14767/09/2012(030761)

7 May 2015 Thursday

Market Access

Malakoff Corporation Berhad

"Return of the Giant"

BUY (TP: RM2.30)

IPO Retail Price (RM)	RM1.80
Fair Value (RM)	RM2.30
Previous Value (RM)	NA
Previous Recomm.	NA
Upside/(Downside) To Target	27.7%
Dividend Yield (FY15)	3.2%

Listing Details

Listing Sought	Main
Listing Date	15th May 2015

Stock Information

Shariah Status	Yes
Sector	Power&Uitlities
Total IPO Shares (mn)	1,521
Institutional Offering (mn)	757,500
Retail Offering (mn)	242,500
Market Cap (RM mn)	9,000
Share Capital (mn)	5,000
Par Value (RM)	0.1

Major Shareholders

MMC	37.9%%
EPF	19.4%
KWAP	6.5%

Malakoff Corporation Berhad (Malakoff) will be making its re-entrance in Bursa Malaysia on the 15th May 2015. Malakoff stable outlook will be supported by impressive recurring business in power generation and water divisions that boasted by its long term power purchase agreement with respective governments. Based on DCF valuation pegged at WACC of 6.0%, we initiate coverage on Malakoff with a fair value of RM2.30. Our target price offers 27.7% upside potential and hence, it's a **BUY**.

Corporate Profile

Malakoff is involved in 2 main businesses comprising of; 1) power generation business and 2) water producer. In power generation business, its portfolios involve in both domestic and international market with effective generation capacity of 6,036 MW. In Malaysia, Malakoff is the largest independent power producer (IPP) with effective generation capacity of 5,346 MW coming from its 6 power plants. Its portfolios outside Malaysia are located in the Middle East and Northern Africa (MENA) and Australia with combined effective capacity of 690 MW. In water production and desalination, its assets are mainly located in the MENA region with effective water production capacity of 358,850m^3/ day.

Investment Highlights:

- **Largest "pure play" IPP in Malaysia with overseas exposure**

Malakoff is a power and water producer player with strong presence locally and internationally. The Group currently owns power generation assets with total effective generation capacity of 6,036 MW, comprising 5,036 MW in Malaysia, 480 MW in MENA region, 210 MW in Australia and water production capacity of

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358,850m³/ day in the MENA region. Locally, through its subsidiaries Malakoff owns 4 combines cycle gas turbines (CCGT) power plants and 1 coal-fired thermal power plant, and through associates, Malakoff have interest in one plant multi-fuel power generation facilities located in Peninsular Malaysia.

Internationally, Malakoff also owns 3 power generation plants in Bahrain, Saudi Arabia and Australia; and 4 water desalination plants in Bahrain, Saudi Arabia and Algeria. Malakoff involvement in international assets got started in 2006, shortly before the Group stripped its listing status by its parent. Since then, Malakoff continued to augment its international portfolios through organic growth and acquisition of equity stake.

- **Long term uninterrupted cash flow**

Malakoff has stable recurring revenue contribution from its power business and water desalination. Its revenue is anchored by long term concession contract as long as 16 years in Malaysia and 23 years outside Malaysia. In Malaysia, all Malakoff's power plants are fully contracted through all power purchase agreement (PPA) 1, 2 and 3, awarded by government since 1992. The maiden power generation asset by Malakoff is Port Dickson Power Plant (436 MW) which schedules to expire in 2016. Its latest addition of portfolio is Tanjung Bin Power Plant (4th Phase, still in construction) located in Johor, with 25 years contract through PPA3 expiry in 2031. Internationally, Malakoff's longest term concession is in Australia through Macarthur Wind Farm that was acquired last year. Notably, Malakoff is backed by established and reputable international network of vendors and strategic partners, including Alstom Power, AGL, Toshiba, Tenaga Nasional Bhd (TNB), Khazanah, Petronas, Acwa Power, Sumitomo and IPR-GDF Suez.

- **Outstanding acquisition track record and sturdy performances**

Since it's delisting in 2007, Malakoff had utilised the interval with busy activities by acquiring more power and water generation assets with 2-3 years of acquisition intervals starting with Tanjung Bin in 2007 and subsequently international power and water assets. Prior to Tanjung Bin, Malakoff's chequered track record in managing Port Dickson Power Plants enabled the Group to win more tenders from government. This started with Segari Energy Ventures (SEV) in 1996, GB3 in 2002, Prai in 2003 and subsequently Tanjung Bin in 2007, and preying more greenfield as government intended to step up current reservation charge. This will be another impetus why Malakoff will be in the front line to secure more power plant development in the future.

- **Targeting more roles in coal fired power plants in Malaysia.**

The shortage in natural gas supply as happened in 2011 had forced power generation plants to opt consuming expensive fuel supply namely oil and distillates which carries expensive cost compared to natural gas. Based on this incident, government are now tweaking power generation plants to use coal as fuel supply due to uninterrupted supply and cost effectiveness. Malakoff won the slice of the coal power plant through Tanjung Bin which is the largest coal power in Southeast Asia, and the

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plant has the capability to fire 2,100MW at full capacity. Due to their outstanding track record, Malakoff was awarded with further 1000MW in Tanjung Bin that utilises coal as fuel supply that brings effective install capacity to 3,100 MW. Given this, we expect Malakoff to play a bigger role if government decided to construct more coal generated power plant in the future.

- **Experienced, skilled and qualified management team**

Malakoff has involved in the power generation since 1992 and water desalination since 2006 with respectable track record in various parts of the world. Malakoff has been able to impress the government in countries it operates in by delivering a cost effective solutions in every tender they bided. This success was led by pool of senior managements that highly knowledgeable and experiences in utilities and power generation industry.

- **Respectable business partner**

Malakoff's international portfolios assets are impressive with its ability to secure projects considered as national interest. The success lies on its track record that manage to attract respectable business partner such as Acwa Power to construct Shuaibah Phase 3 IWPP and Shuaibah Phase 3 Expansion IWP in Saudi Arabia. In Algeria, Malakoff is partnering with Hyflux Engineering Pte Ltd to construct Souk Tieta IWP, and led consortium comprise of Sumitomo and Cadagua to construct AlGhubrah in Oman. Partnering various world class name contractors essentially lifted Malakoff name in securing more national interest projects in the future.

Table 1: Malakoff strategic partners

Malakoff Strategic Partners	
TOSHIBA	Sumitomo Corporation
TENAGA NASIONAL	PETRONAS
GE	ALSTOM
KHAZANAH NASIONAL	GDF SUEZ
ACWA POWER	AGL

Source: Prospectus

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- **Eyeing more overseas expansion**

Limited opportunity to expand its portfolio in Malaysia, Malakoff is banking on its track record and experience to secure more overseas project, in line with Malakoff aspiration to grow its overseas capacity to 12,000 MW by 2020 from 6036MW in 2014. For the initial, Malakoff is eyeing to supply electricity to Singapore and Thailand where management said to have put the relevant discussion with the respective government.

- **Impressive Dividend Policy and Yield**

Malakoff introduced a new dividend policy with a payout ratio of not less than 70% of net profit. This bold move is powered by its stable recurring business in power and water division. All in all, at 70% net profit, Malakoff dividend yield is set to reach 3.2% based on the listing price of RM1.80. This marks Malakoff on par with dividend yielding stock in the conglomerate stocks space.

Company Background

Malakoff was incorporated in 1975 operating in plantation-based industry and was first listed in 1975 of the Kuala Lumpur Stock Exchange (KLSE). In 1993, Malakoff underwent major corporate restructuring exercise involving Malakoff disposing its plantation based assets and went into power generation business. Malakoff grew its power generation assets by developing greenfield power plants and acquiring brownfield ones, comprising the maiden Port Dickson Power Plant in 1993, SEV Power Plant in 1996, the GB3 Power Plant in 2001, Prai Power Plant in 2003, Kapar Power Plant in 2004 and Tanjung Bin power Plant in 2007. During Malakoff absence from Bursa Malaysia, Malakoff utilized the interval to augment its power generation asset locally and internationally, as well as venturing in water production outside Malaysia.

In 2007, Malakoff's parent, MMC Corporation (MMC) took the decision to strip Malakoff listing status. This involved MMC's wholly-owned subsidiary, Nucleus Avenue (M) (NAB), by making an offer to acquire the assets (other than cash) of Malakoff for RM9.3 billion. Pursuant to that, MMC pared down its stake in Malakoff to 51% from 100%, and the rest were snapped by Employee Provident Fund (EPF) (30%), Kumpulan Wang Persaraan (KWAP) (10%), Standard Chartered Private Equity Pte Limited (6.5%) and Seasaf Power (SEASAF) (2.5%) from NAB.

Apart from power generation, Malakoff also provides operation and maintenances (O&M) business to all its majority-owned power plants and associates assets as well as third parties. Malakoff also operates an electricity and chilled water distribution located in buildings in KL Sentral apart from project management services.

Operations

1. **Malaysia independent power generation business**

   Malakoff is the largest IPP in Malaysia with 24.9% market share based on effective power generation capacity of 5,346MW, representing 22.5% of Peninsular Malaysia's total installed capacity. Currently Malakoff owns 6 power plants. All are located in Peninsular Malaysia.

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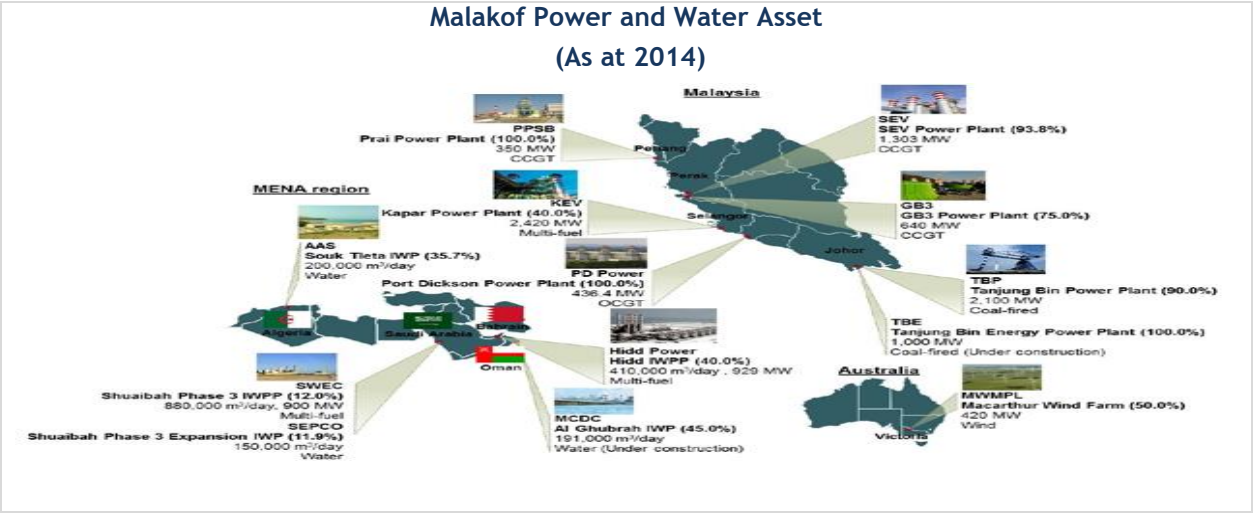
Malakof Power and Water Asset
(As at 2014)



Source: Prospectus

Table 2: Malakoff's Power and Water Assets

Plant Name	Location	Plant Type	PPA Expiration	Gross Capacity (MW)	Effective Equity Participant	Effective Capacity (MW)
In Malaysia						
Tanjung Bin Power Plant	Johor	Coal	2031	2,100	90%	1,890
SEV Power Plant	Perak	CCGT	2027	1,303	94%	1,222
Kapar Power Plant	Selangor	Multi-fuel	2019/29	2,420	40%	968
GB3 Power Plant	Perak	CCGT	2022	640	75%	480
Prai Power Plant	P.Pinang	CCGT	2024	350	100%	350
Port Dickson Power Plant	N. Sembilan	CCGT	2016	436	100%	436
Total effective power generation capacity, inside Malaysia						5,346
Outside Malaysia						
Hidd IWPP	Bahrain	Water/Natural Gas/Distillate Oil	2027	410,000 m3/day, 929	40%	164,000 m3/day 372
Shuaibah Phase 3 IWPP	Saudi Arabia	Water/Oil	2030	880,000 m3/day, 900	12%	105,600 m3/day 108
Souk Tleta IWP	Algeria	Water	2036	200,000 m3/day	36%	71,400 m3/day
Shuaibah Phase 3 Expansion IWPP	Saudi Arabia	Water	2029	150,000 m3/day	12%	17,850 m3/day
Macarthur Wind Farm	Australia	Wind	2038	420	50%	210
Total effective water production capacity						358,850 m3/day
Total effective power generation, capacity, outside Malaysia						690
Total effective power generation capacity, inside and outside Malaysia						6,036
Under Construction						
Tanjung Bin Energy Power Plant	Johor	Coal	2041	1,000	90%	1,000
Al Ghubrah IWP	Oman	Water	2034	191,000 m3/day	45%	85,950 m3/day

**Offered a renewal to operate SEV Power Plant for another 10 years until 2027*
***Kapar Power Plant has 4 phases. The term of the PPA of the 4th phase expires in 2019 and the term of the PPA for the other 3 phases expires in 2029*
Source: Prospectus

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2. **International independent water production and power generation business**

   Malakoff had stepped up from its comfort zone by diversifying its portfolio into overseas and venturing new business stream. Over the years, Malakoff had augmented its asset portfolios in overseas namely Saudi Arabia, Oman, Bahrain, and Algeria with IWP and IWPP business, and wind farm in Australia with total effective capacity of 690 MW and water production capacity of 358,850 m^3/day. At these IWPPs and IWPs, water is, or will be, produced through the desalination of seawater.

3. **Operation and maintenance business (O&M)**

   Apart from power generation and water production business, Malakoff also provides O&M services to its own power plants as well as to power plants and water plants owned by certain of its associates, JV and third-party clients. Malakoff had previously provided operations and maintenance services to PETRONAS' cogeneration power plants, the Kerteh Centralised Utilities Facilities and the Gebeng Centralised Utilities Facilities, under five-year operations and maintenance contracts that expired in 2004, and continues to maintain the ability to offer these services to third party clients in Malaysia as well as overseas.

Table 3: O&M Project Summary

Plant Name	Location	Ownership	Generating Capacity (MW)	Commercial operation date	O&M term
In Malaysia					
SEV Power Plant	Perak	Subsidiary	1,303	1993	31 yrs
GB3 Power Plant	Perak	Subsidiary	640	2000	21 yrs
Prai Power Plant	P.Pinang	Subsidiary	350	2000	21 yrs
Tanjung Bin Power Plant	Johor	Subsidiary	2,100	2004	25 yrs
Tanjung Bin Energy Power Plant	Johor	Subsidiary	1,000	2012	25 yrs
Port Dickson Power Plant	N.Sembilan	Subsidiary	436	2003	14 yrs
Outside Malaysia					
Shuaibah Phase 3 Expansion IWP	Saudi Arabia	Associate	150,000 m3/day	2007	20 yrs
Shuaibah Phase 3 IWPP	Saudi Arabia	Associate	880,000 m3/day, 900	2006	20 yrs
Souk Tleta IWP	Algeria	Jointly controlled entity	200,000 m3/day	2007	25 yrs
Al Ghubrah IWP	Oman	Associate	191,000 m3/day	2013	20 yrs
Merak Coal-Fired Power Plant	Indonesia	Third Party	120	2013	5 yrs
Az Zour Emergency Power Plant	Kuwait	Third Party	1,200	2013	4 yrs

Source: Prospectus

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Table 4: Chronology of Events

Years	Events
1975	Incorporated in Malaysia
1993	Shift plantation operations to power generation
1995	Port Dickson Power Plant commenced operation
1996-1997	SEV Power Plant commenced operations
1998	Acquired 100% interest in Teknik Janakuasa SB (O&M business)
2001-2002	GB3 Power Plant commenced operations
2003	Prai Power Plant commenced operations
2004	Acquired 40% interest in Kapar Power Plant
2006-2007	Tanjung Bin Power Plant commenced operations Acquired 20% interest in Dhofar Power, Oman
2007	Taken private by MMC Corp Acquired 12.75% interest in CEGCO, multi-fuel power plant in Jordan
2009-2010	Disposed 46% interest in Dhofar Power Company Saog Shuaibah Phase 3 Expansion IWP & Shuaibah Phase 3 IWPP commenced operations in Saudi Arabia
2011	Souk Tleta IWP commenced operations Awarded concession for construction of Tanjung Bin Energy Power Plant
2012	Acquired 40% interest in Hidd Power Disposed 12.75% interest in CEGCO Acquisition of HICOM Power SB
2013	45%-owned MCDC awarded concession to undertake the Al Ghubrah IWP project in Oman Acquired a 50% stake in Macarthur Wind Farm in Victoria, Australia
2014	Acquired remaining 75% stake in Port Dickson Power Plant

Source: Prospectus

Selected Future Plan Analysis

- **Expand power generation platform to meet increasing electricity demand**

Not stopping anytime now, Malakoff is eyeing to expand its current capacity of 6,036MW to 13,000 MW by 2020. This includes venturing into overseas by rapidly increasing its effective power generation capacity to 3000MW vs. 690 MW currently. In water production business, Malakoff intends to increase its effective water capacity to 530,000 m^3/day vs. 358,850 m^3/day in 2020. However, we understand Malakoff is looking at Southeast Asia market currently, including selling capacity to Singapore and Thailand by leveraging on its experiences and notable track record. This includes leverage on its reserve land on its existing power plants amounting to 400 hectares. The majority of the lands are located in Kapar and Tanjung Bin, where the lands still have relatively long lease tenure of 47 years on average enabling to build another infrastructure on the site.

- **Diversify into renewable power generation**

As natural fuel supply is unsustainable, Malakoff foresee renewable power generation will play an important role in the future by setting up Green Technology Unit with the objective of building a renewable power generation portfolio by 2020. The similar sentiment is echoed by government, as the latter plans to increase renewable power generation capacity (excluding large-scale hydroelectric power plants) to 2080 MW by 2020. Malakoff's participation in Mcarthur Wind Farm located in Australia is certainly an eye-catching to the government if the latter decided to grow renewable energy seriously.

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- **Opportunity in Pengerang**

In the recent years, Energy Commission has invited TNB and IPPs to participate in the open tender to open new generation power plants, but Malakoff had so far unable to secure any new generation power plant other than Tanjung Bin extension in 2012. Note that Malakoff is switching to direct negotiation method, rather than open tender in the local turf. That said, Malakoff is in the midst of discussion with Petronas to participate in a 1,300 MW co-generation power plant that forms Petronas's Refinery and Petrochemicals Integrated Development (RAPID)

- **Expand O&M business and chilled water distribution business**

Currently, O&M business contributed 1% of revenue in FY14 through Malakoff Power that operates O&M for Malakoff. To grow further revenue contribution to Malakoff, Malakoff Power is further exploring opportunities in providing operations and maintenance services to third-party power and water plants by capitalizing on its experience by managing own joint venture (JV) and associate generation power plants.

IPO Details

Malakoff is seeking for listing on the Main Market of Bursa Malaysia on 15th May 2015. Issue price for both institution and retail are set at RM1.80 and expected to rake market capitalization of RM9 billion upon listing.

Table 5: IPO Details

Activity	No. of Shares (mil)
Existing issued and paid up capital	4,000,000
New shares to be issued pursuant to the public issue	1,000,000
Enlarged issued and paid-up capital upon listing	5,000,000
IPO Price	RM1.80

Source: Prospectus

Table 6: Offering Details

Categories	Offer for Sale (mil)	Public Issue (mil)	Total (mil)
Retail Offering:			
Eligible Malakoff person		180,000	
Eligible MMC person		2,500	
Eligible Shareholders of MMC		72,000	
Malaysian Public			
Bumiputera		75,000	
Non-Bumiputera		75,000	
Total Retail		242,500	
Institutional Offering:			
Cornerstone	521,740		
Bumiputera investors approved by MITI		550,000	
Foreign institutional and selected investors		207,500	
Total Institutional	521,740	757,500	
Grand Total	**521,740**	**1,000,000**	**1,521,740**

Source: Prospectus

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Selling shareholder

Table 7: Selling Shareholder

Selling Shareholder	Pre-IPO		Shares offered		Post-IPO			
					Over-allotment option is not exercised		Over-allotment option is fully exercised	
	No. of Shares (mil)	% of existing share capital	No. of Shares (mil)	% of enlarged share capital	No. of Shares (mil)	% of enlarged share capital	No. of Shares (mil)	% of enlarged share capital
AOA	1,142	28.6%	149.56	3.0%	992.73	19.8%	927.30	18.5%
EPF	1,200	30%	227.86	4.6%	972.13	19.4%	872.44	17.4%
KWAP	400	10%	75.95	1.5%	324.04	6.5%	290.81	5.8%
SCI Asia	260	6.5%	49.37	1.0%	210.63	4.2%	189.03	3.8%
SEASAF	100	2.5%	18.98	0.4%	81.01	1.6%	72.70	1.5%

Source: Prospectus

Utilization of proceeds

Malakoff will not receive any proceeds from the IPO and Malakoff plans to fully utilize the proceeds to fully redeem its junior Sukuk Musharakah which bears a profit rate of 6.3% per annum until September, and a profit rate of 9.3% thereafter with a tenure of 30 years maturing in 2042.

IPO Timetable

Table 8: IPO Timetable

Activity	Date
Prospectus launch	17 April 2015
Institutional offering	17 April-29 April 2015
Retail offering	17 April-28 April 2015
Listing	15 May 2015

Source: Prospectus

Financial Review

Malakoff derives its revenues primarily from power generation business in Malaysia as a result of PPA signed between TNB and government. In FY13, Malakoff bottomline has been hit by operational issues, primarily in Tanjung Bin and Kapar power plants, resulting in lower revenue in FY13 to RM4.71 billion from RM5.58 billion in FY12. Due to operational issues, Malakoff received lower capacity payment due to lower capacity despatch as well as unable to meet certain KPI set by TNB. However, the situations have improved since FY14 with Malakoff managed to solve the boiler issue in Tanjung Bin, hence pushed contribution from Tanjung Bin to surged to 23.6% y-o-y to RM2.8 billion vs. RM2.28 billion in FY13.

Entering FY15, we expect all Malakoff plants to run smoothly without unplanned outages, hence will lift FY15 revenue to RM6.44 billion vs.RM5.5 billion in FY14. The 15% y-o-y grow in Malakoff's revenue will be partly assisted by Port Dickson Plant's contribution, that was acquired from Sime Darby in FY14.

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In FY16, we project Malakoff revenue and earnings will surge by 21.7% y-o-y and 38% y-o-y due to the commission of Tanjung Bin's 1000 MW, which will push Tanjung Bin capacity to 3,100 MW vs. 2100 MW currently. However, we note that Malakoff's earnings in FY18 will be stagnant tempered by SEV plant PPA extension that will run in FY18. Under the PPA extension for 10 years, SEV plant will receive lower capacity payment as part of renegotiation with EC as SEV plant is classified under 1st generation of power plant, hence less capital expenditure is required to run the plant operation.

Given the steady demand growth driven by convincing economic momentum in all Malakoff's business footprints, we expect Malakoff to be able to deliver a steady earnings momentum. The steady earnings trajectory means that investors will be rewarded steadily via impressive dividend payout which the company aims to deliver not less 70% payout ratio.

Selected Risks

- **Rely on TNB as the sole off-taker**

Under the PPAs, IPPs in Malaysia will solely rely on TNB as the sole off-taker for the power produced by IPPs at their respective plants. Given this, over 90% Malakoff's revenue will be derived from capacity payment paid by TNB. That said if any default payment occurs by TNB, it may jeopardize Malakoff earnings and potentially Malakoff to lower their electricity production. However, this may not be the case as we believe TNB is fully backed by government.

- **Withdrawal of electricity subsidy**.

The eventual withdrawal of electricity subsidy may result in a dent in electricity consumption and this may adversely affect service provider like Malakoff. Although the withdrawal is inevitable in the long run, we expect the short term adjustment will be mild given that the government is determine to cut the electricity subsidy gradually in order to avert distortion in the economic activity.

- **Unable to meet certain terms in the PPA.**

As said, IPPs' revenue is derived from TNB capacity payment. On top of that, there are certain key performance indicators (KPIs) set by TNB, Government and EC such as availability factor, number of days for planned scheduled outages and efficiency of the plant. In the event that Malakoff fails to meet some of this KPI, it may receive lesser capacity payment from TNB. This had happened on its power plant in Tanjung Bin where the boiler issue have been plaguing the plant performance, hence the revenue contribution from this plant was lesser than its normal run capacity.

- **Shortage in fuel supply.**

To run the generation power plant, Malakoff requires fuel supply to generate electricity. That said the inability to secure fuel supply e.g. natural gas, coal, oil and distillates may threaten

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Malakoff operation. The majority of Malakoff plants in Malaysia are formed by 4 CCGT power plant, 1 coal and 1 multi fuel. Hence, Malakoff needs the fuel supply from various sources.

i. **Gas supply from Petronas and TNB**
Malakoff's CCGT plants currently purchase natural gas from Petronas, pursuant to respective Gas Sales Agreement (GSA) that run concurrently with each PPAs between Petronas and IPPs. As gas includes LNG price is highly regulated by government, Malakoff and all IPPs need to purchase the gas supply from Petronas as the sole supplier in the country. Based on the PPAs, Malakoff and IPPSs are able to pass the cost of fuel back to TNB known as energy payment.

ii. **Coal from TFS**
Under the PPAs, Malakoff is required to purchase coal requirement from TNB Fuel Sdn Bhd (TFS) that run concurrently with Coal Supply and Transportation Agreement (CSTA) between Malakoff and TFS to ensure a steady and quality of coal to be used by the power plant. Based on this practice, we believe Malakoff is unable to take advantage of cheaper coal price in the market by procuring from other sources than TFS procured on long term practice. Should Malakoff receives the authority to procure its own coal requirement, we believe Malakoff will able to minimize its fuel cost especially on coal cost as Malakoff will be able to leverage on Pelabuhan Tanjung Pelepas to store its coal requirement, thus benefiting the Tanjung Bin Plant.

iii. **Oil and distillates from various sources**
Malakoff multi-fuel plant currently purchases oil from the same vendor of TNB Fuel that stipulated in the PPA. On the other hand, distillates are purchase on spot market purchases, making its volatile to the changes in distillates price.

- **Policy change**. Operating in foreign land in MENAs and Australia may pose Malakoff to policy change risk. The government can decide to terminate the concession given to service provider although we find this possibility very remote at this juncture given the long term agreement that was signed. Nevertheless, policy change can stunt Malakoff desire to aggressively penetrate these countries and may result in opportunity loss as a result.

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Industry Overview

1. Malaysia power sector

In Malaysia, the demand for power in Malaysia has been growing in tandem with GDP growth over the years. In 2014, Malaysia recorded a higher growth of gross development product (GDP) of 5.8% y-o-y in 4Q14, and 2014 recorded higher ever electricity demand on 11th June 2014 at 16,901 MW.

Frost & Sullivan estimates that the demand for the electricity consumption in Peninsular Malaysia to grow at a CAGR of 3.5% from 110,193 GWh to 126 GWh in 2018 driven by steady economic growth. Peninsular Malaysia remains as the primary consumer of electricity in Malaysia, consuming about 90% of the electricity generated. While Sabah and Sarawak have been growing at a faster pace of 8.3% and 16.6% respectively, we notice the electricity consumption in Sarawak was marginally higher than Sabah in 2013 (Sarawak 510 GWh, Sabah 574 GWh). However the CAGR consumption since 2007 was higher in Sabah at 4.8% due to expanding customer base and rising demand compared to Sabah (Sarawak 4.2%, Peninsular 3.5%).

IPP was first emerged in 1992 following a nationwide power blackout, associated with shortage of power generation capacity. Subsequently, the first 5 IPP license were awarded to the private sector. The tariffs for first IPPs were also notably higher, which facilitated capital market financing for the first wave IPPs. The first generation of IPPs weremostly gas-fired, commencing operation in 1993 and 1994, followed by second generation of IPPs in 1998 and 2001 and third generation of IPPs in 2003 onwards.

Table 9: First-Generation IPPs in Malaysia

Licensee	Capacity (MW)	Type of Plant	Licensed Capacity (MW)	Date of Issue of License
YTL Power, Generation **Paka, Terengganu** **Pasir Gudang, Johor**	2 X 390 1 X 390	Combined Cycle Combined Cycle	780 390	7/4/1993
Genting Sanyen Power **Kuala Langat, Selangor**	1 X 762	Combined Cycle	762	1/7/1993
Segaru Energy Ventures **Lumut, Perak**	2 X 652	Combined Cycle	1,303	15/7/1993
Powertek **Alor Gajah, Melaka**	4 X 110	Gas Turbines	440	1/12/1993
Port Dickson Power **Tanjung Gemuk, Port Dickson**	4 X 110	Gas Turbines	440	1/12/1993
ARL Tenaga **Melawa, Sabah**	4 X 13	Diesel Engines	50	14/6/1994
Musteq Hydro **Sg. Kenerong, Kelantan**	2 X 10	Mini Hydro	20	18/11/1994
Serudong Power **Tawau, Sabah**	3 X 12	Diesel Engines	36	1/4/1995
Total installed capacity			**4,221**	

Source: Prospectus

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Table 10: Second-Generation IPPs in Malaysia

Licensee	Capacity (MW)	Type of Plant	Licensed Capacity (MW)	Date of Issue of License
Stratavest Sandakan, Sabah	4 X 15	Diesel Engines	60	1/10/1996
Sandakan Power Corporation Sandakan, Sabah	4 X 9	Diesel Engines	34	29/11/1997
TNB Janamanjung	3 X 700	Coal	2,100	21/5/1998
Teknologi Tenaga Perlis Consortium Kuala Sungai Baru, Perlis	1 X 650	Combined Cycle	650	26/8/1998
Nur Generation Kulim, Kedah	2 X 220	Combined Cycle	440	17/9/1998
Pahlawan Power Tanjung Keling, Melaka	1 X 334	Combined Cycle	334	26/5/1999
Prai Power Seberang Perai, Pulau Pinang	1 X 350	Combined Cycle	350	20/2/2001
GB3 Lumut, Perak	1 X 640	Combined Cycle	640	7/8/2001
Panglima Power Alor Gajah, Melaka	1 X 720	Combined Cycle	720	7/8/2001
Total installed capacity			**4,688**	

Source: Prospectus

Table 11: Third-Generation IPPs in Malaysia

Licensee	Capacity (MW)	Type of Plant	Licensed Capacity (MW)	Date of Issue of License
Tanjung Bin Power Tanjung Bin, Johor	3 X 700	Coal	2,100	26/9/2003
Kapar Energy Ventures Kapar, Klang	2 X 300 2 X 300 2 X 500 2 X 110	Thermal Coal Coal Gas Turbines	2,420	1/7/2004
Jimah Energy Ventures Jimah, Port Dickson	2 X 700	Coal	1,400	22/3/2005
Sepangar Bay Corporation Kota Kinabalu, Sabah	1 X 100	Combined Cycle	100	18/5/2006
Ranhill Powertron Karambunai, Sabah	2 X 95	Combined Cycle	190	13/6/2006
Ranhill Powertron II Kota Kinabalu, Sabah	190	Gas Turbine	190	11/9/2009
Total installed capacity			**6,400**	

Source: Prospectus

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Table 12: Planned New Generation Capacity in Malaysia

Commencement (Year)	Name	Location	IPP	Capacity (MW)
2015	Manjung 4 coal-fired power plant	Perak	Yes	1,010
2015	Connaught Bridge Repowering Plant	Selangor	No	385
2015	TNB Hulu Terengganu Plant Phase 1	Terengganu	No	250
2016	TNB Hulu Terengganu Plant Phase 2	Terengganu	No	15
2016	TNB Ulu Jelai Plant	Pahang	No	372
2016	Tanjung Bin Energy Power Plant	Johor	Yes	1,000
2016	TNB Prai Power Plant	Penang	Yes	1,071
2016	Genting Sanyen Power Plant	Selangor	Yes	675
2017	PETRONAS Cogeneration Pengerang Power Plant	Johor	No	400
2017	Segari Energy Power Plant	Perak	Yes	1,303
2017	TNB Sultan Iskandar Power Plant	Johor	No	275
2017	Track 3A Power Plant	Perak	Yes	1,000
2018	Chenderah Hydroelectric Power Plant	Perak	No	12
2018	Track 3B, Unit 1	Negeri Sembilan	Yes	1,000
2018	Track 4A Gas Turbine Power Plant	Pahang	No	1,000-1,400
2019	Track 3B, Unit 2	Negeri Sembilan	Yes	1,000
2020	Tekai Power Plant	Pahang	No	156
Total				**10,924-11,323**

Source: Prospectus

2. Australia power sector

Australia electricity consumption in 2012-2013 was at 249,884 GWh, having been relatively stagnant at a negative CAGR of 1.1% and this trend continued to the following year at -0.3%, mainly associated with reduction in electricity generation using coal, due to the introduction of the carbon pricing. Moving forward, the government has forecasted the electricity demand to grow with a CAGR of 2% from 2008-2009 to 2019-2020, reaching a total electricity consumption of 310,000 GWh by 2019-2020. As a developed country, the government is looking to promote renewable sources e.g. wind, solar and hydro through various measure such as Renewable Energy Target (RET) and the establishment of Renewable Energy Agency (ARENA) and Clean Energy Finance Corporation (CEFC) which targets 20% of Australia installed capacity to be generated by renewable resources by 2020.

In 2013 alone, a total of 18 plants (705 MW) inclusive of wind, solar, hydro, biogas and geothermal plants were commissioned. Wind is expected to play an important role in renewable energy in Australia due to its high return and safe environment and commonly used. In 2013, the installed capacity of wind generation is 3,240 MW from 68 farms with the largest contributor is MaCartthur wind farm at 420 MW.

3. MENA power and water supply

Total electricity consumption in MENA region has increased at a CAGR of 4.7% from 2008 (607,081 MW)-2013 (765,046 MW) and Frost & Sullivan anticipates that electricity demand in this region will further grow at a CAGR of 9.4% to reach 1,184,118 GWh by 2018. The huge growth projected was associated of integration of water production and power generation plant as a measure to meet the electricity demand, while combating the water scarcity.

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a) Algeria.

Electricity consumption increased at a CAGR of 6.7% to 45,060 GWh in 2013 from 32,584 GWh in 2008, while water consumption grew to 17.7 million m^3/day in 2013 at a CAGR of 1.8% from 16.2 million m^3/day in 2008. Frost & Sullivan forecasts that electricity consumption will grow at a CAGR of 7.5% between 2014-2018 due to urbanization and population growth. On water segment, Frost & Sullivan estimates water consumption to grow at a CAGR of 3.4% from 2014 to 2018 coming from 13 water production plants with a total capacity of 2.3 million m^3/day along the country coastline.

b) Bahrain

Electricity consumption increased at a CAGR of 6.6% to 13,350 GWh in 2013 from 9,719 GWh in 2008, on the back of higher electricity consumption from commercial sector. Frost & Sullivan forecasts electricity consumption to grow at CAGR of 4.1% from 2014 to 2018. On water industry, water consumption grew at a CAGR of 6.3% from 0.31 million m^3/day in 2008 to 0.42 million m^3/day in 2013, and projected to grow at steady CAGR of 3.2% from 2014 and 2018.

c) Saudi Arabia

Total electricity consumption reached 256,688 GWh in 2013, and grew at CAGR of 7.2% from 2008 at 181,098 GWh and expected to grow at 6.3% between 2014 and 2018 on expanding domestic demand. Meanwhile, total water consumption stood at 47.4 million m^3/day in 2013, marking a CAGR of -4.2% from 58.8 million m^3/day in 2008. Total water consumption in Saudi Arabia is projected to remain stagnant at a CAGR of 0.1% to 2018.

Valuation and recommendation

We value Malakoff at RM2.30 based on DCF valuation, pegged at WACC of 6.0%. As such, we begin coverage of Malakoff with a **BUY** call. At the issue price of RM1.80, Malakoff dividend yield is set to fetch 3.2% in FY15 based on 70% payout ratio. We recommend investors to look at the Malakoff's consistent and continuous capacity payment until the expiry of PPAs. Additionally, Tanjung Bin expansion is set to drive Malakoff's topline to surge by 21.7% in FY16. Upside potential against our target is 27.7%.

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Table 13: Malakoff Profit and Loss

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: M&A Securities, Prospectus

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Table 14: Malakoff Balance Sheet

FYE December (RM million)	FY13	FY14	FY15F	FY16F	FY17F
Non-Current Assets					
Prop Plant & Eqpt	13,061	14,324	15,213	16,085	16,970
Intangible asset	5,071	4,704	4,669	4,643	4,812
Prepaid lease payment	75	70	75	75	75
Investment in associates	1,294	1,203	1,289	1,262	1,252
Investment in JV	51	58	52	54	55
Finance lease receivable	2,013	1,991	1,000	1,000	1,000
Other receivable	127	115	121	118	119
Deferred tax asset	698	780	696	725	734
Total non-current asset	22,470	23,344	23,214	24,060	25,115
Current assets					
Trade Receivable	1,266	1,304	1,147	1,397	1,366
Inventories	479	518	1,453	1,792	1,714
Current tax assets	311	272	265	283	273
Cash & Bank Balances	2,376	3,575	2,360	57	1,112
Other investment	1,166	322	300	300	300
Total current assets	5,598	5,992	5,524	3,828	4,765
Total Assets	28,068	29,336	28,738	27,888	29,880
Non-Current Liabilities					
Loans and borrowing	16,612	17,493	15,157	12,939	11,903
Employee benefit	67	75	80	80	80
Deferred income	2,608	2,811	3,092	3,402	3,742
Deferred tax liabilities	2,645	2,721	3,129	3,599	4,138
Total non-current liabilities	21,965	23,268	21,609	20,169	20,013
Current Liabilities					
Trade and other payables	934	976	1,095	1,333	1,304
Current tax liabilities	4	24	4	4	4
Loans and borrowing	932	734	1,639	1,639	3,607
Deferred income	60.263	130	131	200	222
Total current liabilities	1,965	1,892	2,903	3,211	5,171
Total Liabilities	23,929	25,159	24,511	23,380	25,184
Financed by:-					
Share Capital	356	356	356	356	356
Share Premium	3,576	3,576	3,576	3,576	3,576
Reserves	157	61	61	61	61
Retained earnings	(172)	(29)	96	326	518
Minority Interests	223	213	138	190	186
Total Equity	4,139	4,177	4,226	4,509	4,696
Total Liabilities and Equity	28,068	29,336	28,738	27,888	29,880

Source: M&A Securities, Prospectus

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Table 15: Malakoff Cash Flow

FYE December (RM million)	FY13	FY14	FY15F	FY16F	FY17F
Operating Cash Flow					
PBT	84	595	729	1,258	1,088
Adjustment For:					
Impairment loss on trade receivables	177	49	50	50	50
Amortization of prepaid lease payments	4	4	4	4	4
Amortization of intangible assets	470	512	607	604	626
Depreciation & Amortization	471	559	628	615	618
Finance costs	840	911	816	707	841
Interest income	-161	-133	-143	-94	-2
Net fair value gain on derivatives	0	0.00	0	0	0
PPE written off	127	21	128	135	143
Provision for retirement benefits	13	12	10	10	10
Reversal of impairment loss on trade receivables	-6	-3	-5	-5	-5
Associated Company	-61	-42	-170	-176	-189
Operating profit before changes in working capital	1,927	2,495	2,656	3,110	3,185
Changes in Working Capital	401	-140	704	-3,993	168
Operating profit before changes in working capital	1,527	2,584	3,360	-883	3,353
Deferred income	279	273	250	250	250
Employee benefit	-17	-4	-8	-8	-8
Cash generated from operation	1,790	2,853	3,602	-641	3,595
Income tax refund/paid	-153	-151	-160	-160	-160
Net cash from operating activities	1,637	2,702	3,442	-801	3,435
Investing Cash Flow					
Acquisition of PPE	-2,535	-1,615	-1,393	-1,444	-1,507
Dividend received from associates	54	20	46	40	35
Interest received	146	112	143	94	2
Increased investment in associate	0	-37	-30	-30	-30
Proceeds from redemption of unsecured loan stocks	0	30	37	33	33
Redemption of unsecured loan stock	-20	-58	-45	-41	-48
Net cash from investing activities	-1,427	-856	-1,242	-1,347	-1,514
Financing Cash flow					
Dividend paid to the owner of the company	-191	-199	-191	-191	-191
Dividend paid to non-controlling interest	-190	-82	-190	-190	-190
Interest paid	-923	-966	-816	-707	-841
Changes in debt	772	599	-2,218	933	355
Net cash used in financing activities	-533	-647	-3,415	-155	-867
Changes in cash	-323	1,199	-1,215	-2,303	1,055
Cash at beginning of the year	2,698	2,376	3,575	2,360	57
Cash at end of the year	2,376	3,575	2,360	57	1,112

Source: M&A Securities, Prospectus

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M&A Securities

STOCK RECOMMENDATIONS

BUY Share price is expected to be ≥+10% over the next 12 months.
TRADING BUY Share price is expected to be ≥+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 ≥-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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