

# Malakoff Corporation (MLK MK)

## Ran too hard

### Unfavourable risk-reward

We believe Malakoff's YTD share price rally is unjustified. While Malakoff has returned to the black (normalisation of fuel margins), there are near/medium-term challenges with regards to concession expiries. Despite Malakoff's Johor presence, the existing plants do not tangibly benefit from the data centre-led demand boost. Maintain SELL with an unchanged SOP-based TP of MYR0.55.

### Johor (DC) exposure overhyped

Malakoff is one of the biggest power producers in Johor, cumulatively operating 3,100MW of generation capacity in Southern Johor via coal-fired Tj Bin Power (TBP) and Tj Bin Energy (TBE). In Malaysia's PPA model for thermal plants, IPPs receive capacity payments based on availability, and conceptually do not benefit from increased generation. Thus, the data centre-led demand boost is not going to lead to higher earnings for TBP and TBE, in our view.

### Working on concession extensions

The Prai Power concession expires in Jun 2024, while the TBP concession (Malakoff's largest earnings contributor) expires in Sep 2031. Malakoff is currently working on securing an extension for Prai Power (likely at lower tariffs since capital cost has already been recovered). For TBP, funding new projects sizable enough to replace the resulting earnings gap (tariffs are again likely to be lowered even if extended) could be a challenge. Malakoff is currently working on co-firing TBP with biomass (NETR initiative). Separately, Alam Flora's concession expires in Aug 2032.

### Maintain SELL

Our earnings forecasts and MYR0.55 TP (based on a sum-of-parts with each entity valued on a DCF assuming 8.9% WACC) are unchanged for now pending briefing updates. We maintain our SELL rating. Dividend yields (<5%) are no longer compelling, and Malakoff's biggest earnings contributor TBP has only 7 years of concession remaining.

FYE Dec (MYR m)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	10,355	9,067	8,097	7,311	6,641
EBITDA	2,232	843	2,135	2,076	2,072
Core net profit	302	(837)	358	384	422
Core EPS (sen)	6.2	(17.1)	7.3	7.9	8.6
Core EPS growth (%)	18.7	nm	nm	7.2	9.8
Net DPS (sen)	5.3	3.0	3.7	3.9	4.3
Core P/E (x)	10.5	nm	11.2	10.4	9.5
P/BV (x)	0.5	0.6	0.7	0.7	0.7
Net dividend yield (%)	8.1	4.7	4.5	4.8	5.3
ROAE (%)	4.8	(14.4)	6.6	6.9	7.3
ROAA (%)	1.3	(4.0)	1.8	2.1	2.4
EV/EBITDA (x)	4.5	10.9	4.3	3.9	3.5
Net gearing (%) (incl perps)	97.6	104.2	85.4	66.7	48.8
Consensus net profit	-	-	255	291	308
MIBG vs. Consensus (%)	-	-	40.4	32.0	37.0

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# SELL

Share Price	MYR 0.82
12m Price Target	MYR 0.55 (-27%)
Previous Price Target	MYR 0.55

### Company Description

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

### Statistics

52w high/low (MYR)	0.85/0.57
3m avg turnover (USDm)	0.4
Free float (%)	38.8
Issued shares (m)	5,000
Market capitalisation	MYR4.1B USD869M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	22	32	38
Relative to index (%)	22	28	19

Source: FactSet

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Tear Sheet Insert

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<b>Risk Rating &amp; Score<sup>1</sup></b>	40.3
<b>Score Momentum<sup>2</sup></b>	-0.2
<b>Last Updated</b>	20 Apr 2023
<b>Controversy Score<sup>3</sup></b> (Updated: 9 Dec 2022)	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 11 and 21 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 100% payout every year since re-listing, above its official minimum 70% payout policy.

### 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. 5,324 tonnes of recyclables were collected in 2022, +16% YoY.

### Material S issues

- Malakoff contributes Wakalah Zakat annually, with the proceeds being used to provide financial support to the poor.
- There have not been any major health and safety breaches at Malakoff’s power plants in recent years. In 2019, a small fire broke out at Tj Bin Energy’s coal conveyor belt when the plant was undergoing maintenance.
- The male-female split of Malakoff’s workforce stood at 82%-18% as at 2022. There are two women among senior management, representing a mere 13% representation.
- 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 9 Directors, comprising 4 Non-Independent Directors (including the MD/CEO) and 5 Independent Directors (including the chairman). There is only 1 woman on the Board.
- The Board will only consider the appointment of more female Directors when a vacancy emerges. The Board Nomination and Remuneration Committee is of the view that the skill mix and composition of the current Board is sufficient and has been effective in meeting the business demands of the Group.
- The cumulative remuneration of directors and senior management represents c.2% of Malakoff’s net profit in 2022.
- Malakoff has been audited by KPMG for at least the past decade.
- Malakoff is proactive with capital management, having consistently maintained a 100% dividend payout every year since re-listing. The official dividend policy is a minimum 70% payout.
- 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).

Quantitative Parameters (Score: 25)						
	Particulars	Unit	2020	2021	2022	Mega First (MFCB MK)
E	Scope 1 emissions	m tCO2e	21.52	17.78	16.82	0.49
	Scope 2 emissions	m tCO2e	0.05	0.06	0.07	0.03
	Scope 3 emissions	m tCO2e	N/A	N/A	N/A	0.03
	<b>Total</b>	<b>m tCO2e</b>	<b>21.57</b>	<b>17.84</b>	<b>16.89</b>	<b>0.55</b>
	GHG intensity (Scope 1 and 2)	tCO2e/MWh	0.82	0.84	0.86	N/A
	% Renewable energy generation	%	N/A	0.10%	0.19%	100%
	% of fly ash recycled/treated	%	N/A	N/A	N/A	N/A
	Sox	mg/m3	1,330.5	1,029.9	964.9	N/A
Nox	mg/m3	1,076.0	992.5	855.5	N/A	
S	% of women in workforce	%	16.2%	16.6%	17.7%	23.2%
	% of women in management roles	%	11.1%	13.3%	12.5%	30.8%
	Lost time injury frequency (Malakoff)	number	0.00	0.16	0.29	3.8
	Lost time injury frequency (Alam Flora)	number	1.40	0.75	0.68	N/A
	Contribution & CSR	MYR m	12.4	12.2	36.0	1.3
G	MD/CEO salary as % of reported net profit	%	0.5%	0.6%	0.8%	2.0%
	Board salary as % of reported net profit	%	0.7%	0.7%	0.8%	0.7%
	Independent directors on the Board	%	50%	38%	56%	42%
	Female directors on the Board	%	13%	11%	11%	17%

Qualitative Parameters (Score: 50)	
a) Is there an ESG policy in place and whether there is a standalone ESG Committee or is it part of Risk committee?	<i>Yes - it has established and implemented an ESG Framework and has a standalone Sustainability Department which reports to management and the Board.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>Yes.</i>
c) Does the company follow TCFD framework for ESG reporting?	<i>No.</i>
d) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No. But Scope 2 and 3 emissions are inherently insignificant for a power producer.</i>
e) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>Malakoff aims to increase its RE capacity, invest in co-firing / fuel switching studies and expand its waste management business.</i>
f) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes.</i>

Target (Score: 100)		
Particulars	Target	Achieved
Net-zero carbon emissions by 2050	2050	N/A
30% reduction in GHG emissions by 2031 (from 2019 baseline)	30%	N/A
1400MW RE capacity by 2031	1400MW	40MW
15-20% recycling rate of waste collected by Alam Flora by 2025	15-20%	N/A
<b>Impact</b>		
NA		
<b>Overall Score: 50</b>		
As per our ESG matrix, Malakoff has an overall score of 50.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	25	13
Qualitative	25%	50	13
Target	25%	100	25
<b>Total</b>			<b>50</b>

As per our ESG assessment, Malakoff has an established framework, internal policies, and tangible mid/long-term targets. Malakoff's overall ESG score is 50, which makes its ESG rating average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Fig 1: Malakoff Corp: Net profit split

(MYR m)	FY24E	FY25E
Group net profit	358	384
Segari	106	108
Prai	17	
Tj Bin Power	437	451
Tj Bin Energy	109	125
Alam Flora	116	120
O&M (Domestic)	47	49
Others	-474	-469

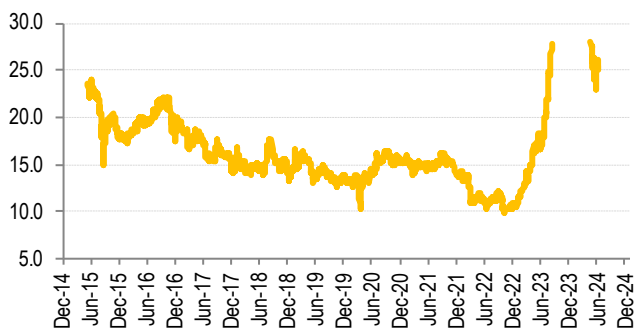
Source: Maybank IBG Research

Fig 2: Target price calculation

(MYR m)	Value	Stake	Attri. value	Per share	%
Segari	139	93.8%	130	0.03	4%
GB3	0	0.0%	0	0.00	0%
Prai	312	100.0%	312	0.06	10%
Tj Bin Power	1,163	90.0%	1,046	0.21	32%
Tj Bin Energy	706	100.0%	706	0.14	22%
Alam Flora	596	97.4%	580	0.12	18%
Kapar	-521	0.0%	0	0.00	0%
O&M (M Power)	486	100.0%	486	0.10	15%
<b>Equity value</b>	<b>3,401</b>		<b>3,261</b>	<b>0.67</b>	<b>100%</b>
Loan stocks	800	100.0%	800	0.16	
Residual net cash	-1,370		-1,370	-0.28	
<b>Total equity value</b>			<b>2,690</b>	<b>0.55</b>	

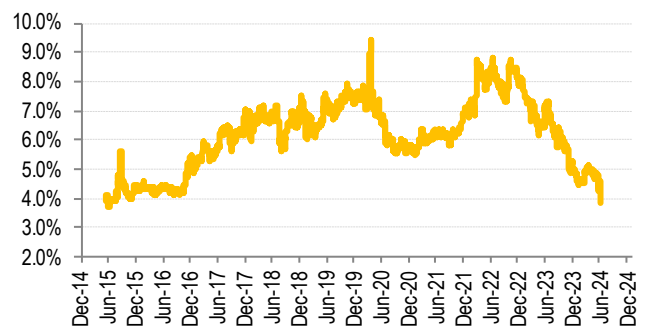
Source: Maybank IBG Research

Fig 3: Trailing PER



Source: Bloomberg, Maybank IBG Research

Fig 4: 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	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Metrics</b>					
P/E (reported) (x)	10.5	nm	11.2	10.4	9.5
Core P/E (x)	10.5	nm	11.2	10.4	9.5
P/BV (x)	0.5	0.6	0.7	0.7	0.7
P/NTA (x)	0.9	1.1	1.2	1.0	0.9
Net dividend yield (%)	8.1	4.7	4.5	4.8	5.3
FCF yield (%)	nm	40.5	38.2	38.4	37.8
EV/EBITDA (x)	4.5	10.9	4.3	3.9	3.5
EV/EBIT (x)	10.2	nm	8.6	7.8	6.9
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	10,355.2	9,067.0	8,097.2	7,310.9	6,641.0
EBITDA	2,231.7	843.2	2,134.9	2,076.1	2,071.8
Depreciation	(928.7)	(812.1)	(779.0)	(744.7)	(745.3)
Amortisation	(320.0)	(293.9)	(290.0)	(290.0)	(290.0)
EBIT	983.0	(262.8)	1,065.9	1,041.4	1,036.5
Net interest income / (exp)	(522.6)	(491.0)	(475.2)	(416.1)	(360.6)
Associates & JV	276.4	(201.1)	120.0	120.0	120.0
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	736.8	(954.9)	710.7	745.3	795.9
Income tax	(350.9)	93.0	(304.8)	(311.7)	(323.0)
Minorities	(83.7)	24.8	(47.6)	(49.3)	(51.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	302.2	(837.2)	358.3	384.3	421.9
Core net profit	302.2	(837.2)	358.3	384.3	421.9
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	2,232.4	3,056.6	2,938.7	3,100.2	3,228.9
Accounts receivable	2,095.1	1,574.2	1,442.0	1,301.9	1,182.7
Inventory	1,642.6	785.0	564.7	487.7	421.7
Property, Plant & Equip (net)	11,097.8	10,503.9	9,889.9	9,300.1	8,709.8
Intangible assets	2,661.8	2,381.9	2,092.3	1,802.8	1,513.3
Investment in Associates & JVs	1,827.6	1,345.7	1,365.7	1,397.4	1,430.2
Other assets	421.8	633.8	633.8	633.8	633.8
<b>Total assets</b>	<b>21,979.1</b>	<b>20,281.1</b>	<b>18,927.0</b>	<b>18,024.0</b>	<b>17,120.3</b>
ST interest bearing debt	950.2	901.3	901.3	901.3	901.3
Accounts payable	1,594.7	1,391.4	1,093.0	975.3	872.5
LT interest bearing debt	7,814.2	7,951.8	6,924.2	6,134.2	5,300.2
Other liabilities	4,924.0	4,475.0	4,287.0	4,117.0	3,955.0
<b>Total Liabilities</b>	<b>15,283.2</b>	<b>14,719.8</b>	<b>13,205.4</b>	<b>12,127.7</b>	<b>11,029.1</b>
Shareholders Equity	6,361.1	5,304.2	5,483.4	5,675.5	5,886.5
Minority Interest	334.7	257.1	238.2	220.8	204.7
<b>Total shareholder equity</b>	<b>6,695.8</b>	<b>5,561.3</b>	<b>5,721.6</b>	<b>5,896.3</b>	<b>6,091.2</b>
<b>Total liabilities and equity</b>	<b>21,979.1</b>	<b>20,281.1</b>	<b>18,927.0</b>	<b>18,024.0</b>	<b>17,120.3</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	736.8	(954.9)	710.7	745.3	795.9
Depreciation & amortisation	1,248.7	1,106.0	1,069.0	1,034.7	1,035.3
Adj net interest (income)/exp	522.6	491.0	475.2	416.1	360.6
Change in working capital	(2,435.4)	789.2	(158.8)	(99.8)	(113.5)
Cash taxes paid	(397.9)	(282.5)	(280.2)	(282.5)	(288.8)
Other operating cash flow	382.3	400.0	(120.0)	(120.0)	(120.0)
Cash flow from operations	57.0	1,548.7	1,695.9	1,693.9	1,669.5
Capex	(298.0)	(293.0)	(165.0)	(155.0)	(155.0)
Free cash flow	(241.0)	1,255.7	1,530.9	1,538.9	1,514.5
Dividends paid	(234.6)	(193.0)	(179.2)	(192.2)	(211.0)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(997.8)	(905.0)	(1,027.6)	(790.0)	(834.0)
Other invest/financing cash flow	(480.2)	666.6	(442.1)	(395.2)	(340.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(1,953.5)	824.2	(118.0)	161.5	128.7

FYE 31 Dec	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	60.2	(12.4)	(10.7)	(9.7)	(9.2)
EBITDA growth	6.6	(62.2)	153.2	(2.8)	(0.2)
EBIT growth	15.8	nm	nm	(2.3)	(0.5)
Pretax growth	56.9	nm	nm	4.9	6.8
Reported net profit growth	18.7	nm	nm	7.2	9.8
Core net profit growth	18.7	nm	nm	7.2	9.8
<b>Profitability ratios (%)</b>					
EBITDA margin	21.6	9.3	26.4	28.4	31.2
EBIT margin	9.5	nm	13.2	14.2	15.6
Pretax profit margin	7.1	nm	8.8	10.2	12.0
Payout ratio	84.9	nm	50.0	50.0	50.0
<b>DuPont analysis</b>					
Net profit margin (%)	2.9	nm	4.4	5.3	6.4
Revenue/Assets (x)	0.5	0.4	0.4	0.4	0.4
Assets/Equity (x)	3.5	3.8	3.5	3.2	2.9
ROAE (%)	4.8	(14.4)	6.6	6.9	7.3
ROAA (%)	1.3	(4.0)	1.8	2.1	2.4
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	42.5	61.5	36.3	36.7	35.5
Days receivable outstanding	55.1	72.8	67.0	67.6	67.3
Days inventory outstanding	51.7	49.2	36.5	31.9	30.8
Days payables outstanding	64.3	60.5	67.3	62.7	62.7
Dividend cover (x)	1.2	(5.7)	2.0	2.0	2.0
Current ratio (x)	2.0	2.1	2.1	2.2	2.3
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.6
Net gearing (%) (incl perps)	97.6	104.2	85.4	66.7	48.8
Net gearing (%) (excl. perps)	97.6	104.2	85.4	66.7	48.8
Net interest cover (x)	1.9	na	2.2	2.5	2.9
Debt/EBITDA (x)	3.9	10.5	3.7	3.4	3.0
Capex/revenue (%)	2.9	3.2	2.0	2.1	2.3
Net debt/ (net cash)	6,532.1	5,796.5	4,886.9	3,935.3	2,972.7

Source: Company; Maybank IBG Research

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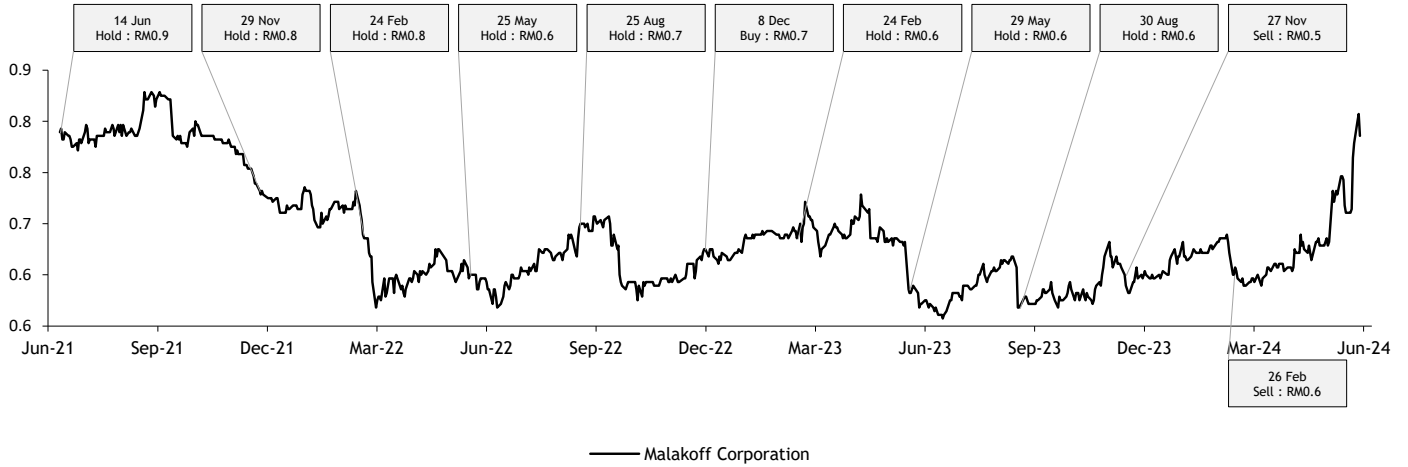
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