

19 August 2020

Malakoff Corporation Bhd

2QFY20 Beat Expectations

By Teh Kian Yeong / tehy@kenanga.com.my

2QFY20 net profit of RM105.0m beat our forecast on higher associate income and lower-than-expected taxation. With KEV losses eliminated since 1QFY20, its earnings volatility is fairly low taking it back to concession-type stable earnings mode. We believe market is under-appreciating this fact. We continue to rate the stock an OP with revised TP of RM1.15. It also offers an attractive yield of >6%.

2QFY20 beat expectations. MALAKOF reported a 2QFY20 net profit which jumped 18% QoQ to RM105.0m, tallying 1HFY20 net income to RM194.1m which made up 58%/65% of house/street's FY20 estimates. The reported profit includes an undisclosed settlement with GE, which we estimated at c.RM15m, in relation to the losses and damages incurred as a result of failure events occurred at TBE between Apr 2017 and Jun 2019. The strong results against our estimates were due to: (i) lower taxation, and (ii) higher-than-expected associate income. Meanwhile, it declared an interim NDPS of 2.8 sen (ex-date: 15 Sep; payment date: 16 Oct) in 1HFY20 which is higher than the 2.44 sen paid in the same period last year.

Earnings boosted by claim settlement. 2QFY20 net profit jumped 18% QoQ from RM89.2m, despite revenue falling 15%, due to the abovementioned settlement with GE. After reading through earnings from various assets, we believe the core earnings were fairly flattish and hence the settlement amount could be c.RM15m. Individually, while earnings for all local IPPs were well on track, its Prai Power Plant's capacity payment was lowered by RM6.5m due to a 20-day forced outage in April while associate income increased by 9.7% to RM50.5m which was due to higher earnings from MCDOMCO in Oman. Alam Flora's PATAMI fell to RM13m from RM15m previously. Meanwhile, the contraction in revenue was due to lower energy payment by RM251m as fuel cost declined.

Higher YoY earnings in the absence of KEV losses. On a YoY comparison, 2QFY20 and 1HFY20 net profits surged 101% and 63%, respectively, to RM105.0m and RM194.1m which were largely due to the absence of KEV's losses (RM26.9m losses recorded in 1HFY19) after it was written down by RM433.3m to zero value in 4QFY19. In addition, there were new earnings from Alam Flora and the 12% additional stake in Shuaibah since 1QFY20. On the other hand, capacity payment was lower slightly by 2% or RM11.6m in 2QFY20 and 1% or RM7.4m in 1HFY20 as its Prai Power Plant faced forced outages as mentioned above.

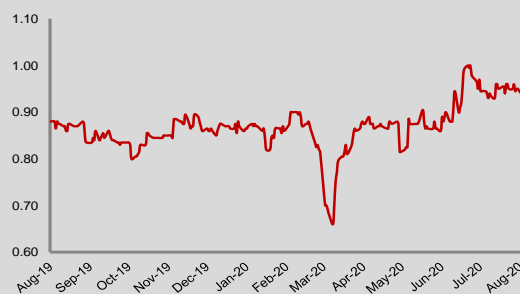
Earnings looking better. With the kitchen sinking exercise on KEV in 4QFY19, forward earnings are expected to be stable in the absence of KEV losses. With new earnings from Alam Flora and 12% additional stake in Shuaibah, MALAKOF's earnings are back to resilient mode. Post 2QFY20 results, we raised FY20/FY21 estimates by 11%/6% as we lowered taxation assumption and increase associate income projection. Correspondingly, FY20/FY21 NDPS are also raised proportionally with unchanged pay-out of 80%.

Keep OUTPERFORM. We turned positive on the stock three months ago with the new assets coming online with low earnings volatility. As such, we maintain our OUTPERFORM rating which is also supported by an attractive yield of >6%. We have also switched back to SoP-driven valuation from PBV applied during the market meltdown. Our new target price is RM1.15, which is based on 20% holding company discount to its SoP of RM1.41, from 4-year PBV mean of 0.93x at RM1.02. **Risk to our recommendation** is unplanned outages which would lead to lower-than-expected earnings.

OUTPERFORM ↔

Price: RM0.955
Target Price: RM1.150 ↑

Share Price Performance



KLCI 1,577.85
YTD KLCI chg -0.7%
YTD stock price chg 9.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK
Market Cap (RM m)	4,667.0
Shares outstanding	4,887.0
52-week range (H)	1.01
52-week range (L)	0.65
3-mth avg daily vol:	3,554,499
Free Float	10%
Beta	0.9

Major Shareholders

Anglo Oriental Annuity	20.1%
MMC Corp Bhd	18.4%
Employees Provident Fund	12.7%

Summary Earnings Table

FY Dec (RM m)	2019A	2020E	2021E
Revenue	7,357.9	7,902.0	7,926.6
EBIT	1,200.7	1,015.8	1,027.0
PBT	526.4	598.4	588.0
Net Profit	320.2	368.8	375.7
Core Profit	209.7	368.8	375.7
Consensus		298.8	319.3
Earnings Revision (%)		+11.0	+6.3
Core EPS (sen)	4.2	7.4	7.5
Core EPS growth (%)	-4.4	75.8	1.9
NDPS (sen)	6.6	5.9	6.0
BV/Share (RM)	1.10	1.11	1.13
NTA/Share (RM)	0.40	0.49	0.58
Core PER (x)	20.7	12.9	12.7
PBV (x)	0.87	0.86	0.85
Price/NTA (x)	2.18	1.95	1.64
Net Gearing (x)	1.76	1.71	1.53
Net Yield (%)	7.5	6.2	6.3



19 August 2020

Income Statement

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	1,506.2	1,774.0	-15%	1,814.8	-17%	3,280.1	3,822.1	-14%
EBITDA	557.2	538.3	4%	570.6	-2%	1,095.5	1,140.2	-4%
Depreciation	-302.8	-297.6	2%	-281.4	8%	-600.4	-560.4	7%
EBIT	254.4	240.7	6%	289.2	-12%	495.1	579.8	-15%
Interest income	46.5	49.1	-5%	60.8	-24%	95.6	120.8	-21%
Interest expense	-189.0	-190.4	-1%	-237.0	-20%	-379.4	-472.6	-20%
Associates	50.5	40.8	24%	9.7	420%	91.4	26.2	248%
Pretax profit	162.5	140.2	16%	122.8	32%	302.7	254.3	19%
Taxation	-47.5	-36.9	29%	-58.6	-19%	-84.4	-110.4	-24%
Profit after tax	115.0	103.3	11%	64.3	79%	218.3	143.9	52%
Minority interest	-10.0	-14.1	-29%	-12.0	-16%	-24.2	-24.6	-2%
Net profit	105.0	89.2	18%	52.3	101%	194.1	119.3	63%
Core net profit	90.0	89.2	1%	52.3	72%	179.1	119.3	50%
EPS (sen)	1.8	1.8	1%	1.0	72%	3.6	2.4	50%
NDPS (sen)	2.8	0.0	>100%	2.4	15%	2.8	2.4	15%
NTA/share (RM)	0.42	0.39	6%	0.44	-6%	0.42	0.44	-6%
EBITDA margin	37%	30%		31%		33%	30%	
EBIT margin	17%	14%		16%		15%	15%	
Pretax margin	11%	8%		7%		9%	7%	
Effective tax rate	29%	26%		48%		28%	43%	

Source: Company

Capacity and Energy Income

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Dec (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Capacity Income								
PD Power	0.0	0.0	0%	0.0	0%	0.0	7.4	N/A
Prai Power	25.7	32.2	-33%	38.4	-20%	57.9	75.8	-24%
GB3	57.0	57.0	1%	56.5	0%	114.0	96.9	18%
SEV	33.4	33.1	0%	33.5	1%	66.5	66.6	0%
TBP	246.2	246.2	0%	246.7	0%	492.4	490.7	0%
TBE	148.9	153.5	1%	147.7	-3%	302.4	303.2	0%
	511.2	522.0	-2%	522.8	-2%	1,033.2	1,040.6	-1%
Energy Income						966.7		
PD Power	0.0	0.0	0%	0.0	0%	0.0	1.9	N/A
Prai Power	0.0	0.0	0%	29.2	0%	0.0	60.3	N/A
GB3	17.8	8.0	-19%	21.9	123%	25.8	31.2	-17%
SEV	12.4	155.7	-95%	241.1	-92%	168.1	443.8	-62%
TBP	507.2	610.0	-39%	829.8	-17%	1,117.2	1,604.6	-30%
TBE	200.3	215.0	437%	37.3	-7%	415.3	377.7	10%
	737.7	988.7	-36%	1,159.3	-25%	1,726.4	2,519.5	-31%

Source: Company

Valuation

	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%	2,761	0.55	39.1%	FCFF @ 8.0% discount rate
TBE	100%	1,442	0.29	20.4%	FCFF @ 8.4% discount rate
Alam Flora	97.37%	715	0.14	10.1%	FCFF @ 6.0% discount rate
Malakoff Utilities	100%	58	0.01	0.8%	FCFF @ 7.9% discount rate
Teknik Janakuasa	100%	465	0.09	6.6%	FCFF @ 7.9% discount rate
Associates		1,393	0.28	19.7%	Book value @ FY19A
Net Cash/(Debt)		-87	-0.02	-1.2%	Adjusted for subsidiary's loan
		7,069	1.41	100.0%	
Issued Share		5,000			
SoP value per share		1.41			
20% discount		-0.28			Holding company discount
Target Price		RM1.15			Round to the nearest RM0.05

Source: Kenanga Research

19 August 2020

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div.Yld. (%)	Target	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.	Price (RM)	
GAS MALAYSIA BHD	2.77	3,556.7	Y	12/2020	-4.7%	16.5%	3.8%	14.7%	20.5	19.8	17.2	3.4	3.4	17.1%	4.5%	2.85	MP
MALAKOFF CORP BHD	0.955	4,667.0	Y	12/2020	7.4%	0.3%	75.7%	1.9%	22.7	12.9	12.7	0.9	0.9	6.7%	6.2%	1.15	OP
PESTECH INTERNATIONAL BHD	0.795	606.3	Y	06/2020	11.1%	5.6%	-4.6%	18.2%	8.4	8.8	7.4	1.3	1.1	13.5%	0.0%	1.05	OP
PETRONAS GAS BHD	16.38	32,411.6	Y	12/2020	18.4%	0.9%	1.4%	0.1%	17.2	17.0	17.0	2.4	2.4	14.2%	4.4%	17.20	MP
TENAGA NASIONAL BHD	11.16	63,663.4	Y	12/2020	4.0%	1.8%	0.2%	2.0%	12.2	12.2	11.9	1.1	1.0	8.8%	4.1%	13.95	OP
YTL POWER INTERNATIONAL BHD	0.700	5,372.7	N	06/2020	-3.4%	2.1%	-34.6%	4.3%	8.2	12.5	12.0	0.4	0.4	3.2%	7.1%	0.650	MP
Simple Average					5.5%	4.5%	7.0%	6.9%	14.9	13.9	13.0	1.6	1.5	10.6%	4.4%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

19 August 2020

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

