

Malakoff Corporation (MLK MK)

An unexpected miss

Dragged down by deferred expense write-off

4Q21 results were below our/consensus expectations due to an unexpected write-off of Segari's deferred expense. Announcement of FY21 final DPS was again deferred. Maintain HOLD with a lower MYR0.75 TP (-6%) following our earnings cuts, with risk-reward being merely balanced. In the power space, we prefer Mega First (MFCB MK, BUY, CP: MYR3.57, TP: MYR4.30).

Results below expectation

Malakoff's 4Q21 net profit of just MYR9m (-78% YoY, -86% QoQ) brings FY21 net profit to MYR255m (-11% YoY), 80%/78% of our/consensus forecasts. The miss appears to be due to a c.MYR206m write-off in relation to Segari's deferred expense. Just like last year, Malakoff intends to only declare its final dividend for FY21 upon the release of audited financials. For now, we expect Malakoff to maintain an 85% payout ratio for FY21.

Details lacking for now

Malakoff will only host its briefing this afternoon. Thus, details of the Segari write-off remain unclear for now. Partly offsetting the write-off was a c.MYR90-100m of incremental earnings from Alam Flora for reasons again unknown. Pertinent details such as the breakdown of capacity payment and associate income have not been disclosed, with the results commentary noting an outage at Tj Bin Energy in the quarter.

Lowering forecasts

We lower our FY22/23 net profit forecasts by 19%/11% respectively to reflect latest run rates and *Cukai Makmur* (c.11% impact to FY22 net profit), and introduce FY24 forecasts. Our TP (based on a sum-of-parts with each entity valued on a DCF assuming 8.1% WACC) is lowered to MYR0.75 (from MYR0.80). With the long-tenured coal plants being major revenue contributors, Malakoff's ESG standing is unlikely to improve materially in the near term.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,277	6,463	6,465	6,149	6,061
EBITDA	2,054	2,093	2,095	1,926	1,913
Core net profit	287	255	280	295	361
Core EPS (sen)	5.9	5.2	5.7	6.0	7.4
Core EPS growth (%)	(10.5)	(11.2)	10.2	5.1	22.3
Net DPS (sen)	5.1	4.4	4.9	5.1	6.3
Core P/E (x)	15.3	13.8	12.3	11.7	9.6
P/BV (x)	0.7	0.6	0.6	0.5	0.5
Net dividend yield (%)	5.7	6.1	6.9	7.3	8.9
ROAE (%)	4.6	4.1	4.5	4.7	5.7
ROAA (%)	1.1	1.1	1.2	1.4	1.8
EV/EBITDA (x)	5.4	4.5	4.3	4.3	4.0
Net gearing (%) (incl perps)	100.2	87.4	79.2	69.4	60.3
Consensus net profit	-	-	317	330	na
MKE vs. Consensus (%)	-	-	(11.6)	(10.7)	na

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HOLD

Share Price	MYR 0.71
12m Price Target	MYR 0.75 (+13%)
Previous Price Target	MYR 0.80

Company Description

Malakoff Corp owns a portfolio of independent power and water producers.

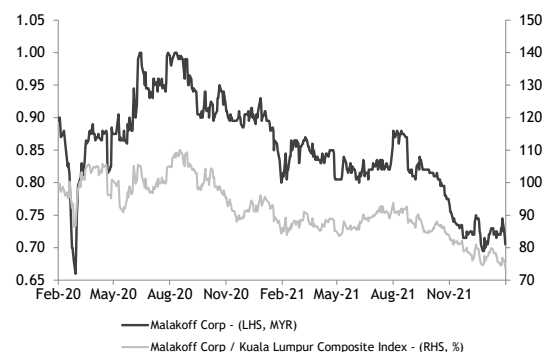
Statistics

52w high/low (MYR)	0.88/0.70
3m avg turnover (USDm)	0.3
Free float (%)	38.2
Issued shares (m)	4,888
Market capitalisation	MYR3.4B
	USD823M

Major shareholders:

MMC Corp. Bhd.	37.6%
Employees Provident Fund	12.3%
Lembaga Tabung Haji	10.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	1	(8)	(12)
Relative to index (%)	(2)	(12)	(13)

Source: FactSet

Fig 1: Malakoff Corp: Results summary

FY Dec (MYR m)	Quarterly					Cumulative		
	4Q21	4Q20	%YoY	3Q21	%QoQ	FY21	FY20	%YoY
Revenue	1,943.7	1,513.7	28.4	1,583.8	22.7	6,463.1	6,276.8	3.0
EBITDA	487.2	492.6	(1.1)	513.7	(5.1)	2,092.7	2,054.3	1.9
Depreciation	(243.0)	(225.6)	7.7	(227.8)	6.7	(923.4)	(888.7)	3.9
Amortisation	(80.6)	(80.3)	0.4	(80.7)	(0.1)	(320.3)	(321.2)	(0.3)
EBIT	163.6	186.7	(12.4)	205.2	(20.3)	849.0	844.4	0.5
Associate income	49.8	30.7	62.0	57.5	(13.4)	196.6	171.8	14.4
Net interest	(148.8)	(143.2)	3.9	(144.1)	3.3	(576.0)	(571.6)	0.8
Pre-tax profit	64.6	74.3	(13.0)	118.6	(45.5)	469.6	444.6	5.6
Tax	(41.9)	(23.1)	81.4	(45.8)	(8.5)	(170.4)	(114.5)	48.7
Minority Interests	(13.5)	(9.5)	41.2	(5.6)	141.3	(44.7)	(43.5)	2.7
Net Profit	9.2	41.6	(77.9)	67.2	(86.3)	254.5	286.6	(11.2)
Pre-ex EPS (sen)	0.19	0.85	(77.9)	1.37	(86.3)	5.21	5.86	(11.2)
Net DPS (sen)	0.00	2.30	N/A	0.00	N/A	3.10	5.10	(39.2)
Net cash/(debt)	(5,659.9)	(6,441.3)	(12.1)	(6,545.2)	(13.5)	(5,659.9)	(6,441.3)	(12.1)
Gearing (%)	105.0	121.4		119.1		105.0	121.4	
Capex	35.5	193.2	(81.6)	11.3	213.5	165.6	413.7	(60.0)

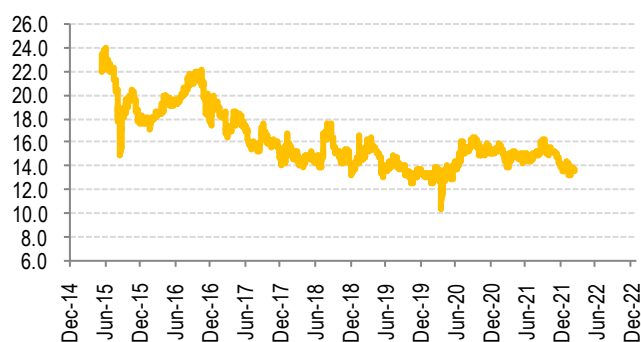
Source: Company

Fig 2: Target price calculation

(MYR m)	Value	Stake	Attri. value	Per share	%
Segari	186	93.8%	175	0.04	4%
GB3	435	75.0%	326	0.07	8%
Prai	335	100.0%	335	0.07	9%
Tj Bin Power	1,892	90.0%	1,703	0.35	44%
Tj Bin Energy	707	100.0%	707	0.14	18%
Alam Flora	531	97.4%	518	0.11	13%
Kapar			0	0.00	0%
O&M (M Power)	127	100.0%	127	0.03	3%
Equity value	4,213		3,890	0.80	100%
Loan stocks	800	100.0%	800	0.16	
Residual net cash	-1,024		-1,024	-0.21	
Total equity value			3,666	0.75	

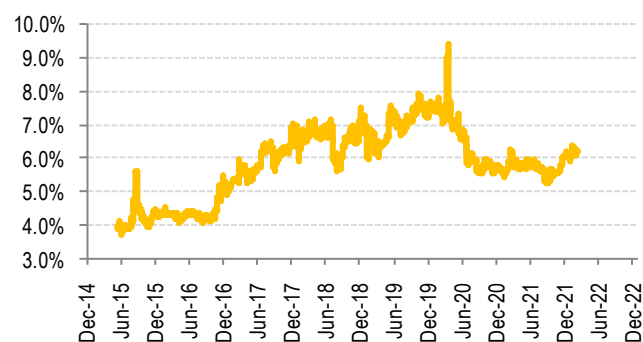
Source: Maybank IBG Research

Fig 3: Trailing PER



Source: Bloomberg, Maybank IBG Research

Fig 4: Trailing net yield



Source: Bloomberg, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Malakoff. Major unscheduled outages could lead to a shortfall in revenue collection, adversely impacting earnings. Any unexpected regulatory development could also have a direct impact on Malakoff's earnings.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	15.3	15.9	12.3	11.7	9.6
Core P/E (x)	15.3	13.8	12.3	11.7	9.6
P/BV (x)	0.7	0.6	0.6	0.5	0.5
P/NTA (x)	1.6	1.1	1.0	0.9	0.8
Net dividend yield (%)	5.7	6.1	6.9	7.3	8.9
FCF yield (%)	37.8	44.9	37.0	39.4	38.5
EV/EBITDA (x)	5.4	4.5	4.3	4.3	4.0
EV/EBIT (x)	13.2	11.2	10.5	10.4	9.4
INCOME STATEMENT (MYR m)					
Revenue	6,276.8	6,463.1	6,465.4	6,148.9	6,060.7
EBITDA	2,054.3	2,092.7	2,094.8	1,925.9	1,913.4
Depreciation	(888.7)	(923.4)	(926.5)	(812.2)	(776.9)
Amortisation	(321.2)	(320.3)	(320.3)	(320.3)	(320.3)
EBIT	844.4	849.0	848.0	793.4	816.2
Net interest income / (exp)	(571.6)	(576.0)	(504.1)	(470.0)	(404.2)
Associates & JV	171.8	196.6	190.0	190.0	190.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	444.6	469.6	533.9	513.4	602.0
Income tax	(114.5)	(170.4)	(211.6)	(179.5)	(198.0)
Minorities	(43.5)	(44.7)	(41.9)	(39.1)	(43.4)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	286.6	254.5	280.4	294.8	360.6
Core net profit	286.6	254.5	280.4	294.8	360.6
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	4,440.8	4,185.9	3,782.7	3,313.7	2,966.0
Accounts receivable	1,364.9	1,075.6	1,239.9	1,179.2	1,162.3
Inventory	584.0	843.7	884.8	843.8	826.0
Property, Plant & Equip (net)	12,479.0	11,685.3	10,923.7	10,261.6	9,634.7
Intangible assets	3,312.5	2,985.3	2,666.5	2,347.8	2,029.0
Investment in Associates & JVs	1,467.2	1,723.1	1,865.6	2,008.1	2,150.6
Other assets	540.4	578.6	627.8	705.0	775.6
Total assets	24,188.8	23,077.5	21,991.1	20,659.1	19,544.2
ST interest bearing debt	1,171.3	1,266.6	1,266.6	1,266.6	1,266.6
Accounts payable	1,360.3	1,499.4	1,566.5	1,493.9	1,462.5
LT interest bearing debt	9,724.2	8,603.3	7,683.9	6,588.9	5,658.9
Other liabilities	5,488.0	5,207.0	4,952.0	4,762.0	4,591.0
Total Liabilities	17,744.0	16,576.7	15,469.1	14,111.7	12,979.2
Shareholders Equity	6,107.9	6,189.2	6,231.2	6,275.4	6,329.5
Minority Interest	336.8	311.7	290.8	272.0	235.4
Total shareholder equity	6,444.7	6,500.9	6,522.0	6,547.5	6,565.0
Total liabilities and equity	24,188.8	23,077.5	21,991.1	20,659.1	19,544.2
CASH FLOW (MYR m)					
Pretax profit	444.6	469.6	533.9	513.4	602.0
Depreciation & amortisation	1,209.9	1,243.7	1,246.8	1,132.5	1,097.2
Adj net interest (income)/exp	571.6	576.0	504.1	470.0	404.2
Change in working capital	180.0	(391.1)	(393.6)	(160.8)	(167.8)
Cash taxes paid	(284.5)	(262.5)	(260.9)	(256.7)	(268.6)
Other operating cash flow	(54.9)	111.3	(190.0)	(190.0)	(190.0)
Cash flow from operations	2,066.7	1,746.9	1,440.4	1,508.5	1,477.0
Capex	(413.7)	(165.6)	(165.0)	(150.0)	(150.0)
Free cash flow	1,653.0	1,581.3	1,275.4	1,358.5	1,327.0
Dividends paid	(337.7)	(263.9)	(238.3)	(250.6)	(306.5)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	(1,562.9)	(1,142.0)	(919.4)	(1,095.0)	(930.0)
Other invest/financing cash flow	(566.5)	(430.3)	(521.0)	(481.9)	(438.2)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(814.1)	(254.8)	(403.2)	(469.0)	(347.7)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(15.4)	3.0	0.0	(4.9)	(1.4)
EBITDA growth	(15.2)	1.9	0.1	(8.1)	(0.7)
EBIT growth	(32.1)	0.5	(0.1)	(6.4)	2.9
Pretax growth	(16.3)	5.6	13.7	(3.8)	17.3
Reported net profit growth	(10.5)	(11.2)	10.2	5.1	22.3
Core net profit growth	(10.5)	(11.2)	10.2	5.1	22.3
Profitability ratios (%)					
EBITDA margin	32.7	32.4	32.4	31.3	31.6
EBIT margin	13.5	13.1	13.1	12.9	13.5
Pretax profit margin	7.1	7.3	8.3	8.3	9.9
Payout ratio	87.0	85.0	85.0	85.0	85.0
DuPont analysis					
Net profit margin (%)	4.6	3.9	4.3	4.8	5.9
Revenue/Assets (x)	0.3	0.3	0.3	0.3	0.3
Assets/Equity (x)	4.0	3.7	3.5	3.3	3.1
ROAE (%)	4.6	4.1	4.5	4.7	5.7
ROAA (%)	1.1	1.1	1.2	1.4	1.8
Liquidity & Efficiency					
Cash conversion cycle	30.6	17.0	19.0	23.3	22.7
Days receivable outstanding	89.4	68.0	64.5	70.8	69.5
Days inventory outstanding	44.8	50.8	58.8	61.6	60.8
Days payables outstanding	103.6	101.7	104.2	109.1	107.7
Dividend cover (x)	1.1	1.2	1.2	1.2	1.2
Current ratio (x)	2.2	1.9	1.8	1.7	1.6
Leverage & Expense Analysis					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net gearing (%) (incl perps)	100.2	87.4	79.2	69.4	60.3
Net gearing (%) (excl. perps)	100.2	87.4	79.2	69.4	60.3
Net interest cover (x)	1.5	1.5	1.7	1.7	2.0
Debt/EBITDA (x)	5.3	4.7	4.3	4.1	3.6
Capex/revenue (%)	6.6	2.6	2.6	2.4	2.5
Net debt/ (net cash)	6,454.7	5,684.0	5,167.8	4,541.8	3,959.5

Source: Company; Maybank

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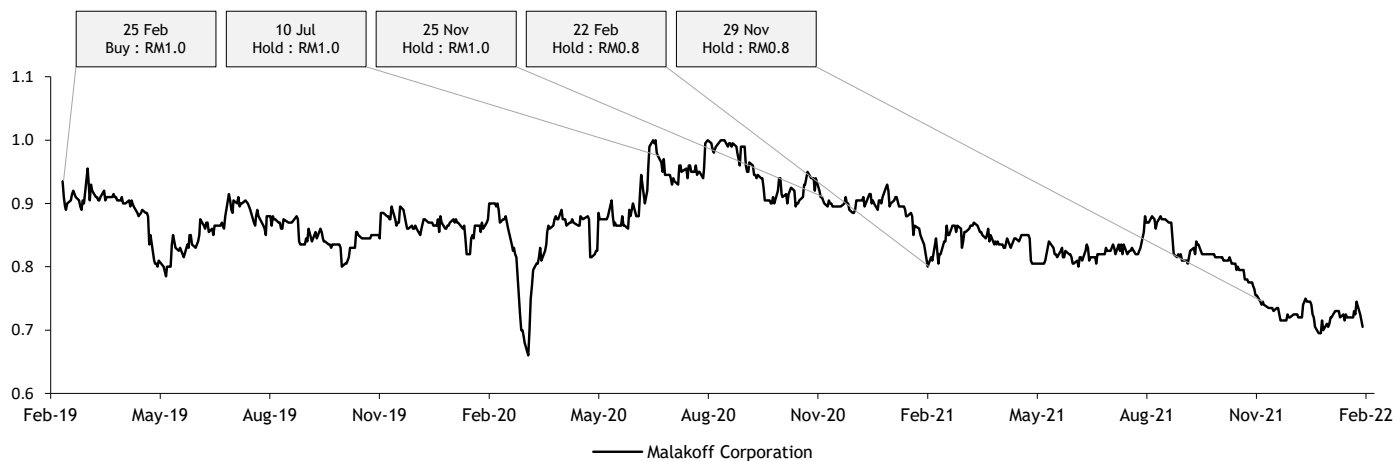
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Historical recommendations and target price: Malakoff Corporation (MLK MK)



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