

06 April 2018 | Corporate Update

YTL Corporation Berhad

Orderbook expansion tracking well

Maintain BUY

Unchanged Target Price: RM1.82

INVESTMENT HIGHLIGHT

- **Appointed PDP role for Southern portion of HSR**
- **Massive orderbook expansion by year end**
- **Cement division a spillover beneficiary**
- **Re-affirm BUY at unchanged TP of RM1.82**

Appointed PDP for HSR. YTL Corp has been appointed as one of two Project Delivery Partners (PDP) for the KL-SG High Speed Rail (HSR) project. YTL Corp had submitted a bid for the role via a 70:30 JV with TH Properties. The other consortium appointed for the PDP role was MRCB-Gamuda (50:50). YTL-THP was selected for the Southern portion of the alignment (Johor portion) and MRCB-Gamuda for the Northern portion (KL to state border of Melaka-Johor).

MRT3 as a yardstick. Using the MRT3 as a yardstick, we think PDP fees could range between 5% to 6% of the civil works portion of the HSR. This was estimated at RM30-RM45b based on recent reports, though exact breakdown between Northern and Southern portion is not yet forthcoming. Also, the value will depend on the robustness of work required for the Northern portion vs Southern portion e.g. underground works are typically a lot more expensive (up to 5 times) compared to on-ground works.

Range of estimates. Based on 5% to 6% PDP fee assumption, RM30b-RM45b civil works portion and a range of estimates for the Southern portion of the alignment, we estimate a min-max orderbook expansion of RM600m – RM1.5b for YTL (See Exhibit 1). This is 5%-13% of YTL's targeted construction orderbook of RM12b (by year end). However, recognition is likely to be spread over quite a number of years as the HSR is only targeted to be up and running by end 2026.

Massive orderbook expansion. YTL's 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 are: (1) Gemas-JB double tracking 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.

Spillover impact on cement? Towards end FY18F and into FY19F, YTL's cement division should benefit from the implementation of a slew of rail contracts i.e. Gemas-JB, ECRL, HSR on top of YTL Power's Tanjung Jati power plant construction which will see clinker supplies from its plant in Malaysia.

Recommendation. Re-affirm BUY on YTL at unchanged SOP-derived TP of RM1.82 with potential upside once more concrete details on HSR contract values emerge. This development underpins our thesis of a revival in YTL's long overlooked construction unit. Key catalysts: (1) RM8.9b Gemas-JB project award (2) Financial close for YTL Power's RM11b Tg. Jati power plant (3) Rollout of HSR contracts (4) Organic and non-organic improvement in cement division revenues (4) Possible consolidation in cement sector.

RETURN STATS	
Price (5 April 2018)	RM1.39
Target Price	RM1.82
Expected Share Price Return	+30.9%
Expected Dividend Yield	+4.2%
Expected Total Return	+35.1%

STOCK INFO	
KLCI	1836.13
Bursa / Bloomberg	4677 / YTL MK
Board / Sector	Main / Conglo
Syariah Compliant	No
Issued shares (mil)	10,745.91
Market cap. (RM'm)	15,936.81
Price over NA	1.05
52-wk price Range	RM1.09-RM1.55
Beta (against KLCI)	1.22
3-mth Avg Daily Vol	5.54m
3-mth Avg Daily Value	RM8.06m
Major Shareholders	
Yoeh Tiong Lay & Son	48.8%
EPF	6.4%

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

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)	13.5	12.0	18.4	18.0	14.4
Dividend	9.5	9.5	5.0	4.6	5.8
Dividend yield (%)	6.8	6.8	3.6	3.3	4.2

Source: Company, MIDF

EXHIBIT 1: ESTIMATES OF PDP CONTRIBUTION TO YTL BASED ON 5%-6% PDP FEE ASSUMPTION

HSR civil works portion value (RMb)	30	30	30	30	30
Southern portion of total	40.0%	45.0%	50.0%	55.0%	60.0%
Estimate Southern portion value (RMb)	12.0	13.5	15.0	16.5	18.0
5% (RMb)	0.60	0.68	0.75	0.83	0.90
6% (RMb)	0.72	0.81	0.90	0.99	1.08

HSR civil works portion value (RMb)	45	45	45	45	45
Southern portion of total	40.0%	45.0%	50.0%	55.0%	60.0%
Estimate Southern portion value (RMb)	18.0	20.3	22.5	24.8	27.0
5% (RMb)	0.90	1.01	1.13	1.24	1.35
6% (RMb)	1.08	1.22	1.35	1.49	1.62

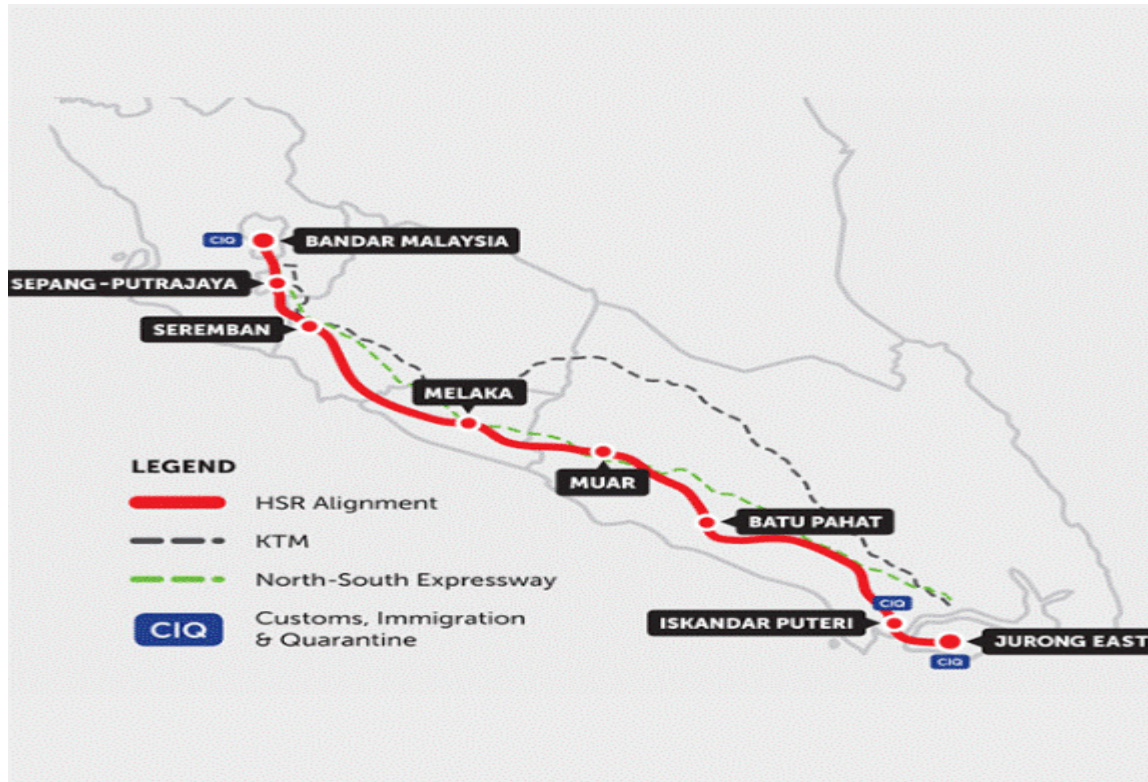
Source: Company, MIDF

EXHIBIT 2: REPORTED CONTENDERS FOR HSR

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

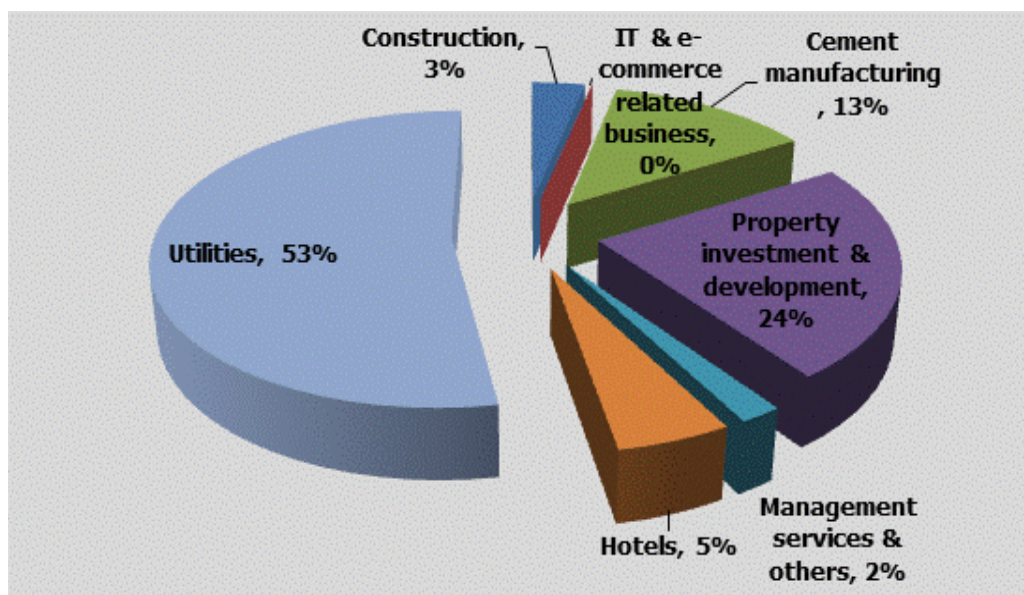
Source: Various news reports, MIDFR

EXHIBIT 3: KL-SINGAPORE HSR ALIGNMENT



Source: MyHSR, MIDF

EXHIBIT 4: YTL PRETAX BY DIVISION (FY17)



Source: Company, MIDFR

DAILY PRICE CHART



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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

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.