	%QoQ	1H22	1H21	%YoY
Revenue	2,318.5	1,584.4	46.3	1,883.8	23.1	4,202.3	2,935.6	43.1
EBITDA	581.5	575.9	1.0	495.0	17.5	1,076.6	1,091.8	(1.4)
Depreciation	(228.3)	(227.2)	0.5	(231.8)	(1.5)	(460.1)	(452.6)	1.7
Amortisation	(79.8)	(79.9)	(0.1)	(79.0)	1.0	(158.8)	(159.0)	(0.1)
EBIT	273.4	268.8	1.7	184.2	48.4	457.7	480.2	(4.7)
Associate income	55.9	61.5	(9.1)	47.7	17.2	103.6	89.3	16.0
Net interest	(132.7)	(140.6)	(5.6)	(133.8)	(0.8)	(266.5)	(283.1)	(5.9)
<b>Pre-tax profit</b>	<b>196.6</b>	<b>189.7</b>	<b>3.6</b>	<b>98.2</b>	<b>100.3</b>	<b>294.8</b>	<b>286.4</b>	<b>2.9</b>
Tax	(64.2)	(59.8)	7.3	(28.4)	125.8	(92.6)	(82.6)	12.1
Minority Interests	(13.3)	(12.2)	9.3	(18.9)	(29.6)	(32.2)	(25.6)	25.5
<b>Net Profit</b>	<b>119.1</b>	<b>117.7</b>	<b>1.2</b>	<b>50.9</b>	<b>134.2</b>	<b>170.0</b>	<b>178.2</b>	<b>(4.6)</b>
Pre-ex EPS (sen)	2.44	2.41	1.2	1.04	134.2	3.48	3.65	(4.6)
Net DPS (sen)	2.80	3.10	(9.7)	0.00	N/A	2.80	3.10	(9.7)
Net cash/(debt)	(6,039.8)	(6,525.7)	(7.4)	(5,864.7)	3.0	(6,039.8)	(6,525.7)	(7.4)
Gearing (%)	109.0	120.3		107.0		109.0	120.3	
Capex	20.6	64.3	(68.0)	158.2	(87.0)	178.8	118.8	50.5

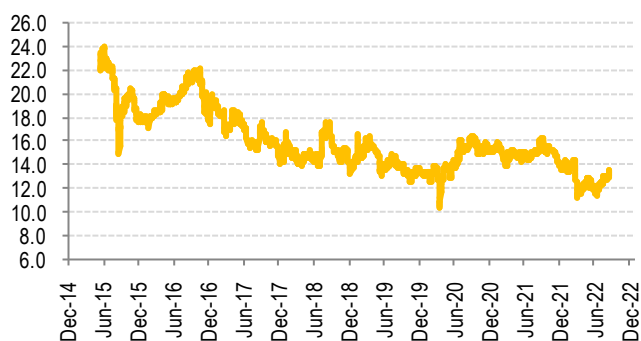
Source: Company

## Target price calculation

(MYR m)	Value	Stake	Attri. value	Per share	%
Segari	173	93.8%	162	0.03	5%
GB3	435	75.0%	326	0.07	10%
Prai	334	100.0%	334	0.07	10%
Tj Bin Power	1,794	90.0%	1,615	0.33	48%
Tj Bin Energy	374	100.0%	374	0.08	11%
Alam Flora	521	97.4%	507	0.10	15%
Kapar	-457	0.0%	0	0.00	0%
O&M (M Power)	75	100.0%	75	0.02	2%
<b>Equity value</b>	<b>3,707</b>		<b>3,394</b>	<b>0.69</b>	<b>100%</b>
Loan stocks	800	100.0%	800	0.16	
Residual net cash	-1,014		-1,014	-0.21	
<b>Total equity value</b>			<b>3,180</b>	<b>0.65</b>	

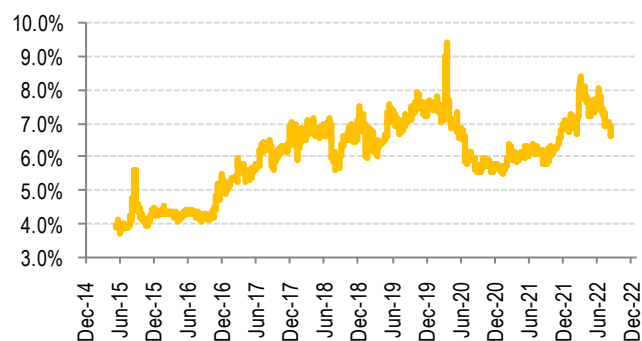
Source: Maybank IBG Research

## Trailing PER



Source: Bloomberg, Maybank IBG Research

## Trailing net yield



Source: Bloomberg, Maybank IBG Research

## Risk statement

There are several risk factors for our earnings estimates, target price and rating for Malakoff. Major unscheduled outages could lead to a shortfall in revenue collection, adversely impacting earnings. Any unexpected regulatory development could also have a direct impact on Malakoff's earnings.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	15.3	15.9	13.1	10.9	8.9
Core P/E (x)	15.3	13.8	13.1	10.9	8.9
P/BV (x)	0.7	0.6	0.5	0.5	0.5
P/NTA (x)	1.6	1.1	0.9	0.8	0.7
Net dividend yield (%)	5.7	7.1	6.5	7.8	9.5
FCF yield (%)	37.8	44.9	35.9	41.8	41.1
EV/EBITDA (x)	5.4	4.5	4.3	4.2	3.9
EV/EBIT (x)	13.2	11.2	11.0	10.2	9.2
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,276.8	6,463.1	6,415.4	6,148.9	6,060.7
EBITDA	2,054.3	2,092.7	2,044.8	1,925.9	1,913.4
Depreciation	(888.7)	(923.4)	(926.5)	(812.2)	(776.9)
Amortisation	(321.2)	(320.3)	(320.3)	(320.3)	(320.3)
EBIT	844.4	849.0	798.0	793.4	816.2
Net interest income / (exp)	(571.6)	(576.0)	(503.1)	(471.6)	(406.7)
Associates & JV	171.8	196.6	190.0	190.0	190.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	444.6	469.6	484.9	511.8	599.5
Income tax	(114.5)	(170.4)	(199.4)	(179.0)	(197.5)
Minorities	(43.5)	(44.7)	(41.9)	(39.1)	(43.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	286.6	254.5	243.7	293.7	358.5
Core net profit	286.6	254.5	243.7	293.7	358.5
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	4,440.8	4,185.9	3,688.3	3,199.4	2,839.9
Accounts receivable	1,364.9	1,075.6	1,142.5	1,095.0	1,079.3
Inventory	584.0	843.7	942.8	912.5	906.8
Property, Plant & Equip (net)	12,479.0	11,685.3	10,923.7	10,261.6	9,634.7
Intangible assets	3,312.5	2,985.3	2,666.5	2,347.8	2,029.0
Investment in Associates & JVs	1,467.2	1,723.1	1,865.6	2,008.1	2,150.6
Other assets	540.4	578.6	640.1	717.7	788.8
<b>Total assets</b>	<b>24,188.8</b>	<b>23,077.5</b>	<b>21,869.6</b>	<b>20,542.1</b>	<b>19,429.2</b>
ST interest bearing debt	1,171.3	1,266.6	1,266.6	1,266.6	1,266.6
Accounts payable	1,360.3	1,499.4	1,450.4	1,382.6	1,353.4
LT interest bearing debt	9,724.2	8,603.3	7,683.9	6,588.9	5,658.9
Other liabilities	5,488.0	5,207.0	4,952.0	4,762.0	4,591.0
<b>Total Liabilities</b>	<b>17,744.0</b>	<b>16,576.7</b>	<b>15,353.1</b>	<b>14,000.3</b>	<b>12,870.2</b>
Shareholders Equity	6,107.9	6,189.2	6,225.7	6,269.8	6,323.6
Minority Interest	336.8	311.7	290.8	272.0	235.4
<b>Total shareholder equity</b>	<b>6,444.7</b>	<b>6,500.9</b>	<b>6,516.5</b>	<b>6,541.8</b>	<b>6,559.0</b>
<b>Total liabilities and equity</b>	<b>24,188.8</b>	<b>23,077.5</b>	<b>21,869.6</b>	<b>20,542.1</b>	<b>19,429.2</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	444.6	469.6	484.9	511.8	599.5
Depreciation & amortisation	1,209.9	1,243.7	1,246.8	1,132.5	1,097.2
Adj net interest (income)/exp	571.6	576.0	503.1	471.6	406.7
Change in working capital	180.0	(391.1)	(470.1)	(180.0)	(178.7)
Cash taxes paid	(284.5)	(262.5)	(260.9)	(256.7)	(268.6)
Other operating cash flow	(54.9)	111.3	(190.0)	(190.0)	(190.0)
Cash flow from operations	2,066.7	1,746.9	1,313.8	1,489.2	1,466.0
Capex	(413.7)	(165.6)	(165.0)	(150.0)	(150.0)
Free cash flow	1,653.0	1,581.3	1,148.8	1,339.2	1,316.0
Dividends paid	(337.7)	(263.9)	(207.1)	(249.7)	(304.8)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,562.9)	(1,142.0)	(919.4)	(1,095.0)	(930.0)
Other invest/financing cash flow	(566.5)	(430.3)	(519.9)	(483.5)	(440.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(814.1)	(254.8)	(497.6)	(488.9)	(359.5)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(15.4)	3.0	(0.7)	(4.2)	(1.4)
EBITDA growth	(15.2)	1.9	(2.3)	(5.8)	(0.7)
EBIT growth	(32.1)	0.5	(6.0)	(0.6)	2.9
Pretax growth	(16.3)	5.6	3.3	5.5	17.1
Reported net profit growth	(10.5)	(11.2)	(4.3)	20.5	22.1
Core net profit growth	(10.5)	(11.2)	(4.3)	20.5	22.1
<b>Profitability ratios (%)</b>					
EBITDA margin	32.7	32.4	31.9	31.3	31.6
EBIT margin	13.5	13.1	12.4	12.9	13.5
Pretax profit margin	7.1	7.3	7.6	8.3	9.9
Payout ratio	87.0	97.9	85.0	85.0	85.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.6	3.9	3.8	4.8	5.9
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	4.0	3.7	3.5	3.3	3.1
ROAE (%)	4.6	4.1	3.9	4.7	5.7
ROAA (%)	1.1	1.1	1.1	1.4	1.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	30.6	17.0	22.7	30.6	31.2
Days receivable outstanding	89.4	68.0	62.2	65.5	64.6
Days inventory outstanding	44.8	50.8	60.7	66.2	66.3
Days payables outstanding	103.6	101.7	100.3	101.1	99.7
Dividend cover (x)	1.1	1.0	1.2	1.2	1.2
Current ratio (x)	2.2	1.9	1.8	1.7	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net gearing (%) (incl perps)	100.2	87.4	80.8	71.2	62.3
Net gearing (%) (excl. perps)	100.2	87.4	80.8	71.2	62.3
Net interest cover (x)	1.5	1.5	1.6	1.7	2.0
Debt/EBITDA (x)	5.3	4.7	4.4	4.1	3.6
Capex/revenue (%)	6.6	2.6	2.6	2.4	2.5
Net debt/ (net cash)	6,454.7	5,684.0	5,262.2	4,656.1	4,085.6

Source: Company; Maybank IBG Research

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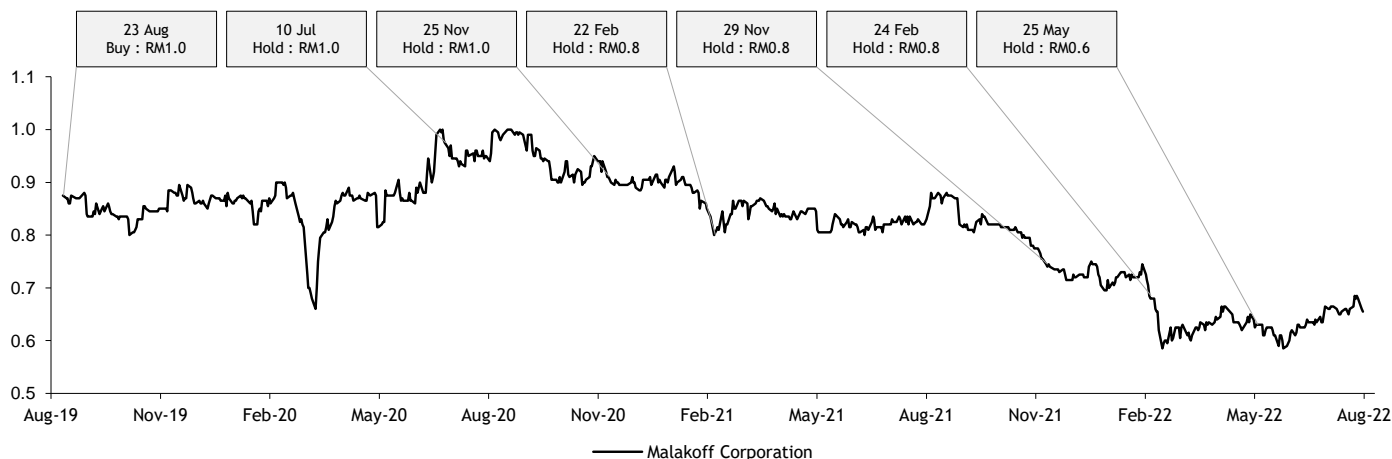
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