

30 May 2023

Malakoff Corporation

1QFY23 Losses Unlikely to Recur

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MALAKOF expects a further decline in the applicable coal price (ACP) over the medium term, following a sharp decline in 1QFY23. However, as the drop in the ACP is gradual, its impact on earnings will be less significant. Meanwhile, two scheduled outages planned between Jun and Aug this year will not affect capacity payments. We maintain our forecasts, TP of RM0.80 and OUTPERFORM call.

We came away from MALAKOF's post-1QFY23 results briefing feeling encouraged on its prospects.

1. 1QFY23 net loss of RM75.7m (vs. a net profit of RM50.9m in 1QFY22) was mainly attributable to: (i) a RM70m loss on fuel margin vs. a gain of RM30m a year ago, (ii) a lower share of profit from associates and JV by 59% to RM19.6m from RM47.7m owing to 47% decline in Shuaibah's earnings on changes in accounting treatment and profit not recognised for Hidd Power consequent to impairment assessment carried out in 2022. In addition, there was an absence of capacity payment (c.RM57m per quarter) from GB3 Power Plant upon the expiry of the IPP's PPA in end-2022.
2. The RM70m loss on fuel margin was mainly due to the sharp decline of coal prices at the beginning of the year, following a significant surge in prices throughout 2022. This resulted in the weighted average coal inventory cost being higher than the ACP, the market price paid by the off-taker TENAGA. MALAKOF expects coal price to decline further over the medium term.
3. The coal supply is procured through TNB Fuel Services. Under the PPA term, the IPP is required to maintain a minimum of one month's worth of coal supply, and typically, the IPP maintains a standby stock inventory of 2-3 months at all times. MALAKOF has no control over the energy dispatch which is at TENAGA's discretion which could affect the inventory level at MALAKOF's end
4. Tanjung Bin Energy (TBE) coal plant registered higher capacity payment by 119% YoY due to shorter duration of unscheduled outages. However, Tanjung Bin Power (TBP) recorded flattish capacity payment despite achieving a higher equivalent availability factor (EAF) of 82% vs. 72% previously, due to scheduled outages. Going forth, TBP will have 45 days scheduled outages in June while TBE will shut for 50 days of planned maintenance in August. The planned outages will not affect its capacity payment.

Forecasts. Maintained as we have factored in RM150m fuel margin loss in FY23F. With stabilising coal cost, fuel margin losses will be manageable going forward.

We like MALAKOF for its earnings stability underpinned by IPPs and concessions. The significant fuel margin gains/losses occurred in FY22 and 1QFY23 are unlikely to repeat as commodity prices have stabilised. We still see value in the company at its current share price, which will also be supported by a decent dividend yield of >5%. Maintain OUTPERFORM with unchanged SoP-derived TP of RM0.80 (see next page). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

OUTPERFORM ↔

Price: RM0.61
Target Price: RM0.80 ↔

Share Price Performance



KLCI 1,404.93
YTD KLCI chg -6.1%
YTD stock price chg -6.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK Equity
Market Cap (RM m)	2,981.0
Shares outstanding	4,887.0
52-week range (H)	0.75
52-week range (L)	0.58
3-mth avg daily vol:	2,232,551
Free Float	17%
Beta	0.8

Major Shareholders

Anglo Oriental Annuity	20.1%
MMC Corp Bhd	18.4%
Urusharta Jamaah Sdn Bhd	10.2%

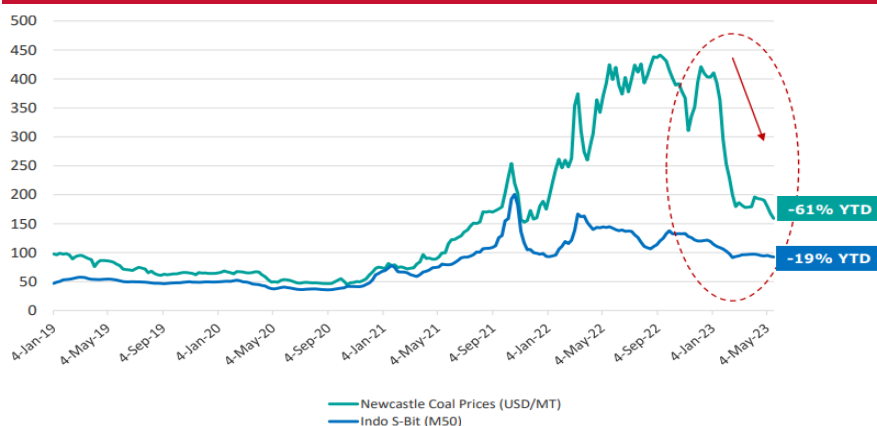
Summary Earnings Table

FY Dec (RM m)	2022A	2023F	2024F
Revenue	10,355.2	7,938.8	7,967.4
EBIT	982.7	653.6	674.8
PBT	736.5	398.3	518.8
Net Profit	302.2	208.7	299.2
Core Profit	314.2	208.7	299.2
Consensus	-	254.1	336.4
Earnings Revision (%)	-	-36.0	-15.3
Core EPS (sen)	8.4	4.2	6.0
Core EPS growth (%)	28.0	-50.2	43.4
NDPS (sen)	5.3	3.3	4.8
BV/Share (RM)	1.11	1.12	1.13
NTA/Share (RM)	0.61	0.68	0.75
Core PER (x)	7.8	14.6	10.2
PBV (x)	0.55	0.54	0.54
Price/NTA (x)	1.07	0.90	0.81
Net Gearing (x)	1.30	0.98	0.83
Net Yield (%)	8.1	5.5	7.8

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Risks to our recommendation include: (i) regulatory risk, (ii) unplanned outages leading to lower capacity payment thus affecting earnings, (iii) non-compliance of ESG standards set by various stakeholders, and (iv) earnings volatility stemming from fuel margin gains or losses.

Benchmark Coal Prices



Source: Company

Valuation

	Equity Stake	RM m	RM/share	Basis
SEV	93.75%	10	0.00	FCFF @ 6.9% discount rate
Prai Power	100%	42	0.01	FCFF @ 8.6% discount rate
TBP	90%	1,817	0.36	FCFF @ 8.8% discount rate
TBE	100%	999	0.20	FCFF @ 9.8% discount rate
Alam Flora	97.37%	593	0.12	FCFF @ 7.7% discount rate
Malakoff Utilities	100%	44	0.01	FCFF @ 7.7% discount rate
Teknik Janakuasa	100%	444	0.09	FCFF @ 7.7% discount rate
Associates		1,830	0.37	Book value @ FY22A
Net Cash/(Debt)		-1,796	-0.36	Adjusted for subsidiary's loan
		3,983	RM0.80	

Source: Kenanga Research

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Income Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Revenue	6,276	6,463	10,355	7,939	7,967
EBITDA	2,054	2,092	2,232	1,903	1,944
Depreciation	-1,210	-1,244	-1,249	-1,250	-1,270
EBIT	844	848	983	654	675
Interest Expense	-572	-575	-523	-447	-351
Associate	172	197	276	191	195
Exceptional/FV	0	0	0	0	0
PBT	445	470	737	398	519
Taxation	-115	-164	-351	-100	-130
Minority Interest	-43	-45	-84	-90	-90
Net Profit	287	260	302	209	299
Core Net Profit	254	328	419	209	299

Balance Sheet

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Fixed Assets	12,391	11,653	11,082	10,653	10,204
Investment	1,674	1,891	1,980	1,995	1,995
Intangibles	3,144	2,836	2,527	2,207	1,887
Other FA	906	770	367	350	363
Inventories	592	874	1,643	1,323	1,317
Receivable	884	796	2,084	898	899
Other CA	3,534	2,693	759	582	584
Cash & Bank Bal.	1,063	1,569	1,538	2,365	2,205
Total Assets	24,189	23,083	21,979	20,372	19,453

Payables	1,360	1,499	1,595	1,932	1,928
ST Borrowings	1,165	1,259	942	988	905
Other ST Liability	453	530	636	488	490
LT Borrowings	9,717	8,587	7,801	6,881	5,976
Other LT Lia.	5,049	4,702	4,309	3,352	3,363
Perpetual Sukuk	800	800	800	800	800
Minority Interest	337	312	335	335	335
Net Assets	5,308	5,395	5,561	5,597	5,657

Share Capital	5,693	5,693	5,693	5,693	5,693
Reserves	-385	-298	-132	-96	-36
Equity	5,308	5,395	5,561	5,597	5,657

Cashflow Statement

FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	1,631	1,350	661	2,369	1,568
Investing CF	-1,280	690	672	-500	-500
Financing CF	-2,034	-1,533	-1,365	-1,042	-1,228
Net Chg in Cash	-1,683	506	-31	827	-160
Free Cash Flow	351	2,040	1,334	1,869	1,068

Financial Data & Ratios

FY Dec	2020A	2021A	2022A	2023F	2024F
Growth (%)					
Revenue	-14.7	3.0	60.2	-23.3	0.4
EBITDA	-13.6	1.8	6.7	-14.7	2.2
Operating Income	-29.7	0.4	15.9	-33.5	3.2
Pre-tax Income	-15.5	5.6	56.9	-45.9	30.2
Net Income	-10.5	-9.1	16.1	-30.9	43.4
Core Net Income	20.5	29.2	28.0	-50.2	43.4

Profitability (%)

EBITDA Margin	32.7	32.4	21.6	24.0	24.4
Operating Margin	13.5	13.1	9.5	8.2	8.5
PBT Margin	7.1	7.3	7.1	5.0	6.5
Net Margin	4.6	4.0	2.9	2.6	3.8
Core Net Margin	4.0	5.1	4.0	2.6	3.8
Effective Tax Rate	25.8	35.0	47.6	25.0	25.0
ROE	4.1	4.0	4.0	3.8	4.1
ROA	5.3	4.9	5.5	3.7	5.3

DuPont Analysis

Net margin (%)	4.0	5.1	4.0	2.6	3.8
Assets Turnover (x)	0.3	0.3	0.5	0.4	0.4
Leverage Factor (x)	4.6	4.3	4.0	3.6	3.4
ROE (%)	4.8	6.1	7.5	3.7	5.3

Leverage

Debt/Asset (x)	0.45	0.43	0.40	0.39	0.35
Debt/Equity (x)	2.05	1.82	1.57	1.41	1.22
Net Debt/(Cash)	-9,819	-8,277	-7,206	-5,504	-4,676
Net Debt/Equity (x)	1.85	1.53	1.30	0.98	0.83

Valuations

EPS (sen)	5.1	6.6	8.4	4.2	6.0
NDPS (sen)	5.1	5.1	5.3	3.3	4.8
BV (RM)	1.06	1.08	1.11	1.12	1.13
NTA (RM)	0.43	0.51	0.61	0.68	0.75
PER (x)	17.7	11.0	7.8	14.6	10.2
Net yield (%)	5.7	7.1	8.1	5.5	7.8
PBV (x)	0.57	0.57	0.55	0.54	0.54
P/NTA (x)	2.07	1.41	1.07	0.90	0.81
EV/EBITDA (x)	7.0	5.7	4.7	4.5	4.0

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net. Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	3.13	3.54	13.10%	4,018.9	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.5	12.4	2.9	26.2%	19.0	6.1%
MALAKOFF CORP BHD	OP	0.610	0.800	31.15%	2,981.0	Y	12/2023	4.2	6.0	-50.2%	43.4%	14.6	10.2	0.5	3.7%	3.3	5.4%
PETRONAS GAS BHD	MP	16.80	17.13	1.96%	33,242.7	Y	12/2023	95.8	97.2	9.8%	1.4%	17.5	17.3	2.5	14.3%	81.5	4.9%
SAMAIDEN GROUP BHD	OP	0.900	1.15	27.78%	348.7	Y	06/2023	3.2	4.4	0.5%	35.0%	27.8	20.6	3.5	13.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	9.75	10.64	9.13%	56,092.5	Y	12/2023	83.2	84.4	24.1%	1.4%	11.7	11.6	0.9	8.0%	41.6	4.3%
YTL POWER INTERNATIONAL BHD	OP	1.30	1.48	13.85%	10,532.8	N	06/2023	15.0	12.3	374.2%	-18.3%	8.6	10.6	0.7	8.3%	5.0	3.8%
Sector Aggregate					107,216.6					27.2%	-0.7%	12.7	12.8	1.8	12.3%		4.1%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Transition to Renewables	★				
	Reliable Energy & Fair Tariff	★	★	★		
	Effluent/Waste Management	★	★	★		
	Ethical Practices	★	★	★		
	Supply Chain Management	★	★	★		
	Customer Satisfaction	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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