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30 August 2018 | 4QFY18 Results Review

YTL Corporation Berhad

Write-downs impacted headline numbers

***Maintain* BUY**

***Unchanged* Target Price: RM1.55**

INVESTMENT HIGHLIGHT

- **4Q18 core earnings slightly ahead**
- **Property inventory write-down impacted headline numbers**
- **Construction and cement slated to improve from FY19F**
- **Re-affirm BUY at unchanged SOP-based TP of RM1.55**

4Q18 core earnings ahead of estimates. YTL reported core net profit of RM226m for its 4QFY18, bringing FY18 core earnings to RM598m. This is ahead of estimates accounting for 115% and 111% of our and consensus' FY18F mainly due to stronger than expected utilities earnings. A dividend of 4sen/share was declared (ahead of expectations), representing a 70% payout (vs. our 60% payout assumption.

Property write-down. There was a large inventory write-down amounting to RM120m (against BV of RM1b) for the property segment in 4QFY18, relating to YTL's property project in Singapore (part of 3 Orchard by the Park project) – write-down was triggered by Singapore's property cooling measures. The project involves 77 units and is slated to commence sales soon. Despite the write-down, YTL is confident of selling the units around SGD3500-3700psf – if this materialises, the amount is likely to be written back.

Major expansion to orderbook. 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. Gemas-JB is understood to be already underway (20% progress) while Tg Jati construction is expected to commence early-CY19F. While there was some contribution by Gemas-JB in 4QFY18, meaningful contribution is expected from 2QFY19.

Cement on track for improvement. Cement revenue (-8%yoy) and earnings (-70%yoy) shrunk in 2Q18 due to lower demand, increase in sales & distribution cost and competitive pricing. However, future improvement should be driven by sizeable internal projects i.e. Gemas-JB double tracking and Tg Jati construction (clinker supply) in near future.

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 divison'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.

RETURN STATS	
Price (29 Aug 2018)	RM1.33
Target Price	RM1.55
Expected Share Price Return	+16.5%
Expected Dividend Yield	+3.0%
Expected Total Return	**+19.5%**

STOCK INFO	
KLCI	1820.64
Bursa / Bloomberg	4677 / YTL MK
Board / Sector	Main / Conglo
Syariah Compliant	No
Issued shares (mil)	10575.36
Market cap. (RM'm)	14065.23
Price over NA	1.01
52-wk price Range	RM0.91-RM1.55
Beta (against KLCI)	0.89
3-mth Avg Daily Vol	19.3m
3-mth Avg Daily Value	RM21.6m
Major Shareholders	
Yeoh Tiong Lay & Son	50.3%
EPF	6.2%

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)	15.0	17.2	23.4	23.6	22.8
Dividend	9.5	5.0	4.0	3.9	4.1
Dividend yield (%)	7.1	3.8	3.0	3.0	3.1

Source: Company, MIDFR

EXHIBIT 1: YTL 4Q18 RESULTS REVIEW

FYE Jun (RMm)	4Q17	3Q18	4Q18	YoY	QoQ	FY17	FY18	YTD
Revenue	3,897.1	3,879.7	4,150.3	6.5%	7.0%	14,728.7	15,859.1	8%
EBIT	**709.4**	**673.9**	**516.0**	**-27.3%**	**-23.4%**	**2,572.9**	**2,649.9**	**3%**
Finance cost	(368.2)	(401.8)	(418.6)	13.7%	4.2%	(1,317.5)	(1,642.3)	25%
Associates	74.0	106.0	110.3	48.9%	4.0%	470.1	413.9	-12%
PBT	**415.3**	**378.1**	**207.6**	**-50.0%**	**-45.1%**	**1,725.5**	**1,421.4**	**-18%**
Tax	(23.8)	(80.0)	(109.2)	358.9%	36.6%	(283.5)	(420.4)	48%
Minority Interest	179.2	161.9	141.8	-20.9%	-12.4%	628.7	639.2	2%
Net profit	212.3	136.3	(43.4)	-120.4%	-131.8%	813.3	361.9	-56%
Core net profit	**212.3**	**104.5**	**226.5**	**6.7%**	**116.7%**	**813.3**	**598.1**	**-26%**
EPS (sen)	2.05	1.31	(0.42)	-120.4%	-131.8%	7.85	3.49	-56%
GDPS (sen)	5.00	0.00	4.00	-20.0%	NA	5.00	4.00	-20%
EBIT margin	18.2%	17.4%	12.4%			17.5%	16.7%	
Pretax margin	10.7%	9.7%	5.0%			11.7%	9.0%	
Tax rate	5.7%	21.1%	52.6%			16.4%	29.6%	
Net profit margin	5.4%	2.7%	5.5%			5.5%	2.3%	

Source: Company, MIDF

EXHIBIT 2: YTL 4Q18 RESULTS BREAKDOWN

Segmental Breakdown	4Q17	3Q18	4Q18	YoY	QoQ	FY17	FY17	YTD
Revenue (RMm):	**3,897.1**	**3,879.7**	**4,150.3**			**14,727.7**	**15,859.1**	
Construction	51.0	92.6	232.7	356.4%	151.3%	144.6	386.5	167%
IT & e-commerce	0.4	0.9	0.4	8.2%	-53.9%	3.2	4.4	37%
Cement manufacturing	658.2	641.3	607.1	-7.8%	-5.3%	2,425.5	2,618.7	8%
Properties	338.9	166.7	277.0	-18.3%	66.2%	1,228.0	993.5	-19%
Management services & others	129.6	130.9	146.1	12.8%	11.6%	407.3	486.7	19%
Hotels	223.6	330.7	215.2	-3.8%	-34.9%	966.4	1,096.6	13%
Utilities	2,495.5	2,516.5	2,671.8	7.1%	6.2%	9,552.6	10,272.7	8%
PBT (RMm):	**415.3**	**378.1**	**207.6**			**1,676.9**	**1,421.4**	
Construction	25.6	1.0	34.1	33.3%	3366.2%	57.2	46.8	-18%
IT & e-commerce	(0.5)	0.6	(1.2)	130.3%	-283.1%	0.9	1.9	110%
Cement manufacturing	18.9	23.3	5.6	-70.3%	-75.9%	219.2	169.2	-23%
Properties	198.9	113.4	(14.0)	NA	NA	394.3	385.4	-2%
Management services & others	(30.0)	(63.9)	(104.8)	249.6%	NA	32.7	(250.7)	-866%
Hotels	(11.4)	47.8	(38.2)	234.8%	-180.0%	87.8	14.7	-83%
Utilities	213.7	256.0	326.1	52.6%	27.4%	884.7	1,054.1	19%
PBT margin								
Construction	50.2%	1.1%	14.7%			39.6%	12.1%	
IT & e-commerce	-130.2%	69.8%	-277.1%			28.9%	44.3%	
Cement manufacturing	2.9%	3.6%	0.9%			9.0%	6.5%	
Properties	58.7%	68.0%	-5.1%			32.1%	38.8%	
Management services & others	-23.1%	-48.8%	-71.8%			8.0%	-51.5%	
Hotels	-5.1%	14.4%	-17.8%			9.1%	1.3%	
Utilities	8.6%	10.2%	12.2%			9.3%	10.3%	

Source: Company, MIDF

EXHIBIT 3: 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**
less: holding co net debt				*(2,375)*	*(0.23)*
Total SOP Value				**16,373**	**1.55**

DAILY PRICE CHART

Source: Bloomberg

Hafriz Hezry
hafriz.hezry@midf.com.my
03-2772 1679

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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 *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.