

16 July 2021

Malakoff Corporation Bhd

Alam Flora Building A Recovery Facility

By Teh Kian Yeong | tehy@kenanga.com.my

While no near-term earnings impact is seen, we are positive on Alam Flora acquiring land to build a port recovery facility in Port Klang to handle waste management, broadening its earnings base. Being part of the group since early 2020, Alam Flora has produced consistent earnings with net profit of RM64.6m in FY20, and any new earnings base is a positive. We keep the stock an OP with TP of RM1.05

RM25m RPT land acquisition. Yesterday, a wholly-owned indirect subsidiary, Alam Flora Environmental Solutions Sdn Bhd entered into a sale and purchase agreement with The New Straits Times Properties Sdn Bhd, a indirectly-owned unit of Media Prima Bhd (MPB) to acquire a leasehold industrial land in Bandar Sultan Sulaiman, Daerah Klang measuring c.5.77 acres together with two single-storey detached factory warehouses erected thereon. This is deemed related party transaction as Tan Sri Syed Mokhtar who is the indirect major shareholder of MPB is also the shareholder of MALAKOF's parent company MMCCORP.

To build a RM130m port recovery facility. The property, which is situated adjacent to Northport, Westports and the anticipated future development of Pulau Carey Port, will be converted to a recovery facility to handle various types of waste from the ports. The total development cost for the recovery facility is expected to be c.RM130m, spanning 42 months including Environment Impact Assessment (EIA) assessment and subject to any necessary approvals including the relevant authorities. The development will be funded via a combination of internally generated funds and bank borrowings.

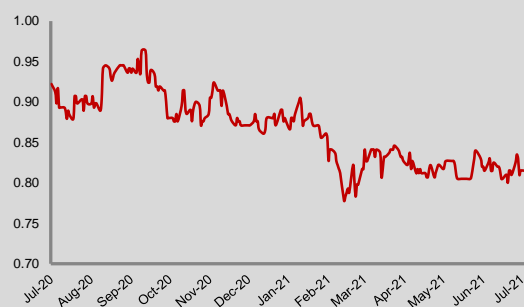
To improve Alam Flora's earnings further. While there is no near-term earnings accretion as the facility will take 3.5 years to complete, we reckon that it should help to broaden Alam Flora's earnings base as the busy port activities nearby would add more business volume. In its first year of earnings consolidation into the group, Alam Flora netted RM64.6m net profit in FY20 which helped to fill up group earnings gap and stabilised forward earnings. Although group's net gearing was high at 1.85x in FY20, we are not overly concerned given its concession-backed assets. We have projected FY21E net gearing of 1.61x, and with this new project the group's FY21E net gearing would rise slightly to 1.62x which we believe is not too stretched.

Maintain OUTPERFORM. We keep our estimates unchanged as this is a 3.5 years project while the near-term financing cost impact should be minimal. In all, we expect a better FY21 as FY20 was hit by forced outages in 2HFY20 and this should make its dividend yield of >5% sustainable. As such, it remains an OUTPERFORM with unchanged target price of RM1.05 which is based on 20% holding company discount to its SoP valuation of RM1.31. **Risk to our recommendation** is unplanned outages leading to lower-than-expected earnings.

OUTPERFORM ↔

Price : **RM0.82**
Target Price : **RM1.05** ↔

Share Price Performance



KLCI	1,520.82
YTD KLCI chg	-6.5%
YTD stock price chg	-8.4%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	MLK MK
Market Cap (RM m)	4,007.3
Shares outstanding	4,887.0
52-week range (H)	1.02
52-week range (L)	0.80
3-mth avg daily vol:	1,539,369
Free Float	9%
Beta	0.7

Major Shareholders

Anglo Oriental Annuity	20.1%
MMC Corp Bhd	18.4%
Employees Provident Fund	16.4%

Summary Earnings Table

FYE Dec (RM m)	2020A	2021E	2022E
Turnover	6,276.8	7,853.0	7,876.9
EBIT	844.4	866.4	837.7
PBT	444.6	469.0	506.1
Net Profit (NP)	286.6	296.0	324.3
Core Net Profit	253.5	296.0	324.3
Consensus		301.1	321.8
Earnings Revision (%)		-	-
Core EPS (sen)	5.1	5.9	6.5
Core EPS growth (%)	20.5	16.8	9.6
NDPS (sen)	5.1	4.7	5.2
BV/Share (RM)	1.06	1.07	1.09
NTA/Share (RM)	0.43	0.52	0.62
Core PER (x)	17.7	13.8	12.6
PBV (x)	0.77	0.76	0.75
Price/NTA (x)	2.07	1.56	1.33
Net Gearing (%)	1.85	1.61	1.43
Net Yield (%)	5.7	5.8	6.3



16 July 2021

Valuation - New					
	Equity Stake	RM m	RM/share		Valuation Basic
SEV	93.75%	31	0.01	0.5%	FCFF @ 6.9% discount rate
GB3	75%	90	0.02	1.4%	FCFF @ 7.2% discount rate
Prai Power	100%	97	0.02	1.5%	FCFF @ 8.6% discount rate
TBP	90%	2,549	0.51	38.8%	FCFF @ 8.0% discount rate
TBE	100%	1,381	0.28	21.0%	FCFF @ 8.4% discount rate
Alam Flora	97.37%	698	0.14	10.6%	FCFF @ 6.0% discount rate
Malakoff Utilities	100%	54	0.01	0.8%	FCFF @ 7.9% discount rate
Teknik Janakuasa	100%	455	0.09	6.9%	FCFF @ 7.9% discount rate
Associates		1,491	0.30	22.7%	Book value @ FY20A
Net Cash/(Debt)		-283	-0.06	-4.3%	Adjusted for subsidiary's loan
		6,562	1.31	100.0%	
Issued Share		5,000			
SoP value per share		1.31			
20% discount		-0.26			Holding company discount
Target Price		RM1.05			

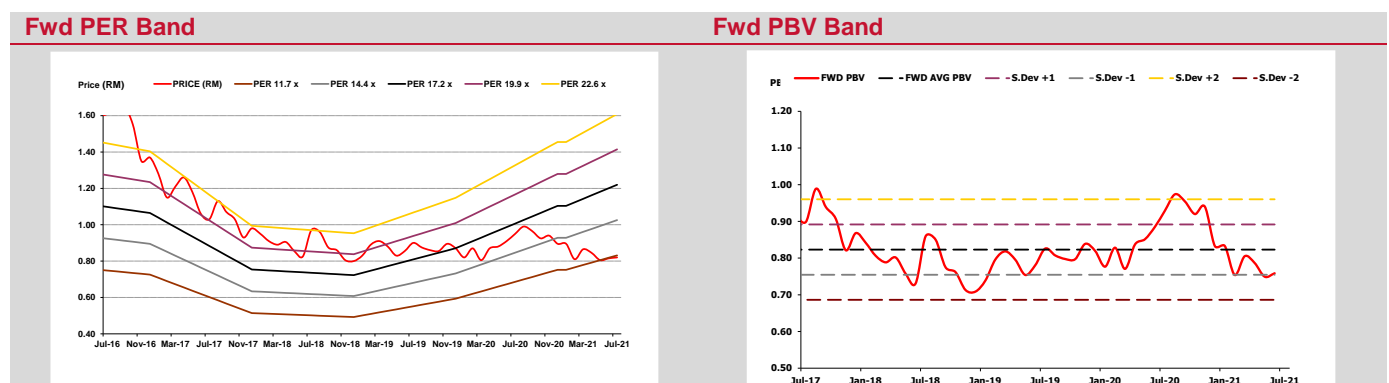
Source: Kenanga Research

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16 July 2021

Income Statement						Financial Data & Ratios					
FY Dec (RM m)	2018A	2019A	2020A	2021E	2022E	FY Dec	2018A	2019A	2020A	2021E	2022E
Revenue	7,348	7,358	6,277	7,853	7,877	Growth (%)					
EBITDA	2,265	2,379	2,054	2,194	2,185	Revenue	3.1	0.1	-14.7	25.1	0.3
Depreciation	-1,067	-1,178	-1,210	-1,327	-1,347	EBITDA	-13.9	5.0	-13.6	6.8	-0.4
EBIT	1,198	1,201	844	866	838	Operating Income	-9.2	0.3	-29.7	2.6	-3.3
Interest Expense	-722	-653	-572	-569	-519	Pre-tax Income	-2.7	-5.9	-15.5	5.5	7.9
Associate	84	-22	172	172	187	Net Income	-7.3	16.7	-10.5	3.3	9.6
Exceptional/FV	0	0	0	0	0	Core Net Income	-20.5	-4.1	20.5	16.8	9.6
PBT	559	526	445	469	506	Profitability (%)					
Taxation	-236	-152	-115	-117	-127	EBITDA Margin	30.8	32.3	32.7	27.9	27.7
Minority Interest	-49	-55	-43	-56	-55	Operating Margin	16.3	16.3	13.5	11.0	10.6
Net Profit	274	320	287	296	324	PBT Margin	7.6	7.2	7.1	6.0	6.4
Core Net Profit	219	210	254	296	324	Net Margin	3.7	4.4	4.6	3.8	4.1
						Core Net Margin	3.0	2.9	4.0	3.8	4.1
						Effective Tax Rate	42.2	28.8	25.8	25.0	25.0
						ROE	4.2	4.4	4.1	4.1	4.2
						ROA	4.8	5.7	5.3	5.5	6.0
						DuPont Analysis					
						Net margin (%)	3.0	2.9	4.0	3.8	4.1
						Assets Turnover (x)	0.3	0.3	0.3	0.3	0.4
						Leverage Factor (x)	5.1	4.8	4.6	4.4	4.1
						ROE (%)	3.9	3.8	4.8	5.5	6.0
						Leverage					
						Debt/Asset (x)	0.52	0.47	0.45	0.41	0.38
						Debt/Equity (x)	2.69	2.25	2.05	1.81	1.57
						Net Debt/(Cash)	-13,685	-9,653	-9,819	-8,664	-7,758
						Net Debt/Equity (x)	2.42	1.75	1.85	1.61	1.43
						Valuations					
						EPS (sen)	4.4	4.2	5.1	5.9	6.5
						NDPS (sen)	5.6	6.6	5.1	4.7	5.2
						BV (RM)	1.13	1.10	1.06	1.07	1.09
						NTA (RM)	0.51	0.41	0.43	0.52	0.62
						PER (x)	18.2	20.7	17.7	13.8	12.6
						Net yield (%)	7.0	7.5	5.7	5.8	6.3
						PBV (x)	0.73	0.74	0.77	0.76	0.75
						P/NTA (x)	1.56	2.12	2.07	1.56	1.33
						EV/EBITDA (x)	7.8	5.9	7.0	5.8	5.4

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

16 July 2021

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	2.69	3,454.0	Y	12/2021	14.3%	7.3%	-7.7%	8.0%	15.5	16.7	15.5	3.2	3.1	18.9%	5.4%	2.91	OP
MALAKOFF CORP BHD	0.820	4,007.3	Y	12/2021	25.1%	0.3%	26.8%	3.0%	16.2	12.8	12.4	0.8	0.8	6.0%	6.2%	1.05	OP
PESTECH INTERNATIONAL BHD	0.920	700.3	Y	06/2021	19.2%	5.3%	6.6%	27.2%	12.6	11.8	9.3	1.4	1.2	10.7%	1.1%	1.39	OP
PETRONAS GAS BHD	15.60	30,868.2	Y	12/2021	0.7%	1.4%	3.5%	0.5%	15.4	14.9	14.8	2.4	2.4	16.2%	5.7%	17.06	OP
TENAGA NASIONAL BHD	9.72	55,657.6	Y	12/2021	14.6%	1.0%	27.2%	8.9%	13.5	11.4	10.5	0.9	0.9	8.5%	4.4%	11.76	OP
YTL POWER INTERNATIONAL BHD	0.695	5,631.0	N	06/2021	-2.8%	-1.0%	111.1%	-4.0%	22.8	10.8	11.2	0.4	0.4	3.8%	7.2%	0.900	OP
Simple Average					11.8%	2.4%	27.9%	7.3%	16.0	13.1	12.3	1.5	1.5	10.7%	5.0%		

Source: Bloomberg, Kenanga Research

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16 July 2021

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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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

