

PP14767/09/2012(030761)

## Malakoff Corporation Bhd

## “Dazzling Start”

## Results Review

- **Actual vs. expectations.** Malakoff Corporation Bhd (Malakoff) 1Q15 net profit to equity holders of RM104 million (+3833% y-o-y) came in line with our estimates, accounting 25% of ours full year net profit forecast. The earnings performance in 1Q15 was driven by higher contribution from the power generation business of RM1.21 billion (+8% y-o-y) fuelled by higher capacity and energy payment booked.
- **Dividend.** To meet 70% payout ratio declared during IPO launched, as a start Malakoff declared 3 cent dividend in 1Q15.
- **Topline vs. Bottomline.** 1Q15 revenue surged to RM1.34 billion (+9% y-o-y) on the back of higher contribution from Tanjung Bin plant and consolidation of Port Dickson plant pursuant to the completion of acquisition in April 2014. Additionally, capacity and energy payment surged by 23.5% and 82.3% y-o-y driven by Tanjung Bin Power plant that firing at full capacity currently. Similarly, EBITDA rose to RM630 million (+29% y-o-y) underpinned by lower interest expense (-6% y-o-y) and EBITDA margin surged to 47% in 1Q15 vs.39% in 1Q14.
- **Tanjung Bin T4 behind schedule, but committed to opening date.** From the result briefing, the commitment to meet the opening date of March 2016 seems to be out of reach with the completion rate now at 92% vs. 97% target. However, management was upbeat to complete within the time frame as management managed to reduce the discrepancy gap from 12% in FY14 to only 5% as at March 2015. That said, management is committed to link the power plant to national grid and hence, utilize the remaining

Thursday, May 28, 2015

BUY (TP:RM2.30)

Current Price (RM)	RM1.75
New Fair Value (RM)	RM2.30
Previous Fair Value (RM)	RM2.30
Previous Recommend.	BUY
Upside To Fair Value	31%
Dividend Yield (FY15)	3.0%

## Stock Code

Bloomberg	MLK MK
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## Stock &amp; Market Data

Listing	MAIN MARKET	
Sector	Utilities	
Shariah Compliance	Yes	
Issued Shares (mn)	5,000	
Market Cap (RM mn)	8,550	
YTD Chg In Share Price	NA	
Beta (x)	NA	
52-week Hi/Lo (RM)	RM1.84	RM1.63
3M Average Volume (shrs)	NA	
Estimated Free Float	44.4%	

## Major Shareholders

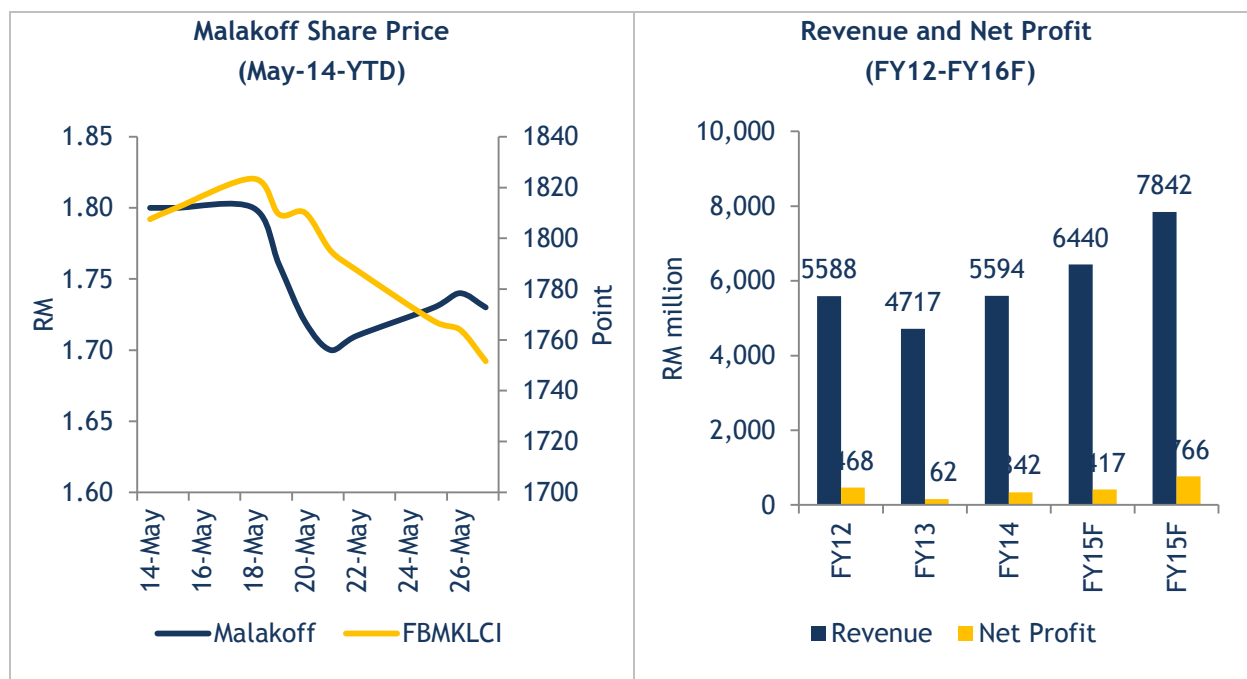
MMC	37.9%
EPF	19.4%
KWAP	6.5%

6 months to test the reliability and performance of the plants equipment.

- **Guiding slower 2Q performance.** Management is guiding slower 2Q15 performance due to scheduled maintenance on its plant. While do not reveal the target plant, management reiterated that approval from Tenaga Nasional Bhd (TNB) is needed before the schedule maintenance is going to undertake.
- **Outlook.** We feel that the worst is over for Malakoff as contribution from Tanjung Bin is now stabilized fuelled by improved capacity payment from Tanjung Bin plant that experienced various issues in the past. 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 1Q15 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** due to uninterrupted cash flows driven by steady operations so far. Rerating 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	2.68	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	13.98	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Hold
Gas Malaysia	Dec	2.62	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Hold
Petronas Gas	Dec	22.88	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Hold
Petronas Chemical	Dec	5.85	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.75	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.58	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&amp;A Securities

Table 1: Results Analysis

YE: Dec (RM million)	1Q15	4Q14	1Q14	y-o-y	q-o-q	3M15	3M14	y-o-y
Turnover	1,347	nil	1,238	9%	nil	1,347	1,238	9%
EBITDA	630	nil	489	29%	nil	630	489	29%
Depreciation & Amortisation	(296)	nil	(263)	13%	nil	(296)	(263)	13%
Operating Profit	334	nil	226	48%	nil	334	226	48%
Interest Income	45	nil	39	15%	nil	45	39	15%
Interest Expense	(214)	nil	(229)	-6%	nil	(214)	(229)	-6%
Associated Co.	10	nil	8	24%	nil	10	8	24%
Exceptional Items	-	nil	-	#DIV/0!	nil	-	-	#DIV/0!
PBT	176	nil	45	294%	nil	176	45	294%
Taxation	(55)	nil	(29)	87%	nil	(55)	(29)	87%
PAT	121	nil	15	686%	nil	121	15	686%
Minority Interest	(17)	nil	(13)	34%	nil	(17)	(13)	34%
Net profit	104	nil	3	3833%	nil	104	3	3833%
Margin								
EBITDA	47%	nil	39%			47%	39%	
Operation Margin	25%	nil	18%			25%	18%	
PBT	13%	nil	4%			13%	4%	
PAT	9%	nil	1%			9%	1%	
Net Profit	8%	nil	0%			8%	0%	
Effective Tax Rate	-31%	nil	-65%			-31%	-65%	

Source: Bursa Malaysia, M&amp;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&amp;A Securities

Table 3: Segmental Breakdown

Segmental Breakdown	Revenue			PBT		
	3M15	3M14	Y-o-Y Chg	3M15	3M14	Y-o-Y Chg
Asset Management	1,432	1,338	0.7%	440	379	16.1%
Operation&Maintenance	240	230	4.3%	66	68	-2.9%
Elimination	-325	-329	-1.2%	-172	-221	-22%
Total	1,345	1,238	8.6%	334	226	47.8%

Source: Bursa Malaysia, M&amp;A Securities

# M&A Securities

## STOCK RECOMMENDATIONS

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

## SECTOR RECOMMENDATIONS

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

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