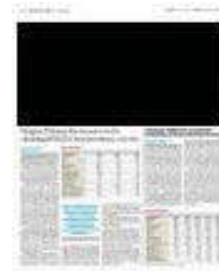


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Shuaibah stake expected to boost Malakoff's earnings

Malakoff Corp Bhd
(July 12, 88 sen)

Maintain buy with an unchanged target price of RM1.02: Malakoff Corp Bhd announced that it had entered into a share sale agreement with Khazanah Nasional Bhd to acquire the entire interest in Desaru Investments (Cayman Isl) Ltd (DIL) for a cash consideration of US\$70 million (about RM288 million). We understand that the acquisition would increase its stake in Shuaibah 3 Independent Water and Power Plant (SIWPP) and Shuaibah 3 Expansion Independent Water Plant (SEIWP) of Saudi Arabia to 24% (from 12% currently).

Malakoff's net profit is estimated to increase by about 15% annually for the remaining tenure of the power and water purchase agreement (PWPA) of about 10 years.

We are positive on the proposed acquisition as this helps to address concerns over the declining earnings given the expiry of its power plant beginning 2022. We maintain our forecast for now, pending completion of the acquisition in the fourth quarter of 2019.

Malakoff, through Malakoff Gulf Ltd (MGL), proposed to acquire the entire stake in DIL, which is owned by Khazanah. DIL is a consortium member of Malaysian Shoaiba Consortium Sdn Bhd (MSCSB) — 40%-owned by Khazanah — while MGL and Tenaga Nasional Bhd hold 40% and 20% respectively.

MSCSB holds a 50% equity interest in Saudi-Malaysia Water & Electricity Company Ltd (SAMAWEC), which in turn holds 60% of SIWPP and SEIWP in the Kingdom of Saudi Arabia (KSA). It is involved in the sale of desalinated

water and power to Water and Electricity Company llc (WEC), wholly owned by the ministry of finance of the KSA.

DIL also hold 20% equity interest in Al-Imtiaz Operation & Maintenance Company Ltd (AOMC), in which Malakoff also owns a 20% stake. AOMC undertakes the operation and maintenance contracts for SEIWP for 20 years.

Upon completion of the acquisition, Malakoff will effectively own 24% of SIWPP and SEIWP (from 12% currently) and also increase its stake in AOMC to 40%. The completion of this acquisition is subject to Bank Negara Malaysia's approval.

Upon completion of the acquisition, we understand that Malakoff's earnings would increase by about RM36 million per year (about 15% of financial year 2020

Malakoff Corp Bhd

FYE DEC (RM MIL)	2017A	2018A	2019F	2020F	2021F	CAGR (%)
Revenue	7,130.4	7,348.2	6,403.1	6,399.2	6,410.4	-2.6
Pre-tax profit	574.5	559.2	416.3	422.5	437.5	-6.6
Net profit	295.9	274.4	240.1	244.5	255.1	-3.6
EPS (sen)	5.9	5.5	4.8	4.9	5.1	-3.6
PER (x)	14.5	15.7	17.9	17.6	16.9	—
DPS (sen)	6.2	5.6	4.9	5.0	5.2	—
Dividend yield (%)	7.2	6.5	5.7	5.8	6.1	—

Sources: Company, PublicInvest Research estimates

[FY20F] earnings), based on FY18 financials (after deducting estimated amortisation cost of intangible asset amounting to RM6.4 million per year arising from the proposed acquisition). In addition, it is also estimated to recognise a one-off gain on disposal amounting to RM32.6 million, owing to the revaluation of existing investment

following the change in status of MSCSB from an associate to a subsidiary. We estimate that the 24% stake in Shuaibah will contribute about 25% of the group's bottom line. It expects to complete the proposed acquisition by 4Q19. Pending completion of the acquisition, we maintain our forecast for now. — *PublicInvest Research, July 12*