

MALAKOFF CORPORATION

(MLK MK EQUITY, MALA.KL)

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Company Report

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A better 2QFY25

Rationale for report: Company Update

HOLD

(Maintained)

Price RM0.80
Target Price RM0.88
52-week High/Low RM1.02/RM0.71

Key Changes

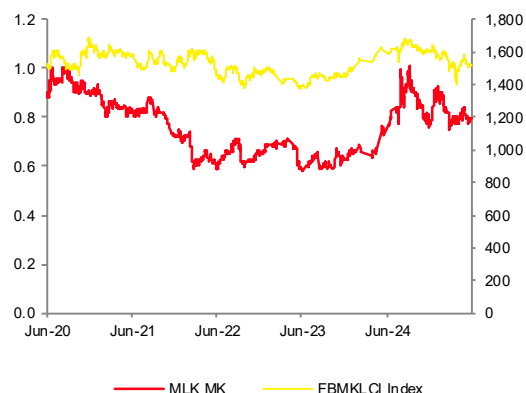
Target Price ⇄
EPS ⇄

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	8,969.6	10,800.2	10,954.9	11,035.0
Net profit (RM mil)	268.7	253.2	305.5	328.7
EPS (sen)	5.5	5.2	6.3	6.7
EPS growth (%)	(132.1)	(5.8)	20.7	7.6
Consensus Net Profit (RM mil)		262.3	287.2	313.6
DPS (sen)	4.4	5.0	5.2	5.5
PE (x)	14.6	15.4	12.8	11.9
EV/EBITDA (x)	5.5	6.4	5.8	5.3
Div yield (%)	5.6	6.3	6.5	6.9
ROE (%)	6.0	5.6	6.7	7.1
Net Gearing (%)	140.7	158.4	142.9	126.5

Stock and Financial Data

Shares Outstanding (million)	4,887.0
Market Cap (RMmil)	3,909.6
Book Value (RM/Share)	0.90
P/BV (x)	0.9
ROE (%)	6.0
Net Gearing (%)	140.7
Major Shareholders	MMC Corp (38.5%) PNB (11.7%) EPF (11.4%)
Free Float	61.5
Avg Daily Value (RMmil)	2.0

Price performance	3mth	6mth	12mth
Absolute (%)	+0.0	+0.0	-6.5
Relative (%)	+4.2	+5.1	-1.2



Investment Highlights

We expect Malakoff's net profit to be higher in 2QFY25 compared with 1QFY25. The improvement in earnings is expected to be driven by a drop in the NRV (net realisable value) provision for coal as prices have stabilised. Newcastle coal price has been flat so far in 2QFY25 in contrast to the 17.8% fall in 1QFY25. Recall that Malakoff recorded a NRV provision for coal of RM45mil in 1QFY25 as coal prices declined. We maintain **HOLD** on Malakoff with a target price of RM0.88/share.

- **HOLD with a TP of RM0.88/share.** Our TP is based on a FY26F PE of 14x, which is the five-year average. Malakoff is currently trading at a FY26F PE of 12.8x compared to Tenaga Nasional's 18.2x and YTL Power's 12x (fully diluted).
- **2QFY25 will be better but 4QFY25 may be weak.** We think that Malakoff's net profit would normalise to RM60mil to RM70mil in 2QFY25 from RM34mil in 1QFY25 in the absence of the NRV provisions for coal. So far, the group has not experienced any forced outage at its power plants, which would affect capacity payments. In 4QFY25 however, we anticipate a drop in net profit as Prai's PPA (Power Purchase Agreement) would be expiring on 31 August 2025. This is unless Malakoff wins the bid to extend Prai's PPA on time. Prai's capacity payments are about RM20mil per quarter.
- **Participating in the RFP for new gas power plants.** We believe that Malakoff would be bidding to extend the PPAs of three power plants i.e. GB3, Prai and Segari. We reckon that the group would also be bidding to develop a new gas power plant. We think that the winners of the tender would be announced in 4QFY25.
- **Need to gear up if Malakoff wins.** We opine that the capacity of the new gas power plant would be at least, 1,000MW. Assuming a cost of US\$1mil to US\$1.5mil per MW, the cost of building a new gas power plant may be between US\$1bil (RM4.3bil) and US\$1.5bil (RM6.5bil). Malakoff's net gearing (including the RM800mil Sukuk) stood at 141% as at end-March 2025.

Company profile

Malakoff Corporation is an independent power producer. Apart from selling electricity, Malakoff also manages waste for Kuala Lumpur, Putrajaya and Pahang. Waste management is handled by Alam Flora.

Malakoff's earnings are from the sale of electricity to TNB and management of waste in KL, Putrajaya and Pahang.

We estimate that 75% to 80% of Malakoff's net profit are from the sale of electricity to TNB while the balance 20% to 25% are from waste management.

Malakoff's customers are TNB and SW Corp. Alam Flora's fees are paid by SW Corp.

Malakoff's operations are in Malaysia. The group also has associates in Saudi Arabia and Bahrain, which are involved in water desalination and energy generation.

Malakoff's competitive advantage lies in the large size of its generating capacity. Malakoff has effective generating capacity of more than 5,000MW.

Investment thesis and catalysts

We have a HOLD on Malakoff as although there is earnings risk from the expiry of Power Purchase Agreements, the group's dividend yield is decent at more than 6%.

Share price catalysts are award of new power plants and stronger-than-expected earnings from Alam Flora.

Valuation methodology

We applied a FY26F PE of 14x to arrive at Malakoff's target price of RM0.88/share. The PE of 14x is the group's five-year average.

Risk factors

Malakoff faces earnings risk due to the expiry of power purchase agreements (PPA). Prai Power Plant (350MW) will expire in August 2025 while Segari (1,303MW) will expire in FY27F. Tanjung Bin Power Plant (2,100MW) will expire in FY31F. Earnings risk would also come from loss of capacity payments resulting from forced outages at the TBE and TBP plants in Johor.

EXHIBIT 1: NEWCASTLE COAL PRICES (US\$/TONNE)

Source: Bloomberg

EXHIBIT 2: VALUATIONS

Target PE (x)	14
FY26F EPS	6.3
ESG premium	-
12-month TP (RM)	0.88

EXHIBIT 3: ESG MATRIX

	Assessment	Parameters	Weightage	Rating				Rationale
1	GHG emissions	Net zero by 2050F	25%	*	*	*		3.7% reduction in GHG emissions intensity and 17% reduction in Scope 2 emissions in FY24
2	Exposure to renewables	More than 20% of generation mix or capacity	25%	*	*			86% of FY24 capacity payments were from coal power plants
3	Contribution of coal to earnings	Less than 20%	25%	*	*	*		Coal is estimated to account for half of earnings
4	Waste management	Recycling rate of 20% and above	25%	*	*	*		21.1% recycling rate in FY24
Weighted score for environmental assessment			100%	*	*	*		
1	Worker's welfare	Learning and development hours	33%	*	*	*		Average training hours per employee was 15 in FY24
2	Number of incidents	Below 10	33%	*	*			Seven recordable work-related injuries in FY24
3	Lost Time Injury Frequency	Below 1	33%	*	*	*	*	Fell to 0.4 in FY24 from 0.7 in FY23
Weighted score for social assessment			100%	*	*	*		
1	Related party transactions	Value of RPTs	40%	*	*	*		RM31.9mil in terms of revenue and RM25.1mil in terms of expenses in FY24
2	Women in workforce	% in workforce	30%	*	*	*		17.5% of workforce were women in FY24
3	Remuneration to directors	Total value of remuneration or % of salary costs	30%	*	*	*		RM4.9mil in FY24
Weighted score for governance assessment			100%	*	*	*		
	Environmental score		50%	*	*	*		
	Social score		30%	*	*	*		
	Governance score		20%	*	*	*		
	Overall ESG Score		100%	*	*	*		

Source: AmlInvestment Bank

EXHIBIT 4: FINANCIAL DATA

Income Statement (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	9,067.0	8,969.6	10,800.2	10,954.9	11,035.0
EBITDA	1,093.3	1,876.3	1,719.5	1,801.2	1,834.1
Depreciation/Amortisation	(1,111.6)	(1,079.7)	(1,101.3)	(1,123.3)	(1,145.8)
Operating income (EBIT)	(18.3)	796.7	618.3	677.9	688.4
Other income & associates	(363.5)	109.7	120.7	132.8	146.1
Net interest	(494.1)	(435.6)	(366.8)	(363.3)	(352.5)
Exceptional items	(79.0)	(12.5)	0.0	0.0	0.0
Pretax profit	(954.9)	458.3	372.2	447.4	481.9
Taxation	93.0	(147.8)	(72.9)	(91.2)	(97.4)
Minorities/pref dividends	24.8	(41.9)	(46.1)	(50.7)	(55.8)
Net profit	(837.2)	268.7	253.2	305.5	328.7
Core net profit	(758.2)	281.2	253.2	305.5	328.7
Balance Sheet (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	10,697.5	10,372.9	10,372.9	10,372.9	10,372.9
Intangible assets	2,260.1	1,979.0	3,351.0	3,352.0	3,353.0
Other long-term assets	1,642.6	1,596.0	1,787.7	1,921.5	2,068.5
Total non-current assets	14,600.1	13,947.9	15,511.6	15,646.4	15,794.5
Cash & equivalent	3,126.6	2,231.1	1,600.3	2,229.0	2,898.9
Stock	846.9	1,037.5	1,115.1	1,131.0	1,139.3
Trade debtors	1,563.3	1,622.2	3,325.8	3,373.4	3,398.1
Other current assets	163.6	173.7	173.7	173.7	173.7
Total current assets	5,700.5	5,064.4	6,214.8	6,907.1	7,610.0
Trade creditors	1,453.6	1,402.3	1,779.1	1,804.6	1,817.8
Short-term borrowings	926.7	752.1	752.1	752.1	752.1
Other current liabilities	587.1	483.4	2,625.3	3,368.3	4,134.3
Total current liabilities	2,967.3	2,637.8	5,156.5	5,925.0	6,704.1
Long-term borrowings	8,678.4	7,816.1	8,000.0	8,000.0	8,000.0
Other long-term liabilities	3,908.2	3,815.1	3,771.3	3,727.6	3,683.9
Total long-term liabilities	12,586.6	11,631.2	11,771.3	11,727.6	11,683.9
Shareholders' funds	4,489.7	4,505.5	4,514.4	4,565.7	4,625.7
Minority interests	257.1	238.3	284.4	335.1	390.8
BV/share (RM)	0.90	0.90	0.90	0.91	0.93
Cash Flow (RMmil, YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	(954.9)	458.3	372.2	447.4	481.9
Depreciation/Amortisation	1,111.6	1,079.7	1,101.3	1,123.3	1,145.8
Net change in working capital	943.1	(404.7)	(1,448.0)	(81.9)	(63.5)
Others	636.6	212.3	173.2	139.2	109.1
Cash flow from operations	1,736.4	1,345.6	198.5	1,628.0	1,673.3
Capital expenditure	(274.1)	(462.5)	(402.0)	(382.0)	(382.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	1.0
Others	1,352.9	(151.9)	142.3	150.9	166.8
Cash flow from investing	1,078.8	(614.4)	(259.7)	(231.1)	(214.2)
Debt raised/(repaid)	(905.5)	(1,014.9)	183.9	0.0	0.0
Equity raised/(repaid)	0.0	0.0	0.0	0.0	0.0
Dividends paid	(254.7)	(243.0)	(244.4)	(254.1)	(268.8)
Others	(624.1)	(644.3)	(509.1)	(514.2)	(519.3)
Cash flow from financing	(1,784.4)	(1,902.2)	(569.5)	(768.3)	(788.1)
Net cash flow	1,030.8	(1,171.0)	(630.7)	628.7	670.9
Net cash/(debt) b/f	1,540.4	2,571.2	1,400.2	769.5	1,398.1
Net cash/(debt) c/f	2,571.2	1,400.2	769.5	1,398.1	2,069.0
Key Ratios (YE 31 Dec)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	-12.4	-1.1	20.4	1.4	0.7
EBITDA growth (%)	-59.4	71.6	-8.4	4.7	1.8
Pretax margin (%)	-10.5	5.1	3.4	4.1	4.4
Net profit margin (%)	-9.2	3.0	2.3	2.8	3.0
Interest cover (x)	2.2	4.3	4.7	5.0	5.2
Effective tax rate (%)	9.7	32.2	19.6	20.4	20.2
Dividend payout (%)	-17.5	80.8	96.5	83.2	81.8
Debtors' turnover (days)	63	66	112	112	112
Stock turnover (days)	34	42	38	38	38
Creditors turnover (days)	67	72	72	72	72

Source: Company, AmlInvestment Bank estimates

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