

MFCB – The most profitable Renewable Energy Company in Malaysia for years to come, trading at sub 10x forward PE – a family office favourite

Disclaimer: I'm long MFCB. This writing is based on my own opinions, assumptions and estimations. It's not a buy or sell call of the company. Please seek your own investment advisor. From: Rondy Yunanda Yong.

Renewable Energy is the “in” and “sexy” thing in the Malaysian market right now, but investors are overlooking the **most attractive Malaysian Renewable Energy company, that is MFCB.**

Granted, their asset is not in Malaysia, but as a value investor, would you rather invest in companies that're fighting in the red ocean where competitive landscape is leading the industry to an extremely low IRR close to grid parity, or invest in a company that's swimming in **blue ocean**?

To put this into context. For all our listed EPCC darlings of Samaiden, Solarvest and even KPOWER - some of which will become asset owners from LSS4 wins - and if we even add every other listed renewable energy companies such Vsolar, PEB, Cypark, **combine their profit or expected profits in the next few years, the total will still fall short of MFCB profit from Don Sahong Hydro Plant alone.**

MFCB is the most profitable renewable energy company in Malaysia for years to come. No, let me rephrase... it's 1) the most profitable Malaysian listed company amongst its listed renewable energy peers, even 2) the most profitable co among the listed private power utility peers – a list that includes YTL PWR & Malakoff, and even 3) the most profitable co within listed companies whom are showing intention and venturing into Renewable Energy in Malaysia – a list that includes Yinson & Suncon. That's how profitable MFCB is.

MFCB is the most profitable Renewable Energy company in Malaysia

<u>PURE SOLAR</u>	<u>REMARKS</u>	<u>NET PROFIT (RM, T12M)</u>	<u>PE (x)</u>	<u>MARKET CAP (RM)</u>
SAMAIDEN	SOLAR EPCC, BIOGAS / BIOMASS DEVELOPER	6.20*	55.16	342
SLVEST	SOLAR EPCC, RECENTLY WON LSS 4	13.66	67.81	926
VSOLAR	SOLAR EPCC, FINTEC GROUP	LOSS MAKING	-	85
PEB	SOLAR ASSET OWNER, IN THE MIDST OF CORP EXERCISE	LOSS MAKING	-	110
<u>OTHER RENEWABLE ENERGY</u>				
MFCB	DON SAHONG HYDRO POWER	321.29	10.92	3,509
CYPARK	EPCC & RE ASSET OWNER	70.94	8.99	638
KPOWER	RE EPCC, RECENTLY WON LSS 4	27.38	33.53	918
<u>UPCOMING POWER UTILITY</u>				
JAKS	HAI DUONG THERMAL, RECENTLY WON LSS4	LOSS MAKING	-	1,106
<u>POWER UTILITY</u>				
MALAKOFF	SOME VENTURES IN RE	286.58	14.57	4,175
YTLPOWER	STARTED SOME VENTURES IN RE	158.39	36.57	5,792
<u>OTHER LSS4 WINNERS</u>				
RANHILL	WATER UTILITY	36.49	23.81	869
UZMA	OIL & GAS UPSTREAM SERVICE	LOSS MAKING	-	226
TCHONG	AUTO	LOSS MAKING	-	793
MKLAND	PROPERTY	11.64	24.91	290
GOPENG	CPO	LOSS MAKING	-	223
ADVCON	CONSTRUCTION	2.10	82.38	173
<u>OTHER COs VENTURING INTO Renewable Energy</u>				
YINSON	SMALL SOLAR FARM IN INDIA	314.80	18.23	5,740
PESTECH	SMALL SOLAR FARM IN CAMBODIA	51.00	16.94	864
ILB	SMALL SOLAR FARM IN MALAYSIA	34.45	3.05	105
SUNCON	EPCC	72.79	31.97	2,327
TALIWRK	Buying 4 solar projects in Malaysia	59.49	28.29	1,683
IPMUDA	EPCC	LOSS MAKING	-	132
<u>TENAGA (GLC)</u>				
TENAGA	TENAGA, RECENTLY WON LSS 4	3,592.70	15.88	57,047
			<u>Average PE***</u>	<u>30.43</u>

* Samaiden Net Profit is annualised
 ** There's kitchen sinking done at YTL PWR, RANHILL, UZMA, ADVCON & disposal gain from ILB
 *** Industry PE of all renewable energy companies + Power utility companies + Tenaga

Image 1: MFCB is by far the most profitable Renewable Energy Company listed in Bursa Malaysia

They did not get here overnight. MFCB had taken years to reach this stage, a culmination of many efforts and **investing in them at this stage means a lot of factors had been de-risked**. You are investing in a company that will continuously generate 300-400m annual profit from their power segment, and having cash flow of similar amount per annum basis. Their **potential biggest risk is infact – thinking of what to invest / churning from having too much cash!**

But if there's a management you'd trust to invest in good businesses over the long run, it's this management. MFCB boasts more than 15 years of consecutive and uptrending PAT when Mr Goh Nan Kioh is at the helm. He's also the largest shareholder of D&O Green Tech, a leading Malaysian tech manufacturing company. He also used to own Cambrew, Cambodia of which he sold completely to Carlsberg few years ago amongst other businesses.

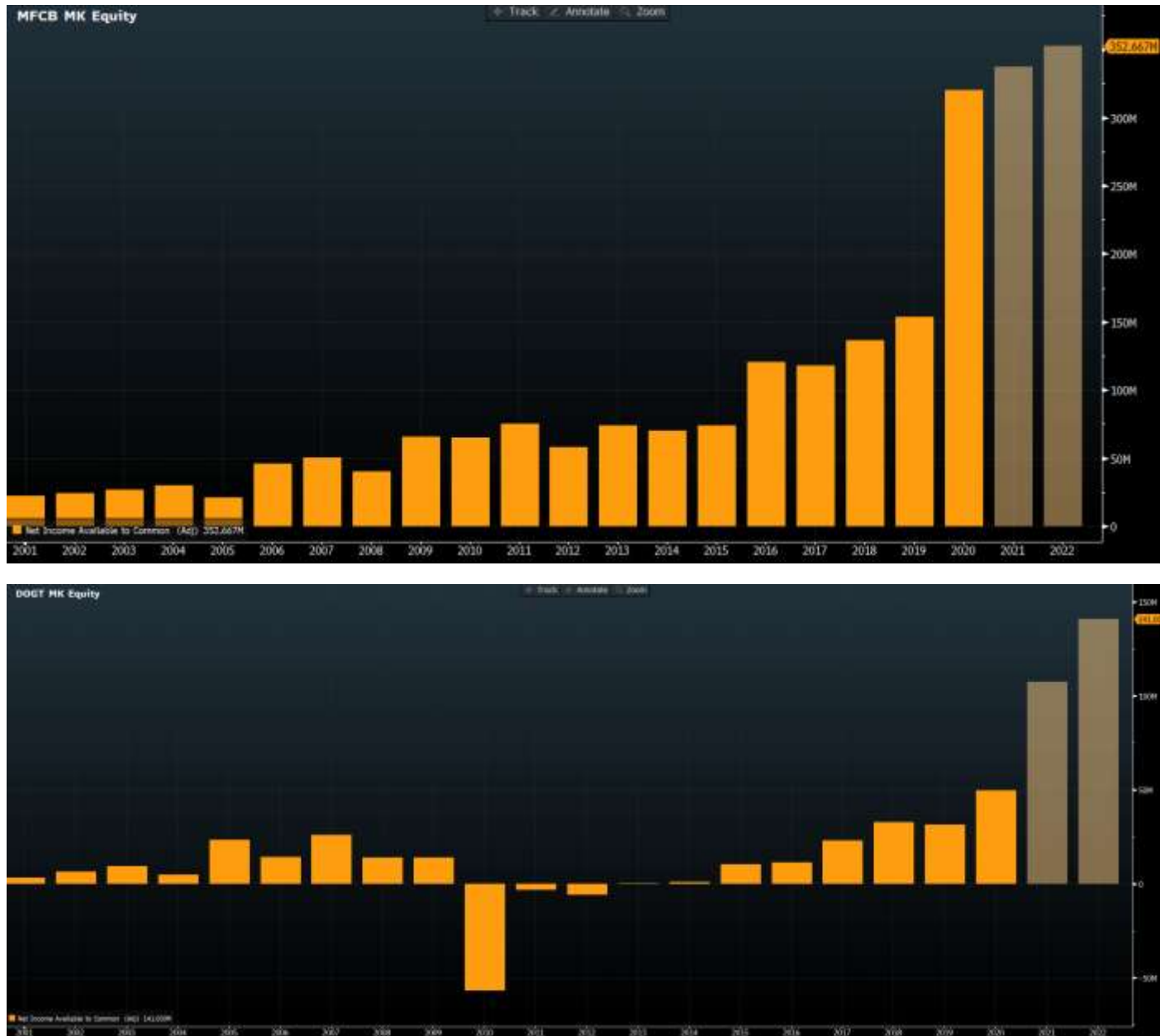


Image 2: MFCB and D&O historical profit – always profitable and uptrending over the long run

For the remaining this post, I'll be going through a quick coverage on their businesses, financial performance as well as the risks associated with investing in the company. I honestly don't see the need to deep dive as MFCB is an open book, all information are available in the annual reports and quarterly announcement – again another testament of good transparency.

Business Segments

a) Power Division

The year 2020 was the first year of which the Don Sahong Hydropower Project went online, with **COD at 7 Jan 2020**. DSHP was a culmination of 15 years of hardwork (and not without many challenges and obstacles) from the date of signing MoU with the government of Laos. Don Sahong Hydropower has power generation capacity of 260 MW to supply to the power grid of Laos for the **next 25 years**. It's also strategically located within the Mekong River, close to Cambodia and Vietnam whom has bigger population and larger need of electricity. The 2 neighbouring countries agreed to buy electricity generated by the dam in the Lao province at affordable prices.

Don Sahong project won by MFCB was also done on a Build- Operate- Transfer (BOT) basis, meaning that MFCB was able to **generate income for itself during the duration of the building process**. Now that the construction is done, MFCB becomes a renewable energy power generation player. It also has 5 years of tax exemption from COD. The build-up cost Don Sahong was around \$400m and **payback period of five years** compared with the average of 10 years for traditional hydro-electricity projects. In my opinion, this was a **great business deal from the start to finish**.

In Malaysia, within the investment community, solar had been the definition of renewable energy. MFCB and its **Don Sahong Hydropower has a few advantages as compared to owners of solar farms** such as: 24/7 generation of power as no sunlight is required, lowest cost per watt hour, a more predictable power output less reliant on sunny weather. In summary, investing in MFCB at this current juncture is investing in a highly profitable business segment that gives a **clear earnings visibility** for the next 25 years. Don Sahong will generate around RM300-400m annual profit and cash. Growth may come as and when a new turbine is installed.

Under this business segment as well, MFCB entered into a 55:45 JV with an upcoming IPO company in Malaysia – Solar EPCC player - Pekat Teknologi to jointly invest in commercial and industrial rooftop solar projects in Malaysia and the region. Although they did not win LSS4, the low yield coming from that tender is actually a blessing, in my opinion. MFCB should focus on winning higher yielding solar projects in Malaysia and across the region.

In 2020, this division contribute to **PBT of RM372m or 93% of the group's profit**.



Image3: Don Sahong Hydro Power Plant

For FY 2021, this division looks poised to have a better EAF and performance as compared to 2020. Q2 2021 looks especially strong coming from more rainy and less dry season. The first half of Q2 have got a higher water level than the past 60 years on average.

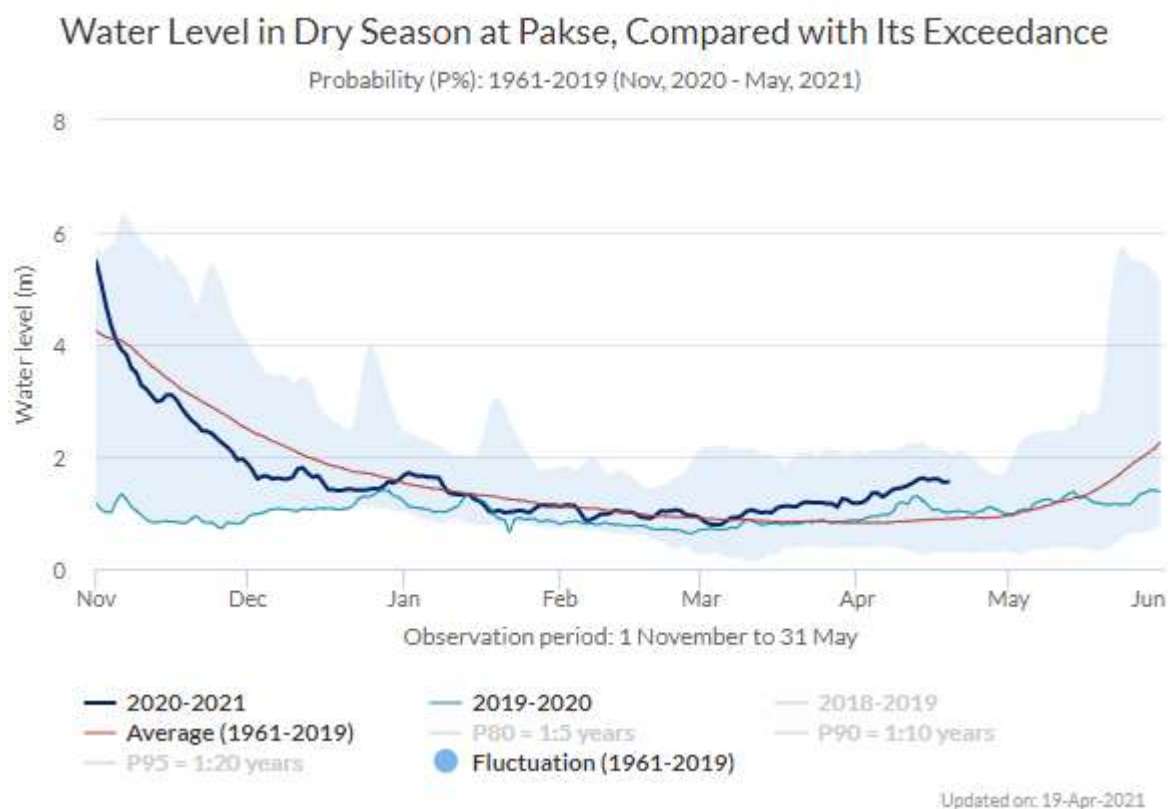


Image4: Water level in 2021 vs 2020 and vs 60 years average

Other Divisions

MFCB also have a plastic packaging division as well as resources division. But since they both constitute around 7% of operational profit, I won't touch too much about them. The quarterly report gives enough insight about the 2 businesses.

On packaging division, demand for flexi packaging remains robust, they have a capacity constraint which is being addressed by new capacity and machinery to be added slowly in the next 2-3 quarters. The new capacity will be ready by Q3 2021. Capex for this is about RM80m. PBT from this segment turned positive this year at RM9.5m or roughly 2.5% of PBT.

On resources division, 2020 1H was weak, but improved in 2nd half as plant utilization was higher. This segment contributed RM18.8m of PBT or roughly 4.5% of PBT.

	Year 2020 RM'000	Year 2019 RM'000	Changes	
			RM'000	%
Revenue	767,126	701,933	65,193	9.3%
Other expenses, net	(10,075)	(6,892)	(3,183)	46.2%
Operating profit	411,339	196,837	214,502	109.0%
Earning before interest, tax, depreciation and amortisation ("EBITDA")	510,170	214,360	295,810	138.0%
Profit before tax	388,997	188,404	200,593	106.5%
Profit after tax	378,210	176,420	201,790	114.4%
Profit after tax attributable to owners of the Company	321,359	151,735	169,624	111.8%
Revenue				
Power	510,214	470,375	39,839	8.5%
Resources	142,819	143,624	(805)	-0.6%
Packaging & Labels	97,775	68,427	29,348	42.9%
Sub-total	750,808	682,426	68,382	10.0%
Investment holding & others	16,318	19,507	(3,189)	-16.3%
Total revenue	767,126	701,933	65,193	9.3%
Profit before tax				
Power	372,086	182,482	189,604	103.9%
Resources	18,766	16,460	2,306	14.0%
Packaging & Labels	9,461	(501)	9,962	1988.4%
Sub-total	400,313	198,441	201,872	101.7%
Investment holding & others	(11,316)	(10,037)	(1,279)	12.7%
Total profit before tax	388,997	188,404	200,593	106.5%
Additional Information:				
Construction revenue	-	435,289	(435,289)	-100.0%
Construction profit	-	157,506	(157,506)	-100.0%

Image 5: Business breakdowns

Short Term Catalysts

At the end of Feb, the company proposed for a **1:1 share split, this would be completed this quarter**. MFCB currently is heavily invested by the institutions. This exercise could provide liquidity and attract the interest of retailers.

Holder Name	Portfolio Name	Source	% Out	Latest Chg	Position	File Dt
1. Dimensional Fund Advisors LP	Multiple Portfolios	MF-AGG	0.43	58,442	2,035,347	04/16/21
2. BlackRock Inc	Multiple Portfolios	ULT-AGG	0.63	-425	3,006,042	04/15/21
3. State Street Corp	Multiple Portfolios	ULT-AGG	0.10	0	463,800	04/15/21
4. WisdomTree Investments Inc	Multiple Portfolios	ULT-AGG	0.13	0	629,874	04/15/21
5. American Century Cos Inc	Multiple Portfolios	MF-AGG	0.01	11,100	28,500	04/15/21
6. Manulife Financial Corp	Multiple Portfolios	ULT-AGG	0.00	0	3,300	03/31/21
7. Vanguard Group Inc/The	Multiple Portfolios	ULT-AGG	1.32	-1,083,257	6,233,118	03/31/21
8. Goh Nan Kioh	Multiple Portfolios	EXCH	1.57	0	7,415,528	01/03/21
9. Keen Capital Investments Ltd	Multiple Portfolios	EXCH	8.10	70,000	38,385,341	03/03/21
10. CAMASIA LTD	Multiple Portfolios	EXCH	0.16	-305,000	742,800	03/03/21
11. Teachers Insurance & Annuity Associati...	Multiple Portfolios	ULT-AGG	0.04	-16,600	208,200	02/28/21
12. Segall Bryant & Hamill LLC	Multiple Portfolios	MF-AGG	0.00	0	14,800	02/28/21
13. Mercer Global Investments Managemen...	Multiple Portfolios	MF-AGG	0.01	0	34,900	02/26/21
14. Power Corp of Canada	Multiple Portfolios	ULT-AGG	0.01	12,975	37,606	01/31/21
15. Nomura Holdings Inc	Multiple Portfolios	ULT-AGG	0.03	0	158,300	01/29/21
16. Tan Hui Meng	Multiple Portfolios	EXCH	0.09	0	432,000	01/25/21
17. AmFunds Management Bhd	Multiple Portfolios	MF-AGG	0.08	-402,208	397,792	12/31/20
18. Pheim Unit Trusts Berhad/Malaysia	Multiple Portfolios	MF-AGG	0.21	3,500	990,100	12/31/20
19. Permodalan BSN Berhad/Malaysia	Multiple Portfolios	MF-AGG	0.06	0	292,300	12/31/20
20. Norges Bank	Multiple Portfolios	MF-AGG	0.35	1,660,698	1,660,698	12/31/20
21. Areca Capital Sdn Bhd	Multiple Portfolios	MF-AGG	0.14	-109,000	658,000	12/31/20
22. FERIQUE Funds	Multiple Portfolios	MF-AGG	0.03	-36,900	152,300	12/31/20
23. Wells Fargo & Co	Multiple Portfolios	ULT-AGG	0.01	-5,900	35,000	12/31/20
24. Victory Capital Management Inc.	Multiple Portfolios	MF-AGG	0.01	33,300	33,300	12/31/20
25. Amanah Mutual Bhd	Multiple Portfolios	MF-AGG	0.28	63,000	1,304,600	11/30/20
26. Kenanga Funds Bhd	Multiple Portfolios	MF-AGG	0.27	1,632	1,255,332	11/30/20
27. AFFIN Hwang Asset Management Bhd	Multiple Portfolios	MF-AGG	0.50	-971,900	2,370,500	11/30/20
28. FIL Ltd	Multiple Portfolios	ULT-AGG	0.79	-1,730,959	3,757,101	11/30/20
29. Astmax Asset Management Inc	Multiple Portfolios	MF-AGG	0.01	0	67,400	11/20/20
30. KAF Investment Funds Bhd/Malaysia	Multiple Portfolios	MF-AGG	0.12	134,400	556,600	10/31/20

Image 6: Recent transactions of MFCB shares by institutions

Growth Prospects - Medium Term Catalyst & Potential Gem – Coconut Plantation

Whenever faced with the questions of growth prospects, investors in MFCB look into how much more they can grow from the packaging as well as resource department. While both departments will continue to grow (especially packaging), it will not be anywhere near the power division earnings. Public Invest for instance, stated that “Packaging is key earnings growth driver”. MFCB also had started enrolling themselves in the solar commercial and industrial space, but any earnings coming in from this would be very small in the context of the group.

The **big growth area** in my opinion might come from an additional **5th turbine** added into Don Sahong, but that would take time to implement. Another big growth area will come from **any potential new projects or investments to which management guided budgeted capex of near RM1bn** over the next 4 years.

However, a “**dark horse**” could come from the **plantation segment**. MFCB has 9,477 hectares of concession land in Cambodia with **6000 hectares plantable area**, primarily for agricultural development and cultivation. The management allocated USD1-2m per annum for plantation. It has set up a nursery by bringing in **high-quality coconut seeds** from Vietnam and Malaysia. Ultimately, it plans to venture into coconut-related food and beverage (F&B) businesses (such as coconut water, virgin cooking oil and/or coconut milk) by going into downstream processing.

From what I understand, Coconut planters with the traditional concept can plant coconut trees to an extent of 70 trees in one acre of land and reap an average of 6000 nuts per acre. Having planted their coconut since 2017, their coconut is a few years away from being harvested. As demand of coconut is growing faster than supply, this side business / asset could prove to be fruitful and contribute millions in the future. For measurement purposes, **1 coconut nut can sell for USD1. A 6000 hectares of planted coconut can yield about 90m nuts per annum!**

Risks

There are several risks when it comes to investing in MFCB, some are inherent. The major risks include:

- Prolonged dry season in a given year
- Downtime in turbine
- Increase rate of inflation – as it may distort the time value of money
- USDMYR currency risk – as concession comes with a tariff of 6.15 US cents per kWh.
- Perceived inefficient usage of cash from the investment community
- Political Risk that hinders payments of any sort

A common concern is with regards to high receivables and potential bad debt. In Q4 2020, management guided that increment in receivables was due to December payments came in January due to late acceptance in EDC which subsequently causing EDL to pay late. By Feb, receivables had gone back down to 3-4 months. Management also mentioned that EDL will not be bankrupt as it's guaranteed by the MOF.

Dividend vs Growth

One of the many recent complaints from the investment community – be it institutional nor retailers – is that they're disappointed at the dividend being dished out by MFCB in the last quarter (6.5c, making 12.5c annual payout). In my opinion, that's a shallow way to look at investment.

MFCB not paying out big dividend on the first year of Don Sahong operation is actually a **big plus** for me. Dividend is a function of growth. In my view, retaining their earnings, paring down debts and settling working capital needs are again, signs of **good business management who is looking to grow the business** and not resting on its laurels. MFCB management and founders could just dust off, pay good dividend and play golf, but this is a sign and commitment that the company is hungry for more. If you're looking for yield investment, MFCB is not the company for you.

I believe that 12.5c dividend will be a minimum and dividend will be stepped up in the future.

MFCB vs QL

I'm giving a simple comparison on why I deem MFCB a value stock. **MFCB and QL business is NOT apple to apple** for sure, but where they're similar is that **both are run by good management**. I'm an admirer of QL's management and the business that had been built over the years. QL's on its way to another record earnings this FY again, but it will **still fall short of RM300m profit**. MFCB on its maiden Don Sahong Power Plant going live, recorded RM321m in earnings. This earnings is **sustainable** for foreseeable future. Food for thought - **How long before QL's earnings can match that of MFCB? Secondly, QL is valued 5x MFCB**. Lastly, for all the complaints on MFCB's dividend payout last year, no one is complaining about **QL's dividend payout when it's 3x lower than MFCB!**

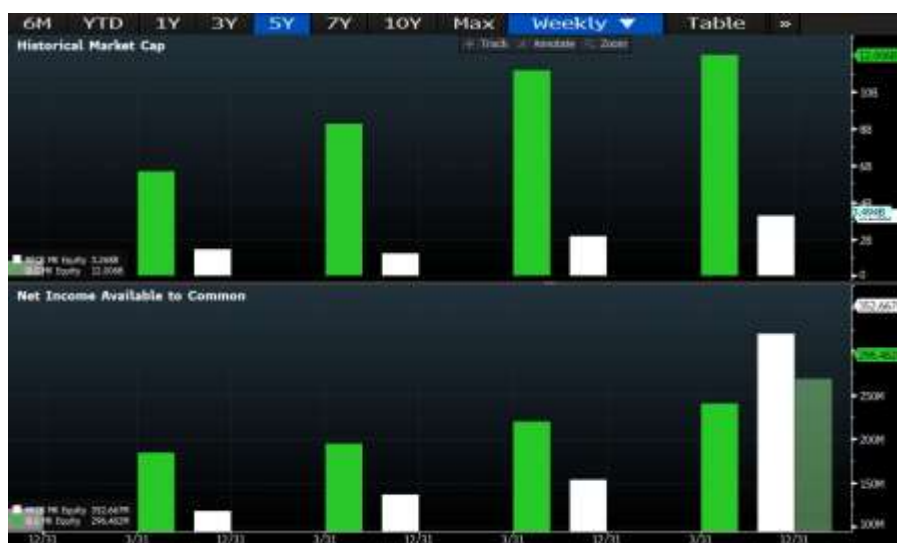
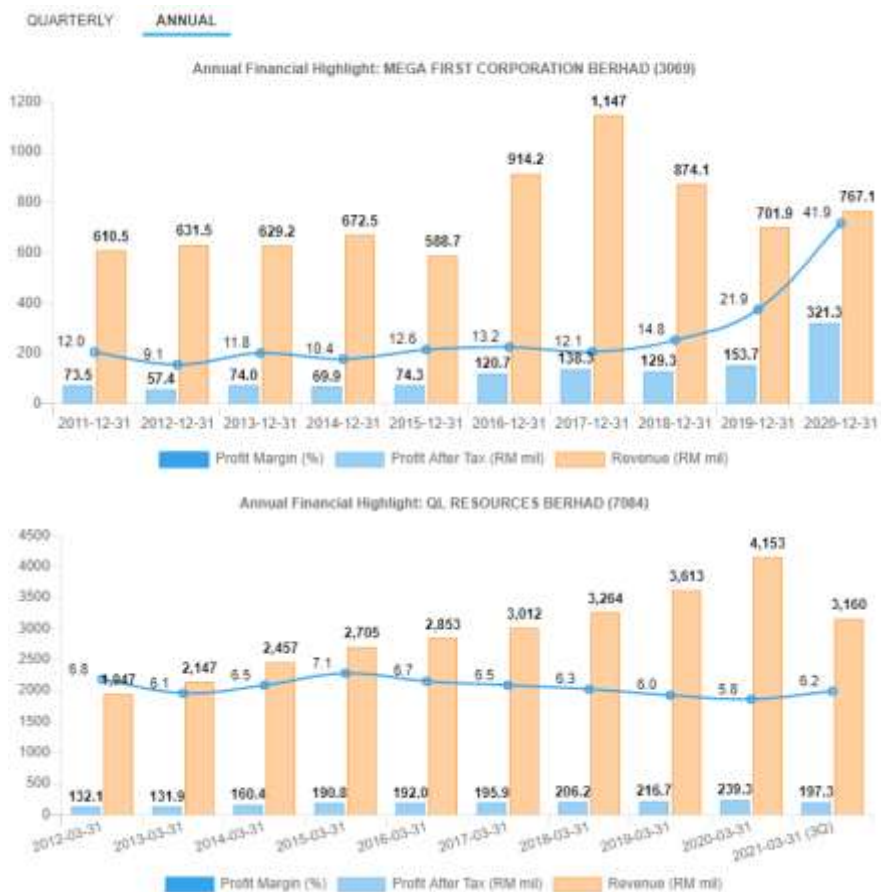


Image 7: QL vs MFCB – Profit vs Market Cap – Illustration

Valuation

There are various methods of valuing MFCB. A discounted cash flow is appropriate on Don Sahong as the future cash is predictable and consistent. A sum of parts could be used to segregate different business segments. Or a relative valuation too can be applied.

As I believe MFCB is not resting on its laurels and have a big appetite for growth, I'd be using relative valuation to value the company. This method also highlights the undervaluation that the investment community is giving the company for one reason or another.

If we refer back to Image 1, **a simple average of all renewable energy (including EPCC) & utility / power players (YTLP, Malakoff & including Tenaga) in Malaysia, they have a TTM average PE of 30x.**

On a regional level, MFCB is actually pretty small as compared to its Thailand counterparts. The Thais are very aggressive in their renewable energy footprint, it's much bigger and much more regional than what we have in Malaysia. From the regional connection to government support, they have it much more advanced than Malaysia.

MFCB VS. Regional Peers

COMPANY	REMARKS	NET PROFIT USD (T12M)	PE	MARKET CAP (USD)	ROE
MFCB	Hydro power plant in Laos 260 MW	78.36	10.92	856	15.94%
B GRIMM	1029 MW of projects across all types of RE	69.04	50.64	3,497	7.82%
CK POWER	2 Hydro in Laos 1900MW (46% stake in Nam Ngum and 37.5% stake in Xayaburi), and solar 29MW	12.85	91.60	1,177	1.71%
BCPG	Solar, Wind, Geothermal & Hydro 470MW combined	60.69	19.61	1,190	10.10%
GULF	Wind farm in Germany, Solar farm in TH & VN. 609MW in operation. 128MW hydro in Laos under construction	135.94	92.48	12,571	8.36%
GUNKUL	Largely EPCC but have 48MW Solar & 170 MW wind power plant	108.33	9.99	1,082	29.59%
EA (Energy Absolute)	278 MW of solar and 386 MW of wind	165.22	42.64	7,046	20.34%
EGCO	Global footprint from Australia to South Korea (8 countries) and projects across all types of RE	277.24	10.55	2,925	8.45%
RATCH	Global RE investment footprint from Australia to China (6 countries) and projects across all types of RE	199.56	11.48	2,290	10.48%
			Average PE	37.77	

Image 8: MFCB vs Thai Peers

Thailand counterparts commands an average valuation of 37.7x PE. Majority of these names are power utility players which have good roadmap of renewable energy. Some like CK Power are also operating in hydro power plant in Laos. CK Power for instance has 2 hydro plants in Laos, one of it is a 37.5% stake in Xayaburi Hydro.

Having seen all these, does it make sense then, for MFCB – a company at the forefront of ESG and has probably complied with being carbon neutral – being valued at a mere 10x PE?

Fair Value attached to PE, based on 2020's figures (which will grow in the future):

MFCB at 15x FY 2020 earnings = RM 9.75

MFCB at 20x FY 2020 earnings = RM 13

MFCB at 25x FY 2020 earnings = RM 16.25

MFCB might not be a stock that will make the headlines, the top volume or top gainer counters in KLSE, but it is a **solid stock to consider investing in, given their earnings visibility, growth prospects, management that have good knack for investment** – all trading NOT AT A CHEAP PRICE, but a **CHEAP VALUE.**

Thanks,

Rondy.