26 February 2018 | 2QFY18 Results Review

YTL Corporation Berhad

Strong catalysts from 2HFY18

***Maintain* BUY**

***Revised* Target Price: RM1.82**
(from RM1.40)

INVESTMENT HIGHLIGHT

- **2QFY18 earnings within estimates**
- **Massive orderbook expansion, potential play into High Speed Rail project**
- **Utilities have stabilised and should gradually improve**
- **Re-affirm BUY at higher TP of RM1.82**

Results within expectations. YTL's core earnings came in within estimates. The group reported core net profit of RM116m for its 2QFY18 which brought 1HFY18 core earnings to RM305m. This accounted for 37% of our FY18F and 44% of consensus. We expect a stronger 2HFY18 driven by: (1) Full half contribution of YTL Power's Paka plant (2) A step-up in construction earnings mainly from 4QFY18 (3) Gradual improvement in cement revenues.

Margin improvement at cement division. Cement division earnings improved on the back of higher revenue (+15%qoq) and improved margins, which is inching closer to pre-3QFY17 range of 13%-17%. However on a yoy basis, margins were still lower due to higher production cost and price competition in the market.

Property earnings normalised. Property division earnings normalised after seeing a bump in 1QFY18 from the disposal of land in Sentul to the KL Land Administrator for the MRT project. On top of this, YTL's Midfields 2 project is now completed while progress billings from The Fennel, Dahlia and U-Thant projects were lower as these projects are nearing completion.

Massive orderbook expansion. Construction earnings were still depressed in 2QFY18, but we expect gradual improvement in 3QFY18 before a step-up from 4QFY18 from commencement of key projects. YTL is targeting orderbook to expand from RM400m currently to some RM12b by year end. Key catalysts would be: (1) The Gemas-JB project with a total project value of RM8.9b (2) YTL Power's RM11b 1320MW Tanjung Jati power plant (commercial operation date target in 2021) which entails an estimated construction value of RM4b. These projects will have positive spillover impact on the cement division, towards end FY18F and into FY19F.

Potential play into HSR. YTL recently setup an SPV – YTL THP JV Sdn Bhd (30% owned by TH Properties), presumably to bid for packages of the HSR project. Via partnership with SIPP Rail Sdn Bhd (SIPP), the group is reported to be one of the contenders for the PDP role of the High Speed Rail (HSR) project. The group is backed by a solid track record given involvement in the construction and operation of the RM2.4b Express Rail Link (ERL) project which is also one of the cheapest that is rolled out at just RM42m/km. Other contenders for the PDP role are Gamuda, IJM and Naza's respective consortiums.

RETURN STATS	
Price (23 Feb 2018)	RM1.48
Target Price	RM1.82
Expected Share Price Return	+22.8%
Expected Dividend Yield	+3.9%
Expected Total Return	**+26.7%**

STOCK INFO	
KLCI	1861.50
Bursa / Bloomberg	4677 / YTL MK
Board / Sector	Main / Conglo
Syariah Compliant	No
Issued shares (mil)	10,745.91
Market cap. (RM'm)	15,903.95
Price over NA	1.12
52-wk price Range	RM1.09-RM1.55
Beta (against KLCI)	1.20
3-mth Avg Daily Vol	7.159m
3-mth Avg Daily Value	RM9.71m
Major Shareholders	
YEOH TIONG LAY & SON	48.8%
EPF	6.4%

INVESTMENT STATISTICS

FYE Jun (RMm)	2015	2016	2017	2018F	2019F
Revenue	16,821.6	15,370.0	14,727.7	16,347.3	19,347.4
EBIT	3,230.2	2,939.5	2,614.3	2,662.4	3,068.8
Pretax Profit	2,365.9	2,269.0	1,676.9	1,447.2	1,805.1
Minority Interest	(689.8)	(961.3)	(606.5)	(401.2)	(500.4)
Net profit	1,069.7	913.7	796.3	814.5	1,015.9
EPS (sen)	10.3	11.6	7.6	7.7	9.6
EPS growth	-31.6%	12.9%	-34.8%	2.3%	24.7%
PER (x)	14.4	12.8	19.6	19.1	15.3
Dividend	9.5	9.5	9.8	4.6	5.8
Dividend yield (%)	6.4	6.4	6.6	3.1	3.9

Source: Company, MIDF

Utilities have stabilised and to gradually improve. YTL's utilities division (accounts for 53% of group pretax) is still dragged by its Singapore multi-utilities division, but earnings is stabilising. YTL Power's Paka plant commenced its 3-year 10-months short-term extension in Sep17. The 2QFY18 reflected its maiden full quarter contribution and maiden earnings of RM14m (vs. 1QFY18's loss of RM18m). We estimate EBITDA of RM90m-RM100m/annum throughout Paka's PPA extension expiring June 2021. The group is still holding on to its Pasir Gudang plant. Despite the absence of any PPA extension for the plant, management is of the view that there is value to a plant that is readily connected to the grid.

Seraya looks to have stabilised. Power Seraya earnings improved slightly (+12%qoq) and underlines our view that underlying rates should have reached a bottom given the absence of large new capacity in the market. Hyflux's 400MW plant (which was the last major capacity addition in the market) is reported to be up for sale after only having been operational since 1Q16. YTL Power has a decently strong balance sheet and does not rule out consolidation in the Singapore power generation sector from the current 7 players. More importantly, Power Seraya benefits from vesting volumes sold to Singapore Power Services as this is on a cost plus basis, hence guarantees profit margins which is valuable in the current oversupply situation. Only the three largest gencos get to contribute to vesting volumes, which accounts for at least 25% of demand in the country. Vesting contracts are expected to be phased out by mid-2019 but this also ties in with the gradual expiry of take-or-pay LNG supply contracts to industry players between 2018-2023, which should gradually improve underlying fundamentals.

Recommendation. We raise our FY19F by 4% to factor in higher construction orderbook targets. Re-affirm BUY on YTL at a higher SOP-derived TP of RM1.82 (from RM1.40 previously) as we also rollover our valuations to FY19F and factor in our new TP for YTL Power. Key catalysts: (1) RM8.9b Gemas-JB project award (2) Financial close for YTL Power's RM11b Tg. Jati power plant (3) Outcome of HSR package awards (4) Organic and non-organic improvement in cement division revenues (4) Possible consolidation in cement sector.

EXHIBIT 1: REPORTED CONTENDERS FOR HSR

Project Delivery Partner
YTL-SIPP
Naza Group - China Communications Construction Company
Gamuda-MRCB
IJM-Sunway Construction-Jalinan Maltimur JV
Asset Company
George Kent-Siemens-Alstom-Ferrovie dello Stato Italiane
MMC-Japanese partner

Source: Various news reports, MIDFR

EXHIBIT 2: YTL 2Q18 RESULTS REVIEW

FYE Jun (RMm)	2Q17	1Q18	2Q18	YoY	QoQ	1H17	1H18	YTD
Revenue	3,622.1	3,929.9	3,899.2	7.7%	-0.8%	7,114.2	7,829.1	10%
EBIT	**613.9**	**766.0**	**693.9**	**13.0%**	**-9.4%**	**1,182.3**	**1,459.9**	**23%**
Finance cost	(315.3)	(419.9)	(401.9)	27.5%	-4.3%	(621.9)	(821.8)	32%
Associates	103.4	94.0	103.7	0.2%	10.3%	187.9	197.6	5%
PBT	**402.0**	**440.1**	**395.6**	**-1.6%**	**-10.1%**	**748.3**	**835.7**	**12%**
Tax	(93.1)	(130.5)	(100.7)	8.2%	-22.9%	(176.2)	(231.2)	31%
Minority Interest	161.3	166.7	168.8	4.7%	1.3%	274.1	335.5	22%
Net profit	147.7	142.9	126.1	-14.6%	-11.8%	298.0	269.0	-10%
Core net profit	**147.7**	**188.8**	**115.7**	**-21.7%**	**-38.7%**	**298.0**	**304.5**	**2%**
EPS (sen)	1.43	1.38	1.22	-14.6%	-11.8%	2.88	2.60	-10%
GDPS (sen)	0.00	0.00	0.00	NA	NA	0.00	0.00	NA
EBIT margin	16.9%	19.5%	17.8%			16.6%	18.6%	
Pretax margin	11.1%	11.2%	10.1%			10.5%	10.7%	
Tax rate	23.1%	29.7%	25.5%			23.5%	27.7%	
Net profit margin	4.1%	4.8%	3.0%			4.2%	3.4%	

Source: Company, MIDF

EXHIBIT 3: YTL 2Q18 RESULTS BREAKDOWN

Segmental Breakdown	2Q17	1Q18	2Q18	YoY	QoQ	1H17	1H18	YTD
Revenue (RMm):	**3,622.1**	**3,929.9**	**3,899.2**			**7,114.2**	**7,829.1**	
Construction	31.1	32.7	28.5	-8.4%	-12.6%	53.6	61.2	14%
IT & e-commerce	1.4	1.5	1.6	12.9%	3.4%	2.3	3.0	35%
Cement manufacturing	624.9	637.7	732.5	17.2%	14.9%	1,200.7	1,370.3	14%
Properties	270.0	374.3	175.4	-35.0%	-53.1%	536.9	549.7	2%
Management services & others	46.8	113.8	95.9	104.8%	-15.7%	156.1	209.7	34%
Hotels	233.7	265.4	285.4	22.1%	7.6%	454.3	550.8	21%
Utilities	2,414.1	2,504.5	2,579.9	6.9%	3.0%	4,710.5	5,084.4	8%
PBT (RMm):	**402.0**	**440.1**	**395.6**			**748.3**	**835.7**	
Construction	12.0	0.5	11.5	-4.5%	2376.7%	20.8	11.9	-43%
IT & e-commerce	1.1	1.2	1.3	12.8%	9.9%	1.3	2.5	90%
Cement manufacturing	96.4	44.5	95.8	-0.7%	115.3%	171.4	140.3	-18%
Properties	78.4	190.4	95.4	21.7%	-49.9%	116.7	285.8	145%
Management services & others	(73.8)	(23.7)	(58.3)	-21.0%	NA	(65.2)	(81.9)	26%
Hotels	34.6	(1.3)	6.5	-81.1%	-587.5%	48.2	5.2	-89%
Utilities	253.3	228.5	243.4	-3.9%	6.5%	455.1	472.0	4%
PBT margin								
Construction	38.6%	1.4%	40.2%			38.8%	19.5%	
IT & e-commerce	83.7%	78.7%	83.6%			57.8%	81.2%	
Cement manufacturing	15.4%	7.0%	13.1%			14.3%	10.2%	
Properties	29.0%	50.9%	54.4%			21.7%	52.0%	
Management services & others	-158%	-20.8%	-60.8%			-41.8%	-39.1%	
Hotels	14.8%	-0.5%	2.3%			10.6%	0.9%	
Utilities	10.5%	9.1%	9.4%			9.7%	9.3%	

Source: Company, MIDF

DAILY PRICE CHART

Source: Bloomberg

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* 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 *fall* 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.