

MALAKOFF CORPORATION

(MLK MK EQUITY, MALA.KL)

HOLD

(Maintained)

Price: RM0.78

Target Price (% return): RM0.82 (5.1%)

52-week High/Low: RM1.12/RM0.73

Power

Rationale for report: Company Update

Three PPAs extended

Last week, Malakoff announced that the Energy Commission has extended the PPAs (Power Purchase Agreements) of three power plants until 31 December 2029. These are Segari (1,303MW), which will be extended from FY27F to FY29F, GB3 (429MW) and Prai (350MW). GB3 expired in FY22 while Prai expired in August 2025. Due to GB3 and Prai's extensions, we believe that there is earnings upside for Malakoff in FY27F. We reckon that GB3 and Prai will commence operations when the new PPAs are signed. As GB3 stopped operations in FY23, we are unsure if Malakoff needs to refurbish the power plant. As we do not know the tariffs under the new PPAs, we have assumed that the tariffs for GB3 and Prai would be the same as the previous levels. Despite the positive news, we maintain HOLD on Malakoff as the group's operational track record is weak.

- HOLD with a lower TP of RM0.82/share vs. RM0.88/share previously.** Our TP is based on a FY26F PE of 14x, which is the five-year average. Malakoff's PE ranged from a low of 9x to a high of 22x in the past five years.
- FY27F net profit raised by 6.1% to account for GB3 and Prai but FY26F earnings reduced by 6.3%.** Although we have accounted for six months of contribution from GB3 and Prai in FY26F, we have also imputed higher repair expenses for Tanjung Bin jetty's conveyor belt. For FY25F, we have cut net earnings by 29% to account for repair expenses for TBE Power Plant and the conveyor belt. Recall that the coal unloader collapsed and a fire broke out at the Tanjung Bin Complex in 4QFY25.
- GB3 is a significant income generator.** GB3's capacity payments amounted to about RM228.7mil per year in FY22 or RM57.2mil per quarter. GB3 accounted for about 12% of Malakoff's capacity payments back then. Prai's capacity payments are roughly RM100mil per year or RM25mil per quarter. Prai only made up 2% of the group's capacity payments in 9MFY25.
- Malakoff is in the running to win a greenfield gas power plant.** We think that the capacity of the new gas power plant would be 1,400MW, which would generate an EBIT of RM200mil to RM300mil per year. Earnings contribution would come in FY29F/FY30F.

Analyst (s)

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Key Changes

Target Price: ↑
EPS: ↑

Stock and Financial Data

Shares Outstanding (million)	4,887.00
Market Cap (RMmil)	3,811.9
Book Value (RM/Share)	0.90
P/BV (x)	0.9
ROE (%)	6.0
Net Gearing (%)	140.7
Free Float	61.5
Avg Daily Value (RMmil)	1.9

Major Shareholders

MMC Corp	38.5%
EPF	18%
PNB	11.7%

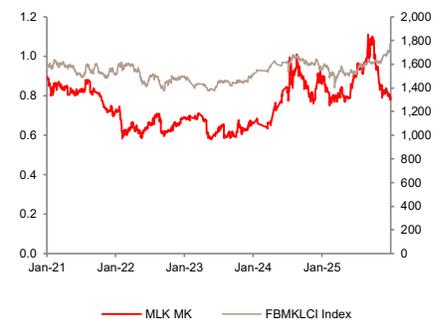
Price performance	3mth	6mth	12mth
Absolute (%)	(0.3)	(12.2)	(8.1)
Relative (%)	(32.1)	(22.7)	(17.1)

Source: MALAKOFF CORPORATION, AmInvestment Bank

YE to Dec	FY24	FY25F	FY26F	FY27F
Revenue (RM mil)	8,969.6	7,401.0	11,336.9	11,776.1
Core net profit (RM mil)	268.7	102.5	286.3	347.9
FD Core EPS (sen)	5.5	2.1	5.9	7.1
FD Core EPS growth (%)	(132.1)	(61.8)	179.2	21.5
Consensus Net Profit (RM mil)	283.7	109.1	242.4	270.6
DPS (sen)	4.4	5.0	5.2	5.5
PE (x)	14.2	37.2	13.3	11.0
EV/EBITDA (x)	5.4	7.0	6.1	5.5
Div yield (%)	5.7	6.4	6.7	7.1
ROE (%)	6.0	2.3	6.5	7.8
Net Gearing (%)	140.7	148.5	155.1	139.2

Source: MALAKOFF CORPORATION, AmInvestment Bank

Price Chart



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 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 group's poor operational track record, dividend yield is decent at more than 6%.

Share price catalysts are awards 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 RM0.82/share. The PE of 14x is the group's five-year average.

Risk factors

Malakoff faces earnings risk from the expiry of Tanjung Bin Power Plant (TBP) (2,100MW) in FY31F. The group would also suffer a loss of capacity payments if there were forced outages at the TBE and TBP power plants in Johor.

EXHIBIT 1. VALUATIONS

Target PE (x)	14
FY26F EPS	5.9 (from 6.3)
ESG premium	-
12-month TP (RM)	0.82 (from 0.88)

EXHIBIT 2. 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	Workers 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: Company, AmInvestment Bank Bhd

EXHIBIT 3. CHANGE IN EARNINGS

RMmil	FY25F			FY26F			FY27F		
	Old	New	%	Old	New	%	Old	New	%
Revenue	7,500.2	7,401.0	(1.3)	10,954.9	11,336.9	3.5	11,035.0	11,776.1	6.7
Net earnings	144.5	102.5	(29.1)	305.5	286.3	(6.3)	328.0	347.9	6.1

Source: Bursa Announcement

Financial Summary

Income Statement (RMmil)

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Revenue	9,067.0	8,969.6	7,401.0	11,336.9	11,776.1
EBITDA	1,093.3	1,876.3	1,477.8	1,743.4	1,830.1
Depreciation/Amortisation	(1,111.6)	(1,079.7)	(1,101.3)	(1,123.3)	(1,145.8)
Operating income (EBIT)	(18.3)	796.7	376.5	620.1	684.3
Other income & associates	(363.5)	109.7	120.7	132.8	146.1
Net interest	(494.1)	(435.6)	(337.2)	(332.5)	(321.6)
Exceptional items	(79.0)	(12.5)	0.0	0.0	0.0
Pretax profit	(954.9)	458.3	160.0	420.4	508.8
Taxation	93.0	(147.8)	(11.4)	(83.4)	(105.2)
Minorities/pref dividends	24.8	(41.9)	(46.1)	(50.7)	(55.8)
Net profit	(837.2)	268.7	102.5	286.3	347.9
Core net profit	(758.2)	281.2	102.5	286.3	347.9

Balance Sheet (RMmil)

YE to 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	1,716.7	1,849.5	1,995.5
Total non-current assets	14,600.1	13,947.9	15,440.6	15,574.4	15,721.5
Cash & equivalent	3,126.6	2,231.1	2,272.4	1,935.1	2,520.6
Stock	846.9	1,037.5	764.1	1,170.5	1,215.8
Trade debtors	1,563.3	1,622.2	2,279.0	3,491.0	3,626.3
Other current assets	163.6	173.7	173.7	173.7	173.7
Total current assets	5,700.5	5,064.4	5,489.2	6,770.3	7,536.4
Trade creditors	1,453.6	1,402.3	1,219.2	1,867.5	1,939.9
Short-term borrowings	926.7	752.1	752.1	752.1	752.1
Other current liabilities	587.1	483.4	2,539.3	3,266.3	4,016.3
Total current liabilities	2,967.3	2,637.8	4,510.5	5,885.9	6,708.2
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	4,363.7	4,395.9	4,475.0
Minority interests	257.1	238.3	284.4	335.1	390.8
BV/share (RM)	0.90	0.90	0.87	0.88	0.89

Cash Flow (RMmil)

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	(954.9)	458.3	160.0	420.4	508.8
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)	(610.3)	(1,013.7)	(152.0)
Others	636.6	212.3	205.1	116.3	70.3
Cash flow from operations	1,736.4	1,345.6	856.1	646.3	1,572.9
Capital expenditure	(274.1)	(462.5)	(417.0)	(397.0)	(397.0)
Net investments & sale of fixed assets	0.0	0.0	0.0	0.0	1.0
Others	1,352.9	(151.9)	171.8	181.7	197.7
Cash flow from investing	1,078.8	(614.4)	(245.2)	(215.3)	(198.3)
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)	41.4	(337.4)	586.5
Net cash/(debt) b/f	1,540.4	2,571.2	1,400.2	1,441.6	1,104.2
Net cash/(debt) c/f	2,571.2	1,400.2	1,441.6	1,104.2	1,690.7

Key Ratios

YE to Dec	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	-12.4	-1.1	-17.5	53.2	3.9
EBITDA growth (%)	-59.4	71.6	-21.2	18.0	5.0
Pretax margin (%)	-10.5	5.1	2.2	3.7	4.3
Net profit margin (%)	-9.2	3.0	1.4	2.5	3.0
Interest cover (x)	2.2	4.3	4.4	5.2	5.7
Effective tax rate (%)	9.7	32.2	7.1	19.8	20.7
Dividend payout (%)	-17.5	80.8	238.3	88.8	77.3
Debtors turnover (days)	63	66	112	112	112
Stock turnover (days)	34	42	38	38	38

Source: Company, AmInvestment Bank

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