

20 February 2020

Malakoff Corporation Bhd

4QFY19 Disappointing; Hit By KEV Again

By Teh Kian Yeong / tehky@kenanga.com.my

OUTPERFORM ↔

Price: RM0.900
Target Price: RM1.000 ↔

4QFY19 results were a big let-down with core profit plunging 60% sequentially to RM25.8m owing to losses at associate KEV due to impairment, negative fuel margin and higher O&M costs. Addressing its falling earnings trend, the new acquired Alam Flora and additional stake in Shuaibah should help to partly fill the earnings gap. With valuations remaining attractive, we keep OP at TP of RM1.00, supported by >4% dividend yield.

4QFY19 missed expectations. 4QFY19 headline net profit of RM106.4m looked extremely strong which was due to: (i) RM557m of disposal gain on divestment in Macarthur Wind Farm (MWF), mitigating one-off losses due to (ii) RM420m impairment on investment in KEV, and (iii) share of loss of RM56m on KEV's impairment of financial lease receivable (FLR). Ex-EI, 4QFY19 core profit was only RM25.8m bringing FY19 core profit to RM209.7m which fell short of house/street's estimates by 14% and 17%, respectively. This was mainly attributable to RM32m losses posted by KEV due to negative fuel margin and higher O&M costs. It declared a final NDPS of 4.11 sen in 4QFY19, totalling FY19 NDPS to 6.55 sen which is higher than 5.6 sen paid last year and our FY19 assumption of 3.9 sen.

Hit by KEV yet again... 4QFY19 core net profit plunged 60% QoQ to RM25.8m from RM64.7m in the preceding quarter while revenue fell 6% which was due to lower energy payment by 14%. The decline in earnings was largely attributable to negative fuel margin and higher O&M costs at associate KEV which led to it posting RM32m loss. KEV's misfortune was worsened by impairments of investment and FLR but this impact on the group was mitigated by a RM557m disposal gain in Macarthur Wind Farm. The accounting of the latter led to the group posting a headline net profit of RM106.4m versus a core net profit of RM25.8m.

... on impairment as well as negative fuel margin and higher O&M costs. YoY, 4QFY19 core profit contracted 70% from RM85.5m, which was largely due to share of loss of associate mentioned above against a profit of RM36.5m in 4QFY18 while revenue declined 9% which was due to lower energy payment which fell 17% that was also led by TBP and TBE. YTD, FY19 core profit dipped by 4% to RM209.7m, also attributable to the share of losses at KEV as mentioned above, while top-line was flattish at RM7.36b.

The completion of two M&A deals to fill up earnings gap. The additional 12% stake in Shuaibah acquired in Sep 2019 and the completion of Alam Flora acquisition in Dec 2019 should help to partly address the earnings gap issue. Besides, the company is still on the look-out for new assets, with some interest in the RE spaces. MALAKOF and its partner Touch Meccanica have been selected as one of the successful bidders in a competitive FiTebidding small hydro tender exercise by SEDA at two sites for a total 55MW. Although relatively small, it would help to boost up its earnings base.

Maintain OUTPERFORM for attractive valuations. While 4QFY19 results were disappointing, we still keep our FY20 estimate Post-earnings release, we keep our estimates for now pending inclusion of Alam Flora earnings. We maintain our OUTPERFORM rating and target price of RM1.00 on the stock for its attractive valuation coupled with decent dividend yield of >4%. Our target price is 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.

Share Price Performance



KLCI	1,534.16
YTD KLCI chg	-3.4%
YTD stock price chg	3.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK
Market Cap (RM m)	4,398.3
Shares outstanding	4,887.0
52-week range (H)	0.96
52-week range (L)	0.79
3-mth avg daily vol:	1,429,392
Free Float	18%
Beta	1.1

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	2019A	2020E
Revenue	7,348.2	7,357.9	7,316.7
EBIT	1,197.7	1,200.7	1,071.9
PBT	559.2	526.4	524.9
Net Profit	274.4	320.2	253.4
Core NP	219.4	209.7	253.4
Consensus			274.5
Earnings Revision (%)			-
Core EPS (sen)	4.4	4.2	5.1
Core EPS growth (%)	-20.5	-4.4	20.8
NDPS (sen)	5.6	6.6	4.1
BV/Share (RM)	1.13	1.10	1.11
NTA/Share (RM)	0.51	0.40	0.47
Core PER (x)	18.2	20.7	17.8
PBV (x)	0.80	0.82	0.81
Price/NTA (x)	1.56	2.18	1.93
Net Gearing (x)	2.42	1.76	1.61
Net Yield (%)	7.0	7.5	4.5

20 February 2020

Income Statement

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	1,715.5	1,820.3	-6%	1,887.3	-9%	7,357.9	7,348.2	0%
EBITDA	584.4	508.4	15%	516.3	13%	2,233.0	2,264.9	-1%
Depreciation	-237.7	-234.2	1%	-225.6	5%	-1,032.3	-1,067.2	-3%
EBIT	346.7	274.2	26%	290.7	19%	1,200.7	1,197.7	0%
Interest income	56.5	57.9	-2%	54.8	3%	235.3	241.7	-3%
Interest expense	-203.2	-212.1	-4%	-225.6	-10%	-887.9	-963.9	-8%
Associates	-66.1	18.2	-463%	36.5	-281%	-21.6	83.7	-126%
Pretax profit	133.9	138.2	-3%	156.5	-14%	526.4	559.2	-6%
Taxation	-15.2	-26.2	-42%	-62.4	-76%	-151.7	-235.7	-36%
Profit after tax	118.8	112.0	6%	94.0	26%	374.7	323.5	16%
Minority interest	-12.4	-17.5	-29%	-8.6	45%	-54.5	-49.0	11%
Net profit	106.4	94.5	13%	85.5	24%	320.2	274.4	17%
Core net profit	25.8	64.7	-60%	85.5	-70%	209.7	219.4	-4%
EPS (sen)	0.5	1.3	-60%	1.7	-70%	4.2	4.4	-4%
NDPS (sen)	4.1	0.0	>100%	3.5	17%	6.6	5.6	17%
NTA/share (RM)	0.35	0.46	-24%	0.51	-32%	0.35	0.51	-32%
EBITDA margin	34%	28%		27%		30%	31%	
EBIT margin	20%	15%		15%		16%	16%	
Pretax margin	8%	8%		8%		7%	8%	
Effective tax rate	11%	19%		40%		29%	42%	

Source: Company

Capacity and Energy Income

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Dec (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Capacity Income								
PD Power	0.0	0.0	0%	11.5	N/A	7.4	45.7	-84%
Prai Power	38.9	38.9	0%	37.9	3%	153.6	147.7	4%
GB3	57.8	57.8	0%	53.0	9%	212.5	224.4	-5%
SEV	32.8	34.0	-4%	34.0	-4%	133.4	134.6	-1%
TBP	254.4	244.5	4%	249.5	2%	989.6	989.6	0%
TBE	162.2	155.0	5%	124.2	31%	620.4	537.2	15%
	546.1	530.2	3%	510.1	7%	2,116.9	2,079.2	2%
Energy Income								
PD Power	0.0	0.0	6%	1.2	N/A	1.9	4.5	-58%
Prai Power	37.1	35.0	24%	26.2	42%	132.4	115.0	15%
GB3	51.7	41.8	-21%	30.6	69%	124.7	75.6	65%
SEV	249.7	315.5	-12%	102.2	144%	1,009.0	799.8	26%
TBP	484.3	552.8	-19%	847.6	-43%	2,641.7	2,926.3	-10%
TBE	206.7	254.6	-14%	238.6	-13%	839.0	826.4	2%
	1,029.5	1,199.7	6%	1,246.4	-17%	4,748.7	4,747.6	0%

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

20 February 2020

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	2.85	3,659.4	Y	12/2020	3.3%	7.5%	8.7%	2.7%	21.2	19.5	19.0	3.5	3.4	17.9%	4.6%	3.00	OP
MALAKOFF CORP BHD	0.900	4,398.3	Y	12/2020	-0.1%	0.3%	4.5%	3.1%	18.6	17.8	17.2	0.8	0.8	4.5%	4.6%	1.00	OP
PESTECH INTERNATIONAL BHD	1.26	963.0	Y	06/2020	17.3%	10.5%	25.8%	13.5%	13.3	10.6	9.3	2.1	1.8	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	16.50	32,649.1	Y	12/2020	18.4%	0.9%	1.4%	0.1%	17.3	17.1	17.1	2.5	2.4	14.2%	4.4%	17.20	MP
TENAGA NASIONAL BHD	12.60	71,654.8	Y	12/2019	3.2%	1.8%	5.2%	0.8%	13.1	12.4	12.3	1.2	1.2	9.7%	4.0%	14.30	OP
YTL POWER INTERNATIONAL BHD	0.720	5,526.2	N	06/2020	-12.9%	1.9%	-21.5%	-1.4%	8.4	10.7	10.9	0.4	0.4	3.8%	6.9%	0.700	MP
Simple Average					4.9%	3.8%	4.0%	3.1%	15.3	14.7	14.3	1.8	1.7	11.4%	4.1%		

Source: Bloomberg, Kenanga Research

This section is intentionally left blank

20 February 2020

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.**

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my