Prospects remain dim for Malakoff

But valuations appear increasingly attractive after recent fall

By CECILIA KOK

MALAKOFF Corp Bhd shares may have rebounded from their lows in recent weeks, but meaningful gains for the counter likely will be capped over the medium term by the company’s lacklustre growth prospects.

As it is, Malakoff has postponed the fact that its earnings for the financial year ending Dec 31, 2017, would be hit by lower capacity payment in the revised power purchase agreement (PPA) for its stake in Subang Segari Ventures Sdn Bhd and national utility company Tenaga National Bhd (TNB). The revised PPA has taken effect since July 1 this year.

A quick check on Bloomberg shows the consensus view is that Malakoff, which is the main contractor for the power producer, could raise in lower earnings for at least two years as a result of the financial year ending Dec 31, 2018.

Malakoff’s shares, which have come under selling pressure since October last year amid price-volume activity, dipped in the lower circuit at RM1.80 on Aug 11.

The counter has since rebounded over the week to close at RM2.01 yesterday. That’s 38.9% below the initial public offer (IPO) price of Malakoff’s shares at RM3.00 when the company was relisted on Bursa Malaysia in May 2005.

Since its reemergence in the local equity market, Malakoff has hardly ever traded above its IPO price. The underperformance of Malakoff contradicts market perception that investors would favour utility stocks for their defensive, or “safe harbour”, attributes and regular dividend payouts.

On a positive note, Malakoff’s decline has raised the level at which its share price becomes oversold.

The medium 12-month target price of RM2.28 for Malakoff, based on an estimated 18 out of 12 analysts, suggests a potential up-side from the current level.

“THERE may be a lack of earnings catalysts in the near term, but the valuation for Malakoff is undervalued at current levels, as the counter has declined more than 20% year-to-date — so we see a good trading opportunity here,” an analyst tells StarMedia.

“What’s more, the management is maintaining its commitment to a dividend payout of at least 40%, which points to a potential yield of 8.0% a year,” he notes.

Malakoff on Tuesday announced it made a net profit of RM1.02 billion for the second quarter ended June 30, 2017, which repped a deficit of RM392.4m in the corresponding period last year.

The lower net profit was mainly attributable to a lower capacity payment from the Tanjung Bin Energy power plant due to unscheduled outages during the quarter in review. In addition, the group’s earnings were also damped by the recognition of an insurance claim on rotor replacement.

For the six months ended June 30, 2017, Malakoff’s net profit fell 5.4% to RM2.02 billion from RM2.12 billion in the corresponding period, while its revenue rose 22% to RM5.33 billion from RM4.37 billion.

The increase in revenue was mainly due to higher applicable export related revenue and higher export tax depreciation on export revenue.

Malakoff pledged a firm interim dividend of 2.5 sen per share.

In commenting on Malakoff’s prospects following the release of the group’s second-quarter results, TA Research says it has noted some positive signals on the company’s new that earlier concerns of capacity payment for its stake in Subang Segari Ventures Sdn Bhd and Tenaga National Bhd have been allayed, noting that operations at the power plant have stabilised after rectification works in May caused unplanned outage for eight days.

“We view this as a re-rating catalyst as it enables Tanjung Bin Energy to start on a clean slate in the second half of 2017,” TA Research pointed out in its recent note.

The brokerage argues that the risk/return ratio of the counter appears attractive at current share price, as the stock price is lower by about 14% over the last three months.

“In comparison to comparable peers, Malakoff trades at 6.3 times its estimated FY17/18 enterprise value/earnings before interest, tax, depreciation and amortisation (EBITDA), which implies a 54% discount versus the average of 4.3 times,” TA Research says.

Better outlook

Meanwhile, Maybank Investment Bank Research, which also points out that the risk/reward of investing in Malakoff has turned favourable, says it sees incremental negatives for the independent power producer in the horizon.

Similarly, REB Research Institute the negatives faced by Malakoff have mostly been priced already by the market.

“We believe the market has taken into account the lower capacity payment from Tanjung Bin Energy due to its unscheduled outages in the first half of 2017. We believe the risk of unscheduled outages at Tanjung Bin Energy has been reduced as the plant is not expected to undergo any turnaround in the second half of 2017.” REB Research Institute says, adding that Malakoff is starting to look attractive again with an expected dividend yield of 5.5% this year.

Meanwhile, it is noted that Malakoff’s 90%-owned Tanjung Bin Energy Power Sdn Bhd has experienced several operational issues since beginning its commercial operation in March 2016. But a relief has come in the form of an agreement early this month between Tanjung Bin Energy Power and a consortium of three companies and three other Japanese boiler manufacturers to resolve a longstanding dispute related to the operations of its power plant.

The disputes between the parties were the 22 boiler tube failure incidents at the power station consisting of three 700 megawatt coal-fired units owned and operated by Tanjung Bin Energy Power, and the inability of the plant to meet certain required output standards.

It was seeking RM780m in December 2015.

Malakoff now says that the parties have agreed to resolve and settle the disputes in accordance with the terms and conditions of the agreement. This, in turn, would translate into a settlement payment to Tanjung Bin, which would contribute positively to the earnings and net assets of Malakoff for 2017.