

26 November 2018 | 1QFY19 Results Review

YTL Corporation Berhad

Dragged by weaker utilities unit

Maintain BUY

Unchanged Target Price: RM1.55

INVESTMENT HIGHLIGHT

- **1Q19 in-line with expectations**
- **Earnings dragged by weaker utilities unit performance**
- **Construction and cement slated to improve in FY19F**
- **Maintain BUY at unchanged SOP-based TP of RM1.55**

Earnings in-line. YTL reported net profit of RM125m for its 1QFY19. This is within expectations accounting for 21% of our FY19F and 20% of consensus.

Construction. Increase in construction work drove higher revenue and pretax (+29%yoy) in 1QFY19. The addition of the Gemas JB project (we estimate YTL's share of the contract at RM8b) on top of construction of the group's Tg Jati power plant in Indonesia (estimated construction value of RM4b) will provide a massive expansion to the group's orderbook from the current RM400m to some RM12b. We expect Gemas-JB project to contribute more meaningfully to earnings from 2QFY19 while Tg Jati construction is expected to commence early-3QFY19.

Cement slated for improved volumes. Higher revenue (+4%yoy) due to higher sales volume and better selling price from China and Singapore operations. Despite improved revenue, the division saw a slight decline in earnings due to higher finance cost. Future improvement should be driven by sizeable internal projects i.e. Gemas-JB double tracking and Tg Jati construction (clinker supply) within the next 12 months.

Properties. Earnings is down 55%yoy against an inflated base last year (which was driven by gains on land disposal to the KL Land Administrator for the MRT project), but is higher sequentially as 4QFY18 was impacted negatively by a RM120m inventory write-down for YTL's Singapore project (part of 3 Orchard by the Park).

Utilities. YTL's core earnings fell 9%yoy to RM143m but some of these are affected by temporary factors and we would expect some improvement as the year progresses. Seraya dipped into losses in 1QFY9 (RM16m loss) for the first time since the downcycle in Singapore power sector, but this is unlikely to be a precursor to its earnings trends. Several temporary factors impacted Seraya: (1) Run up cost for CCP10 and Cogen 40 after unplanned outages (2) Loss on sale of gas to reduce take-or-pay quantity. Other than these temporary factors, Seraya was also dragged by lower retail non-fuel and tank leasing margins as well as lower vesting contract in the period.

RETURN STATS

Price (23 Nov 2018)	RM1.15
Target Price	RM1.55
Expected Share Price Return	+34.8%
Expected Dividend Yield	+3.4%
Expected Total Return	+38.2%

STOCK INFO

KLCI	1695.88
Bursa / Bloomberg	4677 / YTL MK
Board / Sector	Main / Conglo
Syariah Compliant	No
Issued shares (mil)	10568.70
Market cap. (RM'm)	12154.00
Price over NA	0.83
52-wk price Range	RM0.91-RM1.55
Beta (against KLCI)	1.19
3-mth Avg Daily Vol	3.62m
3-mth Avg Daily Value	RM4.32m
Major Shareholders	
Yeoh Tiong Lay & Son	50.3%
EPF	6.2%

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Kindly refer to the last page of this publication for important disclosures

INVESTMENT STATISTICS

FYE Jun (RMm)	2016	2017	2018	2019F	2020F
Revenue	15,370.0	14,727.7	15,859.1	18,579.1	19,769.0
EBIT	2,939.5	2,614.3	2,649.9	2,522.8	2,712.5
Pretax Profit	2,269.0	1,676.9	1,421.4	1,182.4	1,221.8
Minority Interest	(961.3)	(606.5)	(639.2)	(292.6)	(302.4)
Core net profit	913.7	796.3	598.1	594.2	614.0
EPS (sen)	8.8	7.7	5.7	5.6	5.8
EPS growth	-13.9%	-12.7%	-26.5%	-0.7%	3.3%
PER (x)	13.0	14.9	20.3	20.4	19.7
Dividend	9.5	5.0	4.0	3.9	4.1
Dividend yield (%)	8.3	4.3	3.5	3.4	3.5

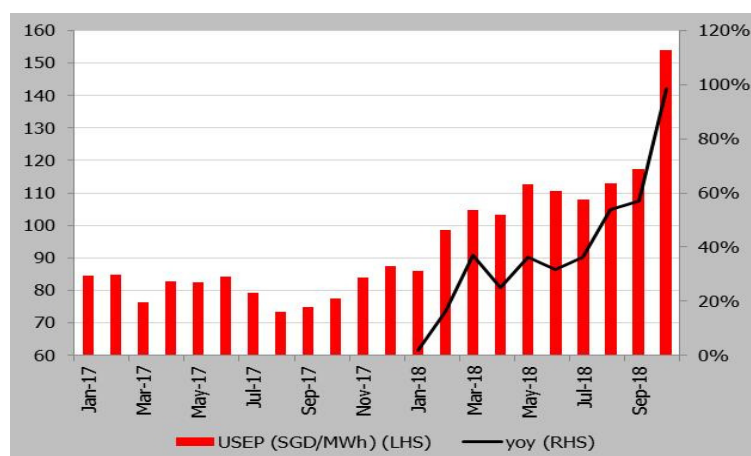
Source: Company, MIDFR

Wholesale rates rising. Average USEP wholesale electricity rates saw a sharp rise in October (+98%yoy) (See Exhibit 1) underpinning the improving trends seen so far this year – rates have been rising 2% - 60% this CY. Hyflux's plans to divest its stake in its Tuaspring plant (the last large capacity to come on-stream in Singapore) is still on-going. Possible consolidation in Singapore power generation should help to ease oversupply in the sector. Hyflux Tuaspring accounts for 3% of Singapore generation capacity.

Broadband losses narrowed. Losses from the broadband division narrowed significantly to RM8m from the previous run-rate of RM20m-RM30m/quarter. This is following YES' migration to its TD-LTE network from a hybrid LTE-Wimax network previously. While there is risk from loss of the Bestarinet contract, which is estimated to expire mid-CY19, YTL will not be excluded from the bidding. Given that Bestarinet is technically integrated into the group's broadband business, we would not rule out possibilities of YTL pursuing a partner to help it grow the business.

BUY reaffirmed. Our BUY on YTL is maintained at unchanged TP of RM1.55. Key catalysts are: (1) Gemas-JB double tracking expansion progress (2) Commencement of Tanjung Jati power plant construction; estimated RM4b construction value (3) Construction of two new luxury hotels – Marriot and Edition Sentral - under YTL Land, (4) Improvement in YTL Cement's earnings driven by the construction division's orderbook expansion (5) Consolidation in Singapore power generation sector, (6) Gradual expiry of LNG supply contracts for Singapore power, (7) Accelerated breakeven of mobile broadband business from any potential partnership or divestment. Key risk to our call is weaker than expected underlying earnings for YTL's cement unit and a delay in construction job awards.

EXHIBIT 1: SINGAPORE WHOLESALE ELECTRICITY RATES (SGD/MWH) HAVE BEEN RECOVERING



Source: Company, MIDFR

EXHIBIT 2: YTL 1Q19 RESULTS REVIEW

FYE Jun (RMm)	1Q18	4Q18	1Q19	YoY	QoQ
Revenue	3,929.9	4,150.3	4,088.5	4.0%	-1.5%
EBIT	766.0	516.0	678.9	-11.4%	31.6%
Finance cost	(419.9)	(418.6)	(428.7)	2.1%	2.4%
Associates	94.0	110.3	91.8	-2.4%	-16.8%
PBT	440.1	207.6	341.9	-22.3%	64.7%
Tax	(130.5)	(109.2)	(77.5)	-40.6%	-29.0%
Minority Interest	166.7	141.8	138.6	-16.8%	-2.2%
Net profit	142.9	(43.4)	125.8	-12.0%	-390.1%
Core net profit	188.8	226.5	125.8	-33.4%	-44.5%
EPS (sen)	1.38	(0.42)	1.21	-12.0%	-390.1%
GDPS (sen)	0.00	4.00	0.00	NA	NA
EBIT margin	19.5%	12.4%	16.6%		
Pretax margin	11.2%	5.0%	8.4%		
Tax rate	29.7%	52.6%	22.7%		
Net profit margin	4.8%	5.5%	3.1%		

Source: Company, MIDF

EXHIBIT 3: YTL 1Q19 RESULTS BREAKDOWN

Segmental Breakdown	1Q18	4Q18	1Q19	YoY	QoQ
Revenue (RMm):	3,929.9	4,150.3	4,088.5		
Construction	32.7	232.7	106.6	226.5%	-54.2%
IT & e-commerce	1.5	0.4	1.1	-27.4%	157.2%
Cement manufacturing	637.7	607.1	661.7	3.8%	9.0%
Properties	374.3	277.0	198.2	-47.1%	-28.5%
Management services & others	113.8	146.1	112.2	-1.4%	-23.2%
Hotels	265.4	215.2	288.9	8.9%	34.3%
Utilities	2,504.5	2,671.8	2,719.8	8.6%	1.8%
PBT (RMm):	440.1	207.6	341.9		
Construction	0.5	34.1	0.6	29.4%	-98.2%
IT & e-commerce	1.2	(1.2)	1.3	8.8%	-209.5%
Cement manufacturing	44.5	5.6	43.5	-2.2%	674.6%
Properties	190.4	(14.0)	86.0	-54.9%	NA
Management services & others	(23.7)	(104.8)	(5.6)	76.3%	NA
Hotels	(1.3)	(38.2)	7.1	NA	NA
Utilities	228.5	326.1	209.1	-8.5%	-35.9%
PBT margin					
Construction	1.4%	14.7%	0.6%		
IT & e-commerce	78.7%	-277%	117.9%		
Cement manufacturing	7.0%	0.9%	6.6%		
Properties	50.9%	-5.1%	43.4%		
Management services & others	-20.8%	-71.8%	-5.0%		
Hotels	-0.5%	-17.8%	2.5%		
Utilities	9.1%	12.2%	7.7%		

Source: Company, MIDF

EXHIBIT 4: YTL CORP SUM-OF-PARTS VALUATION

Group's businesses	Stake	Price	Valuation method	Value (RMm)	Value/share (RMm)
Listed Subsidiaries:					
YTL Power	54%	1.55	MIDF TP of RM1.55	5,888	0.56
YTL Land	64%	0.47	Market price	249	0.02
YTL e-Solutions	100%	0.55	Privatisation price	740	0.07
YTL Hospitality REIT	59%	1.18	Market price	923	0.09
Starhill Global REIT	36%	0.68	Market price	1,639	0.16
Unlisted Businesses					
ERL concession	45%		Equity NPV	383	0.04
Cement	100%		13xEV/EBITDA	7,313	0.69
Construction	100%		12xPE	1,613	0.15
Gross Value				18,747	1.78
<i>less: holding co net debt</i>				<i>(2,375)</i>	<i>(0.23)</i>
Total SOP Value				16,373	1.55

DAILY PRICE CHART



Source: Bloomberg

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STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.