

30 May 2024

# Malakoff Corporation

## Returns to Calmer Waters

By **Teh Kian Yeong** / [tehky@kenanga.com.my](mailto:tehky@kenanga.com.my)

**MALAKOF's 1QFY24 met expectations. Its returned to the black with earnings normalising on the back of a stable coal price environment (vs. a sizeable negative fuel margin a year ago). We maintain our FY24-25F forecasts, TP of RM0.68 and MARKET PERFORM call.**

MALAKOF's 1QFY24 net profit of RM62.2m met expectations, at 26% and 23% of our full-year forecast and the full-year market consensus, respectively. No dividend was declared during the quarter as it usually pays half-year dividends.

**YoY.** Its 1QFY24 revenue was flattish but it returned to the black with a net profit of RM62.2m, vs. a net loss of RM75.7m in 1QFY23 when its coal-fired power plants, namely Tanjung Bin Power (TBP) and Tanjung Bin Energy (TBE), were hit by negative fuel margin of RM104.9m as their weighted average coal cost came in sharply higher than the applicable coal price (ACP). We understand that there was minimal negative fuel margin in 1QFY24 as coal price stabilised.

**QoQ.** Its 1QFY24 revenue inched up 1% and similarly, it returned to the black in 1QFY24 vs. a net loss of RM357.1m in 4QFY23 (due to RM333.0m share of loss from AI-Hidd IWPP and RM96.0m impairment loss on the group's carrying value of investment in AI-Hidd IWPP).

**Forecasts.** Maintained.

**Valuations.** We maintain our SoP-derived TP of RM0.68 (see Page 3). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

**Investment case.** 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 the unnecessary earnings volatility such as from unplanned outages as well as fuel margin fluctuation. As such, we maintain our **MARKET PERFORM** call which is supported by a decent dividend yield of c.5%.

**Risks to our recommendation include:** (i) regulatory risks, (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.

## MARKET PERFORM ↔

**Price:** RM0.76  
**Target Price:** RM0.68 ↔

### Share Price Performance



KLCI 1,605.35  
YTD KLCI chg 10.4%  
YTD stock price chg 19.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK Equity
Market Cap (RM m)	3,714.1
Shares outstanding	4,887.0
52-week range (H)	0.78
52-week range (L)	0.57
3-mth avg. daily vol.	1,975,019
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)	2023A	2024F	2025F
Revenue	9,067.0	8,207.2	7,684.5
EBIT	-262.8	752.0	770.6
PBT	-954.9	393.0	483.9
<b>Net Profit</b>	<b>-837.2</b>	<b>235.0</b>	<b>291.6</b>
<b>Core Profit</b>	<b>-837.2</b>	<b>235.0</b>	<b>291.6</b>
Consensus	-	269.0	288.5
Earnings Revision (%)	-	-	-
Core EPS (sen)	-16.7	4.7	5.8
Core EPS Growth (%)	>-100.0	>100.0	24.4
NDPS (sen)	3.0	3.8	4.7
BV/Share (RM)	0.90	0.91	0.92
NTA/Share (RM)	0.45	0.52	0.59
Core PER (x)	-3.8	16.2	13.0
PBV (x)	0.84	0.83	0.82
Price/NTA (x)	1.43	1.47	1.29
Net Gearing (x)	1.44	1.24	1.09
Net Yield (%)	4.7	4.9	6.1

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**Income Statement**

FYE Dec (RM m)	1Q	4Q	Q-o-Q	1Q	Y-o-Y	1Q	1Q	Y-o-Y
	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Turnover	2,280.1	2,262.4	1%	2,285.1	0%	2,280.1	2,285.1	0%
EBITDA	482.3	377.7	28%	292.3	65%	482.3	292.3	65%
Depreciation	-272.8	-279.4	-2%	-272.8	0%	-272.8	-272.8	0%
EBIT	209.5	98.3	113%	19.5	976%	209.5	19.5	976%
Interest income	19.6	18.0	9%	19.9	-2%	19.6	19.9	-2%
Interest expense	-131.3	-137.4	-4%	-143.5	-9%	-131.3	-143.5	-9%
Associates	22.0	-288.7	>100%	19.6	12%	22.0	19.6	12%
Pretax profit	119.8	-309.8	>100%	-84.4	>100%	119.8	-84.4	>100%
Taxation	-41.4	-40.6	2%	13.2	>100%	-41.4	13.2	>100%
Profit after tax	78.4	-350.4	>100%	-71.3	>100%	78.4	-71.3	>100%
Minority interest	-16.2	-6.7	140%	-4.4	264%	-16.2	-4.4	264%
Net profit	62.2	-357.1	>100%	-75.7	>100%	62.2	-75.7	>100%
Core net profit	62.2	-357.1	>100%	-75.7	>100%	62.2	-75.7	>100%
EPS (sen)	1.2	-7.1	>100%	-1.5	>100%	1.2	-1.5	>100%
NDPS (sen)	0.0	1.5	N/A	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.47	0.45	4%	0.60	-21%	0.47	0.60	-21%
EBITDA margin	21%	17%		13%		21%	13%	
EBIT margin	9%	4%		1%		9%	1%	
Pretax margin	5%	-14%		-4%		5%	-4%	
Effective tax rate	35%	-13%		16%		35%	16%	

Source: Company

**Segmental Breakdown**

FYE Dec (RM m)	1Q	4Q	Q-o-Q	1Q	Y-o-Y	1Q	1Q	Y-o-Y
	FY24	FY23	Chg	FY23	Chg	FY24	FY23	Chg
Segment revenue:								
Power Generation - Local	2016.4	2000.3	1%	2021.9	0%	2016.4	2021.9	0%
Power Generation - Foreign	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Waste mgmt & env. services	219.2	218.1	1%	220.7	-1%	219.2	220.7	-1%
Other - Local	44.5	44.0	1%	42.6	5%	44.5	42.6	5%
Other - Foreign	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
Eliminations	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
<b>Group revenue</b>	<b>2280.1</b>	<b>2262.4</b>	<b>1%</b>	<b>2285.1</b>	<b>0%</b>	<b>2280.1</b>	<b>2285.1</b>	<b>0%</b>
Segment result:								
Power Generation - Local	161.4	76.3	111%	11.0	1364%	161.4	11.0	1364%
Power Generation - Foreign	22.3	-291.6	-108%	17.5	28%	22.3	17.5	28%
Waste mgmt & env. services	29.9	31.2	-4%	28.8	4%	29.9	28.8	4%
Other - Local	-79.6	580.1	-114%	-72.4	10%	-79.6	-72.4	10%
Other - Foreign	118.6	127.4	-7%	-1.6	>100%	118.6	-1.6	>100%
Eliminations	-174.2	-873.8	-80%	-54.5	220%	-174.2	-54.5	220%
<b>Group PAT</b>	<b>78.4</b>	<b>-350.4</b>	<b>&gt;100%</b>	<b>-71.3</b>	<b>&gt;100%</b>	<b>78.4</b>	<b>-71.3</b>	<b>&gt;100%</b>
PAT margin:								
Power Generation - Local	8%	4%		1%		8%	1%	
Power Generation - Foreign	N/A	N/A		N/A		N/A	N/A	
Waste mgmt & env. services	14%	14%		13%		14%	13%	
Other - Local	-179%	1319%		-170%		-179%	-170%	
Other - Foreign	N/A	N/A		N/A		N/A	N/A	
Eliminations	N/A	N/A		N/A		N/A	N/A	
<b>Group PAT margin</b>	<b>3%</b>	<b>-15%</b>		<b>-3%</b>		<b>3%</b>	<b>-3%</b>	

Source: Company

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MALAKOF's Valuations				
	Equity Stake (%)	Valuations		Basis
		RM m	RM/share	
SEV	93.8	3	0.00	FCFF @ 6.8% discount rate
Prai Power	100	13	0.00	FCFF @ 8.9% discount rate
TBP	90	1,612	0.32	FCFF @ 9.6% discount rate
TBE	100	925	0.18	FCFF @ 10.8% discount rate
Small Hydropower Plants	70	69	0.01	FCFF @ 7.0% discount rate
Alam Flora	97.4	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		1,346	0.27	Book value @ FY23A
Net Cash/(Debt)		-1,516	-0.30	Adjusted for subsidiary's loan
		<b>3,376</b>	<b>RM0.68</b>	

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.
<b>Stocks Under Coverage</b>																	
GAS MALAYSIA BHD	MP	3.60	3.59	-0.3%	4,622.4	Y	12/2024	28.4	27.5	-4.9%	-3.0%	12.7	13.1	3.2	25.8%	22.7	6.3%
MALAKOFF CORP BHD	MP	0.760	0.680	-10.5%	3,714.1	Y	12/2024	4.7	5.8	-71.9%	24.1%	16.2	13.0	0.8	5.2%	3.8	4.9%
PETRONAS GAS BHD	MP	18.28	17.87	-2.2%	36,171.2	Y	12/2024	98.4	100.7	5.2%	2.4%	18.6	18.1	2.6	14.2%	72.0	3.9%
SAMAIDEN GROUP BHD	MP	1.32	1.51	14.4%	551.9	Y	06/2024	3.5	5.3	26.4%	51.9%	37.9	25.0	5.3	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.63	1.91	17.2%	1,128.6	Y	03/2024	3.9	6.8	52.8%	74.4%	41.5	23.8	5.3	13.8%	0.0	0.0%
TENAGA NASIONAL BHD	MP	13.20	11.50	-12.9%	76,392.8	Y	12/2024	73.7	79.5	37.4%	7.9%	17.9	16.6	1.2	7.0%	36.5	2.8%
YTL POWER INTERNATIONAL BHD	MP	5.25	5.22	-0.6%	42,746.4	N	06/2024	39.1	37.7	61.6%	-3.5%	13.4	13.9	2.3	18.1%	6.0	1.1%
<b>Sector Aggregate</b>					<b>165,327.3</b>					<b>54.5%</b>	<b>3.4%</b>	<b>16.5</b>	<b>16.0</b>	<b>3.0</b>	<b>14.1%</b>		<b>2.7%</b>

Source: Kenanga Research

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**Stock ESG Ratings:**

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

☆ 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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**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](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

