

01 August 2018 | Corporate Update

YTL Corporation Berhad

Construction unit revival coming after all

Upgrade to BUY

Revised Target Price: RM1.55
(from RM1.05)

INVESTMENT HIGHLIGHT

- **Gemas-JB going full steam ahead**
- **Tg Jati on track for financial close**
- **Orderbook to see major expansion to RM12b by year end**
- **Upgrade to BUY at higher SOP-based TP of RM1.55/share**

Gemas-JB going full steam ahead. Post-meeting with the Johor State Government, the Minister of Transport announced that the Gemas-JB double tracking project will proceed as scheduled. In fact, there is the possibility of expansion to the project scope with additional stations versus the current planned 12 stations.

To recap, the Gemas-JB double tracking worth RM8.9b was awarded to a Chinese consortium comprising China Railway Construction Corp, China Railway Engineering Corp and China Communication Construction Consortium Sdn Bhd. The project involved 197km of double tracks, stations, electric trains, depots, land viaduct, bridges, electrification and signalling systems. The project is scheduled to complete in Oct 2021.

We had post-elections, conservatively excluded the Gemas-JB double tracking project from our forecasts given the PH Government's intention to review major construction projects. The latest development is a positive to YTL.

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. Both the projects are estimated to enhance group earnings by 19%/26% over FY19F/20F.

Spillover benefits for cement division. YTL Cement is a key beneficiary of the construction division's orderbook expansion. We expect a combination of the Gemas-JB rail job and the construction of Tanjung Jati plant to lift YTL Cement revenue by some 12% (or RM300m/annum) on full year basis (likely from FY19F on) as supplies for both projects will be sourced from YTL Cement. For Tanjung Jati, YTL is looking to export clinkers into Indonesia with a local grinding plant to be setup to complete the process. YTL Cement's solid balance sheet backing of a net cash of RM1b, positions the group well for acquisitive expansion both locally and overseas.

RETURN STATS	
Price (31 July 2018)	RM1.33
Target Price	RM1.55
Expected Share Price Return	+16.9%
Expected Dividend Yield	+2.5%
Expected Total Return	+19.4%

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%

INVESTMENT STATISTICS

FYE Jun (RMm)	2016	2017	2018F	2019F	2020F
Revenue	15,370.0	14,727.7	15,539.7	18,579.1	19,769.0
EBIT	2,939.5	2,614.3	2,146.9	2,523.2	2,712.9
Pretax Profit	2,269.0	1,676.9	1,033.7	1,182.8	1,222.2
Minority Interest	(961.3)	(606.5)	(255.9)	(292.7)	(302.5)
Net profit	913.7	796.3	519.5	594.3	614.1
EPS (sen)	8.8	7.7	4.9	5.6	5.8
EPS growth	-13.9%	-12.7%	-36.1%	14.4%	3.3%
PER (x)	15.0	17.2	27.0	23.6	22.8
Dividend	9.5	5.0	3.0	3.4	3.5
Dividend yield (%)	7.1	3.8	2.2	2.5	2.6

Source: Company, MIDFR

Tg Jati clears hurdle. As a follow up to our earlier report on 54%-owned YTL Power, the group is understood to have cleared a major hurdle for 80% owned Tg Jati power plant project in Indonesia having finalised PPA (Power Purchase Agreement) terms with the local regulators. To recap, Tg Jati is a 1320MW coal power plant scheduled for commercial operation in CY21F with a 30-year PPA up till 2051.

On track for financial close. With finalisation of PPA terms, the project is on track to reach financial close soon. YTL Power is expected to be looking at several options, which may include Sukuk financing or USD financing. Construction of the plant is expected to commence next year. The project had been delayed due to renegotiation of rates and an earlier relocation of the project site to Cirebon from Jepara originally. The Tg Jati project is estimated to cost USD2.7b (RM11b) including land relocation cost and capitalised interest. EPCC value of the project is estimated at RM4b, expected to be undertaken by YTL's construction arm. Construction is expected to commence next year and is expected to be spread over 3 years as COD of Tg Jati is expected in CY21.


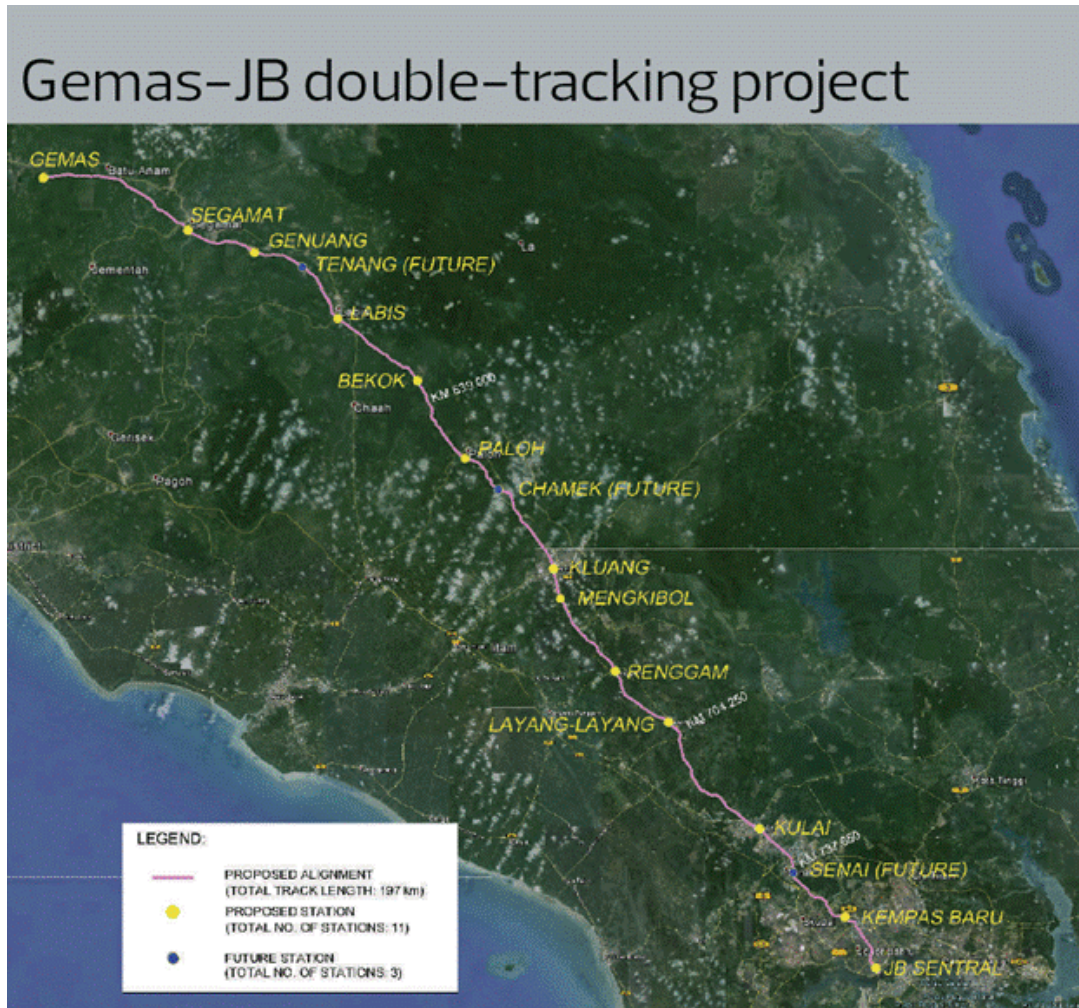
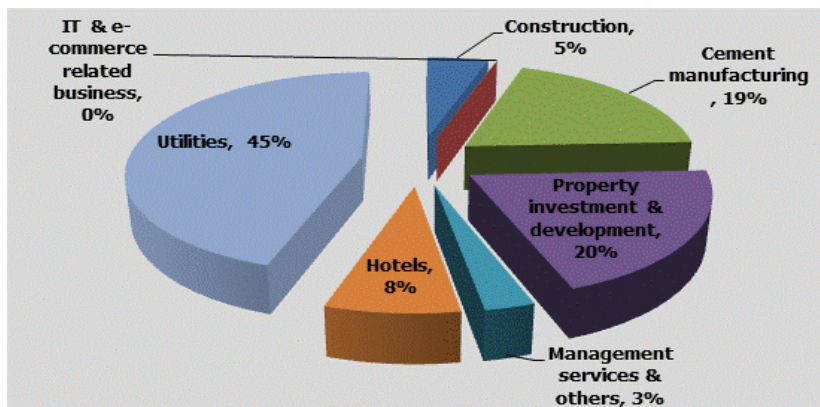
Upgrade to BUY. We raise YTL to BUY (from NEUTRAL) and raise our TP to RM1.55 (from RM1.05) as we factor in the Gemas-JB double tracking project into our forecasts and to reflect the recent upgrade to our TP for 54%-owned YTL Power from RM1.20 to RM1.55. Key catalysts are: (1) Gemas-JB double tracking expansion (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: GEMAS-JB DOUBLE TRACKING PROJECT



Source: Various, MIDFR

EXHIBIT 2: YTL CORP FY17 PRETAX COMPOSITION



Source: Company, MIDFR

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
<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



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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.