

12 July 2019

# Malakoff Corporation Bhd

## Raising Stake In Saudis Assets

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We are positive with MALAKOF raising its stake in Saudis water and power plant assets, which will boost its bottom-line by 18%. This will also address the issue of filling up the earnings gap left by its expired PD Power's PPA extension and tariff cut at SEV. In fact, the purchase price of USD70m is fair, valued at EV/EBITDA of c.8x. We expect sentiment to improve on the back of this news. As such, we raise the stock to OP at revised TP of RM1.00.

**Double up stake in Saudis assets.** Yesterday, MALAKOF announced that it has entered into an agreement to acquire the entire stake in Desaru Investment Ltd (DIL) from Khazanah for USD70m. Currently, DIL owns a 40% stake in a Malaysia consortium, which consists of MALAKOF (40% stake) and TENAGA (20% stake; MP; TP: RM13.40), that own c.30% stake in two independent water and power plants (IWPP) in Saudi Arabia, namely Shuaibah Phase 3 IWPP and Shuaibah Phase 3 Expansion IWPP. Effectively, MALAKOF will eventually double up its stake in these two assets to 24% each from 12% currently when the acquisition is completed by 4Q19. The IWPPs, the first and largest in Saudi Arabia, are the main water suppliers for Makkah Province and form 13% of power and water capacity for the country. Both assets still have remaining concession tenure periods of c.10 years.

**A good buy, it seems.** With this acquisition, MALAKOF will command a total effective power generation capacity of 6,708MW and total effective seawater desalination capacity of 544,375m<sup>3</sup>/day from 6,600MW and 420,925m<sup>3</sup>/day, respectively. The acquisition is priced at EV/EBITDA of c.8x which we believe is fairly reasonable, being quite close to MALAKOF's FY18 EV/EBITDA of 7.8x. In the past three years, the combined associate incomes from these two assets were RM46.8m/RM57.6m/RM47.5m which made up 14%/20%/21% group's core profit, respectively. As such, upon completion of the acquisition, contributions from these two assets are important as they could make up a-third of the group earnings. Assuming yearly contribution of RM47.5m for the next 10 years at 12% effective stake, total earnings collections could be RM475m which is 66% higher than the acquisition price of c.RM287 (USD70m @ 4.10), without taking into account the time value of money, a seemingly good deal.

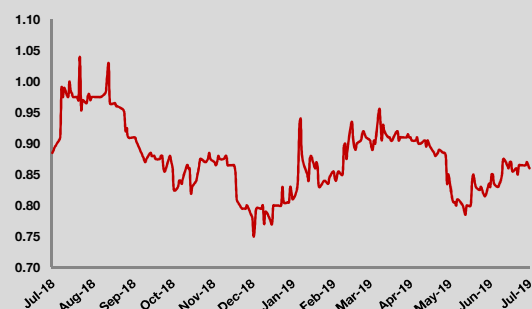
**Timely to address earnings gap.** Following the tariff cut for SEV, earnings may decline further as the PPA Extension for PD Power had already expired in Feb 2019. As such, this acquisition is timely to fill the earnings gap. Based on our FY20 estimates, the potential additional contributions from these two assets could boost group's bottom-line by 18%. It should have no problem of funding through internally generated fund given its cash balance of RM1.8b as of end-2018. On the other hand, the completion of acquisition of Alam Flora is also expected by year-end, pending approval from the authorities. All these two acquisitions should put MALAKOF's earnings growth back on track.

**Upgrade to OUTPERFORM.** We keep our estimates unchanged for now pending completion of acquisitions while adjusting our SoP valuation to reflect the latest FY18A book value for associate companies as well as cash position. With unchanged 30% discount to its SoP valuation, our new target price is RM1.00, implying FY20 PER of 19.7x, from RM0.90 previously. We also upgrade the stock to OUTPERFORM from MARKET PERFORM as the Saudis assets acquisition is an earnings booster coupled with decent yield of c.5%. Risks to our call include unplanned outages, higher O&M costs and higher-than-expected KEV's losses.

**OUTPERFORM** ↑

Price : **RM0.860**  
Target Price : **RM1.000** ↑

### Share Price Performance



KLCI	1,679.26
YTD KLCI chg	-0.7%
YTD stock price chg	7.5%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK
Market Cap (RM m)	4,202.8
Shares Outstanding	4,887.0
52-week range (H)	1.04
52-week range (L)	0.75
3-mth avg daily vol:	1,826,225
Free Float	50%
Beta	1.2

### Major Shareholders

Anglo Oriental Annuity	20.1%
MMC Corp Bhd	18.4%
Employees Provident Fund	11.9%

### Summary Earnings Table

FYE Dec (RM m)	2018A	2019E	2020E
Turnover	7,348.2	7,326.2	7,316.7
EBIT	1,197.7	1,119.8	1,071.9
PBT	559.2	398.6	412.7
<b>Net Profit (NP)</b>	274.4	242.5	253.4
<b>Core Net Profit</b>	219.4	242.5	253.4
Consensus		249.1	272.8
Earnings Revision (%)		-	-
Core EPS (sen)	5.5	4.9	5.1
Core EPS growth (%)	-20.5	10.5	4.5
NDPS (sen)	5.6	3.9	4.1
BV/Share (RM)	1.13	1.14	1.15
NTA/Share (RM)	0.51	0.58	0.65
Core PER (x)	19.6	17.7	17.0
PBV (x)	0.76	0.76	0.75
Price/NTA (x)	1.56	1.48	1.33
Net Gearing (%)	2.42	2.29	2.14
Net Yield (%)	7.0	4.5	4.7



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Valuation - New					
	Equity Stake	RM m	RM/share		Valuation Basic
SEV	93.75%	43	0.01	0.6%	FCFF @ 6.9% discount rate
GB3	75%	145	0.03	2.1%	FCFF @ 7.2% discount rate
Prai Power	100%	134	0.03	1.9%	FCFF @ 8.6% discount rate
TBP	90%	3,298	0.66	46.9%	FCFF @ 8.0% discount rate
TBE	100%	1,742	0.35	24.8%	FCFF @ 8.4% discount rate
PD Power	100%	0	0.00	0.0%	PPA expired
Macarthur Wind Farm	50%	676	0.14	9.6%	FCFF @ 7.9% discount rate
Malakoff Utilities	100%	58	0.01	0.8%	FCFF @ 7.9% discount rate
Teknik Janakuasa	100%	796	0.16	11.3%	FCFF @ 7.9% discount rate
Associates		1,546	0.31	22.0%	Book value @ FY18A
Net Cash/(Debt)		-1,412	-0.28	-20.1%	Adjusted for subsidiary's loan
		7,027	1.41	100.0%	
Issued Share		5,000			
<b>SoP value per share</b>		1.41			
30% discount		-0.42			Holding company discount
<b>Target Price</b>		<b>RM1.00</b>			Round up to the nearest RM0.05

Source: Kenanga Research

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Malakoff Utilities	100%	58	0.01	0.9%	FCFF @ 7.9% discount rate
Teknik Janakuasa	100%	796	0.16	12.4%	FCFF @ 7.9% discount rate
Associates		747	0.15	11.6%	Book value @ FY17A
Net Cash/(Debt)		-1,212	-0.24	-18.9%	Adjusted for subsidiary's loan
		6,428	1.29	100.0%	
Issued Share		5,000			
<b>SoP value per share</b>		1.29			
30% discount		-0.39			Holding company discount
<b>Target Price</b>		<b>RM0.90</b>			Round up to the nearest RM0.05

Source: Kenanga Research

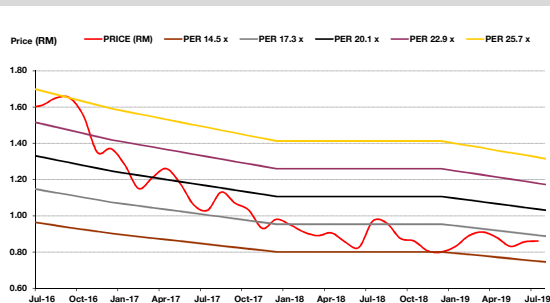
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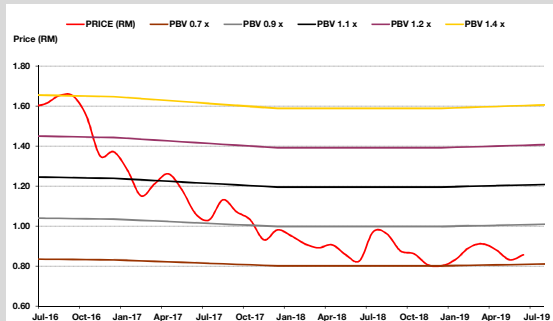
Income Statement						Financial Data & Ratios					
FY Jun (RM m)	2016	2017A	2018A	2019E	2020E	FY Jun (RM m)	2016	2017A	2018A	2019E	2020E
Revenue	6,098	7,130	7,348	7,326	7,317	<b>Growth (%)</b>					
EBITDA	2,836	2,632	2,265	2,023	1,995	Revenue	15.0	16.9	3.1	-0.3	-0.1
Depreciation	-1,396	-1,313	-1,067	-903	-923	EBITDA	14.9	-7.2	-13.9	-10.7	-1.4
EBIT	1,439	1,319	1,198	1,120	1,072	Operating Income	10.0	-8.4	-9.2	-6.5	-4.3
Interest Expense	-821	-819	-722	-806	-746	Pre-tax Income	-9.2	-9.9	-2.7	-28.7	3.5
Associate	19	75	84	85	87	Net Income	-21.6	-16.7	-7.3	-11.6	4.5
Exceptional/FV	0	0	0	0	0	Core Net Income	-26.5	-17.2	-20.5	10.5	4.5
PBT	638	575	559	399	413	<b>Profitability (%)</b>					
Taxation	-231	-212	-236	-100	-103	EBITDA Margin	46.5	36.9	30.8	27.6	27.3
Minority Interest	-51	-67	-49	-56	-56	Operating Margin	23.6	18.5	16.3	15.3	14.6
Net Profit	355	296	274	243	253	PBT Margin	10.5	8.1	7.6	5.4	5.6
Core Net Profit	333	276	219	243	253	Net Margin	5.8	4.2	3.7	3.3	3.5
						Core Net Margin	5.5	3.9	3.0	3.3	3.5
						Effective Tax Rate	36.3	36.8	42.2	25.0	25.0
						ROE	4.6	4.4	4.2	4.0	3.9
						ROA	6.1	5.0	4.8	4.3	4.4
						<b>DuPont Analysis</b>					
						Net margin (%)	5.5	3.9	3.0	3.3	3.5
						Assets Turnover (x)	0.2	0.2	0.3	0.3	0.3
						Leverage Factor (x)	5.1	5.1	5.1	5.0	4.9
						ROE (%)	5.6	4.7	3.9	4.3	4.4
						<b>Leverage</b>					
						Debt/Asset (x)	0.58	0.53	0.52	0.52	0.51
						Debt/Equity (x)	2.96	2.70	2.69	2.59	2.52
						Net Debt/(Cash)	-14,530	-13,475	-13,685	-13,044	-12,267
						Net Debt/Equity (x)	2.46	2.30	2.42	2.29	2.14
						<b>Valuations</b>					
						EPS (sen)	7.1	5.9	5.5	4.9	5.1
						NDPS (sen)	7.0	6.2	5.6	3.9	4.1
						BV (RM)	1.18	1.17	1.13	1.14	1.15
						NTA (RM)	0.44	0.50	0.51	0.58	0.65
						PER (x)	20.6	17.8	19.6	17.7	17.0
						Net yield (%)	5.1	6.3	7.0	4.5	4.7
						PBV (x)	0.73	0.73	0.76	0.76	0.75
						P/NTA (x)	3.12	1.95	1.56	1.48	1.33
						EV/EBITDA (x)	7.5	7.0	7.8	8.6	8.3

Source: Kenanga Research

## Fwd PER Band



## Fwd PBV Band



Source: Bloomberg, Kenanga Research

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### Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target Price (RM)	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
GAS MALAYSIA BHD	2.91	3,736.4	Y	12/2019	2.9%	7.7%	8.2%	2.2%	22.0	20.3	19.9	3.6	3.4	17.3%	3.7%	3.05	MP
MALAKOFF CORP BHD	0.860	4,202.8	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.6	17.7	17.0	0.8	0.8	4.3%	4.5%	1.00	OP
PESTECH INTERNATIONAL BHD	1.49	1,138.8	Y	06/2019	6.7%	22.2%	28.0%	30.9%	18.3	14.3	10.9	2.5	2.1	16.0%	0.0%	2.00	OP
PETRONAS GAS BHD	17.30	34,232.1	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	18.7	17.7	20.8	2.6	2.5	14.5%	3.9%	16.55	MP
TENAGA NASIONAL BHD	13.72	78,024.1	Y	12/2019	3.2%	1.8%	1.6%	2.0%	14.2	13.9	13.6	1.3	1.3	9.4%	3.6%	13.40	MP
YTL POWER INTERNATIONAL BHD	0.795	6,101.9	N	06/2019	3.4%	2.6%	-1.6%	8.0%	9.1	9.3	8.6	0.4	0.4	4.6%	6.3%	0.880	MP
<b>Simple Average</b>					3.4%	5.4%	8.7%	5.5%	17.0	15.6	15.1	1.9	1.7	11.0%	3.7%		

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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