

PP14767/09/2012(030761)

Malakoff Corporation Bhd

“All on Track”

Results Review

- **Actual vs. expectations.** Malakoff Corporation Bhd (Malakoff) 9M15 net profit of RM388 million (+39% y-o-y) came in line with ours, but below consensus estimates, accounting 80% and 60% of ours and consensus full year net profit forecast respectively. The higher earnings was premised on solid finance income of RM141 million (+67% y-o-y) and lower finance cost of RM603 million (-12% y-o-y) on the back of Junior sukuk Musharakah redemption recently, resulting in commendable savings on finance cost.
- **Dividend.** Malakoff announced second interim dividend of 2 cent, bringing 9M15 dividend to 5 cent vs. 3.97 cent, translating into 64% payout ratio.
- **Topline vs. Bottomline.** 3Q15 revenue of RM1.28 billion (+9% y-o-y, 4% q-o-q) came on the back of slower contribution from Kapar Energy Ventures (KEV) that undertook scheduled maintenance and various issues at other plants. Cumulatively, revenue in 9M15 of RM3.92 billion (-5% y-o-y) was hampered by lower output of gas generated power plants as well as scheduled maintenance undertaken. Nevertheless, EBITDA margin touched 48% in 9M15 (+500bps) on the back of lower finance costs due to sukuk redemption.
- **Associate contribution.** The operational issue at the 40%-owned associate KEV is resolved, however management believes the turnaround plant may take effect next year. Besides KEV, associates income would still be contributed by its international power and desalination plants, which is estimated to be around RM50-60 million for FY15.

Tuesday, November 24, 2015

BUY (TP:RM2.30)

Current Price (RM)	RM1.62
New Fair Value (RM)	RM2.30
Previous Fair Value (RM)	RM2.30
Previous Recommend.	BUY
Upside To Fair Value	39%
Dividend Yield (FY15)	3.0%

Stock Code

Bloomberg	MLK MK
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Stock & Market Data

Listing	MAIN MARKET	
Sector	Utilities	
Shariah Compliance	Yes	
Issued Shares (mn)	5,000	
Market Cap (RM mn)	8,100	
YTD Chg In Share Price	NA	
Beta (x)	NA	
52-week Hi/Lo (RM)	RM1.91	RM1.18
3M Average Volume (shrs)	NA	
Estimated Free Float	44.4%	

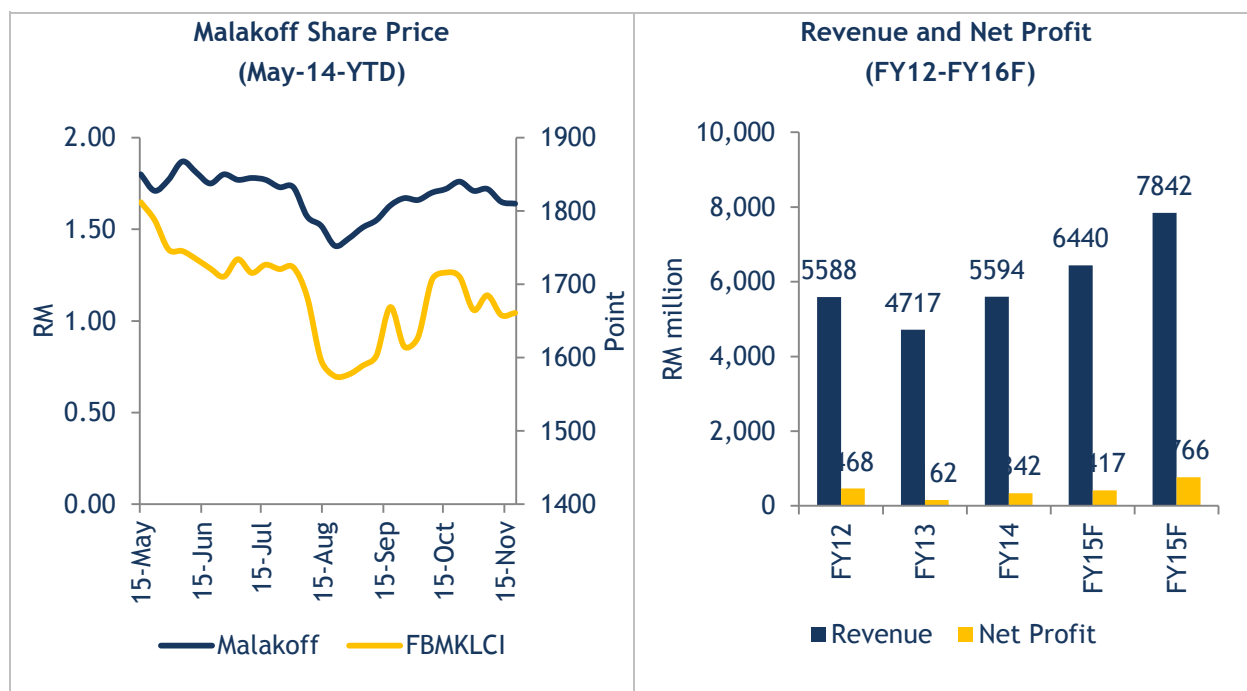
Major Shareholders

Anglo Oriental	19.6%
EPF	19.1%
MMC Corp	17.9%

- **Outlook.** Despite KEV plants dampened Malakoff results in 3Q15, we believe Malakoff 4Q15 performance will be trending higher in view of the absence of schedule maintenance as well as contribution from Port Dickson power plant that currently serves under subsidiary level. Additionally, we foresee that this year, the full effect from Macarthur Wind Farm acquisition in FY14 will be realized. Should no major operation issue reported, Malakoff will be able to meet our financial forecast in FY15 underpin by continuous capacity and energy payment from TNB.
- **Change to forecast.** We maintain our FY15 and FY16 earnings forecast as 9M15 results came in within our expectation. Nonetheless, FY15 and FY16 earnings are projected to jump by 22% and 82% driven by 1) uninterrupted power plants operation 2) completion of Tanjung Bin expansion 3) integration of PD Power Plant into Malakoff financials.
- **Valuation.** We maintain our target price on Malakoff at RM2.30 based on DCF valuation pegged at WACC of 6% and the stock is a **BUY** propel by uninterrupted cash flows driven by steady operations so far. Re-rating catalyst on the Malakoff could be driven by 1) winning tender for new power plants 2) extension of power purchase agreement (PPA) 3) higher than expected energy and capacity payment from TNB.

Table 1: Peers Comparison

Company	Y/E Ended	Price (RM)	EPS (RM)		P/E (x)		P/B (x)		ROE (%)	TP	Call
			FY15	FY16	FY15	FY16	FY16	FY16			
MMC Corp	Dec	2.06	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	13.42	1.2	1.2	12.7	12.2	1.8	1.6	14.1	14.60	Hold
Gas Malaysia	Dec	2.33	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	22.94	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	6.55	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.62	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.49	0.1	0.1	11.2	11.8	1.1	1.0	12.1	NA	NA
Average			0.5	0.6	19.4	17.3	2.3	2.2	13.8		



Source: Bloomberg, M&A Securities

Table 1: Results Analysis

YE: Dec (RM million)	3Q15	2Q15	3Q14	y-o-y	q-o-q	9M15	9M14	y-o-y
Turnover	1,284	1,296	1,408	-9%	-1%	3,926	4,112	-5%
EBITDA	622	626	449	38%	-1%	1,868	1,753	7%
Depreciation & Amortisation	(289)	(288)	(90)	219%	0%	(862)	(801)	8%
Operating Profit	334	338	359	-7%	-1%	1,006	952	6%
Interest Income	47	48	3	1326%	-3%	141	84	67%
Interest Expense	(186)	(202)	(227)	-18%	-8%	(603)	(684)	-12%
Associated Co.	5	(26)	40	-89%	-117%	(12)	41	-128%
Exceptional Items	-	-	-	0%	0%	-	-	0%
PBT	199	158	175	14%	26%	532	394	35%
Taxation	(30)	(60)	(47)	-36%	-50%	(144)	(114)	27%
PAT	169	98	128	32%	73%	388	280	39%
Minority Interest	(13)	(11)	(20)	-34%	14%	(42)	(51)	-19%
Net profit	156	86	108	44%	81%	346	229	51%
Margin								
EBITDA	48%	48%	32%			48%	43%	
Operation Margin	26%	26%	25%			26%	23%	
PBT	16%	12%	12%			14%	10%	
PAT	13%	8%	9%			10%	7%	
Net Profit	12%	7%	8%			9%	6%	
Effective Tax Rate	-15%	-38%	-27%			-27%	-29%	

Source: Bursa Malaysia, M&A Securities

Table 2: Financial Forecast

FYE December (RM million)	FY13	FY14	FY15F	FY16F	FY17F
Turnover	4,717	5,594	6,440	7,842	7,669
EBITDA	1,173	2,461	2,360	2,810	2,855
Depreciation & Amortisation	-471	-1,087	-1,128	-1,115	-1,118
Operating Profit	702	1,332	1,232	1,696	1,738
Interest Income	161	133	143	94	2
Interest Expense	-840	-911	-816	-707	-841
Associated Co.	71	42	170	176	189
Exceptional Items	0	0	0	0	0
PBT	94	595	729	1,258	1,088
Taxation	151	183	-175	-302	-261
PAT	245	413	554	956	827
Minority Interest	-73	-71	-138	-190	-186
Net profit	172	342	417	766	641
Margin					
EBITDA	1,173	2,461	2,360	2,810	2,855
Operation Margin	15%	24%	19%	22%	23%
PBT	84	595	729	1,258	1,088
PAT	235	413	554	956	827
Net Profit	162	342	417	766	641
Effective Tax Rate	179%	31%	-24%	-24%	-24%

Source: Bursa Malaysia, M&A Securities

Table 3: Segmental Breakdown

Segmental Breakdown	Revenue			PBT		
	9M15	9M14	Y-o-Y Chg	9M15	9M14	Y-o-Y Chg
Asset Management	4,225	5,149	-21.8%	1,327	2,127	-37.6%
Operation&Maintenance	767	691	11.2%	195	177	10.2%
Elimination	-1067	-1,728	-38.2%	-516.7	-1,414	-63.5%
Total	3,926	4,112	-4.5%	1,005	891	12.9%

Source: Bursa Malaysia, M&A Securities

M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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