

Malakoff Corporation Bhd

2Q19 Results On Track

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2Q19 results came well on track despite a lower net profit of RM52.3m on widening losses at KEV and higher taxation. However, SEV's tariff cut and expiration of PD Power will put pressure on earnings. As such, the impending acquisition of Alam Flora and raised stake in Saudi water and power assets could help to address this issue. Bid for LSS3 could help to broaden earnings base as well. Maintain OP at TP of RM1.00, supported by c.5% yield.

2Q19 met expectations. Although core earnings thumped lower by 22% sequentially to RM52.3m, 2Q19 results are still within expectations with 1H19 core profit of RM119.3m making up 49%/48% of house/street's FY19 full-year estimates. It declared 1st interim NDPS of 2.4 sen (ex-date: 12 Sep; payment-date: 11 Oct) in 2Q19 which is higher than the 2.1 sen paid in 2Q18.

Earnings impacted by KEV's widened losses and higher taxation. 2Q19 net profit fell 22% sequentially to RM52.3m from RM67.0m in 1Q19 on the back of 10% decline in revenue. The weaker results were mainly due to: (i) lower associate contribution of RM9.7m from RM16.5m as losses at KEV widened to RM19.8m from RM7.1m previously, and (ii) higher taxation by 13% or RM6.8m. Meanwhile, lower revenue was largely due to lower energy payment by 89% or RM303.1m as TBE was under scheduled maintenance outage and rectification works for 73 days from 31 Mar to 12 Jun.

Higher TBE helped to push earnings higher than last year. On a YoY comparison, 2Q19 net profit slid slightly by 1% from RM52.5m while revenue fell 7%. The flattish 2Q19 was attributed to higher capacity payments from GB3 and TBE as well as lower taxation but dented by: (i) lower associate income as KEV's losses widened, and (ii) absence of capacity payment from PD Power as its PPA expired. YTD, 1H19 net income leapt 13% to RM119.3m on the back of 8% hike in revenue, owing largely to higher capacity payment of RM38.1m from TBE but was offset by lower associate income by 20% as KEV's losses widened as mentioned above, and higher taxation by 4%.

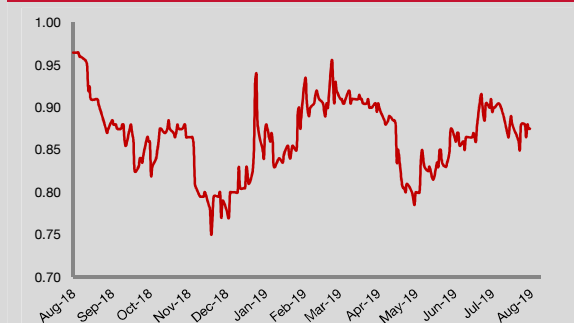
Minding the earnings gap. Following the tariff cut for SEV, and PD Power's PPA Extension, which expired in Feb, earnings may decline further. As such, MALAKOF is in urgent need to fill the gap. Meanwhile, the completion of the acquisition of Alam Flora is delayed again as the extension of fulfilling the conditions precedent of the SSA is extended again to 31 Jan 2020 from to 31 Jul 2019, pending approval from the authorities. We are also positive with it raising stake in Saudi water and power plant assets in Jul, which will boost its bottom-line by 18. Meanwhile, it has also participated in the large scale solar (LSS) 3 which submission ended last Monday. All these could help to address the issue of filling the earnings gap. That said, the main concern is the consistency of TBE, which previously ran into trouble due to unplanned outages.

Keep OUTPERFORM for attractive valuations. Post-earnings release, we keep our estimates for now. Nonetheless, the acquisitions mentioned above, which we have yet to include in our forecast pending completion of the deals, should be valuation and earnings enhancing. We maintain OUTPERFORM on the stock for its attractive valuation coupled with decent yield of c.5%. Our target price is maintained at RM1.00, implying FY20 PER of 19.7x, based on 30% discount to its SoP valuation. Risks to our call include unplanned outages, higher O&M costs and higher-than-expected KEV's losses.

OUTPERFORM ↔

Price: RM0.875
Target Price: RM1.000 ↔

Share Price Performance



KLCI	1,609.33
YTD KLCI chg	-4.8%
YTD stock price chg	9.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK
Market Cap (RM m)	4,276.1
Shares outstanding	4,887.0
52-week range (H)	0.99
52-week range (L)	0.75
3-mth avg daily vol:	2,271,394
Free Float	50%
Beta	1.2

Major Shareholders

Anglo Oriental Annuity	20.1%
MMC Corp Bhd	18.4%
Employees Provident Fund	11.9%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Revenue	7,348.2	7,326.2	7,316.7
EBIT	1,197.7	1,119.8	1,071.9
PBT	559.2	398.6	412.7
Net Profit (NP)	274.4	242.5	253.4
Core NP (CNP)	219.4	242.5	253.4
Consensus		245.9	274.1
Earnings Revision (%)		-	-
Core EPS (sen)	5.5	4.9	5.1
Core EPS growth (%)	-20.5	10.5	4.5
NDPS (sen)	5.6	3.9	4.1
BV/Share (RM)	1.13	1.14	1.15
NTA/Share (RM)	0.51	0.58	0.65
Core PER	18.2	18.0	17.3
PBV (x)	0.78	0.77	0.76
Price/NTA (x)	1.56	1.51	1.35
Net Gearing (x)	2.42	2.29	2.14
Net Yield (%)	7.0	4.4	4.6

26 August 2019

Income Statement								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	1,814.8	2,007.3	-10%	1,944.1	-7%	3,822.1	3,548.3	8%
EBITDA	570.6	569.5	0%	584.2	-2%	1,140.2	1,131.5	1%
Depreciation	-281.4	-279.0	1%	-282.1	0%	-560.4	-559.2	0%
EBIT	289.2	290.5	0%	302.1	-4%	579.8	572.3	1%
Interest income	60.8	60.0	1%	59.9	1%	120.8	119.6	1%
Interest expense	-237.0	-235.6	1%	-238.9	-1%	-472.6	-487.3	-3%
Associates	9.7	16.5	-41%	17.2	-44%	26.2	32.8	-20%
Pretax profit	122.8	131.4	-7%	140.3	-12%	254.3	237.3	7%
Taxation	-58.6	-51.8	13%	-76.7	-24%	-110.4	-106.3	4%
Profit after tax	64.3	79.6	-19%	63.6	1%	143.9	131.0	10%
Minority interest	-12.0	-12.6	-5%	-11.1	8%	-24.6	-25.5	-4%
Net profit	52.3	67.0	-22%	52.5	-1%	119.3	105.5	13%
Core net profit	52.3	67.0	-22%	52.5	-1%	119.3	105.5	13%
EPS (sen)	1.0	1.3	-22%	1.1	-1%	2.4	2.1	13%
NDPS (sen)	2.4	0.0	N/A	2.1	16%	2.4	2.1	16%
NTA/share (RM)	0.44	0.52	-15%	0.50	-12%	0.44	0.50	-12%
EBITDA margin	31%	28%		30%		30%	32%	
EBIT margin	16%	14%		16%		15%	16%	
Pretax margin	7%	7%		7%		7%	7%	
Effective tax rate	48%	39%		55%		43%	45%	

Source: Company

Capacity and Energy Income								
	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Capacity Income								
PD Power	0.0	7.4	-100%	11.4	-100%	7.4	22.7	-67%
Prai Power	38.4	37.4	3%	36.4	5%	75.8	73.6	3%
GB3	56.5	40.4	40%	47.9	18%	96.9	104.4	-7%
SEV	33.5	33.1	1%	33.5	0%	66.6	66.6	0%
TBP	246.7	244.0	1%	246.7	0%	490.7	490.7	0%
TBE	147.7	155.5	-5%	140.8	5%	303.2	265.1	14%
	522.8	517.8	1%	516.7	1%	1,040.6	1,023.1	2%
Energy Income								
PD Power	0.0	1.9	-100%	1.4	-100%	1.9	2.6	-27%
Prai Power	29.2	31.1	-6%	27.3	7%	60.3	59.7	1%
GB3	21.9	9.3	135%	8.2	167%	31.2	20.3	54%
SEV	241.1	202.7	19%	239.0	1%	443.8	420.4	6%
TBP	829.8	774.8	7%	775.3	7%	1,604.6	1,395.6	15%
TBE	37.3	340.4	-89%	247.0	-85%	377.7	370.9	2%
	1,159.3	1,360.2	-15%	1,298.2	-11%	2,519.5	2,269.5	11%

Source: Company

Valuation					
	Equity Stake	RM m	RM/share		Valuation Basic
SEV	93.75%	43	0.01	0.6%	FCFF @ 6.9% discount rate
GB3	75%	145	0.03	2.1%	FCFF @ 7.2% discount rate
Prai Power	100%	134	0.03	1.9%	FCFF @ 8.6% discount rate
TBP	90%	3,298	0.66	46.9%	FCFF @ 8.0% discount rate
TBE	100%	1,742	0.35	24.8%	FCFF @ 8.4% discount rate
PD Power	100%	0	0.00	0.0%	PPA expired
Macarthur Wind Farm	50%	676	0.14	9.6%	FCFF @ 7.9% discount rate
Malakoff Utilities	100%	58	0.01	0.8%	FCFF @ 7.9% discount rate
Teknik Janakuasa	100%	796	0.16	11.3%	FCFF @ 7.9% discount rate
Associates		1,546	0.31	22.0%	Book value @ FY18A
Net Cash/(Debt)		-1,412	-0.28	-20.1%	Adjusted for subsidiary's loan
		7,027	1.41	100.0%	
Issued Share		5,000			
SoP value per share		1.41			
30% discount		-0.42			Holding company discount
Target Price		RM1.00			Round up to the nearest RM0.05

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM m)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.87	3,685.1	Y	12/2019	2.9%	7.7%	8.2%	2.2%	21.7	20.0	19.6	3.6	3.3	17.3%	4.5%	3.00	MP
MALAKOFF CORP BHD	0.875	4,276.1	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.9	18.0	17.3	0.8	0.8	4.3%	4.4%	1.00	OP
PESTECH INTERNATIONAL BHD	1.39	1,062.4	Y	06/2019	6.7%	22.2%	28.0%	30.9%	17.1	13.3	10.2	2.3	2.0	16.0%	0.0%	2.00	OP
PETRONAS GAS BHD	16.00	31,659.7	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.3	16.4	19.2	2.4	2.3	14.5%	4.3%	16.55	MP
TENAGA NASIONAL BHD	13.76	78,251.6	Y	12/2019	3.2%	1.8%	2.6%	2.0%	14.3	14.0	13.7	1.3	1.3	9.3%	3.6%	13.40	MP
YTL POWER INTERNATIONAL BHD	0.730	5,603.0	N	06/2019	3.4%	2.6%	-1.6%	8.0%	8.4	8.5	7.9	0.4	0.4	4.6%	6.8%	0.880	MP
Simple Average					3.4%	5.4%	8.9%	5.5%	16.5	15.1	14.6	1.8	1.7	11.0%	3.9%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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