

Malaysia

ADD (no change)

Consensus ratings*: Buy 8 Hold 3 Sell 1

Current price:	RM0.83
Target price:	RM1.05
Previous target:	RM1.04
Up/downside:	26.5%
CGS-CIMB / Consensus:	9.2%

Reuters:	MALA.KL
Bloomberg:	MLK MK
Market cap:	US\$957.1m
	RM4,056m
Average daily turnover:	US\$0.21m
	RM0.86m
Current shares o/s:	4,887m
Free float:	32.3%

*Source: Bloomberg

Key changes in this note

➤ FY21-23 EPS raised by 11-13%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.2	2.5	-16.6
Relative (%)	1.3	6.1	-12.9

Major shareholders	% held
MMC	38.4
PNB	16.4
EPF	12.9

Analyst(s)



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Malakoff Corporation

Solid 2Q21 performance

- Malakoff's 1HFY21 core net profit was above expectations due to higher-than-expected margin and contributions from associates/JV.
- A higher interim DPS of 3.1 sen was proposed in 1H21 vs. 2.8 sen in 1H20. Reiterate Add given the better earnings outlook and decent dividend yield.

Key results highlights

Malakoff's 1H21 core net profit came above expectations at 70% of ours and 63% of Bloomberg consensus full-year forecasts, lifted by higher-than-expected gross margin and contributions from associates/joint ventures in 2Q21. We gather the better margin was due to better fuel margin and higher capacity income from Tanjung Bin Power (TBP, unscheduled outage rate reset to zero). 1H21 core net profit (excluding forex and impairment loss) rose 6% yoy despite weaker sales (-11% yoy), largely supported by stronger contribution from Alam Flora (+15% yoy) which offset the lower contribution from Segari Energy Ventures (SEV) due to decrease in despatch factor and higher operation and maintenance (O&M) costs.

2Q21 core net profit up 47% yoy

2Q21 revenue rose 5% yoy on higher energy payments from TBP and Tanjung Bin Energy (TBE) on higher applicable coal price (ACP), partially offset by lower energy payment at SEV and Prai Power due to lower despatch factor. 2Q21 core net profit was up 47% yoy given the: (i) higher contribution from TBP on higher ACP, (ii) stronger contribution from Alam Flora (2Q21: RM29m vs. RM13m in 2Q20), and (iii) higher share of profit from associates/joint ventures (+22% yoy). 2Q21 core net profit expanded 86% qoq buoyed by better contribution from TBP and TBE, coupled with higher contribution from associates (Al-Hidd) given the lower plant outages.

Interim DPS of 3.1 sen

Malakoff announced a higher interim DPS of 3.1 sen in 1H21 vs. 2.8 sen in 1H20, representing a dividend payout of 85% (based on 1H21 reported net profit) which is higher than our estimated 80% dividend payout. We are keeping our dividend forecasts as the group will likely be conserving more cash in future for new business opportunities. We gather that the group is committed to maintaining its dividend policy of paying out a minimum 70% of its net profit to shareholders.

Reiterate Add

We raise our FY21-23F EPS estimates by 11-13% to factor in the better gross margin and higher contributions from associates/JV in 2Q21. Our SOP-based target price is revised up to RM1.05 following our earnings revision. Reiterate Add given (i) its improving earnings profile due to stronger profit contribution from Alam Flora and lower finance cost; (ii) a less stretched balance sheet as net gearing ratio shrank from 2x at end-FY18 to 1.5x at end-FY20; and (iii) its decent dividend yield of >5% for FY21-23F.

Financial Summary	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue (RMm)	7,278	6,276	7,107	7,374	7,028
Operating EBITDA (RMm)	2,289	2,064	2,089	2,089	1,819
Net Profit (RMm)	323.4	286.6	309.3	314.5	332.1
Core EPS (RM)	0.044	0.059	0.063	0.064	0.068
Core EPS Growth	(8.4%)	34.7%	7.6%	1.7%	5.6%
FD Core P/E (x)	19.23	14.11	13.11	12.90	12.21
DPS (RM)	0.066	0.051	0.051	0.051	0.054
Dividend Yield	7.89%	6.14%	6.10%	6.20%	6.55%
EV/EBITDA (x)	6.17	6.89	6.25	5.89	6.43
P/FCFE (x)	1.68	NA	2.81	3.99	4.84
Net Gearing	145%	152%	136%	126%	118%
P/BV (x)	0.64	0.66	0.66	0.65	0.64
ROE	3.83%	5.32%	5.79%	5.82%	6.08%
% Change In Core EPS Estimates			13.2%	11.4%	10.6%
CGS-CIMB/Consensus EPS (x)			1.05	0.99	1.06

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec	2Q	2Q	yoy %	qoq %	2QFY21	2QFY20	yoy %	Prev.	Comments
(RM m)	FY21	FY20	chg	chg	Cum	Cum	chg	FY21F	
Revenue	1,584	1,506	5%	17%	2,936	3,280	-11%	7,205	Weaker yoy due to lower energy payment and lower despatch factor
Operating costs	(1,003)	(970)	3%	21%	(1,832)	(2,199)	-17%	(5,126)	
EBITDA	582	536	9%	11%	1,104	1,082	2%	2,079	
EBITDA margin (%)	37	36			38	33		29	
Depn & amort.	(307)	(303)	1%	1%	(612)	(600)	2%	(1,232)	
EBIT	275	233	18%	26%	493	481	2%	847	
Interest expense	(172)	(189)	-9%	0%	(343)	(379)	-10%	(680)	
Interest & invt inc	31	47	-33%	9%	60	96	-37%	143	
Associates' contrib	61	51	22%	>100%	89	91	-2%	152	
Exceptionals	(6)	21	>100%	-2%	(12)	14	>100%	-	Refers mainly to foreign exchanges gains/losses
Pretax profit	190	163	17%	96%	286	303	-5%	461	
Tax	(60)	(48)	26%	>100%	(83)	(84)	-2%	(144)	
Tax rate (%)	32	29			29	28		31	
Minority interests	(12)	(10)	21%	-10%	(26)	(24)	6%	(44)	MI refers mostly to earnings from SEV and GB3
Net profit	118	105	12%	95%	178	194	-8%	273	Include exceptional items
Core net profit	124	84	47%	86%	190	180	6%	273	1HFY21 core earnings at 70% of our full year forecast
EPS (sen)	2	2	12%	95%	4	4	-8%	6	
Core EPS (sen)	3	2	47%	86%	4	4	6%	6	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

RE expansion. Malakoff is exploring renewable energy (RE) projects domestically and has made good progress for its RE expansion, particularly in rooftop solar. The group has signed a Memorandum of Understanding (MoU) at end-Jul 21 with Koperasi Polis Diraja Malaysia to assess the feasibility of jointly developing rooftop solar projects at selected Polis Diraja Malaysia (PDRM) building premises in Peninsular Malaysia. It had recently secured six rooftop solar projects with DRB-HICOM Group with a total capacity of 13.41MWp as well.

Key downside risks to our Add call are weaker-than-expected earnings from associates/JV and unplanned outages at power plants. Potential re-rating catalysts include stronger earnings and improving balance sheet.

Figure 2: Earnings revision


RM m	2021F			2022F			2023F		
	Old	New	chg	Old	New	chg	Old	New	chg
Revenue	7,205	7,107	-1%	7,295	7,374	1%	6,947	7,028	1%
Core net profit	273	309	13%	282	315	11%	300	332	11%
Core EPS	0.06	0.06	13%	0.06	0.06	11%	0.06	0.07	11%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

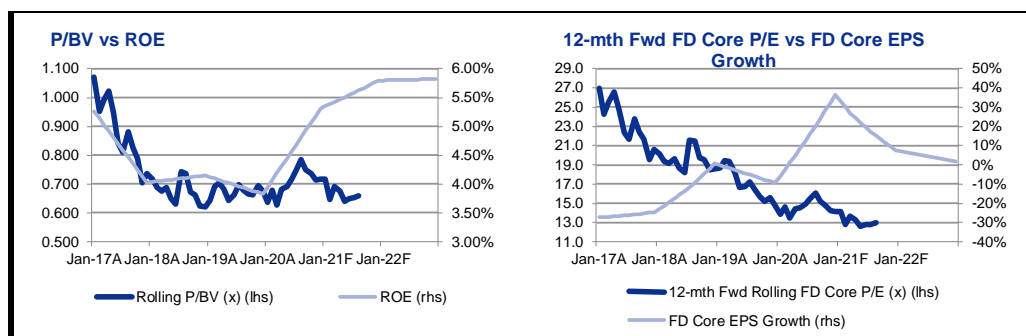
Figure 3: SOP valuations of Malakoff

Item	Basis	RM m
IPP	DCF (WACC of 6.0%)	12,940
Alam Flora	8.0x FY20 EV/EBITDA	1,224
Associates	1x FY20 P/BV	799
Cash	FY20	1,063
Debt	FY20	(10,882)
Equity value		5,143
Target price (per share)		1.05

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

ESG in a nutshell	
<p>Malakoff has diversified its business portfolio from power & water production to include waste management & environmental services through the acquisition of Alam Flora completed at end-2019. It is also exploring RE projects domestically, in line with the government's aim of increasing the proportion of RE to 31% of Malaysia's energy generation mix by 2025.</p>	
Keep your eye on <p>Malakoff has set long-term strategic targets of achieving 10,000MW of power generation capacity, 1,000,000 m3/day of water production capacity, 1,000MW of RE capacity and 10,000 tonnes/day of solid waste management volume.</p>	Implications <p>Malakoff has opportunities to benefit from expanding RE portfolios.</p>
ESG highlights <p>Malakoff is ranked among the top 26-50% in ESG ratings among public listed companies on FBM Emas that have been assessed by FTSE Russell.</p>	Implications <p>There is no empirical evidence showing that better ESG ratings result in better share price performance.</p>
Trends <p>The acquisition of Alam Flora has created synergistic opportunities to develop waste-to-energy (WTE) projects, and the group is also exploring new avenues to grow the business, such as looking at hazardous waste management facilities and handling port waste.</p>	Implications <p>While RE investments are taken into account under earnings potential, the impact of better ESG disclosures has yet to be seen.</p>

BY THE NUMBERS



Profit & Loss

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Net Revenues	7,965	6,349	7,189	7,460	7,109
Gross Profit	3,052	2,425	2,447	2,465	2,178
Operating EBITDA	2,289	2,064	2,089	2,089	1,819
Depreciation And Amortisation	-1,179	-1,210	-1,232	-1,264	-1,015
Operating EBIT	1,110	854	857	825	804
Financial Income/(Expense)	-606	-581	-538	-498	-466
Pretax Income/(Loss) from Assoc.	-22	172	180	182	184
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	483	445	500	509	522
Exceptional Items					
Pre-tax Profit	483	445	500	509	522
Taxation	-150	-115	-146	-150	-156
Exceptional Income - post-tax					
Profit After Tax	333	330	354	360	367
Minority Interests	-55	-43	-44	-45	-34
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	45				
Net Profit	323	287	309	315	332
Recurring Net Profit	213	287	309	315	332
Fully Diluted Recurring Net Profit	213	287	309	315	332

Cash Flow

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
EBITDA	2,289	2,064	2,089	2,089	1,819
Cash Flow from Invt. & Assoc.					
Change In Working Capital	-54	170	82	-346	-261
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,085	597	538	498	466
Net Interest (Paid)/Received	-546	-491	-538	-498	-466
Tax Paid	-350	-284	-146	-150	-156
Cashflow From Operations	2,424	2,054	2,026	1,594	1,402
Capex	-270	-403	-225	-227	-214
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	-398	0	0	0	0
Other Investing Cashflow	2,158	-671	142	151	151
Cash Flow From Investing	1,490	-1,074	-83	-77	-64
Debt Raised/(repaid)	-1,475	-1,542	-500	-500	-500
Proceeds From Issue Of Shares	-36	-60	0	0	0
Shares Repurchased					
Dividends Paid	-340	-404	-287	-291	-293
Preferred Dividends					
Other Financing Cashflow	-833	-657	-680	-648	-616
Cash Flow From Financing	-2,684	-2,663	-1,467	-1,439	-1,409
Total Cash Generated	1,230	-1,683	475	78	-71
Free Cashflow To Equity	2,439	-561	1,442	1,017	838
Free Cashflow To Firm	4,708	1,631	2,623	2,165	1,954

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(RMm)	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Total Cash And Equivalents	2,745	1,063	1,538	1,616	1,544
Total Debtors	1,501	884	1,029	1,078	1,024
Inventories	693	592	689	721	685
Total Other Current Assets	2,642	3,534	3,534	3,534	3,534
Total Current Assets	7,582	6,072	6,789	6,949	6,788
Fixed Assets	12,881	12,391	11,756	11,067	10,398
Total Investments	1,380	1,467	1,648	1,830	2,014
Intangible Assets	3,454	3,144	2,773	2,426	2,293
Total Other Non-Current Assets	1,242	1,114	1,114	1,114	1,114
Total Non-current Assets	18,957	18,116	17,290	16,436	15,819
Short-term Debt	1,509	1,165	1,165	1,165	1,165
Current Portion of Long-Term Debt					
Total Creditors	1,593	1,360	1,583	1,658	1,575
Other Current Liabilities	461	453	453	453	453
Total Current Liabilities	3,564	2,978	3,200	3,276	3,193
Total Long-term Debt	10,889	9,717	9,217	8,717	8,217
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,137	3,848	3,949	3,610	3,342
Total Non-current Liabilities	15,026	13,566	13,167	12,328	11,559
Total Provisions	1,274	1,201	1,201	1,201	1,201
Total Liabilities	19,864	17,744	17,568	16,804	15,953
Shareholders' Equity	6,310	6,108	6,170	6,233	6,299
Minority Interests	366	337	342	348	355
Total Equity	6,675	6,445	6,512	6,581	6,654

Key Ratios

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Revenue Growth	1.3%	(13.8%)	13.2%	3.8%	(4.7%)
Operating EBITDA Growth	6.9%	(9.9%)	1.2%	(0.0%)	(12.9%)
Operating EBITDA Margin	31.5%	32.9%	29.4%	28.3%	25.9%
Net Cash Per Share (RM)	-1.98	-2.01	-1.81	-1.69	-1.60
BVPS (RM)	1.29	1.25	1.26	1.28	1.29
Gross Interest Cover	1.32	1.15	1.26	1.27	1.30
Effective Tax Rate	31.0%	25.8%	29.2%	29.4%	29.8%
Net Dividend Payout Ratio	99.0%	87.0%	80.0%	80.0%	80.0%
Accounts Receivables Days	93.14	69.55	49.12	52.14	54.58
Inventory Days	54.01	59.92	49.28	51.52	52.07
Accounts Payables Days	109.1	137.7	113.3	118.4	119.7
ROIC (%)	4.55%	4.19%	4.32%	4.37%	4.51%
ROCE (%)	6.18%	5.23%	5.46%	5.46%	5.47%
Return On Average Assets	3.54%	3.59%	3.69%	3.61%	3.62%

Key Drivers

	Dec-19A	Dec-20A	Dec-21F	Dec-22F	Dec-23F
Gross profit margin (%)	16.3%	18.2%	15.9%	15.1%	15.4%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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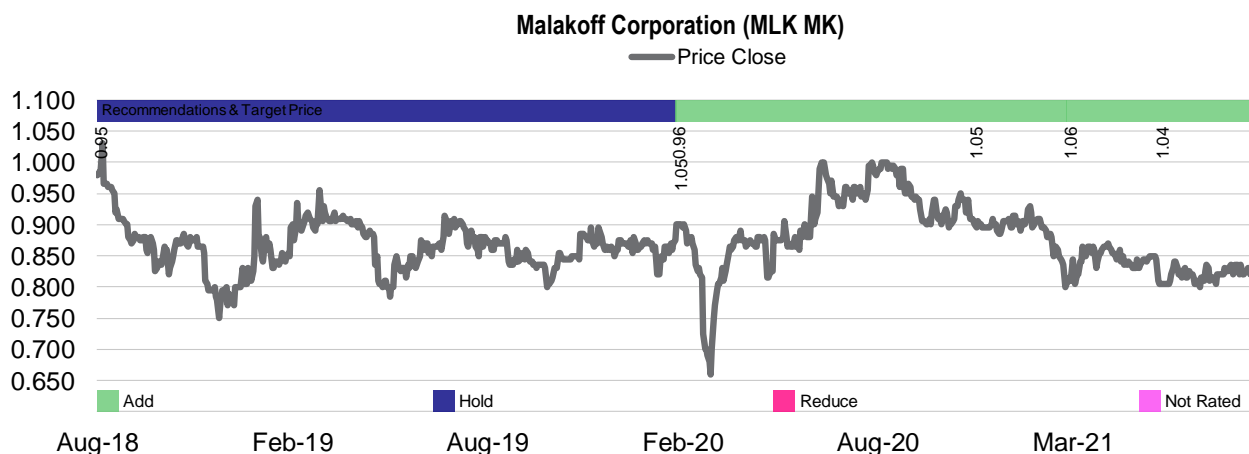
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623 companies under coverage for quarter ended on 30 June 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	72.1%	1.1%
Hold	19.3%	0.0%
Reduce	8.7%	0.0%

Spitzer Chart for stock being researched (2 year data)



Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2020, Anti-Corruption 2020

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BLA** – Excellent, Certified, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Very Good, Certified, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Very Good, n/a, **DELTA** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, n/a, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** – Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – Excellent, Declared, **JMT** – Very Good, Declared, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KEX** – n/a, n/a, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – n/a, n/a, **OR** – n/a, n/a, **ORI** – Excellent, Certified, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RBF** – Good, n/a, **RS** – Excellent, n/a, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – n/a, n/a, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – n/a, n/a, **SHR** – Very Good, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** – Excellent, Declared, **SPRC** – Excellent, Certified, **SSP** – Good, Declared, **STEC** – n/a, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, n/a, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, n/a, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TOP** – Excellent, Certified, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2020 from Thai Institute of Directors Association (IOD)

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

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- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.