

# Malakoff Corporation (MLK MK)

## TBE outage continues

### A challenging start

1Q22 results were below our/consensus expectations. The miss relative to our forecasts was likely due to missed capacity payments at Tj Bin Energy (TBE). Maintain HOLD with a lower MYR0.65 TP (-13%). We see current risk-reward as being merely balanced. In the sector, we prefer YTL Power (YTLP MK, BUY, CP: MYR0.76, MYR TP: MYR0.90).

### Below expectation

Malakoff's 1Q22 net profit of MYR51m (-16% YoY, +453% QoQ) represents just 18/17% of our/consensus full-year forecasts. The QoQ spike was due to a base effect (recall 4Q21 net profit was suppressed by a write-off of Segari-related deferred expense, partly offset by a writeback in relation to Alam Flora). The miss relative to our forecast was likely due to missed capacity payments at TBE from extended outage. No dividend was declared this quarter, consistent with past practice.

### Likely due to TBE's outage

Malakoff will only host its briefing this morning. Thus, the capacity payment breakdown by plant remains unknown at the time of writing. Nevertheless, we think there were likely missed capacity payments at TBE, with management having previously flagged the continuation of TBE's unscheduled outage (down from turbine blade failure since early-Nov 2021) into 1Q22. Regulatory logs indicate that TBE resumed operations on 11 Feb 2022.

### Lacking catalysts

We lower our FY22/23/24 net profit forecasts by 13%/1%/1% respectively to reflect TBE's outage. Our TP (based on a sum-of-parts with each entity valued on a DCF assuming 8.9% WACC) is lowered to MYR0.65 (from MYR0.75) to reflect both our earnings cuts and a higher discount rate (the latest TBE outage has again brought Malakoff's patchy record with plant operations to the fore).

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	6,277	6,463	6,415	6,149	6,061
EBITDA	2,054	2,093	2,045	1,926	1,913
Core net profit	287	255	244	294	359
Core EPS (sen)	5.9	5.2	5.0	6.0	7.3
Core EPS growth (%)	(10.5)	(11.2)	(4.3)	20.5	22.1
Net DPS (sen)	5.1	5.1	4.2	5.1	6.2
Core P/E (x)	15.3	13.8	12.5	10.4	8.5
P/BV (x)	0.7	0.6	0.5	0.5	0.5
Net dividend yield (%)	5.7	7.1	6.8	8.2	10.0
ROAE (%)	4.6	4.1	3.9	4.7	5.7
ROAA (%)	1.1	1.1	1.1	1.4	1.8
EV/EBITDA (x)	5.4	4.5	4.2	4.1	3.9
Net gearing (%) (incl perps)	100.2	87.4	80.8	71.2	62.3
Consensus net profit	-	-	301	313	324
MKE vs. Consensus (%)	-	-	(19.1)	(6.1)	10.7

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# HOLD

Share Price	MYR 0.63
12m Price Target	MYR 0.65 (+10%)
Previous Price Target	MYR 0.75

### Company Description

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

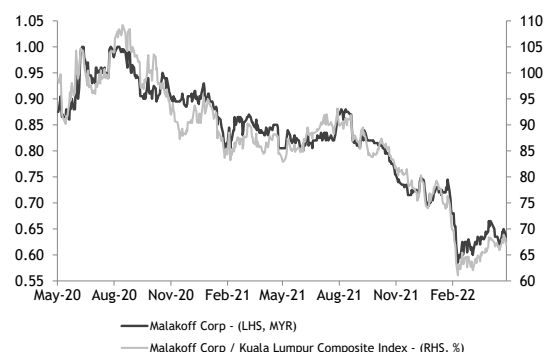
### Statistics

52w high/low (MYR)	0.88/0.59
3m avg turnover (USDm)	0.8
Free float (%)	39.7
Issued shares (m)	4,888
Market capitalisation	MYR3.1B
	USD695M

### Major shareholders:

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

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	(9)	(22)
Relative to index (%)	1	(7)	(21)

Source: FactSet

Fig 1: Malakoff Corp: Results summary

FY Dec (MYR m)	Quarterly				
	1Q22	1Q21	%YoY	4Q21	%QoQ
Revenue	1,883.8	1,351.2	39.4	1,943.7	(3.1)
EBITDA	495.0	515.9	(4.0)	487.2	1.6
Depreciation	(231.8)	(225.4)	2.8	(243.0)	(4.6)
Amortisation	(79.0)	(79.1)	(0.1)	(80.6)	(2.0)
EBIT	184.2	211.4	(12.8)	163.6	12.6
Associate income	47.7	27.8	71.7	49.8	(4.2)
Net interest	(133.8)	(142.5)	(6.1)	(148.8)	(10.1)
<b>Pre-tax profit</b>	<b>98.2</b>	<b>96.7</b>	<b>1.6</b>	<b>64.6</b>	<b>52.0</b>
Tax	(28.4)	(22.8)	24.8	(41.9)	(32.2)
Minority Interests	(18.9)	(13.5)	40.3	(13.5)	40.3
<b>Net Profit</b>	<b>50.9</b>	<b>60.4</b>	<b>(15.8)</b>	<b>9.2</b>	<b>452.5</b>
Pre-ex EPS (sen)	1.04	1.24	(15.8)	0.19	452.5
Net DPS (sen)	0.00	0.00	N/A	2.00	N/A
Net cash/(debt)	(5,864.7)	(6,345.0)	(7.6)	(5,659.9)	3.6
Gearing (%)	107.0	117.3		105.0	
Capex	158.2	54.4	190.7	35.5	345.7

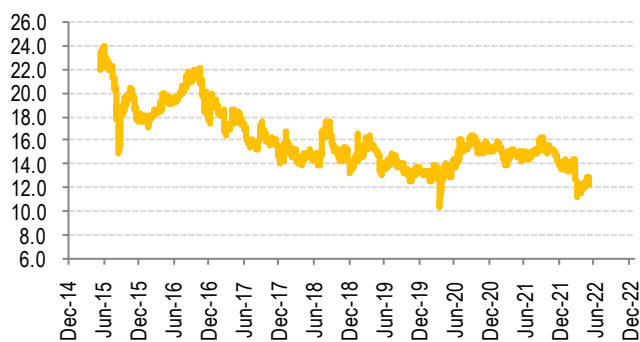
Source: Company

Fig 2: Target price calculation

(MYR m)	Value	Stake	Attri. value	Per share	%
Segari	173	93.8%	162	0.03	5%
GB3	435	75.0%	326	0.07	10%
Prai	334	100.0%	334	0.07	10%
Tj Bin Power	1,794	90.0%	1,615	0.33	48%
Tj Bin Energy	374	100.0%	374	0.08	11%
Alam Flora	521	97.4%	507	0.10	15%
Kapar	-457	0.0%	0	0.00	0%
O&M (M Power)	75	100.0%	75	0.02	2%
<b>Equity value</b>	<b>3,707</b>		<b>3,394</b>	<b>0.69</b>	<b>100%</b>
Loan stocks	800	100.0%	800	0.16	
Residual net cash	-1,014		-1,014	-0.21	
<b>Total equity value</b>			<b>3,180</b>	<b>0.65</b>	

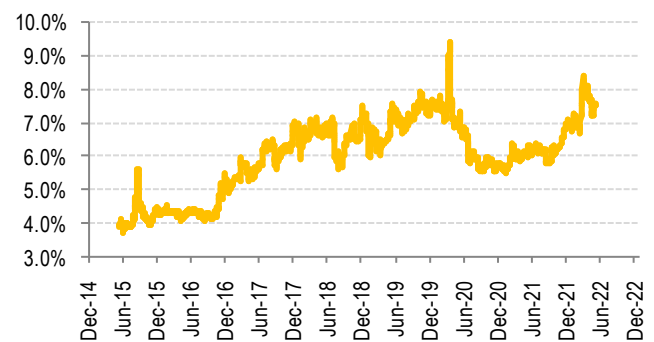
Source: Maybank KE

Fig 3: Trailing PER



Source: Bloomberg, Maybank KE

Fig 4: Trailing net yield



Source: Bloomberg, Maybank KE

## 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
<b>Key Metrics</b>					
P/E (reported) (x)	15.3	15.9	12.5	10.4	8.5
Core P/E (x)	15.3	13.8	12.5	10.4	8.5
P/BV (x)	0.7	0.6	0.5	0.5	0.5
P/NTA (x)	1.6	1.1	0.9	0.8	0.7
Net dividend yield (%)	5.7	7.1	6.8	8.2	10.0
FCF yield (%)	37.8	44.9	37.6	43.8	43.1
EV/EBITDA (x)	5.4	4.5	4.2	4.1	3.9
EV/EBIT (x)	13.2	11.2	10.8	10.1	9.0
<b>INCOME STATEMENT (MYR m)</b>					
Revenue	6,276.8	6,463.1	6,415.4	6,148.9	6,060.7
EBITDA	2,054.3	2,092.7	2,044.8	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	798.0	793.4	816.2
Net interest income / (exp)	(571.6)	(576.0)	(503.1)	(471.6)	(406.7)
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	484.9	511.8	599.5
Income tax	(114.5)	(170.4)	(199.4)	(179.0)	(197.5)
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	243.7	293.7	358.5
Core net profit	286.6	254.5	243.7	293.7	358.5
<b>BALANCE SHEET (MYR m)</b>					
Cash & Short Term Investments	4,440.8	4,185.9	3,688.3	3,199.4	2,839.9
Accounts receivable	1,364.9	1,075.6	1,142.5	1,095.0	1,079.3
Inventory	584.0	843.7	942.8	912.5	906.8
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	640.1	717.7	788.8
<b>Total assets</b>	<b>24,188.8</b>	<b>23,077.5</b>	<b>21,869.6</b>	<b>20,542.1</b>	<b>19,429.2</b>
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	1,450.4	1,382.6	1,353.4
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
<b>Total Liabilities</b>	<b>17,744.0</b>	<b>16,576.7</b>	<b>15,353.1</b>	<b>14,000.3</b>	<b>12,870.2</b>
Shareholders Equity	6,107.9	6,189.2	6,225.7	6,269.8	6,323.6
Minority Interest	336.8	311.7	290.8	272.0	235.4
<b>Total shareholder equity</b>	<b>6,444.7</b>	<b>6,500.9</b>	<b>6,516.5</b>	<b>6,541.8</b>	<b>6,559.0</b>
<b>Total liabilities and equity</b>	<b>24,188.8</b>	<b>23,077.5</b>	<b>21,869.6</b>	<b>20,542.1</b>	<b>19,429.2</b>
<b>CASH FLOW (MYR m)</b>					
Pretax profit	444.6	469.6	484.9	511.8	599.5
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	503.1	471.6	406.7
Change in working capital	180.0	(391.1)	(470.1)	(180.0)	(178.7)
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	1,313.8	1,489.2	1,466.0
Capex	(413.7)	(165.6)	(165.0)	(150.0)	(150.0)
Free cash flow	1,653.0	1,581.3	1,148.8	1,339.2	1,316.0
Dividends paid	(337.7)	(263.9)	(207.1)	(249.7)	(304.8)
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)	(519.9)	(483.5)	(440.7)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(814.1)	(254.8)	(497.6)	(488.9)	(359.5)

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(15.4)	3.0	(0.7)	(4.2)	(1.4)
EBITDA growth	(15.2)	1.9	(2.3)	(5.8)	(0.7)
EBIT growth	(32.1)	0.5	(6.0)	(0.6)	2.9
Pretax growth	(16.3)	5.6	3.3	5.5	17.1
Reported net profit growth	(10.5)	(11.2)	(4.3)	20.5	22.1
Core net profit growth	(10.5)	(11.2)	(4.3)	20.5	22.1
<b>Profitability ratios (%)</b>					
EBITDA margin	32.7	32.4	31.9	31.3	31.6
EBIT margin	13.5	13.1	12.4	12.9	13.5
Pretax profit margin	7.1	7.3	7.6	8.3	9.9
Payout ratio	87.0	97.9	85.0	85.0	85.0
<b>DuPont analysis</b>					
Net profit margin (%)	4.6	3.9	3.8	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	3.9	4.7	5.7
ROAA (%)	1.1	1.1	1.1	1.4	1.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	30.6	17.0	22.7	30.6	31.2
Days receivable outstanding	89.4	68.0	62.2	65.5	64.6
Days inventory outstanding	44.8	50.8	60.7	66.2	66.3
Days payables outstanding	103.6	101.7	100.3	101.1	99.7
Dividend cover (x)	1.1	1.0	1.2	1.2	1.2
Current ratio (x)	2.2	1.9	1.8	1.7	1.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.4	1.4	1.4	1.5	1.5
Net gearing (%) (incl perps)	100.2	87.4	80.8	71.2	62.3
Net gearing (%) (excl. perps)	100.2	87.4	80.8	71.2	62.3
Net interest cover (x)	1.5	1.5	1.6	1.7	2.0
Debt/EBITDA (x)	5.3	4.7	4.4	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	5,262.2	4,656.1	4,085.6

Source: Company; Maybank IBG Research

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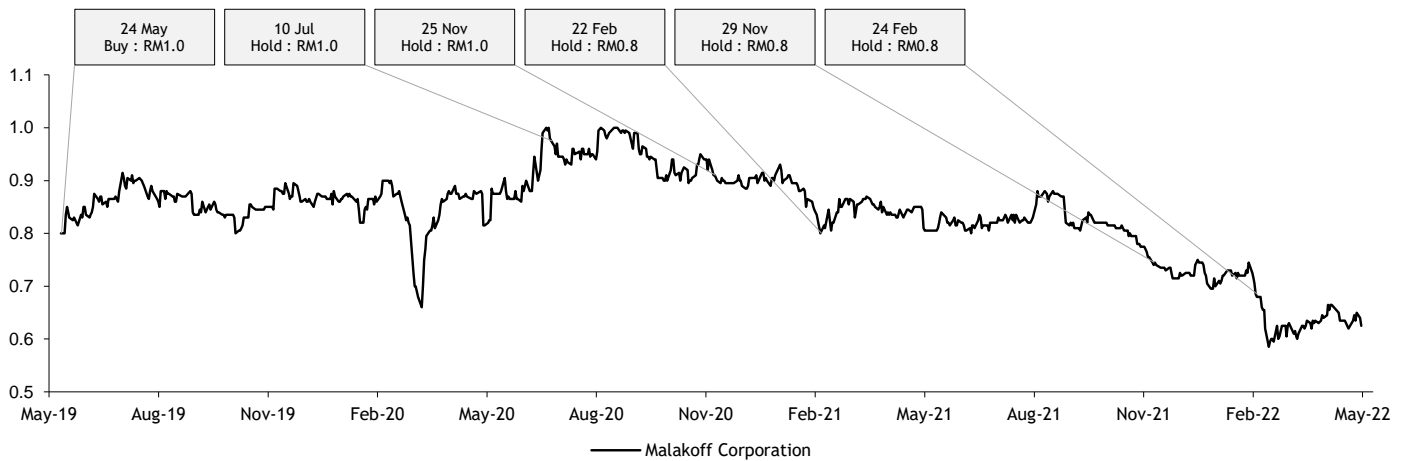
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## Historical recommendations and target price: Malakoff Corporation (MLK MK)



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