

COMPANY UPDATE

Malakoff Corporation (MLK MK)

Alam Flora A Boon To The Group

Alam Flora is a key earnings driver for the group as Malakoff's Tanjung Bin Energy (TBE) awaits new turbine blades in 2H22. Alam Flora will continue to perform well driven by higher waste collection, opex efficiency and growth in non-concession businesses. A tariff hike is a key re-rating catalyst as Alam Flora continues to exceed management's expectation. The stock offers a generous dividend yield of 8% and trades at -2SD below its mean valuation. Maintain BUY. Target price: RM1.05.

WHAT'S NEW

- **Strong Alam Flora performance...** We gathered from a recent meeting that wholly-owned Alam Flora will continue to perform well in 2022. Key earning drivers are: a) higher waste collection with the reopening of economic activities, b) opex efficiency, and c) expansion of the non-concession businesses including industrial collection of solid waste, integrated facilities management, public cleansing and the management of landfills. The non-concession businesses accounts for 10-15% of Alam Flora's top-line and experienced double-digit growth in the past two years, albeit from a low base.
- **...has exceeded expectations...** Alam Flora accounts for 35% of Malakoff Corporation's (Malakoff) 2021 core net profit. To recap, Alam Flora's performance has exceeded management's guidance with 2021 core net profit growing 75% yoy to RM113m (vs our expectation of sustainable net profit of RM70-80m annually). Last year's strong performance reflects opex efficiency initiatives (including fleet management and centralised procurement) as well as other cost savings. A key re-rating catalyst for the stock includes a potential (long overdue) tariff hike for Alam Flora.

STOCK IMPACT

- **...and will help to cushion TBE's weak 1H22.** We expect the strong performance of Alam Flora and moderately higher gas usage of Malakoff's power plants (since 4Q21, there is higher offtake from gas fired power plants due to high coal prices) to help offset yoy weak TBE earnings. This is due to significant reduction in TBE availability factor (37% in 4Q21 vs 100% in 3Q21) resulting from turbine blade damage. The situation was rectified on 14 Feb 22, adversely impacting 1Q22 earnings.
- **We expect a stronger 2H22** on the back of a recovery in TBE with the delivery of turbine blades in 2H22. Additionally, with the fully impairment of 40%-associate stake in Kapar Energy Venture (KEV), Malakoff expects its overseas associate earnings to be encouraging. 2021 associate earnings rose 14% yoy on better operating matrix.

KEY FINANCIALS

Year to 31 Dec (RMm)	2019	2020	2021F	2022F	2023F
Net turnover	7,278	6,277	6,692	6,693	6,576
EBITDA	2,247	2,251	2,248	2,178	2,109
Operating profit	1,068	1,041	1,108	1,079	1,046
Net profit (rep./act.)	320	287	316	327	337
Net profit (adj.)	173	312	316	327	337
EPS (sen)	3.5	6.4	6.5	6.7	6.9
PE (x)	17.9	10.0	9.8	9.5	9.2
P/B (x)	0.5	0.5	0.5	0.5	0.5
EV/EBITDA (x)	5.2	5.2	5.2	5.4	5.6
Dividend yield (%)	10.3	8.0	8.9	9.2	9.5
Net margin (%)	4.4	4.6	4.7	4.9	5.1
Net debt/(cash) to equity (%)	153.0	160.8	146.5	132.1	118.4
Interest cover (x)	3.3	3.9	3.1	3.2	3.3
ROE (%)	5.0	4.6	5.2	5.3	5.4
Consensus net profit	-	-	303	319	324
UOBKH/Consensus (x)	-	-	1.04	1.03	1.04

Source: Malakoff Corporation, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.63
Target Price	RM1.05
Upside	+65.4%

COMPANY DESCRIPTION

Independent power producer.

STOCK DATA

GICS sector	Utilities
Bloomberg ticker:	MLK MK
Shares issued (m):	4,887.0
Market cap (RMm):	3,103.2
Market cap (US\$m):	732.7
3-mth avg daily t'over (US\$m):	0.9

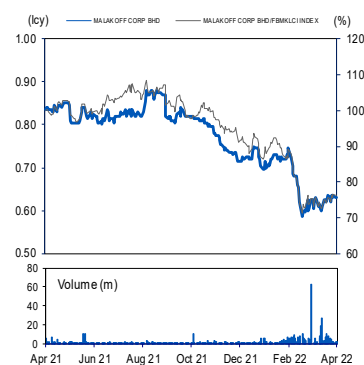
Price Performance (%)

52-week high/low	RM0.880/RM0.585			
1mth	3mth	6mth	1yr	YTD
5.8	(9.9)	(22.6)	(24.4)	(11.8)

Major Shareholders

	%
Anglo Oriental Annuities Sdn Bhd	20.1
MMC Corp Bhd	18.3
Employees Provident Fund	10.9
FY22 NAV/Share (RM)	1.27
FY22 Net Debt/Share (RM)	1.67

PRICE CHART



Source: Bloomberg

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4Q21 ASSOCIATE EARNINGS

RM m	Q4 FY2021	Q4 FY2020	% Change (Remarks)	FY2021	FY2020	% Change (Remarks)
Shuaibah Water & Electricity Company (SWEC), Saudi Arabia Shuaibah Expansion Project Company Limited (SEPCO), Saudi Arabia <i>(MCB effective equity 24% & 23.8%, respectively)</i>	23.1	13.8	+67% <i>Higher contribution as there was no plant outage</i>	99.3	86.4	+15%
Hidd Power Co, Bahrain <i>(MCB effective equity 40%)</i>	20.6	14.0	+47% <i>Due to higher fuel margin and lower finance costs.</i>	79.3	72.5	+9%
Muscat City Desalination Company, Oman <i>(MCB effective equity 32.5%)</i>	1.8	1.4	+29%	8.2	6.5	+26%
Muscat City Desalination Operation & Maintenance Company (MCDOMCO), Oman <i>(MCB effective equity 49.5%)</i>	4.5	1.5	>100%	9.6	6.4	+50%
Zec Solar Sdn. Bhd. <i>(MCB effective equity 49%)</i>	(0.2)	-	-100%	0.2	-	>100%
TOTAL	49.8	30.7	+62%	196.6	171.8	+14%

Source: Malakoff, UOB Kay Hian

EARNINGS REVISION/RISK

- No change to earnings.

VALUATION/RECOMMENDATION

- Maintain BUY with a DCF-based target price of RM1.05.** The stock trades at an attractive single digit PE of 10x vs five-year average PE of 13x. This is 2SD below the stock's mean PER valuation in the past five years. We see positive risk-reward returns for the stock as downside is largely priced-in.
- The stock offers a generous 8-9% dividend yield** and the better-than-expected performance of Alam Flora will also imply higher dividend payout to the group. We understand Alam Flora have been flowing dividends up to the group in the past two years.

SHARE PRICE CATALYST

- Repowering/new power plant (gas) contract wins in Peninsular Malaysia as the government seeks to pump-prime the economy by offering new power purchase agreements (PPA).
- Alam Flora's impending tariff hike and new concession areas.
- Winning large-scale solar power tenders within Peninsular Malaysia.

ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) UPDATES

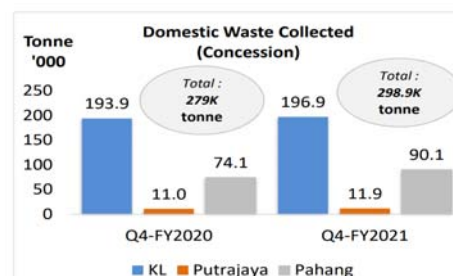
<ul style="list-style-type: none"> Environmental - Malakoff has set long-term strategic targets of achieving 10,000MW of power generation capacity, 1,000,000 m3/day of water production capacity, 1,400MW of RE capacity and 10,000 tonnes/day of solid waste management by 2031. - No further plant up of coal fired power plants for Malakoff. Committed to achieving net-zero carbon by 2050, in line with the government's ambition. - With Alam Flora as the largest waste management company in Malaysia, Malakoff is in a better position to grow its environmental services.
<ul style="list-style-type: none"> Social - Cultivate an inclusive culture in an agile organisation with equal opportunities for all people to grow professionally within a safe and healthy work environment.
<ul style="list-style-type: none"> Governance - Observe the highest corporate compliance standards in all units and activities of the group (goal: zero misconduct).

SOTP VALUATION

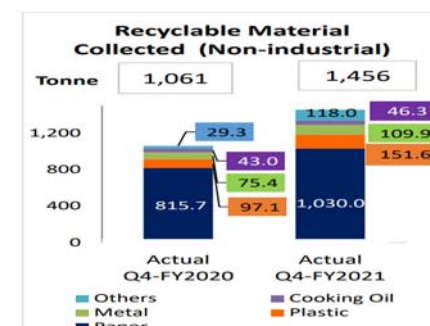
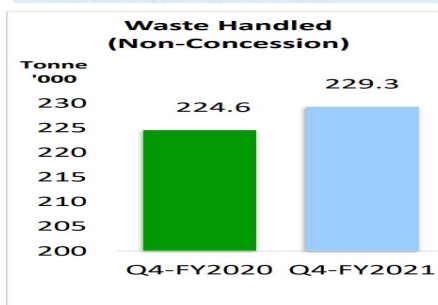
	Equity interest	Equity valuation	% of SOTP
IPPs in Malaysia			
- Tg Bin	90%	2,570	33%
- GB3	75%	132	2%
- SEV	94%	645	8%
- Prai	100%	280	4%
- Tg Bin Energy	100%	3,174	40%
IPPs outside Malaysia and O&M			
Alam Flora	97%	910	12%
Total		7,892	100%
Less: Holding company debt		-2,634	
Total market capitalisation (RMm)		5,258	
Share base		5,006	
Target price (RM/share)		1.05	

Source: Malakoff, UOB Kay Hian

ALAM FLORA'S OPERATIONAL PERFORMANCE



Domestic waste collected in KL, Pahang & Putrajaya increased in Q4 FY2021 (+7%) to a total of 299K as compared to the corresponding quarter.



Source: Malakoff

PROFIT & LOSS

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Net turnover	6,277	6,692	6,693	6,576
EBITDA	2,251	2,248	2,178	2,109
Deprec. & amort.	1,210	1,140	1,100	1,062
EBIT	1,041	1,108	1,079	1,046
Associate contributions	0	200	200	200
Net interest income/(expense)	(572)	(733)	(684)	(633)
Pre-tax profit	445	575	595	613
Tax	(115)	(173)	(178)	(184)
Minorities	(43)	(86)	(89)	(92)
Net profit	287	316	327	337
Net profit (adj.)	312	316	327	337

CASH FLOW

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Operating	2,067	1,284	1,316	1,288
Pre-tax profit	445	575	595	613
Tax	(115)	(173)	(178)	(184)
Deprec. & amort.	1,210	1,140	1,100	1,062
Working capital changes	494	(59)	0	(3)
Other operating cashflows	33	(200)	(200)	(200)
Investing	(1,070)	(200)	(200)	(200)
Capex (growth)	(414)	(200)	(200)	(200)
Proceeds from sale of assets	0	0	0	0
Others	(657)	0	0	0
Financing	(2,679)	(635)	(645)	(653)
Dividend payments	(249)	(275)	(285)	(293)
Issue of shares	0	0	0	0
Proceeds from borrowings	(1,516)	(360)	(360)	(360)
Others/interest paid	(914)	0	0	0
Net cash inflow (outflow)	(1,683)	449	472	435
Beginning cash & cash equivalent	2,745	1,063	1,512	1,984
Ending cash & cash equivalent	1,063	1,512	1,984	2,419

BALANCE SHEET

Year to 31 Dec (RMm)	2020	2021F	2022F	2023F
Fixed assets	12,399	11,780	11,201	10,660
Other LT assets	5,726	5,605	5,483	5,362
Cash/ST investment	1,063	1,512	1,984	2,419
Other current assets	5,001	5,060	5,060	5,029
Total assets	24,189	23,956	23,728	23,470
ST debt	1,165	1,165	1,165	1,165
Other current liabilities	1,813	1,813	1,813	1,779
LT debt	9,717	9,357	8,997	8,637
Other LT liabilities	5,049	5,049	5,049	5,049
Shareholders' equity	6,108	6,149	6,192	6,236
Minority interest	337	423	512	604
Total liabilities & equity	24,189	23,956	23,728	23,470

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	35.9	33.6	32.5	32.1
Pre-tax margin	7.1	8.6	8.9	9.3
Net margin	4.6	4.7	4.9	5.1
ROA	1.1	1.3	1.4	1.4
ROE	4.6	5.2	5.3	5.4
Growth				
Turnover	(13.8)	6.6	0.0	(1.7)
EBITDA	0.2	(0.1)	(3.1)	(3.2)
Pre-tax profit	(15.2)	29.4	3.4	3.1
Net profit	(10.5)	10.4	3.4	3.1
Net profit (adj.)	80.3	1.4	3.4	3.1
EPS	80.3	1.4	3.4	3.1
Leverage				
Debt to total capital	62.8	61.6	60.3	58.9
Debt to equity	178.2	171.1	164.1	157.2
Net debt/(cash) to equity	160.8	146.5	132.1	118.4
Interest cover (x)	3.9	3.1	3.2	3.3

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