

21 November 2023

Malakoff Corporation

The Pursuit of a Greener Future

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We visited Alam Flora's Fasiliti Inovasi Kitar Semula (FIKS) in Putrajaya yesterday. MALAKOF is making the right move to fill the earnings gaps left by its expiring fossil fuel-powered power plants with cleaner utility businesses such as waste management. However, it takes time to grow the size of these new businesses. We keep our forecasts, TP of RM0.63 and MARKET PERFORM call.

The takeaways from the visit are as follows:

1. FIKS is a one-stop centre for public to learn about recycling process and waste management. It was built in 2016 with recycled materials such as used shipping containers and wooden pallets, to create a physical environment that educates the public on the 3R concept (reduce, re-use and recycle) as well as to help reduce recyclable waste sent to landfills.
2. The total waste in Malaysia is forecasted to grow to 19m tonnes by 2050 (from 14m tonnes in 2021). This has brought about new opportunities in the waste management sector, such as recycling, recovery and sustainable waste treatment as waste diversion in waste management solutions. Waste-to-energy (WTE) project is one of the keys to waste management solutions helping to convert waste into energy and reduce reliance on fossil fuels.
3. WTE project helps to improve the air quality by reducing the amount of waste that is burned in open fires or sent to landfills. Thus, it helps to improve public health. In addition, WTE generates revenue from the sale of electricity or heat generated from the waste. This added revenue can help to offset the costs of construction and operation of the WTE project.
4. Meanwhile, the National Solid Waste Management Department (JPSPN) has planned to build 22 WTE plants throughout Malaysia. Currently, four WTE plants are awarded for construction in Melaka, Selangor, Kuala Lumpur and Johor. Next WTE plants in the pipeline are Semeling (Kedah), Seelong (Johor) and Jabor Kuantan (Pahang).
5. The WTE Sungai Udang (Melaka) with a power installed capacity of 22.1MW was awarded to MALAKOF on a public-private partnership (PPP) structure with a concession period of 34 years (three years of construction period, 30 years operational period and one year closure period). Total project cost is c.RM700m (including RM500m EPC portion) with equity returns of 8%-9% and the plant is expected to be ready by 2027.
6. There are two revenue sources for MALAKOF from this plant, i.e., tipping fee payment (tipping fee of RM96/MT with minimum incoming waste volume of 800 ton per day) and sale of electricity (PPA for 21 years at 42 sen/kWh). Revenue mix between the two is 55:45. With the help of FIKS experience, the WTE plant is expected to improve the waste management quality, which in turn help to generate higher electricity and lower maintenance cost and thus generate better returns for MALAKOF.

MARKET PERFORM ↔

Price: RM0.655
Target Price: RM0.630 ↔

Share Price Performance



KLCI 1,456.92
YTD KLCI chg -2.6%
YTD stock price chg 0.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK Equity
Market Cap (RM m)	3,201.0
Shares outstanding	4,887.0
52-week range (H)	0.75
52-week range (L)	0.57
3-mth avg daily vol:	1,982,964
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	-66.4	674.8
PBT	736.5	-340.8	479.7
Net Profit	302.2	-345.6	270.0
Core Profit	419.2	-345.6	270.0
Consensus	-	-221.6	261.7
Earnings Revision (%)	-	-	-
Core EPS (sen)	8.4	-6.9	5.4
Core EPS growth (%)	28.0	-182.4	>100.0
NDPS (sen)	5.3	3.0	4.3
BV/Share (RM)	1.11	1.01	1.02
NTA/Share (RM)	0.61	0.57	0.65
Core PER (x)	7.8	N/A	12.1
PBV (x)	0.59	0.65	0.64
Price/NTA (x)	1.07	1.15	1.01
Net Gearing (x)	1.30	1.19	1.02
Net Yield (%)	8.1	4.6	6.6



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Conclusion: While expanding environment solutions business including the latest proposed acquisition of 49% equity stake in E-Idaman Sdn Bhd will not make a significant earnings impact in the near term, it does speak for MALAKOF's efforts in looking for new earnings streams to replace its expiring PPAs. Two of its power plants had already expired recently, i.e., the 436MW PD Power Plant in Feb 2019 and 640MW GB3 Power Plant in Dec 2022. In addition, the PPA of its 350MW Prai Power Plant will expire in 2024, 1,303MW SEV Power Plant in 2027 and 40%-owned Kapar Power Plant in 2029.

Forecasts. Maintained.

While we like MALAKOF for its earnings stability underpinned by IPPs and concessions, there is room for improvement in its risk management to reduce or even eliminate unnecessary earnings volatility such as unplanned outage as well as fuel margin fluctuation. We maintain our **MARKET PERFORM** call at unchanged SoP-derived TP of RM0.63. The stock is supported by a decent dividend yield of >4%. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

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.

MALAKOF's SoP Valuation				
	Equity Stake (%)	Valuation		Basis
		RM m	RM/share	
SEV	93.75	3	0.00	FCFF @ 6.8% discount rate
Prai Power	100	13	0.00	FCFF @ 8.9% discount rate
TBP	90	1,591	0.32	FCFF @ 9.6% discount rate
TBE	100	909	0.18	FCFF @ 10.8% discount rate
Small Hydropower Plants	70	69	0.01	FCFF @ 7.0% discount rate
Alam Flora	97.37	551	0.11	FCFF @ 8.4% discount rate
Malakoff Utilities	100	38	0.01	FCFF @ 8.4% discount rate
Teknik Janakuasa	100	335	0.07	FCFF @ 8.4% discount rate
Associates		1,830	0.37	Book value @ FY22A
Net Cash/(Debt)		-2,202	-0.44	Adjusted for subsidiary's loan
		3,136	RM0.63	

Source: Kenanga Research

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Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F	FY Dec	2020A	2021A	2022A	2023F	2024F
Revenue	6,276	6,463	10,355	7,939	7,967	Growth (%)					
EBITDA	2,054	2,092	2,232	1,183	1,944	Revenue	-14.7	3.0	60.2	-23.3	0.4
Depreciation	-1,210	-1,244	-1,249	-1,250	-1,270	EBITDA	-13.6	1.8	6.7	-47.0	64.3
EBIT	844	848	983	-66	675	Operating Income	-29.7	0.4	15.9	-106.8	>100.0
Interest Expense	-572	-575	-523	-466	-390	Pre-tax Income	-15.5	5.6	56.9	-146.3	>100.0
Associate	172	197	276	191	195	Net Income	-10.5	-9.1	16.1	-214.4	>100.0
Exceptional/FV	0	0	0	0	0	Core Net Income	20.5	29.2	28.0	-182.4	>100.0
PBT	445	470	737	-341	480	Profitability (%)					
Taxation	-115	-164	-351	85	-120	EBITDA Margin	32.7	32.4	21.6	14.9	24.4
Minority Interest	-43	-45	-84	-90	-90	Operating Margin	13.5	13.1	9.5	-0.8	8.5
Net Profit	287	260	302	-346	270	PBT Margin	7.1	7.3	7.1	-4.3	6.0
Core Net Profit	254	328	419	-346	270	Net Margin	4.6	4.0	2.9	-4.4	3.4
						Core Net Margin	4.0	5.1	4.0	-4.4	3.4
						Effective Tax Rate	25.8	35.0	47.6	25.0	25.0
						ROE	4.1	4.0	4.0	1.1	4.0
						ROA	5.3	4.9	5.5	-6.5	5.3
						DuPont Analysis					
						Net margin (%)	4.0	5.1	4.0	-4.4	3.4
						Assets Turnover (x)	0.3	0.3	0.5	0.4	0.4
						Leverage Factor (x)	4.6	4.3	4.0	4.0	3.7
						ROE (%)	4.8	6.1	7.5	-6.8	5.3
						Leverage					
						Debt/Asset (x)	0.45	0.43	0.40	0.39	0.36
						Debt/Equity (x)	2.05	1.82	1.57	1.56	1.35
						Net Debt/(Cash)	-9,819	-8,277	-7,206	-6,041	-5,219
						Net Debt/Equity (x)	1.85	1.53	1.30	1.19	1.02
						Valuations					
						EPS (sen)	5.1	6.6	8.4	-6.9	5.4
						NDPS (sen)	5.1	5.1	5.3	3.0	4.3
						BV (RM)	1.06	1.08	1.11	1.01	1.02
						NTA (RM)	0.43	0.51	0.61	0.57	0.65
						PER (x)	17.7	11.0	7.8	-9.5	12.1
						Net yield (%)	5.7	7.1	8.1	4.6	6.6
						PBV (x)	0.57	0.56	0.59	0.65	0.64
						P/NTA (x)	2.07	1.41	1.07	1.15	1.01
						EV/EBITDA (x)	7.0	5.7	4.7	7.9	4.4

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	1,481	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	1,827	1,662
Total Assets	24,189	23,083	21,979	19,993	18,910
Payables	1,360	1,499	1,595	2,090	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	5,060	5,114
Share Capital	5,693	5,693	5,693	5,693	5,693
Reserves	-385	-298	-132	-633	-579
Equity	5,308	5,395	5,561	5,060	5,114

Cashflow Statement					
FY Dec (RM m)	2020A	2021A	2022A	2023F	2024F
Operating CF	1,631	1,350	661	1,814	1,539
Investing CF	-1,280	690	672	-500	-500
Financing CF	-2,034	-1,533	-1,365	-1,025	-1,204
Net Chg in Cash	-1,683	506	-31	290	-165
Free Cash Flow	351	2,040	1,334	1,314	1,039

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	3.23	3.30	2.2%	4,147.3	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.9	12.8	3.0	26.2%	19.0	5.9%
MALAKOFF CORP BHD	MP	0.655	0.630	-3.8%	3,201.0	Y	12/2023	(6.9)	5.4	-182.4%	-21.9%	N.A.	12.1	0.6	-6.5%	3.0	4.6%
PETRONAS GAS BHD	MP	17.18	17.45	1.6%	33,994.6	Y	12/2023	95.8	97.2	9.8%	1.4%	17.9	17.7	2.5	14.3%	81.5	4.7%
SAMAIDEN GROUP BHD	OP	1.16	1.80	55.2%	475.7	Y	06/2024	4.5	5.7	48.7%	26.3%	25.5	20.2	4.1	17.4%	0.0	0.0%
TENAGA NASIONAL BHD	OP	9.97	11.30	13.3%	57,699.7	Y	12/2023	71.6	84.4	6.8%	17.8%	13.9	11.8	0.9	6.9%	35.8	3.6%
YTL POWER INTERNATIONAL BHD	OP	2.36	2.50	5.9%	19,121.1	N	06/2024	26.5	25.3	9.7%	-4.9%	8.9	9.3	1.1	12.7%	6.0	2.5%
Sector Aggregate					118,639.4					-2.2%	15.2%	14.5	12.6	2.1	11.8%		3.6%

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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