

Ong Tze Hern

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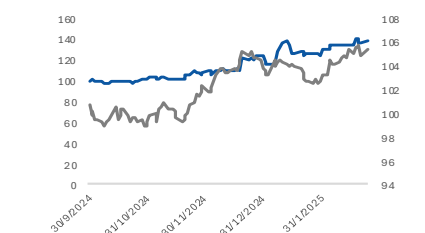
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Recommendation:	BUY
Current Price:	RM 0.83
Previous Target Price:	RM 0.96
Target Price:	↔ RM 0.96
Capital Upside/ Downside:	15.7%
Dividend Yield (%):	6.7%
Total Upside/ Downside:	23.0%

Stock information

Board	MAIN
Sector	Utilities
Bursa/ Bloomberg Code	5264/ MLK MK
Syariah Compliant	Yes
ESG Rating	★★★
Shares issued (m)	4,887.0
Market Cap (RM' m)	4,031.7
52-Week Price Range (RM)	1.02-0.605
Beta (x)	1.2
Freefloat (%)	36.6
3M Average Volume (m)	3.4
3M Average Value (RM' m)	2.8

Top 3 Shareholders	(%)
Anglo Oriental Annuities Sdn Bhd	20.1
Mmc Corp Bhd	18.4
Employees Provident Fund Board	11.6

Share Price Performance

	1M	3M	12M
Absolute (%)	-7.8	3.8	25.0
Relative (%)	-8.8	3.7	21.7

Malakoff Corporation Berhad

Weaker-Than-Expected FY24 due to Negative Fuel Margin

Executive Summary

- **MALAKOF's 4QFY24 results came in below expectations due to negative fuel margins. Quarterly CNP came in at RM41.8m (-55.8% yoy), bringing the FY24 CNP to RM253.2m.**
- **Earnings growth will be supported by (i) new gas plant PPAs; (ii) tariff adjustments for the concession solid waste management business; (iii) the completion of acquisition of E-Idaman, and (iv) the development of a new WTE plant.**
- **After incorporating FY24 results, we adjust our FY25 and FY26 earnings forecasts by -0.6%/-0.5% respectively.**
- **Reiterate our BUY recommendation with an unchanged TP of RM0.96 based on Sum-of-Parts (SOP) valuation, and appraised with a three-star ESG rating.**

Missed Expectations. MALAKOF's FY24 core net profit (CNP) of RM253.2m came in below expectations, achieving only 88% of ours and 89% of consensus full-year forecasts due to negative fuel margins. Dividend for 4QFY24 will be declared around March or April.

YoY. Excluding extraordinary items such as impairment loss on goodwill (RM10.2m), impairment loss in associates (RM12.5m) and reversal of coal provision to net realisable value based on the applicable coal prices (ACP) (RM7m), 4QFY24 CNP plunged 55.8% yoy to RM41.8m, impacted by negative fuel margins of c.RM18m, compared with a positive fuel margin of c.RM29m in the same quarter last year. Notably, the waste and environmental services segment continues to demonstrate stellar performance, with PAT growing 13.5% yoy, likely due to effective cost management following the launch of more efficient waste management fleet in October last year.

YTD. On a full-year basis, MALAKOF registered CNP of RM253.2m, marking a turnaround from a core net loss of RM438.4m in FY23. The recovery was driven by narrowing of negative fuel margins from c.RM829m in FY23 to negative fuel margins c.RM297m in FY24, as well as 11.1% yoy decline in finance cost as the Group gradually reduces its debt. Total debt has dropped significantly from RM9.6bn as of 4QFY23 to RM8.5bn as of 4QFY24.

QoQ. CNP dipped 51.9% qoq due to the recognition of a RM70m insurance claim for Tanjung Bin Energy Plant's forced outage (low-pressure turbine failure) in 3QFY24.

Outlook. Looking ahead, we expect MALAKOF to continue facing pressure from negative fuel margins in 1QFY25 as coal prices have declined by c.20% from the end of December last year due to robust supply growth in China and seasonal decline in consumption post-winter peak seasons. Meanwhile, although Tanjung Bin Energy's EAF has dropped to 59% due to unscheduled outages, the capacity income remained unaffected in 4QFY24. However, it remains uncertain whether the plant's UOR will exceed the threshold, which could impact the capacity income. Despite the near-term challenges, medium-term earnings growth will be supported by (i) new gas plant PPAs due to the demand for newer, more efficient power plants to replace expiring assets; (ii) tariff adjustments for the concession solid waste management business; (iii) the completion of acquisition of E-Idaman, and (iv) the development of a new waste-to-energy (WTE) plant.

Earnings Revision. After incorporating FY24 results, we adjust our FY25 and FY26 earnings forecasts by -0.6%/-0.5% respectively. We also introduce FY27 earnings forecast of RM397.8m.

Valuation & Recommendation. We reiterate our **BUY** recommendation with an unchanged TP of **RM0.96** based on Sum-of-Parts (SOP) valuation. No ESG premium or discount has been applied, given the company's three-star ESG rating. With rising power demand in Malaysia, we believe MALAKOF is the frontrunner to secure new gas plant PPAs, given its position as the largest IPP in Malaysia.

Risks. Rapid plunge in coal prices, unplanned plant shutdowns, non-renewal of concession.

Earnings Summary

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	9067.0	8970.1	9249.9	9284.2	8795.8
EBITDA	1027.6	1846.3	1973.1	1986.1	1881.1
Pre-tax profit	-954.9	459.7	592.4	699.3	723.3
Net profit	-837.2	268.7	357.7	430.3	445.0
Core net profit	-438.4	253.2	310.5	383.1	397.8
Core EPS (sen)	-9.0	5.2	6.4	7.8	8.1
P/E (x)	-4.8	15.0	11.3	9.4	9.1
P/B (x)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x) * ^	9.9	6.2	5.3	5.0	4.7
Dividend Yield (%)	3.6%	2.7%	6.7%	7.9%	8.5%
Net Gearing (%) ^	126.8%	133.9%	113.3%	102.0%	81.8%

* Based on the year-end closing prices for historical numbers

^ Gearing ratios and EV include perpetual sukuk as debt

Source: Company, Apex Securities

Results Comparison

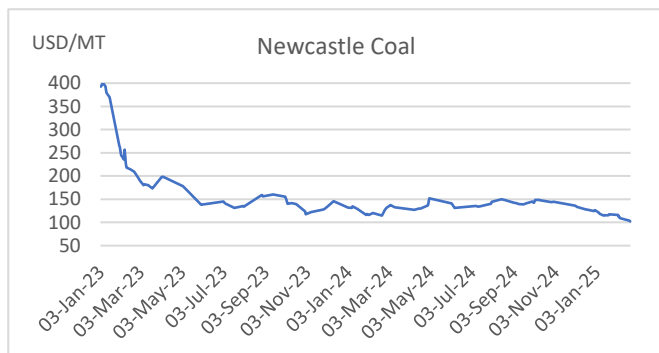
FYE Dec (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12MFY24	12MFY23	yoy (%)	Comments
Revenue	2,163.0	2,262.4	(4.4)	2,219.2	(2.5)	8,970.1	9,067.0	(1.1)	
EBITDA	387.1	541.9	(28.6)	467.5	(17.2)	1,846.3	1,027.6	79.7	
Pre-tax profit	56.3	(309.8)	nm	144.2	(60.9)	459.7	(954.9)	nm	
Net profit	26.0	(357.1)	nm	86.9	(70.0)	268.7	(837.2)	nm	4QFY23 affected by impairment loss at associate Al-Hidd
Core net profit	41.8	94.7	(55.8)	87.1	(51.9)	253.2	(438.4)	nm	
Core EPS (sen)	0.9	1.9	(55.8)	1.8	(51.9)	5.2	(9.0)	nm	
DPS (sen)	-	1.5	(100.0)	-	-	2.2	3.0	(25.7)	
EBITDA margin (%)	17.9	24.0		21.1		20.6	11.3		
PBT margin (%)	2.6	(13.7)		6.5		5.1	(10.5)		
Core net profit margin (%)	1.9	4.2		3.9		2.8	(4.8)		

Source: Company, Apex Securities

Segmental Breakdown

FYE Dec (RM m)	4QFY24	4QFY23	yoy (%)	3QFY24	qoq (%)	12MFY24	12MFY23	yoy (%)	Comments
Revenue (Includes Intersegmental)									
Power Generation	1,907.1	2,000.3	(4.7)	1,955.2	(2.5)	7,919.2	8,011.9	(1.2)	
Waste and Environmental Services	212.7	211.9	0.4	220.3	(3.4)	872.8	872.3	0.1	
Others	468.4	947.6	(50.6)	270.4	73.2	1,512.3	1,911.3	(20.9)	
Eliminations	(425.3)	(897.4)	(52.6)	(226.7)	87.5	(1,334.4)	(1,728.6)	(22.8)	
Total Revenue	2,163.0	2,262.4	(4.4)	2,219.2	(2.5)	8,970.1	9,067.0	(1.1)	
Profit after tax (PAT)									
Power Generation	10.8	(377.9)	nm	220.0	(95.1)	476.6	(684.0)	nm	4QFY23 affected by impairment loss at associate Al-Hidd
Waste and Environmental Services	35.4	31.2	13.5	29.7	19.4	126.4	112.6	12.2	Improved due to better cost management
Others	134.9	707.7	(80.9)	(34.4)	nm	382.3	944.4	(59.5)	
Eliminations	(152.8)	(711.4)	(78.5)	(115.0)	32.8	(675.3)	(1,234.9)	(45.3)	
Total PAT	28.4	(350.4)	nm	100.2	(71.6)	310.0	(861.9)	nm	
PAT Margin (%)									
Power Generation	0.6%	-18.9%		11.2%		6.0%	-8.5%		
Waste and Environmental Services	16.6%	14.7%		13.5%		14.5%	12.9%		
Others	28.8%	74.7%		-12.7%		25.3%	49.4%		
Overall PAT Margin	1.3%	-15.5%		4.5%		3.5%	-9.5%		

Source: Company, Apex Securities



Results Note

Monday, 24 Feb, 2025

Financial Highlights

Income Statement

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	9,067.0	8,970.1	9,249.9	9,284.2	8,795.8
EBITDA	1,027.6	1,846.3	1,973.1	1,986.1	1,881.1
Depreciation & Amortisation	-1,124.9	-1,060.7	-1,066.1	-1,043.8	-973.2
EBIT	-97.3	785.6	907.1	942.3	907.9
Net Finance Income/(Cost)	-494.1	-435.6	-405.7	-335.0	-277.5
Associates & JV	-363.5	109.7	91.0	91.9	92.8
Pre-tax Profit	-954.9	459.7	592.4	699.3	723.3
Tax	93.0	-149.7	-177.7	-209.8	-217.0
Profit After Tax	-861.9	310.0	414.7	489.5	506.3
Minority Interest	-24.8	41.3	57.0	59.2	61.3
Net Profit	-837.2	268.7	357.7	430.3	445.0
Exceptionals	-398.8	15.5	47.2	47.2	47.2
Core Net Profit	-438.4	253.2	310.5	383.1	397.8

Key Ratios

FYE Dec	FY23	FY24	FY25F	FY26F	FY27F
EPS (sen)	-17.1	5.5	7.3	8.8	9.1
P/E (x)	-4.8	15.0	11.3	9.4	9.1
P/B (x)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x) *	9.9	6.2	5.3	5.0	4.7
DPS (sen)	3.0	2.2	5.5	6.5	7.0
Dividend Yield (%)	3.6%	2.7%	6.7%	7.9%	8.5%
EBITDA margin (%)	11.3%	20.6%	21.3%	21.4%	21.4%
EBIT margin (%)	-1.1%	8.8%	9.8%	10.1%	10.3%
PBT margin (%)	-10.5%	5.1%	6.4%	7.5%	8.2%
PAT margin (%)	-9.5%	3.5%	4.5%	5.3%	5.8%
NP margin (%)	-9.2%	3.0%	3.9%	4.6%	5.1%
CNP margin (%)	-4.8%	2.8%	3.4%	4.1%	4.5%
ROE (%)	-16.7%	6.0%	7.9%	9.4%	9.6%
ROA (%)	-4.0%	1.4%	1.9%	2.5%	2.7%
Gearing (%) *	173.2%	153.7%	124.8%	107.5%	88.9%
Net gearing (%) *	126.8%	133.9%	113.3%	102.0%	81.8%

* Gearing ratios and EV include perpetual sukuk as debt

Sum of Parts Valuation	Equity Value (RM m)	Valuation method
SEV	257.0	DCF, WACC: 8.0%
Prai	17.7	DCF, WACC: 8.0%
TBP	3,471.0	DCF, WACC: 9.1%
TBE	4,207.7	DCF, WACC: 9.0%
Alam Flora	1,847.8	DCF, WACC: 7.1%, g: 2.0%
O&M	699.0	DCF, WACC: 7.3%, g: 2.0%
Associate	586.1	FY23 Book Value
(-) Net Debt/(Cash)	5,581.4	
(-) Perpetual Sukuk	800.0	
Total Equity Value	4,704.9	
Enlarged share base (m share)	4,887.0	
Equity Value/share (RM)	0.96	
ESG premium/discount	0.0%	
Fair Value (RM)	0.96	

Source: Company, Apex Securities

Balance Sheet

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash	2,571.0	1,098.0	647.5	321.5	418.6
Receivables	1,563.3	1,557.8	1,736.7	1,570.0	1,562.8
Inventories	846.9	1,037.3	967.6	1,044.7	861.8
Other current assets	719.2	1,389.3	1,389.3	1,389.3	1,389.3
Total Current Assets	5,700.5	5,082.5	4,741.1	4,325.5	4,232.5
Fixed Assets	10,454.2	10,064.7	9,597.2	9,102.8	8,680.7
Intangibles	2,260.1	1,979.0	1,710.6	1,466.2	1,247.5
Other non-current assets	1,885.8	1,834.3	1,905.8	1,985.2	2,067.8
Total Non-Current Assets	14,600.1	13,878.0	13,213.6	12,554.2	11,996.0
Short-term debt	926.7	852.0	934.3	809.0	663.9
Payables	1,453.6	1,371.6	1,747.1	1,383.2	1,582.5
Other current liabilities	586.9	617.0	617.0	617.0	617.0
Total Current Liabilities	2,967.2	2,840.5	3,298.4	2,809.1	2,863.3
Long-term debt	7,878.4	6,856.9	5,294.5	4,584.3	3,761.9
Other non-current liabilities	3,908.2	3,727.6	3,727.6	3,727.6	3,727.6
Total Non-Current Liabilities	11,786.6	10,584.5	9,022.2	8,311.9	7,489.5
Shareholder's equity	4,489.7	4,497.6	4,539.4	4,604.8	4,660.5
Perpetual Sukuk	800.0	800.0	800.0	800.0	800.0
Minority interest	257.1	237.7	294.7	353.9	415.2
Total Equity	5,546.8	5,535.4	5,634.1	5,758.7	5,875.7

Cash Flow

FYE Dec (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Pre-tax profit	-954.9	459.7	592.4	699.3	723.3
Depreciation & amortisation	1,124.9	1,060.7	1,066.1	1,043.8	973.2
Changes in working capital	1,014.1	-620.5	266.3	-274.4	389.6
Others	552.5	215.3	136.9	33.3	-32.3
Operating cash flow	1,736.5	1,115.3	2,061.7	1,501.9	2,053.7
Capex	-275.6	-423.6	-310.7	-292.5	-322.2
Others	1,354.1	-425.1	67.8	61.0	59.2
Investing cash flow	1,078.5	-848.7	-242.9	-231.5	-263.1
Dividends paid	-193.0	-182.3	-268.8	-317.7	-342.1
Others	-1,590.6	-1,557.3	-2,000.6	-1,278.7	-1,351.4
Financing cash flow	-1,783.6	-1,739.6	-2,269.4	-1,596.4	-1,693.5
Net cash flow	1,031.4	-1,473.0	-450.6	-326.0	97.2
Forex	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Beginning cash	1,539.6	2,571.0	1,098.0	647.5	321.5
Ending cash	2,571.0	1,098.0	647.5	321.5	418.6

Results Note

Monday, 24 Feb, 2025

ESG Matrix Framework:

Environment

Parameters	Rating	Comments
Climate	★★	Scope 1 and Scope 2 GHG emissions totaled 16.6m tCO ₂ e in 2023, representing a 2.1% yoy reduction from 2022. MALAKOF aims to reduce its GHG emissions intensity by 30% by 2031 from 2019 baseline and achieve net zero emissions by 2050.
Waste & Effluent	★★★★	MALAKOF's subsidiary, Alam Flora operates as a concessionaire for solid waste collection and public cleansing services. The Group aims to achieve a 15% to 20% recycling rate for waste collected by Alam Flora by 2025.
Energy	★★	As an IPP, MALAKOF primarily consumes coal and natural gas for power generation. The Group is committed to reducing its carbon footprint by enhancing the efficiency of conversion rates at its plants and implementing energy-efficient systems.
Water	★★	For MALAKOF, water is extensively used in power generation and district cooling systems. In 2023, the Group utilised 2,532,082m ³ of water. MALAKOF strives to minimise water consumption through various initiatives, including the implementation of rainwater harvesting systems for housekeeping and landscaping purposes.
Compliance	★★★	The Group is in compliance with local and international environmental regulations.

Social

Diversity	★★★★	In 2023, 6.6% of employees were non-Malaysians, while only 16% of the workforce were female. At the management level, 84% of top management and 76% of senior management were Malays, with the remaining positions held by non-Malays.
Human Rights	★★★★	MALAKOF enforces various frameworks to uphold human rights and labour relations across its operations, including the Malakoff Code of Conduct.
Occupational Safety and Health	★★	In 2023, 1,626 employees received training on health and safety standards. However, one non-employee fatality was recorded, and the Lost Time Incident Rate (LTIR) rose to 0.73, compared to 0.29 in the previous year.
Labour Practices	★★★★	MALAKOF is committed to eliminating child labour, forced labour, and compulsory labour, in alignment with international standards, ethical principles, and guidelines, including the International Labour Organisation's (ILO) Forced Labour Conventions and the 2014 Protocol.

Governance

CSR Strategy	★★★★	MALAKOF invested RM240,500 in sustainability programmes in 2023, with a focus on education and community enrichment initiatives. The Group also organised recycling awareness programmes through talks and school engagements.
Management	★★★★	In 2023, 19% of the management team were female. Among the board members, 11% (1 out of 9) were female, while 56% (5 out of 9) were independent directors.
Stakeholders	★★★	The Group organises quarterly analyst briefings for analysts and an annual general meeting (AGM) for investors.

Overall ESG Scoring: ★★★★★

Recommendation Framework:

BUY: Total returns* are expected to exceed 10% within the next 12 months.

HOLD: Total returns* are expected to be within +10% to -10% within the next 12 months.

SELL: Total returns* are expected to be below -10% within the next 12 months.

TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.

TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.

*Capital gain + dividend yield

Sector Recommendations:

OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.

NEUTRAL: The industry defined by the analyst is expected to be within +10% to -10% within the next 12 months.

UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

ESG Rating Framework:

★★★★★ : Appraised with 3% premium to fundamental fair value

★★★★ : Appraised with 1% premium to fundamental fair value

★★★ : Appraised with 0% premium/discount to fundamental fair value

★★ : Appraised with -1% discount to fundamental fair value

★ : Appraised with -5% discount to fundamental fair value

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As of **Monday, 24 Feb, 2025**, the analyst(s), whose name(s) appears on the front page, who prepared this report, has interest in the following securities covered in this report:

(a) nil.