

Malakoff Corporation Berhad

TP: RM1.05 (+14.2%)

Approaching a Capacity Replenishment Cycle?

Last Traded: RM0.92

BUY (ESG: ★★★★★)

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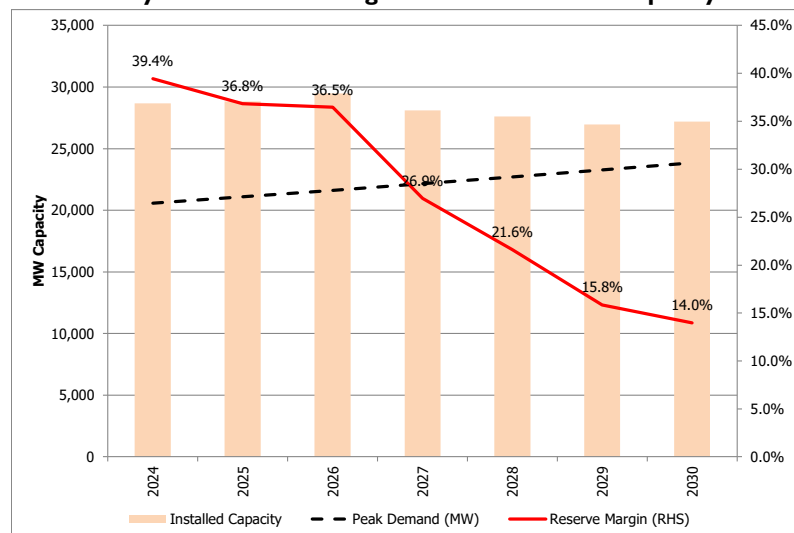
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We walked away from MALAKOF's recent briefing more convinced of its capacity replenishment prospects premised on: (1) An increasingly pressing need to accelerate capacity additions from rapidly declining reserve margins; (2) Sizeable scheduled new capacity which has yet to be awarded; (3) A tight demand-supply condition which could lead to better returns for any potential new capacity. Reiterate Buy at unchanged SOP-derived TP of RM1.05. Further upside is seen should MALAKOF successfully secure new capacity.

Pressing need for new capacity

Although based on installed capacity, system reserve margins stand at close to 40% on our estimates, MALAKOF argues that this includes the Kapar power plant, which, in its opinion, should be excluded from the system's 'reliable' capacity calculations due to Kapar's less-than-stellar track record. Kapar entails a capacity of slightly over 2GW, which accounts for an estimated 7% of system capacity. Excluding Kapar, the 'reliable' system reserve margin is estimated to stand at slightly <30% (before taking into account scheduled and unscheduled outages). At an annual demand growth of 2.5%, the system reserve margin is expected to drop below the required minimum of 20% by 2029, while if we exclude Kapar in the calculations, the reserve margin could drop <20% as soon as 2027, suggesting an increasingly pressing need to accelerate capacity additions/renewals. Our estimates already factor in the scheduled new capacity of 9.3GW up until 2030, including the upcoming 1.2GW Pulau Indah CCGT scheduled for COD in 2024 and THB Power's 1.2GW CCGT in 2026. We reckon any delays in the COD of the planned new capacity could result in the need to extend PPAs of expiring/expired power plants.

Exhibit I: System reserve margin based on installed capacity



Source: Energy Commission, TA Securities

Share Information

Bloomberg Code	MLK MK
Stock Code	5264
Listing	Main Market
Share Cap (mn)	4,887
Market Cap (RMmn)	4,496
52-wk Hi/Lo (RM)	1.01/0.585
12-mth Avg Daily Vol ('000 shrs)	3,721.1
Estimated Free Float (%)	36.4
Beta	1.1
Major Shareholders (%)	Anglo Oriental - 20.1 MMC - 18.4 EPF - 11.1

Forecast Revision (%)

	FY24	FY25
Forecast Revision (%)	0.0	0.0
Core Net Profit (RM mn)	267.6	296.2
Consensus	291.2	321.5
TA/Consensus (%)	91.9	92.1
Previous Rating	Buy (Unchanged)	
Consensus Target Price (RM)	0.96	

Financial Indicators

	FY24	FY25
Net Debt/Equity (x)	1.4	1.3
ROA (%)	1.3	1.6
ROE (%)	4.4	6.5
NTA/Share (RM)	0.5	0.5
P/NTA (x)	2.0	2.0

Share Performance

Price Change (%)	MALAKOF	FBMKLCI
1 mth	8.9	4.0
3 mth	8.2	3.0
6 mth	48.4	7.5
12 mth	55.9	14.1

(12-Mth) Share Price relative to the FBMKLCI



Source: Bloomberg

Despite the energy transition, conventional capacity is still relevant

MALAKOF also shared its views on the energy transition against the relevance of its conventional assets. While in the long-term, the group acknowledges the need for the energy transition, the group believes conventional assets remain relevant in the foreseeable future given: (1) Solar, which is Malaysia’s largest RE resource, is still not a reliable technology given low capacity factor of ~17% and intermittence; (2) Still expensive battery storage technology; (3) Surge in demand from data centres (DC) which requires constant power supply throughout the day, even outside of solar generation hours. Tenaga Nasional has been indicating at least 5GW incremental demand from DCs over the next decade, which represents around 25% of the current peak demand of 20GW. Until battery storage becomes a more viable solution, we believe conventional capacity will remain relevant, including as a spinning reserve to compensate for RE intermittence.

Eyeing extensions and new capacity

Following the recent short-term extension for Prai Power, MALAKOF is eyeing more extensions for existing power plants (including coal) as well as new capacity going forward. On coal, the group argues that a coal power plant can actually operate a much longer life of up to 40 years (vs. the typical 20-30 years coal power plant PPAs). In addition, the efficiency of existing coal power plants is comparable to that of new ones, suggesting extensions as a more cost-effective option to plug capacity gaps as opposed to constructing new plants. In contrast, new-generation CCGTs entail much better efficiency compared to existing plants, making new CCGT capacity a more palatable option. To be realistic, and in the context of the current administration’s drive for the energy transition, allowing new or extending coal PPAs could be politically challenging, in our opinion. We believe there could be more emphasis on CCGTs (whether extensions or new capacity), considering gas has been outlined under the National Energy Transition Roadmap (NETR) as a cleaner fossil fuel alternative for the transition. MALAKOF is sitting on readily connected sites from previous (expired) power plants, such as PD Power in Port Dickson and GB3 in Manjung, giving it an advantage when bidding for new capacity.

Exhibit 2: MALAKOF’s expired power plants

Expired Power Plants (Domestic)	Location	Plant Type	PPA Expiry	Capacity (MW)
Kapar (40% owned)	Selangor	OCGT	2019	205
Port Dickson Power	N.Sembilan	CCGT	2019	436
GB3	Perak	CCGT	2022	640

Source: Company, TA Securities

Exhibit 3: MALAKOF’s operational domestic power plants

ASSETS	Location	Plant Type	PPA Expiry	Capacity (MW)	Effective Equity: tive Capacity (MW)
Power plant (Domestic)					
Prai	Penang	CCGT	2025	350	100.0%
SEV	Perak	CCGT	2027	1,303	93.8%
Kapar (GF 1-3)	Selangor	Multi-Fuel	2029	2,200	40.0%
Tg Bin Power (TBP)	Johor	Coal	2031	2,100	90.0%
Tg Bin Energy (TBE)	Johor	Coal	2041	1,000	100.0%
TOTAL (DOMESTIC)				6,953	5,342

Source: Company, TA Securities

Sizeable CCGT capacity scheduled to come on-stream

Based on Malaysia’s last published Power Generation Development Plan, some 9.3GW of new capacity is expected to come on stream between 2024 and 2030, whereby 69% or 6.4GW comprise CCGT capacity. Around 2.4GW of the planned CCGT capacity has been awarded to Tadmax (1.2GW, majority stake later sold to Worldwide Holdings) and another 1.2GW to THB Power. However, the remaining 4GW scheduled to be operational in 2029-2030 has yet

to be awarded. Given the circa 4-year lead time required for new CCGT power plants to come on-stream, we reckon there could be more clarity on these scheduled capacity within the next 12-24 months. We believe MALAKOF stands a good chance to capture this opportunity, capitalising on readily connected sites as well as having a strong track record in power plant development and operations.

Valuation

We reiterate our **Buy** call on MALAKOF at unchanged SOP-derived TP of **RMI.05/share**. We see further upside to valuations if MALAKOF successfully secures new capacity. As a yardstick, we estimate every 1GW of new capacity secured could enhance valuation by ~20sen/share, based on RM3mn-4mn/MW capex and 6%-7% project IRR. A tight demand-supply condition in the electricity market could lead to better-than-expected IRR which spells further upside. MALAKOF is currently trading at 5.2x FY25 EV/EBITDA, at par to historical mean. However, we reckon valuations could re-rate higher towards +1SD (6.1x EV/EBITDA) given the tight electricity market condition and improving prospects of capacity replenishment. The dividend yield remains attractive at 4.9%-6.0% throughout our forecast horizon.

Income Statement

FYE 31 Dec (RM mn)	2022	2023	2024E	2025F	2026F
Revenue	10,335.2	9,067.0	9,707.8	9,692.7	9,427.7
Core EBITDA	2,600.1	1,428.6	1,838.6	1,787.9	1,711.2
Depreciation	(1,248.8)	(1,104.8)	(1,045.4)	(984.0)	(927.7)
Net Finance Costs	(522.6)	(494.1)	(462.6)	(427.8)	(398.2)
Associates & JVs	276.4	(363.5)	130.1	131.4	132.7
Exceptionals	(368.4)	(421.1)	0.0	0.0	0.0
Pretax Profit	736.8	(954.9)	460.6	507.5	518.0
Taxation	(350.9)	93.0	(138.2)	(152.2)	(155.4)
MI	(83.7)	24.8	(54.8)	(59.0)	(62.2)
Net Profit	302.2	(837.2)	267.6	296.2	300.4
Core Net Profit	670.6	(416.1)	267.6	296.2	300.4

Per Share Data

Core EPS (sen)	13.7	(8.5)	5.5	6.1	6.1
DPS (sen)	5.3	3.0	4.5	5.0	5.5
Book Value Per Share (RM)	1.1	0.9	0.9	0.9	0.9
NTA Per Share (RM)	0.6	0.5	0.5	0.5	0.5
FCFF Per Share (sen)	(7.0)	47.8	24.5	19.3	22.2

Financial Ratios
Valuations

Core PER (x)	6.7	(10.8)	16.8	15.2	15.0
Dividend Yield (%)	5.7	3.3	4.9	5.4	6.0
EV/EBITDA (x)	3.9	6.8	4.9	5.2	5.1
P/BV (x)	0.8	1.0	1.0	1.0	1.0
FCFF Yield (%)	(7.6)	51.9	26.6	20.9	24.1

Profitability Ratios

Core EBITDA Margin (%)	25.2	15.8	18.9	18.4	18.2
Core EBIT Margin (%)	13.1	3.6	8.2	8.3	8.3
Pretax Margin (%)	7.1	(10.5)	4.7	5.2	5.5
Net Margin (%)	2.9	(9.2)	2.8	3.1	3.2
Core Net Margin (%)	6.5	(4.6)	2.8	3.1	3.2
ROE (%)	9.4	(6.8)	4.4	6.5	6.6
ROA (%)	3.1	(2.0)	1.3	1.6	1.6

Liquidity Ratios

Current Ratio (x)	1.9	1.9	1.9	1.7	1.8
Quick Ratio (x)	1.4	1.6	1.6	1.4	1.5

Leverage Ratios

Gross Gearing (x)	1.7	2.1	2.0	1.8	1.7
Net gearing (x)	1.4	1.6	1.4	1.3	1.2
Total Debt/ Assets (x)	0.4	0.5	0.5	0.4	0.4
Interest Coverage (x)	5.0	2.9	4.0	4.2	4.3

Growth Ratios

Revenue (%)	59.9	(12.3)	7.1	(0.2)	(2.7)
Core EBITDA (%)	18.3	(45.1)	28.7	(2.8)	(4.3)
PBT (%)	56.9	(229.6)	(148.2)	10.2	2.1
Core Net Profit (%)	110.2	(162.0)	(164.3)	10.7	1.4
Core EPS (%)	110.2	(162.0)	(164.3)	10.7	1.4

Balance Sheet

FYE 31 Dec (RM mn)	2022	2023	2024E	2025F	2026F
PPE	10,956.8	10,454.2	9,839.8	9,276.8	8,770.1
Intangibles	2,527.2	2,260.1	2,260.1	2,260.1	2,260.1
Associates & JCEs	991.7	586.1	716.2	847.6	980.3
Others	1,397.6	1,299.7	1,299.7	1,299.7	1,299.7
Non-current Assets	15,873.3	14,600.1	14,115.8	13,684.2	13,310.2
Inventories	1,681.3	846.9	930.9	929.4	904.0
Trade and other rcvb	2,086.9	1,563.3	1,595.8	1,726.1	1,678.9
Cash and Cash Equivalents	1,539.6	2,571.0	2,660.0	1,912.3	2,110.6
Others	802.6	719.2	719.2	719.2	719.2
Current Assets	6,110.5	5,700.5	5,905.9	5,287.1	5,412.8

Total Assets

Total Assets	21,983.8	20,300.7	20,021.7	18,971.3	18,723.1
Deferred Tax	996.5	849.9	849.9	849.9	849.9
Deferred Income	2,825.7	2,604.7	2,604.7	2,604.7	2,604.7
LT Borrowings	7,771.2	7,878.4	7,401.9	7,096.2	6,796.2
Others	486.6	453.5	453.5	453.5	453.5
Non-current Liabilities	12,080.0	11,786.6	11,310.1	11,004.4	10,704.4

Borrowings	972.2	926.7	926.7	926.7	926.7
Trade & other Payables	1,599.4	1,453.6	1,595.8	1,540.2	1,498.1
Others	636.3	586.9	586.9	586.9	586.9
Current Liabilities	3,208.0	2,967.2	3,109.5	3,053.9	3,011.7

Total Liabilities

Total Liabilities	15,288.0	14,753.8	14,419.6	14,058.3	13,716.2
Share Capital	5,693.1	5,693.1	5,693.1	5,693.1	5,693.1
Reserves	(33.3)	(1,104.7)	(1,104.2)	(1,052.3)	(1,020.7)
Minority Interests	334.7	257.1	311.9	370.9	433.2
Perpetual Sukuk	800.0	800.0	800.0	0.0	0.0
Equity	6,695.8	5,546.8	5,602.1	4,913.0	5,006.9

Total Equity + Liabilities

Total Equity + Liabilities	21,983.8	20,300.7	20,021.7	18,971.3	18,723.1
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Cash Flow Statement

FYE 31 Dec (RM mn)	2022	2023	2024E	2025F	2026F
Pretax Profit	736.8	(954.9)	460.6	507.5	518.0
Depreciation	1,248.8	1,104.8	1,045.4	984.0	927.7
Net Interest	522.6	494.1	462.6	427.8	398.2
Associates & JCEs	(276.4)	363.5	(130.1)	(131.4)	(132.7)
Working Cap Changes	(1,997.2)	1,212.1	25.8	(184.4)	30.5
Tax Paid	(350.9)	93.0	(138.2)	(152.2)	(155.4)
Less: Net Interest	(569.8)	(541.3)	(509.8)	(427.8)	(398.2)
Others	745.6	(34.8)	0.0	0.0	0.0
CF from Operations	59.6	1,736.5	1,216.4	1,023.4	1,188.1

Capex	(300.8)	(274.1)	(431.0)	(421.0)	(421.0)
Others	2,112.0	1,352.6	0.0	0.0	0.0
CF from Investing	1,811.2	1,078.5	(431.0)	(421.0)	(421.0)

Dividends	(292.8)	(254.7)	(219.9)	(244.3)	(268.8)
Net Change in Debt	(997.8)	(905.5)	(476.5)	(305.7)	(300.0)
Others	(609.3)	(623.4)	0.0	(800.0)	0.0
CF from Financing	(1,899.9)	(1,783.6)	(696.4)	(1,350.0)	(568.8)

Net Cash Flow	(29.2)	1,031.4	89.0	(747.7)	198.3
Beginning Cash	1,568.8	1,539.6	2,571.0	2,660.0	1,912.3
Ending Cash	1,539.6	2,571.0	2,660.0	1,912.3	2,110.6

Figure 1: SOP Valuation

FYE 31 Dec	Equity Value (RM mn)	Stake (%)	Attrib. Eq. Value (RM mn)
Segari Energy	410	93.8%	385
Prai Power	129	100.0%	129
Tanjung Bin Power	2,072	90.0%	1,865
Tanjung Bin Energy	1,074	100.0%	1,074
O&M	436	100.0%	436
Alam Flora	533	97.3%	518
Associates		Various	1,331
Total	4,122		5,739
Holding Company Net Cash/(Net Debt)			60
Less: Perpetual Sukuk			(800)
Equity Value			4,998
No. of shares (mn)			4,887
Equity Value/share (RM)			1.02
ESG Premium/(Discount)			3.0%
Target Price (RM)			1.05

Sector Recommendation Guideline

OVERWEIGHT: The total return of the sector, as per our coverage universe, exceeds 12%.

NEUTRAL: The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

UNDERWEIGHT: The total return of the sector, as per our coverage universe, is lower than 7%.

Stock Recommendation Guideline

BUY : Total return of the stock exceeds 12%.

HOLD : Total return of the stock is within the range of 7% to 12%.

SELL : Total return of the stock is lower than 7%.

Not Rated: The company is not under coverage. The report is for information only.

Total Return of the stock includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Total Return of the sector is market capitalisation weighted average of total return of the stocks in the sector.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	★★★★	★★★★★	★★★★	★★★★
Remark	Waste Management business via Alam Flora and thrust to add more RE projects will escalate green agenda.	Active in serving the community and prioritizes workers welfare.	Elimination of graft within the organization is closely regulated. Monitoring of board and audit functions are well managed.	

★★★★★ (≥80%) : Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions. +5% premium to target price

★★★★ (60-79%) : Above adequate integration of ESG factors into most aspects of operations, management and future directions. +3% premium to target price

★★★ (40-59%) : Adequate integration of ESG factors into operations, management and future directions. No changes to target price

★★ (20-39%) : Have some integration of ESG factors in operations and management but are insufficient. -3% discount to target price

★ (<20%) : Minimal or no integration of ESG factors in operations and management. -5% discount to target price

Disclaimer

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As of Wednesday, September 11, 2024, the analyst, Hafriz Hezry, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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