

PP14767/09/2012(030761)

Malakoff Corporation Bhd

“Slower, but Within Expectation”

Results Review

- **Actual vs. expectations.** Malakoff Corporation Bhd (Malakoff) 6M15 net profit to equity holders of RM190 million (+58% y-o-y) came in line with ours, but missed consensus estimates marginally, accounting 45% and 44% of ours and consensus full year net profit forecast respectively. The higher earnings were propelled by lower finance cost by (+9% y-o-y) on the back of Junior sukuk Musharakah redemption recently, resulting in the savings of finance cost.
- **Dividend.** No dividend declared in this quarter, nevertheless its 70% payout policy is intact.
- **Topline vs. Bottomline.** 2Q15 revenue of RM1.29 billion (+5% y-o-y, 4% q-o-q) came in 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. However, on q-o-q, Malakoff weak revenue was within expectation as guided by management in 1Q15, derailed by scheduled maintenance on its plant as well as lower capacity utilisation by its gas fired power plants. Cumulatively, revenue in 6M15 of RM2.6 billion (-2% y-o-y) was hampered by lower output of gas generated power plants as well as scheduled maintenance undertaken. Nevertheless, EBITDA margin touched 63% (+50bps) on the back of lower finance costs due to aforementioned sukuk redemption.
- **3Q15 to recover.** Based on 1Q15 briefing, without mentioning the plants to undertake scheduled maintenance, we understand that the scheduled maintenance undertaken would be completed in 3 months. That said, we believe all the plants that undertook the maintenance exercise will operate normally in 3Q15.

Monday, August 24, 2015

BUY (TP:RM2.30)

Current Price (RM)	RM1.41
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 & Market Data

Listing	MAIN MARKET	
Sector	Utilities	
Shariah Compliance	Yes	
Issued Shares (mn)	5,000	
Market Cap (RM mn)	7,050	
YTD Chg In Share Price	NA	
Beta (x)	NA	
52-week Hi/Lo (RM)	RM1.91	RM1.41
3M Average Volume (shrs)	NA	
Estimated Free Float	44.4%	

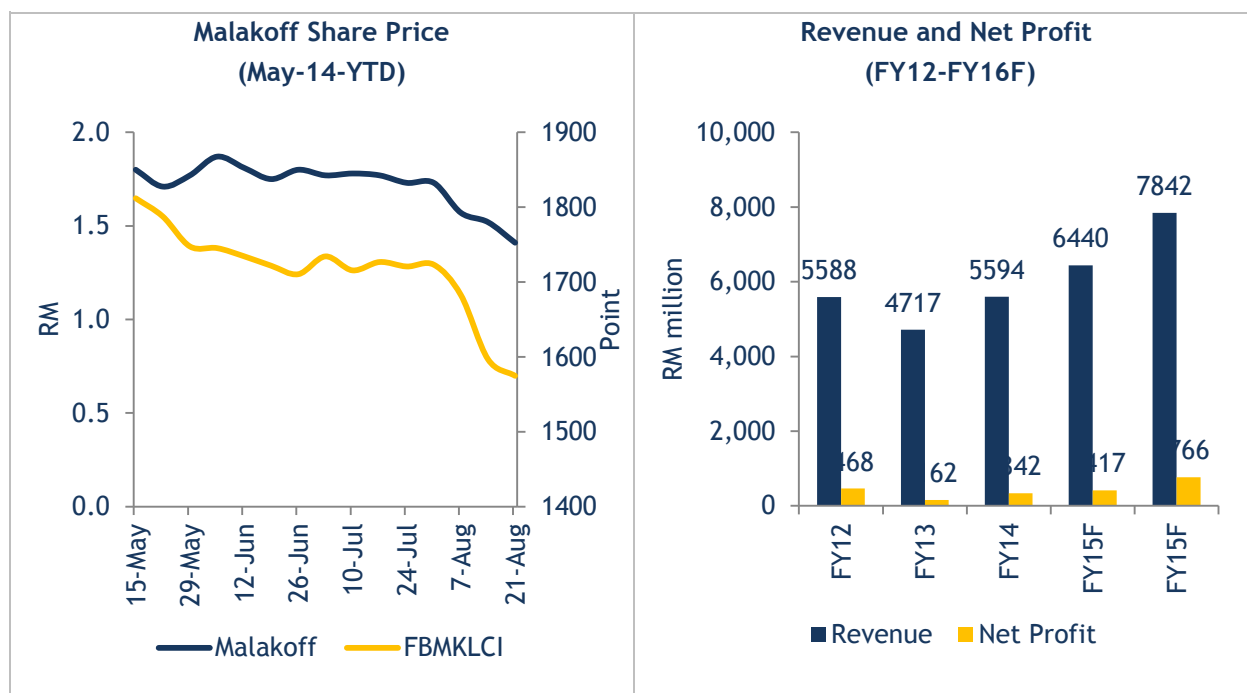
Major Shareholders

MMC	37.9%
EPF	19.4%
KWAP	6.5%

- **Outlook.** Despite slower 2Q15, we expect Malakoff's earnings to normalize in the next quarter given the absence of schedule maintenance as well as contribution from Port Dickson power plant. Additionally, we foresee that this year, the full effect from Macarthur Wind Farm acquisition in FY14 will be realized. Should no major operation issue arises, 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 2Q15 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** anchored by uninterrupted cash flows driven by steady operations. Rerating catalyst on the Malakoff could be driven by 1) winning 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	1.69	0.1	0.2	18.9	16.1	1.0	0.9	3.2	3.00	Buy
TNB	Aug	10.48	1.2	1.2	12.7	12.2	1.8	1.6	14.1	15.20	Buy
Gas Malaysia	Dec	2.13	0.1	0.1	25.0	20.6	3.3	3.2	17.0	2.89	Buy
Petronas Gas	Dec	20.88	0.9	0.9	25.0	24.3	4.0	3.7	21.4	23.20	Buy
Petronas Chemical	Dec	5.58	0.3	0.4	15.1	13.4	1.7	1.6	15.0	5.80	Hold
Malakoff	Dec	1.41	NA	NA	NA	NA	NA	NA	8.68	2.30	Buy
YTL Power	Dec	1.54	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)	2Q15	1Q15	2Q14	y-o-y	q-o-q	6M15	6M14	y-o-y
Turnover	1,296	1,347	1,238	5%	-4%	2,642	2,704	-2%
EBITDA	626	630	638	-2%	-1%	1,663	1,575	6%
Depreciation & Amortisation	(288)	(296)	(270)	7%	-3%	(990)	(982)	1%
Operating Profit	338	334	367	-8%	1%	672	593	13%
Interest Income	48	45	42	16%	7%	94	81	16%
Interest Expense	(202)	(214)	(228)	-11%	-6%	(417)	(457)	-9%
Associated Co.	(26)	10	(7)	289%	-360%	(16)	1	-1241%
Exceptional Items	-	-	-	0%	0%	-	-	0%
PBT	158	176	175	-10%	-10%	333	219	52%
Taxation	(60)	(55)	(38)	59%	10%	(114)	(67)	71%
PAT	98	121	137	-29%	-19%	219	152	44%
Minority Interest	(11)	(17)	(19)	-39%	-33%	(28)	(31)	-9%
Net profit	86	104	118	-27%	-17%	190	121	58%
	1,296	1,347	1,238	5%	-4%	2,642	2,704	-2%
Margin								
EBITDA	48%	47%	52%			63%	58%	
Operation Margin	26%	25%	30%			25%	22%	
PBT	12%	13%	14%			13%	8%	
PAT	8%	9%	11%			8%	6%	
Net Profit	7%	8%	10%			7%	4%	
Effective Tax Rate	-38%	-31%	-22%			-34%	-31%	

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		
	6M15	6M14	Y-o-Y Chg	6M15	6M14	Y-o-Y Chg
Asset Management	2,625	3,121		857	1,103	
Operation&Maintenance	16.5	461		144	85	
Elimination	-653	-879		-329	-654	
Total	2,642	2,704		672	533	

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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