

25 May 2018 | 3QFY18 Results Review

YTL Corporation Berhad

Earnings fell behind estimates

Maintain NEUTRAL

Revised Target Price: RM1.05
(from RM1.30)

INVESTMENT HIGHLIGHT

- **3QFY18 missed estimates**
- **Construction and cement hit by lower margins**
- **Possible review of construction projects may impact prospects**
- **Maintain NEUTRAL at a lower SOP-derived TP of RM1.05 from RM1.30**

3QFY18 missed estimates. YTL reported core net profit of RM105m for its 3QFY18, bringing 9MFY18 core earnings to RM346m. This is well behind estimates accounting for 45% and 50% of our and consensus' FY18F.


Construction margins shrank. While there was better site progress and revenue more than doubled in 3QFY18, earnings were impacted by lower margins and high operating cost.

Orderbook expansion could be delayed or worst, cancelled. To recap, YTL's construction order book was expected to expand significantly by end CY18F. From circa RM400m (comprising mainly internal property development projects e.g. YTL's new Pavilion HQ), orderbook was expected expand to some RM12b by year end. Key drivers for this were: (1) The RM9.4b Gemas-JB double tracking project over the next 4 years (2) PDP role for the HSR project (3) Construction of 80%-owned Tanjung Jati coal power plant in Indonesia over the next 3 years – USD1b (RM3.8b) of the project's USD2.7b project value comprise of construction. The Gemas-JB double tracking project, which was awarded to a consortium of Chinese companies comprising CRCC, CCCC and CECC in 2016 as well as the PDP for the HSR project are likely to come under the new Government's review.

Cement division hit by lower margins. YTL's cement division also saw similar trends. Revenues were higher given better sales volumes but margins were hit by higher production cost e.g. higher coal cost, and competitive pricing in the market.

Utilities unit provided stability. YTL utilities (accounts for 60% of group pretax) did well in 3QFY18 registering earnings growth of 19%yoy driven by Wessex Water's rate hike and the opening up of the retail market, while the Paka plant also commence its short-term PPA since 2QFY18.

Earnings revision. We revise lower our FY18F/19F by 39%/39% to factor in lower margins for the cement division and the construction division as well as losses for the management services division. Accordingly, dividend yields are now lower at 2.8%.

Recommendation. Maintain NEUTRAL at a lower SOP-derived TP of RM1.05 (from RM1.30) to reflect: (1) Our TP was lowered for YTL Power to RM1.20 from RM1.48 (2) The earnings revisions in this report for YTL (3) The latest (decline) in price of YTL's listed units. 

RETURN STATS	
Price (24 May 2018)	RM0.995
Target Price	RM1.05
Expected Share Price Return	+5.5%
Expected Dividend Yield	+2.8%
Expected Total Return	+8.3%

STOCK INFO	
KLCI	1775.66
Bursa / Bloomberg	4677 / YTL MK
Board / Sector	Main / Conglo
Syariah Compliant	No
Issued shares (mil)	10,745.91
Market cap. (RM'm)	10,692.18
Price over NA	0.86
52-wk price Range	RM1.09-RM1.56
Beta (against KLCI)	0.86
3-mth Avg Daily Vol	6.01m
3-mth Avg Daily Value	RM7.6m
Major Shareholders	
Yeoh Tiong Lay & Son	48.8%
EPF	6.3%

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INVESTMENT STATISTICS

FYE Jun (RMm)	2015	2016	2017	2018F	2019F
Revenue	16,821.6	15,370.0	14,727.7	15,830.3	17,095.1
EBIT	3,230.2	2,939.5	2,614.3	2,174.7	2,331.4
Pretax Profit	2,365.9	2,269.0	1,676.9	959.4	1,067.8
Minority Interest	(689.8)	(961.3)	(606.5)	(237.5)	(264.3)
Net profit	1,069.7	913.7	796.3	482.1	536.6
EPS (sen)	10.3	11.6	7.6	4.6	5.1
EPS growth	-31.6%	12.9%	-34.8%	-39.5%	11.3%
PER (x)	9.7	8.6	13.2	21.7	19.5
Dividend	9.5	9.5	5.0	2.7	3.1
Dividend yield (%)	9.5	9.5	5.0	2.8	3.1

Source: Company, MIDFR

EXHIBIT 2: YTL 3Q18 RESULTS REVIEW

FYE Jun (RMm)	3Q17	2Q18	3Q18	YoY	QoQ	9M17	9M18	YTD
Revenue	3,716.4	3,899.2	3,879.7	4.4%	-0.5%	10,830.6	11,708.8	8%
EBIT	722.5	693.9	673.9	-6.7%	-2.9%	1,904.9	2,133.8	12%
Finance cost	(327.9)	(401.9)	(401.8)	22.6%	0.0%	(949.8)	(1,223.7)	29%
Associates	118.6	103.7	106.0	-10.7%	2.2%	306.5	303.6	-1%
PBT	513.3	395.6	378.1	-26.3%	-4.4%	1,261.6	1,213.8	-4%
Tax	(74.1)	(100.7)	(80.0)	7.9%	-20.6%	(250.3)	(311.2)	24%
Minority Interest	153.2	168.8	161.9	5.7%	-4.1%	427.3	497.4	16%
Net profit	286.0	126.1	136.3	-52.4%	8.1%	584.0	405.2	-31%
Core net profit	240.8	115.7	104.5	-56.6%	-9.7%	538.0	345.7	-36%
EPS (sen)	2.76	1.22	1.31	-52.4%	8.1%	5.63	3.91	-31%
GDPS (sen)	0.00	0.00	0.00	NA	NA	0.00	0.00	NA
EBIT margin	19.4%	17.8%	17.4%			17.6%	18.2%	
Pretax margin	13.8%	10.1%	9.7%			11.6%	10.4%	
Tax rate	14.4%	25.5%	21.1%			19.8%	25.6%	
Net profit margin	7.7%	3.0%	2.7%			5.4%	3.5%	

Source: Company, MIDF

EXHIBIT 3: YTL 2Q18 RESULTS BREAKDOWN

Segmental Breakdown	3Q17	2Q18	3Q18	YoY	QoQ	9M17	9M18	YTD
Revenue (RMm):	3,716.4	3,899.2	3,879.7			10,830.6	11,708.8	
Construction	40.0	28.5	92.6	131.3%	224.6%	93.6	153.8	64%
IT & e-commerce	0.6	1.6	0.9	63.5%	-40.8%	2.8	4.0	41%
Cement manufacturing	566.7	732.5	641.3	13.2%	-12.5%	1,767.4	2,011.6	14%
Properties	352.2	175.4	166.7	-52.7%	-4.9%	889.1	716.4	-19%
Management services & others	121.7	95.9	130.9	7.6%	36.5%	277.8	340.6	23%
Hotels	288.6	285.4	330.7	14.6%	15.9%	742.8	881.4	19%
Utilities	2,346.6	2,579.9	2,516.5	7.2%	-2.5%	7,057.1	7,600.9	8%
PBT (RMm):	513.3	395.6	378.1			1,261.6	1,213.8	
Construction	10.8	11.5	1.0	-90.9%	-91.4%	31.6	12.9	-59%
IT & e-commerce	0.1	1.3	0.6	381.2%	-50.6%	1.4	3.1	117%
Cement manufacturing	28.9	95.8	23.3	-19.2%	-75.7%	200.2	163.6	-18%
Properties	78.7	95.4	113.4	44.0%	18.9%	195.4	399.2	104%
Management services & others	127.9	(58.3)	(63.9)	NA	NA	62.7	(145.9)	NA
Hotels	50.9	6.5	47.8	-6.2%	631.3%	99.2	53.0	-47%
Utilities	215.9	243.4	256.0	18.6%	5.2%	671.0	727.9	8%
PBT margin								
Construction	27.0%	40.2%	1.1%			33.8%	8.4%	
IT & e-commerce	23.7%	83.6%	69.8%			51.0%	78.5%	
Cement manufacturing	5.1%	13.1%	3.6%			11.3%	8.1%	
Properties	22.3%	54.4%	68.0%			22.0%	55.7%	
Management services & others	105.1%	-60.8%	-48.8%			22.6%	-42.8%	
Hotels	17.7%	2.3%	14.4%			13.4%	6.0%	
Utilities	9.2%	9.4%	10.2%			9.5%	9.6%	

Source: Company, MIDF

DAILY PRICE CHART



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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.