

26 November 2018 | 1QFY19 Results Review

## YTL Power International

### Temporary weakness at Seraya

#### INVESTMENT HIGHLIGHTS

- 1QFY19 earnings within expectations
- Seraya's dip into losses temporary
- Jati and Jordan shale plant upcoming catalysts
- Maintain BUY at unchanged TP of RM1.55, 4.7% yields attractive

**Results in-line.** YTL Power (YTLP) reported core net profit of RM143m for its 1QFY19, which was within our expectation as well as consensus at 21% and 20% of FY19F estimates respectively. YTLP's core earnings fell 9%yoy to RM143m but some of these are affected by temporary factors and we would expect some improvement as the year progresses.

**Seraya losses temporary.** Seraya dipped into losses in 1QFY9 (RM16m loss) for the first time since the downcycle in Singapore power sector, but this is unlikely to be a precursor to its earnings trends. Several temporary factors impacted Seraya: (1) Run up cost for CCP10 and Cogen 40 after unplanned outages (2) Loss on sale of gas to reduce take-or-pay quantity. Other than these temporary factors, Seraya was also dragged by lower retail non-fuel and tank leasing margins as well as lower vesting contract in the period.

**Wholesale rates rising.** Average USEP wholesale electricity rates saw a sharp rise in October (+98%yoy) (See Exhibit 1) underpinning the improving trends seen so far this year – rates have been rising 2% - 60% this CY. Hyflux's plans to divest its stake in its Tuaspring plant (the last large capacity to come on-stream in Singapore) is still on-going. Possible consolidation in Singapore power generation should help to ease oversupply in the sector. Hyflux Tuaspring accounts for 3% of Singapore generation capacity.

**Hit by stronger RM.** Water sewerage division (Wessex Water) was impacted by a stronger RM against GBP in 1QFY19 resulting in revenue and earnings shrinking 1%yoy and 9%yoy from translation impact. Sequentially, earnings were down sharply from an inflated base in 4QFY18 which recognised one-off pension credits.

**Broadband losses narrowed.** Losses from the broadband division narrowed significantly to RM8m from the previous run-rate of RM20m-RM30m/quarter. This is following YES' migration to its TD-LTE network from a hybrid LTE-WiMax network previously. While there is risk from loss of the Bestarinet contract, which is estimated to expire mid-CY19, YTL will not be excluded from the bidding. Given that Bestarinet is technically integrated into the group's broadband business, we would not rule out possibilities of YTLP pursuing a partner to help it grow the business.

**Maintain BUY**

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

RETURN STATS	
Price (23 Nov 2018)	RM0.96
Target Price	RM1.55
Expected Share Price Return	+61.5%
Expected Dividend Yield	+4.7%
<b>Expected Total Return</b>	<b>+66.2%</b>

STOCK INFO	
KLCI	1695.88
Bursa / Bloomberg	6742/YTLP MK
Board / Sector	Main / Power
Syariah Compliant	No
Issued shares (mil)	7675.30
Market cap. (RM'm)	7368.29
Price over NA	0.57
52-wk price Range	RM.73-RM1.33
Beta (against KLCI)	0.99
3-mth Avg Daily Vol	3.63m
3-mth Avg Daily Value	RM3.82m
Major Shareholders (%)	
YTL Corporation	48.8%
Yeoh Tiong Lay & Son	9.9%
Cornerstone Sdn Bhd	6.5%

## INVESTMENT STATISTICS

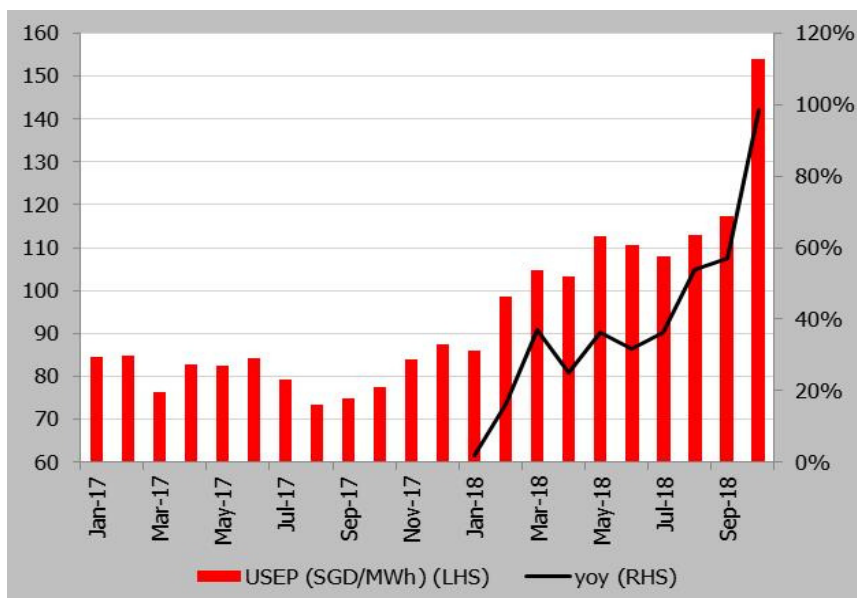
FYE June	FY16	FY17	FY18	FY19F	FY20F
Revenue (RM'm)	10,240.5	9,778.2	10,589.7	13,551.2	13,890.3
EBIT (RM'm)	1,564.6	1,345.5	1,613.8	1,572.7	1,673.2
Pre-tax Profit (RM'm)	1,300.0	867.6	943.2	924.4	929.5
Core net profit (RM'm)	616.9	673.4	763.6	691.0	694.8
FD EPS (sen)	8.1	8.8	10.0	9.0	9.1
EPS growth (%)	-31.5	9.2	13.4	-9.5	0.5
PER (x)	11.9	10.9	9.6	10.6	10.6
Net Dividend (sen)	10.0	5.0	5.0	4.5	4.5
Net Dividend Yield (%)	10.4	5.2	5.2	4.7	4.7

Source: Company, MIDF

**Final round of negotiations.** The group's 80%-owned 1320MW Tg. Jati project is in the final round of Sukuk negotiations to achieve financial close. Whilst the Indonesian Government earlier indicated that it intends to delay more than half of the country's power projects (following sharp IDR depreciation), this had been reviewed and latest reports suggests that hardly any projects will be delayed after all. To recap, Tg Jati is a 1320MW coal power plant scheduled for commercial operation in CY21F with a 30-year PPA up till 2051. The project is estimated to cost USD2.7b (RM11b) including land relocation cost and capitalised interest.

**Re-affirm BUY** on YTLP being one of the few local proxies to lucrative overseas power plant projects. Our TP is kept at RM.1.55. Dividend yields are generous at 4.7% (even at just 50% payout ratio) while valuations are cheap at just 10.6x – deep discount to the market's 16x-17x. Key potential catalysts: (1) Financial close of Tg. Jati power plant expected within 1HFY19, (2) Completion of 45% owned Jordan shale power plant mid-CY20F (3) Consolidation in Singapore power generation sector, (4) Gradual expiry of LNG supply contracts for Singapore power, (5) Accelerated breakeven of mobile broadband business from any potential partnership.

## EXHIBIT 1: SINGAPORE WHOLESALE ELECTRICITY RATES (SGD/MWH) HAVE BEEN RECOVERING



Source: Company, MIDF

## EXHIBIT 3: 1QFY19 RESULTS REVIEW

FYE June	1Q18	4Q18	1Q19	QoQ	YoY
Revenue	2,578.4	2,780.4	2,803.4	0.8%	8.7%
EBIT	398.3	445.1	385.6	-13.4%	-3.2%
Interest expense	(281.0)	(268.9)	(287.4)	6.9%	2.3%
Associates	95.6	108.7	92.6	-14.8%	-3.1%
<b>PBT</b>	<b>212.9</b>	<b>284.9</b>	<b>190.7</b>	<b>-33.1%</b>	<b>-10.4%</b>
Tax	(57.7)	(53.5)	(40.3)	-24.5%	NA
PAT	155.1	231.4	150.4	-35.0%	-3.1%
Minority Interest	22.7	24.7	24.1	-2.5%	NA
Net profit	132.4	206.7	126.3	-38.9%	-4.7%
<b>Core net profit</b>	<b>157.0</b>	<b>223.1</b>	<b>142.8</b>	<b>-36.0%</b>	<b>-9.0%</b>
Core EPS (sen)	2.05	2.92	1.87		
GDPS (sen)	0.00	5.00	0.00		
EBIT margin	15.4%	16.0%	13.8%		
PBT margin	8.3%	10.2%	6.8%		
Tax rate	27.1%	18.8%	21.2%		
Net profit margin	5.1%	7.4%	4.5%		

Source: Company, MIDF

## EXHIBIT 4: 1QFY19 RESULTS BREAKDOWN

Revenue (RMm):	1Q18	4Q18	1Q19	QoQ	YoY
Power generation (contracted)	49.8	176.1	208.0	18.1%	317.7%
Multi utilities business	1,401.1	1,487.4	1,470.8	-1.1%	5.0%
Water and sewerage	861.4	819.6	849.9	3.7%	-1.3%
Mobile broadband network	196.4	193.3	194.5	0.6%	-1.0%
Investment holding	69.8	104.0	80.2	-22.8%	15.0%
<b>PBT (RMm):</b>	<b>2,578.4</b>	<b>2,780.4</b>	<b>2,803.4</b>		
Power generation (contracted)	(18.2)	13.2	14.1	6.9%	NM
Multi utilities business	26.4	2.0	(15.9)	NM	NM
Water and sewerage	220.7	318.7	200.5	-37.1%	-9.2%
Mobile broadband network	(17.6)	(25.6)	(8.3)	-67.6%	-53.0%
Investment Holding	1.6	(23.4)	0.3	NM	NM
<b>PBT Margin (%)</b>	<b>212.9</b>	<b>284.9</b>	<b>190.7</b>		
Power generation (contracted)	-36.6%	7.5%	6.8%		
Multi utilities business	1.9%	0.1%	-1.1%		
Water and sewerage	25.6%	38.9%	23.6%		
Mobile broadband network	-9.0%	-13.2%	-4.3%		
Investment Holding	2.3%	-22.5%	0.4%		

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.