

# Malakoff Corporation (MLK MK)

## Favourable risk-reward

# BUY

[Prior:HOLD]

Share Price MYR 0.66  
 12m Price Target MYR 0.75 (+23%)  
 Previous Price Target MYR 0.70

### A trade on elevated coal prices

FY22 is shaping up to be a strong year for earnings and thus dividends as Malakoff's coal plants benefit from exceptionally high fuel margins. We see current risk-reward as being favourable given potentially elevated earnings in the upcoming quarters. Upgrade to BUY (from HOLD) with a higher MYR0.75 TP (+7%) post our earnings upgrades.

### Strong fuel margin from elevated coal prices

Recall Malakoff delivered a commendable net profit in 3Q22 despite booking a MYR195m impairment loss. This was mainly on the back of significantly higher fuel margin (+MYR205m QoQ) due to higher ACP (applicable coal price, which is the price charged to IPPs). Based on the regulator's logs, ACP was up 63% QoQ in 3Q22 (against +12% QoQ in 2Q22), which explains why the QoQ change in fuel margin was so pronounced.

### A quick refresher

IPPs bear fuel cost which in turn, is recovered through energy payments received (specifically the fuel payment component). The pass-through is however not perfect, as energy payments are calculated based on pre-defined heat rates (effectively the volume of fuel used per kWh of generation) as stipulated in the PPAs. IPPs that operate more efficiently and use less fuel would be able to generate incremental fuel margin (volume saved multiplied by fuel price).

### Possibly strong earnings in upcoming quarters

ACP for Oct 2022 is up 3% from 3Q22, but TBE is scheduled to undergo major maintenance for most of 4Q22. Nevertheless, TBP should still enjoy elevated fuel margins, and in the absence of impairment loss, we expect Malakoff to report sequentially stronger 4Q22 earnings. We raise our FY22/23/24 net profit forecasts by 25%/52%/10% respectively mainly to reflect higher fuel margins for the coal plants. Our TP (based on a sum-of-parts with each entity valued on a DCF assuming 8.9% WACC) is consequently raised to MYR0.75 (from MYR0.70).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,277	6,463	6,877	6,471	6,188
EBITDA	2,054	2,093	2,425	2,310	2,080
Core net profit	287	255	385	543	451
Core EPS (sen)	5.9	5.2	7.9	11.1	9.2
Core EPS growth (%)	(10.5)	(11.2)	51.3	41.0	(17.0)
Net DPS (sen)	5.1	5.1	6.7	9.4	7.8
Core P/E (x)	15.3	13.8	8.4	5.9	7.2
P/BV (x)	0.7	0.6	0.5	0.5	0.5
Net dividend yield (%)	5.7	7.1	10.1	14.3	11.9
ROAE (%)	4.6	4.1	6.2	8.6	7.1
ROAA (%)	1.1	1.1	1.7	2.5	2.2
EV/EBITDA (x)	5.4	4.5	3.6	3.6	3.7
Net gearing (%) (incl perps)	100.2	87.4	80.6	70.7	62.0
Consensus net profit	-	-	521	336	367
MKE vs. Consensus (%)	-	-	(26.1)	61.5	22.8

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### Company Description

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

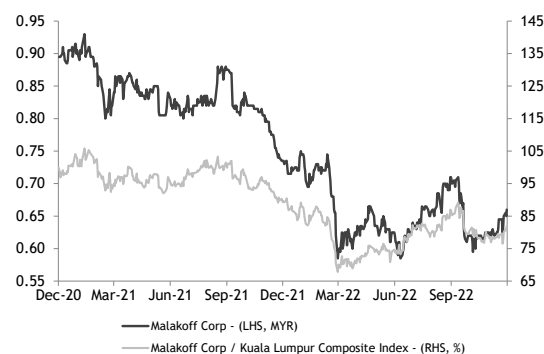
### Statistics

52w high/low (MYR)	0.75/0.59
3m avg turnover (USDm)	0.2
Free float (%)	39.7
Issued shares (m)	4,888
Market capitalisation	MYR3.2B USD734M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	6	(7)	(10)
Relative to index (%)	3	(6)	(9)

Source: FactSet

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 Tear Sheet Insert

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Risk Rating & Score <sup>1</sup>	43.9
Score Momentum <sup>2</sup>	-3.1
Last Updated	18 Oct 2021
Controversy Score <sup>3</sup> (Updated: 29 Nov 2021)	0 - No reported incidents

## Business Model & Industry Issues

- Malakoff has significant coal exposure - revenue from its 2 coal plants (Tj Bin Power and Tj Bin Energy) accounts for over 60% of group revenue. With 10 and 20 years to go respectively before the PPAs expire, the “coal stigma” will continue to accompany Malakoff for the foreseeable future.
- Malakoff has already begun its renewable diversification, having embarked on small projects in solar, mini-hydro and biogas. The acquisition of Alam Flora gave Malakoff an entry into waste management, which in turn offers a possible expansion into waste-to-energy. However, with such a high prevailing “coal” base, the renewable push might not make a material difference to Malakoff’s ESG standing in the next decade.
- While being tycoon-backed, there have not been many questionable related-party transactions since relisting. The main transaction of contention has been the acquisition of Alam Flora (which received shareholders’ approval) from sister company DRB Hicom for MYR869m in 2019. Malakoff has consistently maintained a payout ratio above its official minimum 70% payout policy since re-listing.

### Material E issues

- Significant coal exposure with its 2 coal plants (Tj Bin Power and Tj Bin Energy) accounting for over 60% of group revenue. The cost of insuring coal plants has risen by 10-20% annually in recent years.
- Malakoff’s remaining generation capacity is largely gas-based, which is still a fossil fuel and thus creates carbon emissions.
- Malakoff has been consciously looking to increase its renewable capacity in recent years. It has also diversified into waste management services (Alam Flora) with the aim of expanding into waste-to-energy.
- Malakoff is actively promoting rooftop solar generation, with Syed Mokhtar companies (MMC, DRB-HICOM and Tradewinds group of companies) being the initial targets.
- Alam Flora has introduced programs to encourage households to separate recyclable wastes.

### Material S issues

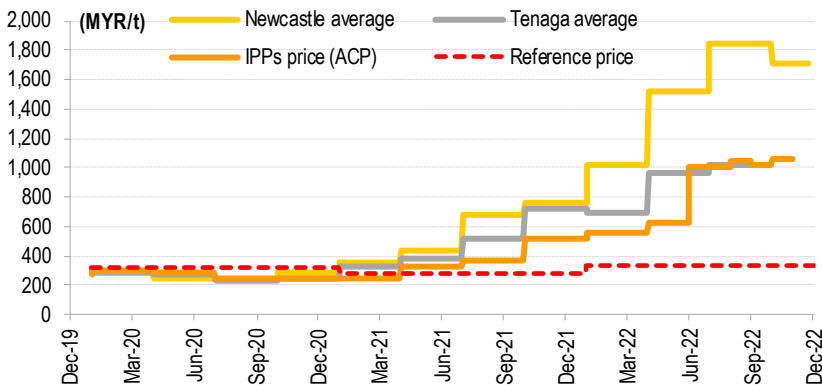
- Malakoff contributes Wakalah Zakat annually, with the proceeds being used to provide financial support to the poor. Malakoff’s contribution in 2021 aided a total of 249 people.
- There have not been any major health and safety breaches at Malakoff’s power plants in recent years. Alam Flora however recorded an incident involving 2 fatalities in 2021.
- The male-female split of Malakoff’s workforce stood at 83%-17% as at 2021. Female representation among senior management is at a mere 14%.
- Malakoff’s lowest salary scale is higher than the minimum salary stipulated by the government. Thus, all employees earn above minimum wage.

### Key G metrics and issues

- Malakoff is controlled by tycoon Syed Mokhtar Albukhary through MMC Corporation. Various government-linked investment companies also hold sizable stakes, with EPF having board representation.
- The Board currently has 8 Directors, comprising 4 Non-Independent Directors (including the MD/CEO) and 4 Independent Directors (including the chairman). There are no women on the Board.
- The Board is working towards appointing at least 1 female director on the Board in 2022.
- In 2021, the CEO’s total remuneration accounts for 0.6% of Malakoff’s net profit.
- Malakoff has been audited by KPMG for at least the past decade.
- Malakoff is proactive with capital management, having consistently maintained a payout ratio above its official minimum 70% payout policy since re-listing.
- Malakoff, in its current form, was relisted in 2015. The operations were previously privatised and delisted in 2007.
- The main related-party transaction to date has been the acquisition of waste management firm Alam Flora (which required shareholders’ approval) from sister company DRB Hicom for MYR869m in 2019.
- Malakoff has not been active with trading assets but has had success with MacArthur Wind Farm in Australia. Its 50% stake was acquired for AUD130m back in 2013 and sold for AUD356.85m in 2019.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company’s exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company’s enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company’s score since the last update - a **negative** integer indicates a company’s improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

**Coal prices**



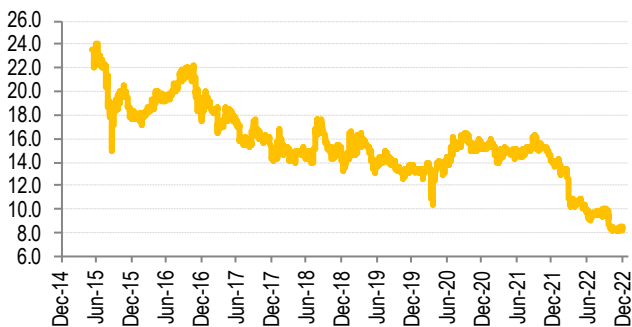
Source: Energy Commission, Tenaga, Bloomberg

**Fig 1: Target price calculation**

(MYR m)	Value	Stake	Attri. value	Per share	%
Segari	263	93.8%	247	0.05	6%
GB3	435	75.0%	326	0.07	8%
Prai	334	100.0%	334	0.07	8%
Tj Bin Power	2,030	90.0%	1,827	0.37	46%
Tj Bin Energy	478	100.0%	478	0.10	12%
Alam Flora	644	97.4%	627	0.13	16%
Kapar	-457	0.0%	0	0.00	0%
O&M (M Power)	133	100.0%	133	0.03	3%
<b>Equity value</b>	<b>4,317</b>		<b>3,972</b>	<b>0.81</b>	<b>100%</b>
Loan stocks	800	100.0%	800	0.16	
Residual net cash			-1,109	-0.23	
<b>Total equity value</b>			<b>3,663</b>	<b>0.75</b>	

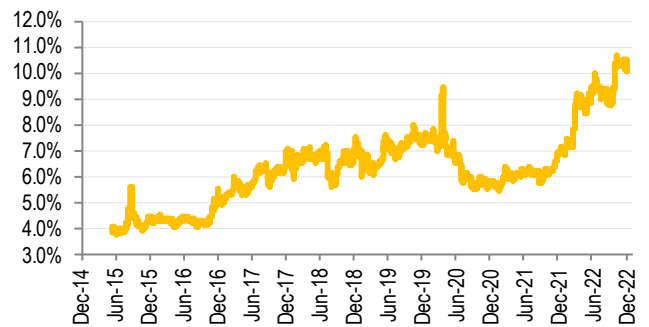
Source: Maybank KE

**Fig 2: Trailing PER**



Source: Bloomberg, Maybank KE

**Fig 3: Trailing net yield**



Source: Bloomberg, Maybank KE

**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	8.4	5.9	7.2
Core P/E (x)	15.3	13.8	8.4	5.9	7.2
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	10.1	14.3	11.9
FCF yield (%)	37.8	44.9	39.5	48.3	43.0
EV/EBITDA (x)	5.4	4.5	3.6	3.6	3.7
EV/EBIT (x)	13.2	11.2	7.5	7.0	7.8

**INCOME STATEMENT (MYR m)**

Revenue	6,276.8	6,463.1	6,877.3	6,470.8	6,187.6
EBITDA	2,054.3	2,092.7	2,425.4	2,309.7	2,080.0
Depreciation	(888.7)	(923.4)	(926.5)	(813.3)	(779.0)
Amortisation	(321.2)	(320.3)	(320.3)	(320.3)	(320.3)
EBIT	844.4	849.0	1,178.6	1,176.1	980.7
Net interest income / (exp)	(571.6)	(576.0)	(504.1)	(475.8)	(417.0)
Associates & JV	171.8	196.6	200.0	200.0	200.0
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	874.5	900.3	763.7
Income tax	(114.5)	(170.4)	(410.5)	(297.1)	(263.6)
Minorities	(43.5)	(44.7)	(78.9)	(60.1)	(49.3)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	286.6	254.5	385.1	543.1	450.7
Core net profit	286.6	254.5	385.1	543.1	450.7

**BALANCE SHEET (MYR m)**

Cash & Short Term Investments	4,440.8	4,185.9	3,669.6	3,323.1	2,948.7
Accounts receivable	1,364.9	1,075.6	1,224.7	1,152.3	1,101.9
Inventory	584.0	843.7	957.3	902.6	902.7
Property, Plant & Equip (net)	12,479.0	11,685.3	11,058.7	10,460.4	9,896.4
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	1,873.1	2,023.1	2,173.1
Other assets	540.4	578.6	578.6	609.7	641.7
<b>Total assets</b>	<b>24,188.8</b>	<b>23,077.5</b>	<b>22,028.6</b>	<b>20,819.0</b>	<b>19,693.6</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	1,472.7	1,367.5	1,347.3
LT interest bearing debt	9,724.2	8,603.3	7,683.9	6,738.9	5,808.9
Other liabilities	5,488.0	5,207.0	5,056.0	4,825.0	4,612.0
<b>Total Liabilities</b>	<b>17,744.0</b>	<b>16,576.7</b>	<b>15,479.6</b>	<b>14,197.7</b>	<b>13,034.6</b>
Shareholders Equity	6,107.9	6,189.2	6,246.9	6,328.4	6,396.0
Minority Interest	336.8	311.7	302.1	292.9	263.0
<b>Total shareholder equity</b>	<b>6,444.7</b>	<b>6,500.9</b>	<b>6,549.0</b>	<b>6,621.3</b>	<b>6,659.0</b>
<b>Total liabilities and equity</b>	<b>24,188.8</b>	<b>23,077.5</b>	<b>22,028.6</b>	<b>20,819.0</b>	<b>19,693.6</b>

**CASH FLOW (MYR m)**

Pretax profit	444.6	469.6	874.5	900.3	763.7
Depreciation & amortisation	1,209.9	1,243.7	1,246.8	1,133.6	1,099.3
Adj net interest (income)/exp	571.6	576.0	504.1	475.8	417.0
Change in working capital	180.0	(391.1)	(456.5)	(209.9)	(182.8)
Cash taxes paid	(284.5)	(262.5)	(394.3)	(328.2)	(295.7)
Other operating cash flow	(54.9)	111.3	(200.0)	(200.0)	(200.0)
Cash flow from operations	2,066.7	1,746.9	1,574.6	1,771.7	1,601.5
Capex	(413.7)	(165.6)	(300.0)	(215.0)	(215.0)
Free cash flow	1,653.0	1,581.3	1,274.6	1,556.7	1,386.5
Dividends paid	(337.7)	(263.9)	(327.4)	(461.6)	(383.1)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,562.9)	(1,142.0)	(919.4)	(945.0)	(930.0)
Other invest/financing cash flow	(566.5)	(430.3)	(544.1)	(496.6)	(447.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(814.1)	(254.8)	(516.3)	(346.6)	(374.4)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(15.4)	3.0	6.4	(5.9)	(4.4)
EBITDA growth	(15.2)	1.9	15.9	(4.8)	(9.9)
EBIT growth	(32.1)	0.5	38.8	(0.2)	(16.6)
Pretax growth	(16.3)	5.6	86.2	2.9	(15.2)
Reported net profit growth	(10.5)	(11.2)	51.3	41.0	(17.0)
Core net profit growth	(10.5)	(11.2)	51.3	41.0	(17.0)
<b>Profitability ratios (%)</b>					
EBITDA margin	32.7	32.4	35.3	35.7	33.6
EBIT margin	13.5	13.1	17.1	18.2	15.8
Pretax profit margin	7.1	7.3	12.7	13.9	12.3
Payout ratio	87.0	97.9	85.0	85.0	85.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.6	3.9	5.6	8.4	7.3
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	6.2	8.6	7.1
ROAA (%)	1.1	1.1	1.7	2.5	2.2
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	30.6	17.0	21.0	30.8	32.3
Days receivable outstanding	89.4	68.0	60.2	66.1	65.6
Days inventory outstanding	44.8	50.8	60.3	67.1	66.1
Days payables outstanding	103.6	101.7	99.5	102.4	99.4
Dividend cover (x)	1.1	1.0	1.2	1.2	1.2
Current ratio (x)	2.2	1.9	1.9	1.8	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	80.6	70.7	62.0
Net gearing (%) (excl. perps)	100.2	87.4	80.6	70.7	62.0
Net interest cover (x)	1.5	1.5	2.3	2.5	2.4
Debt/EBITDA (x)	5.3	4.7	3.7	3.5	3.4
Capex/revenue (%)	6.6	2.6	4.4	3.3	3.5
Net debt/ (net cash)	6,454.7	5,684.0	5,280.9	4,682.4	4,126.8

Source: Company; Maybank IBG Research

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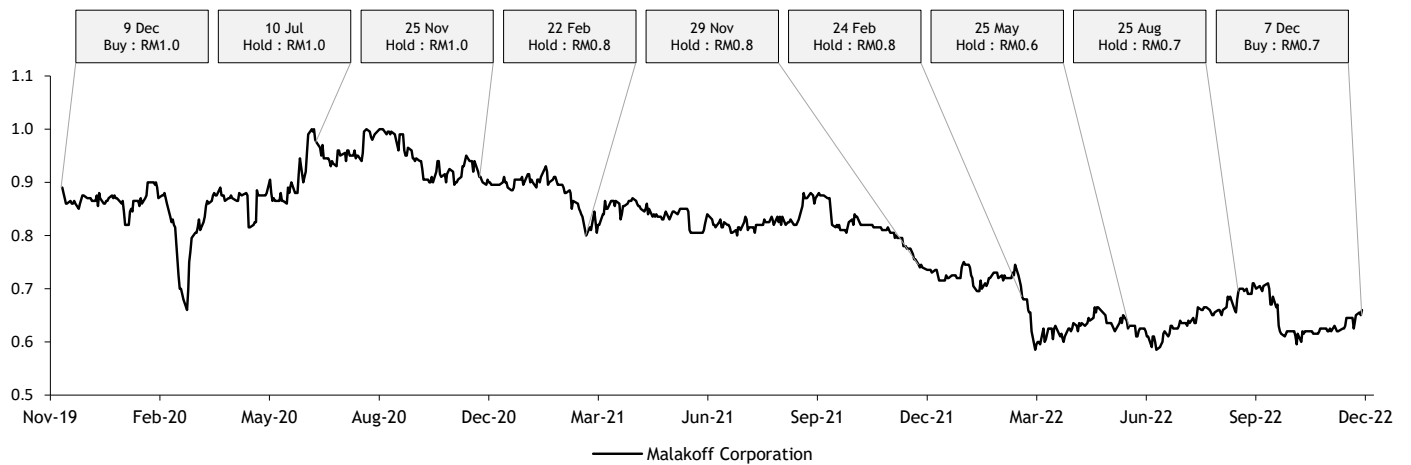
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