

29 November 2021

Malakoff Corporation Bhd

3QFY21 Results No Surprises

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3QFY21 net profit of RM67.2m met expectations with Alam Flora continuing to show resilient earnings while the core business IPPs were largely on track. Going forth, with the completion of the forced outage work in 2HFY20, earnings volatility is fairly low henceforth. As such, we continue to rate the stock an OP for its attractive >6% yield albeit with a slightly lower TP of RM1.01.

3QFY21 results matched expectations with core net profit rising 32% YoY to RM67.2m, bringing 9MFY21 net profit to RM245.3m which accounted for 77% of house/street's FY21 estimates. No dividend was declared during the quarter as expected as it usually pays half-yearly dividend.

A weak sequential result... 3QFY21 core profit fell 43% to RM67.2m from RM117.7m, while revenue was flat at RM1.58b, as the preceding quarter benefited from higher fuel margin for TBP and TBE arising from higher applicable coal price (ACP) while the current quarter incurred higher O&M costs by RM13m. In addition, associate income saw lower share of profit by 6% to RM57.5m as Al-Hidd IWPP was impacted by higher O&M costs. Meanwhile, Alam Flora's PAT was flattish at RM37.0m albeit revenue rose 3%.

Alam Flora led yearly earnings higher. YoY, 3QFY21 core profit leapt 32% to RM67.2m from RM50.8m in 3QFY20 which was attributable to higher ACP-led fuel margin by RM21m, higher Alam Flora's contribution by RM16m and lower O&M costs by RM11m. YTD, 9MFY21 core profit jumped 16% to RM245.3m from RM211.9m on higher energy payment from TBE by RM27.7m as the IPP was hit by unplanned outages last year while Alam Flora reported PAT which surged 54% or RM35.0m over the year. 9MFY21 headline net profit was flat from RM244.9m in 9MFY20 which included c.RM33m GE claim settlement previously.

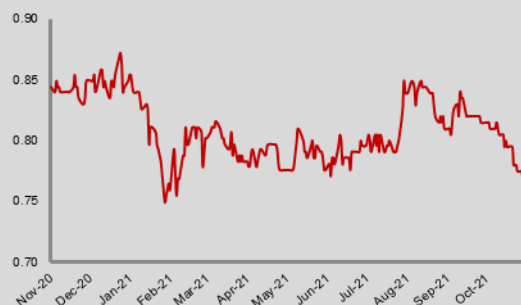
Stable earnings from FY21 onward. With unplanned outages at TBE in 2HFY20 resolved, MALAKOFF's earnings should be more stable. On the other hand, Alam Flora has also reported better earnings over the quarters since the earnings inclusion in early 2020. All these make its dividends payout more sustainable. Post 3QFY21 results, while keeping FY21 forecasts, we cut FY22 net profit by 8% as we raised effective tax rate to 30% from 25% to reflect the one-off prosperity tax. Accordingly, FY22E NDPS is trimmed correspondingly based on unchanged 80% payout assumptions.

Maintain OUTPERFORM for its undemanding valuation, following a more stable earnings with unplanned outage at TBE completed, coupled with its above average dividend yield of >6%. However, target price is lowered to RM1.01 from RM1.06 based on unchanged 20% holding company discount to its SoP, following earnings revision as well as rolling valuation base year to FY22 from RM21. **Risk to our recommendation** is unplanned outages leading to lower-than-expected earnings.

OUTPERFORM ↔

Price: **RM0.76**
Target Price: **RM1.01** ↓

Share Price Performance



KLCI	1,512.22
YTD KLCI chg	-7.1%
YTD stock price chg	-15.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK
Market Cap (RM m)	3,689.7
Shares outstanding	4,887.0
52-week range (H)	0.95
52-week range (L)	0.75
3-mth avg daily vol:	1,269,068
Free Float	10%
Beta	0.7

Major Shareholders

Anglo Oriental Annuity	20.1%
MMC Corp Bhd	18.4%
Amanah Saham Nasional	16.4%

Summary Earnings Table

FY Dec (RM m)	2020A	2021E	2022E
Revenue	6,276.8	5,774.4	5,798.3
EBIT	844.4	890.7	833.2
PBT	444.6	496.5	509.2
Net Profit	286.6	316.6	301.2
Core Profit	253.5	316.6	301.2
Consensus		318.4	335.6
Earnings Revision (%)		-	-7.9
Core EPS (sen)	5.1	6.3	6.0
Core EPS growth (%)	20.5	24.9	-4.9
NDPS (sen)	5.1	5.1	4.8
BV/Share (RM)	1.06	1.07	1.09
NTA/Share (RM)	0.43	0.52	0.62
Core PER (x)	17.7	12.0	12.6
PBV (x)	0.72	0.71	0.70
Price/NTA (x)	2.07	1.45	1.23
Net Gearing (x)	1.85	1.60	1.42
Net Yield (%)	5.7	6.7	6.3

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Income Statement

FY Dec (RM m)	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	1,583.8	1,584.4	0%	1,482.9	7%	4,519.4	4,763.0	-5%
EBITDA	513.7	575.9	-11%	466.2	10%	1,605.5	1,561.7	3%
Depreciation	-308.5	-307.1	0%	-303.6	2%	-920.1	-904.0	2%
EBIT	205.2	268.8	-24%	162.6	26%	685.4	657.7	4%
Interest income	28.2	31.4	-10%	41.0	-31%	88.3	136.6	-35%
Interest expense	-172.3	-172.0	0%	-185.6	-7%	-515.4	-565.0	-9%
Associates	57.5	61.5	-6%	49.7	16%	146.8	141.0	4%
Pretax profit	118.6	189.7	-37%	67.6	75%	405.0	370.3	9%
Taxation	-45.8	-59.8	-23%	-7.0	555%	-128.4	-91.4	40%
Profit after tax	72.7	129.9	-44%	60.6	20%	276.5	278.9	-1%
Minority interest	-5.6	-12.2	-54%	-9.8	-43%	-31.2	-34.0	-8%
Net profit	67.2	117.7	-43%	50.8	32%	245.3	244.9	0%
Core net profit	67.2	117.7	-43%	50.8	32%	245.3	211.9	16%
EPS (sen)	1.3	2.4	-43%	1.0	32%	4.9	4.2	16%
NDPS (sen)	0.0	3.1	N/M	0.0	0%	3.1	2.8	11%
NTA/share (RM)	0.52	0.49	6%	0.43	19%	0.52	0.43	19%
EBITDA margin	32%	36%		31%		36%	33%	
EBIT margin	13%	17%		11%		15%	14%	
Pretax margin	7%	12%		5%		9%	8%	
Effective tax rate	39%	32%		10%		32%	25%	

Source: Company

Segmental Breakdown

FY Dec (RM m)	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Segment revenue:								
Power Generation - Local	1350.7	1356.3	0%	1246.6	8%	3826.5	4055.8	-6%
Power Generation - Foreign	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Waste mgmt & env. services	207.4	200.6	3%	204.2	2%	613.8	611.5	0%
Other - Local	25.7	27.5	-7%	32.2	-20%	79.0	95.2	-17%
Other - Foreign	0.0	0.0	0%	0.0	0%	0.0	0.5	-100%
Eliminations	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Group revenue	1583.8	1584.4	0%	1482.9	7%	4519.4	4763.0	-5%
Segment result:								
Power Generation - Local	55.4	112.3	-51%	95.7	-42%	291.6	348.5	-16%
Power Generation - Foreign	55.4	58.7	-6%	47.5	17%	140.8	136.1	3%
Waste mgmt & env. services	37.0	37.0	0%	20.2	83%	99.5	64.5	54%
Other - Local	124.4	369.0	-66%	-32.3	-485%	448.4	303.7	48%
Other - Foreign	1.7	63.3	-97%	-1.5	-215%	64.4	22.3	189%
Eliminations	-201.2	-510.4	-61%	-69.2	191%	-768.2	-596.2	29%
Group PAT	72.7	129.9	-44%	60.6	20%	276.5	278.9	-1%
PAT margin:								
Power Generation - Local	4%	8%		8%		8%	9%	
Power Generation - Foreign	N/A	N/A		N/A		N/A	N/A	
Waste mgmt & env. services	18%	18%		10%		16%	11%	
Other - Local	485%	1339%		-100%		567%	319%	
Other - Foreign	N/A	N/A		N/A		N/A	4512%	
Eliminations	N/A	N/A		N/A		N/A	N/A	
Group PAT margin	8%	5%		8%		7%	7%	

Source: Company

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Valuation - New					
	Equity Stake	RM m	RM/share		Valuation Basic
SEV	93.75%	19	0.00	0.3%	FCFF @ 6.9% discount rate
GB3	75%	52	0.01	0.8%	FCFF @ 7.2% discount rate
Prai Power	100%	74	0.01	1.2%	FCFF @ 8.6% discount rate
TBP	90%	2,395	0.48	38.0%	FCFF @ 8.0% discount rate
TBE	100%	1,354	0.27	21.5%	FCFF @ 8.4% discount rate
Alam Flora	97.37%	680	0.14	10.8%	FCFF @ 6.0% discount rate
Malakoff Utilities	100%	49	0.01	0.8%	FCFF @ 7.9% discount rate
Teknik Janakuasa	100%	445	0.09	7.1%	FCFF @ 7.9% discount rate
Associates		1,528	0.31	24.3%	Book value @ FY20A
Net Cash/(Debt)		-300	-0.06	-4.8%	Adjusted for subsidiary's loan
		6,296	1.26	100.0%	
Issued Share		5,000			
SoP value per share		1.26			
20% discount		-0.25			Holding company discount
Target Price		RM1.01			

Source: Kenanga Research

Valuation - Old					
	Equity Stake	RM m	RM/share		Valuation Basic
SEV	93.75%	31	0.01	0.5%	FCFF @ 6.9% discount rate
GB3	75%	90	0.02	1.4%	FCFF @ 7.2% discount rate
Prai Power	100%	97	0.02	1.5%	FCFF @ 8.6% discount rate
TBP	90%	2,549	0.51	38.4%	FCFF @ 8.0% discount rate
TBE	100%	1,381	0.28	20.8%	FCFF @ 8.4% discount rate
Alam Flora	97.37%	698	0.14	10.5%	FCFF @ 6.0% discount rate
Malakoff Utilities	100%	54	0.01	0.8%	FCFF @ 7.9% discount rate
Teknik Janakuasa	100%	455	0.09	6.9%	FCFF @ 7.9% discount rate
Associates		1,491	0.30	22.5%	Book value @ FY20A
Net Cash/(Debt)		-206	-0.04	-3.1%	Adjusted for subsidiary's loan
		6,639	1.33	100.0%	
Issued Share		5,000			
SoP value per share		1.33			
20% discount		-0.27			Holding company discount
Target Price		RM1.06			

Source: 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	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	2.65	3,402.6	Y	12/2021	-11.9%	8.6%	7.8%	-7.7%	15.2	14.1	15.3	3.2	3.1	22.0%	6.4%	3.00	OP
MALAKOFF CORP BHD	0.76	3,689.7	Y	12/2021	-8.0%	0.4%	24.9%	-4.9%	14.9	11.9	12.5	0.7	0.7	5.9%	6.8%	1.01	OP
PESTECH INTERNATIONAL BHD	1.03	784.0	Y	06/2022	12.4%	5.0%	4.7%	14.9%	10.9	10.4	9.0	1.4	1.2	12.3%	0.0%	1.39	OP
PETRONAS GAS BHD	16.36	32,372.1	Y	12/2021	0.7%	1.4%	3.5%	-5.8%	16.2	15.6	16.6	2.6	2.5	16.2%	5.4%	17.02	MP
TENAGA NASIONAL BHD	9.38	53,710.7	Y	12/2021	14.6%	1.0%	27.2%	5.8%	14.1	11.1	10.5	1.0	0.9	8.5%	4.5%	11.41	OP
YTL POWER INTERNATIONAL BHD	0.640	5,185.4	N	06/2022	-4.8%	1.6%	-15.7%	21.2%	11.3	13.4	11.0	0.4	0.4	3.0%	7.8%	0.890	OP
Simple Average					0.5%	3.0%	8.7%	3.9%	13.8	12.8	12.5	1.5	1.5	11.3%	5.2%		

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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