

14 May 2018 | Corporate Update

YTL Corporation Berhad

U-Turn in orderbook expansion prospects

INVESTMENT HIGHLIGHT

- **Construction contract review to de-rail earlier BUY thesis**
- **Cement division to be indirectly impacted**
- **Earnings trimmed 3%-13% as we now exclude Gemas-JB**
- **Downgrade to NEUTRAL, TP trimmed to RM1.30/share**

Earlier bullish thesis de-railed. Our earlier BUY thesis on YTL was premised on a revival of its construction unit, with management targeting order book to swell to some RM12b (from circa RM400m at end-CY17) driven mainly by rail-related contracts. However, the new Pakatan Harapan (PH) Government is expected to review all mega projects in the construction sector, particularly those awarded to China based contractors. This raises uncertainties on YTL's ability to hit its orderbook target in the near-term and derails our earlier thesis. Cement earnings is also likely to be impacted negatively from a review of the major construction contracts.

Orderbook expansion 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 was awarded to a consortium of Chinese companies comprising CRCC, CCCC and CECC in 2016.

We downgrade our FY18F/19F earnings by 3%/13% as we now exclude contribution from the Gemas-JB double tracking project. Cement earnings is also tuned down as earnings will be indirectly impacted by a potential delay or slowdown in progress of major construction projects from the expected review.

We downgrade YTL to NEUTRAL (from BUY) and lower our TP to RM1.30 (from RM1.82) following the earnings downgrade and after imputing a larger discount to our SOP-based valuation to reflect the higher earnings risk in the near-term.

Downgrade NEUTRAL
Revised Target Price: RM1.30
(from RM1.82)

RETURN STATS	
Price (8 May 2018)	RM1.33
Target Price	RM1.30
Expected Share Price Return	-2.2%
Expected Dividend Yield	+3.6%
Expected Total Return	+1.4%

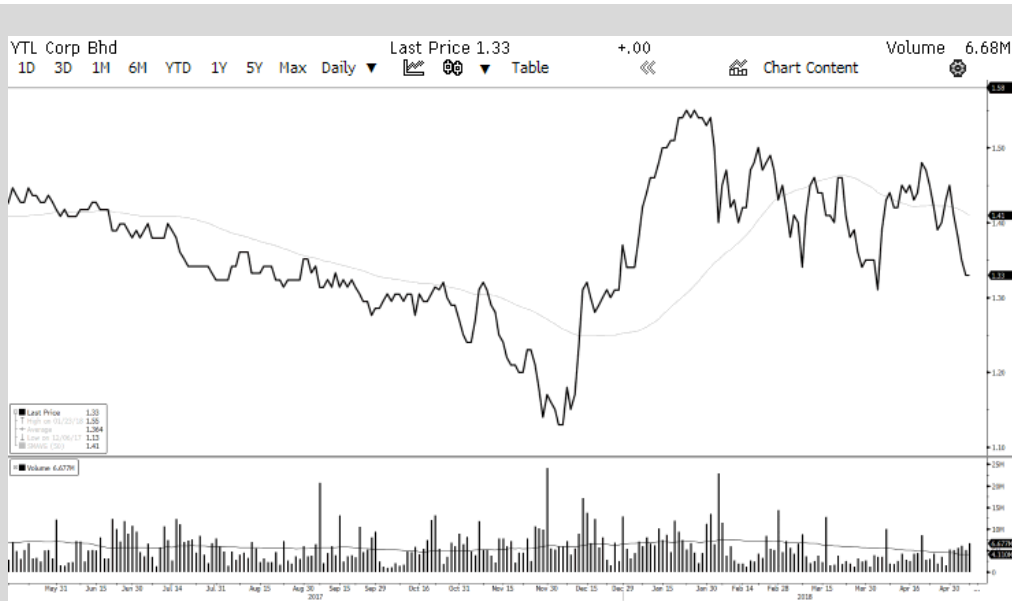
STOCK INFO	
KLCI	1846.51
Bursa / Bloomberg	4677 / YTL MK
Board / Sector	Main / Conglo
Syariah Compliant	No
Issued shares (mil)	10,745.91
Market cap. (RM'm)	14,292.1
Price over NA	1.00
52-wk price Range	RM1.09-RM1.55
Beta (against KLCI)	1.23
3-mth Avg Daily Vol	4.13m
3-mth Avg Daily Value	RM5.86m
Major 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	15,830.3	17,112.4
EBIT	3,230.2	2,939.5	2,614.3	2,622.7	2,827.7
Pretax Profit	2,365.9	2,269.0	1,676.9	1,407.4	1,564.0
Minority Interest	(689.8)	(961.3)	(606.5)	(390.1)	(433.5)
Net profit	1,069.7	913.7	796.3	792.1	880.2
EPS (sen)	10.3	11.6	7.6	7.5	8.4
EPS growth	-31.6%	12.9%	-34.8%	-0.5%	11.1%
PER (x)	13.5	12.0	18.4	18.5	16.6
Dividend	9.5	9.5	5.0	4.5	5.0
Dividend yield (%)	6.8	6.8	3.6	3.2	3.6

Source: Company, MIDFR

DAILY PRICE CHART



Source: Bloomberg

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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.