midf RESEARCH

26 February 2018 | 2QFY18 Results Review

YTL Power International

Risk reward turning attractive

***Upgraded* BUY**

***Revised* Target Price TP: RM1.48**

(from RM1.20)

INVESTMENT HIGHLIGHTS

- **2QFY18 met our expectation but missed consensus**
- **Earnings looks to have stabilised, strong balance sheet for consolidation in Singapore power generation**
- **Risk reward turning positive at current price levels**
- **Upgrade to BUY from NEUTRAL at higher TP of RM1.48, 4%-5% yields attractive**

Results within expectations. YTL Power (YTLP) reported 2QFY18 core earnings of RM156m, which brought 1HFY18 core earnings to RM313m. This is in-line with our expectation accounting for 45% of our FY18F but fell behind street estimates at just 41% of consensus. 2HFY18 should be stronger given full half contribution of Paka PPA extension.

2QFY18 core earnings were flattish sequentially. Domestic power generation turned to the black but this was offset by wider losses at the mobile broadband division and higher finance cost at Wessex Water, despite higher revenues registered. Tax rate was marginally higher qoq.

Maiden profit from Paka. YTLP's Paka plant commenced its 3-year 10-months short-term extension in Sep17. The 2QFY18 reflected its maiden full quarter contribution and maiden earnings of RM14m (vs. 1QFY18's loss of RM18m). We estimate EBITDA of RM90m-RM100m/annum throughout Paka's PPA extension expiring June 2021. The group is still holding on to its Pasir Gudang plant. Despite the absence of any PPA extension for the plant, management is of the view that there is value to a plant that is readily connected to the grid.

Seraya looks to have stabilised. Power Seraya earnings improved slightly (+12%qoq) and underlines our view that underlying rates should have reached a bottom given the absence of large new capacity in the market. Hyflux's 400MW plant (which was the last major capacity addition in the market) is reported to be up for sale after only having been operational since 1Q16. YTLP has a decently strong balance sheet and does not rule out consolidation in the Singapore power generation sector from the current 7 players. More importantly, Power Seraya benefits from vesting volumes sold to Singapore Power Services as this is on a cost plus basis, hence guarantees profit margins which is valuable in the current oversupply situation. Only the three largest gencos get to contribute to vesting volumes, which accounts for at least 25% of demand in the country. Vesting contracts are expected to be phased out by mid-2019 but this also ties in with the gradual expiry of take-or-pay LNG supply contracts to industry players between 2018-2023, which should gradually improve underlying fundamentals.

Dividend yields have turned attractive. Following a cut in payout in FY17, we had earlier revised down our payout assumption to a more conservative ~50%. Notwithstanding rising capex for Tg. Jati - 1320MW coal plant estimated at USD2.7b (RM11.5b), which will be backed by project financing, dividend yields have turned attractive at current price levels. Commercial operation date for Tg. Jati is targeted for 2021 with a 30 year PPA till 2051.

RETURN STATS	
Price (23 Feb 2018)	RM1.22
Target Price	RM1.48
Expected Share Price Return	+21.4%
Expected Dividend Yield	+4.1%
Expected Total Return	**+25.5%**

STOCK INFO	
KLCI	1861.50
Bursa / Bloomberg	6742/YTLP MK
Board / Sector	Main / Power
Syariah Compliant	No
Issued shares (mil)	7773.79
Market cap. (RM'm)	9328.55
Price over NA	0.74
52-wk price Range	RM1.11 - RM1.50
Beta (against KLCI)	0.89
3-mth Avg Daily Vol	2.20m
3-mth Avg Daily Value	RM2.73m
Major Shareholders (%)	
YTL CORP BHD	48.2%
Yeoh Tiong Lay	9.4%
Cornerstone Sdn Bhd	6.4%

INVESTMENT STATISTICS

FYE June	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	11,925.9	10,240.5	9,778.2	13,097.4	13,435.2
EBIT (RM'm)	1,760.8	1,564.6	1,345.5	1,507.5	1,568.3
Pre-tax Profit (RM'm)	1,230.6	1,300.0	867.6	828.3	976.7
Core net profit (RM'm)	901.2	616.9	673.4	694.8	803.7
FD EPS (sen)	11.8	8.1	8.8	9.1	10.5
EPS growth (%)	-25.1	-31.5	9.2	3.2	15.7
PER (x)	10.4	15.1	13.9	13.4	11.6
Net Dividend (sen)	10.0	10.0	5.0	5.0	6.0
Net Dividend Yield (%)	8.2	8.2	4.1	4.1	4.9

Source: Company, MIDFR

Upgrade to BUY (TP: RM1.48). Risk reward has turned attractive at current price levels; dividend yields are now attractive at 4%/5% (FY18F/19F) even at just 50% payout ratio assumption, while earnings is likely to have stabilised. Furthermore, the market has yet to factor in the incremental value of 80%-owned Tg. Jati and YTLP's 45% stake in a Jordanian shale oil power plant (under construction, due for operations mid-2020) which carry attractive IRRs of low and high teens respectively. Upgrade to BUY at higher SOP-derived TP of RM1.48 (from RM1.20) after rolling over valuations to FY19F. Key potential catalysts: (1) Financial close of Tg. Jati power plant expected within 2HFY18, (2) Consolidation in Singapore power generation sector, (3) Gradual expiry of LNG supply contracts for Singapore power, (4) Accelerated breakeven of mobile broadband business from any potential partnership.

EXHIBIT 1: 2QFY18 RESULTS REVIEW

FYE June	2Q17	1Q18	2Q18	QoQ	YoY	1H17	1H18	YTD
Revenue	2,464.7	2,578.4	2,640.9	2.4%	7.1%	4,805.4	5,219.2	8.6%
EBIT	338.7	398.3	387.3	-2.8%	14.3%	645.7	785.6	21.7%
Interest expense	(196.6)	(281.0)	(263.3)	-6.3%	33.9%	(397.7)	(544.3)	36.9%
Associates	97.8	95.6	103.3	8.1%	5.7%	180.7	198.9	10.1%
PBT	**239.9**	**212.9**	**227.3**	**6.8%**	**-5.3%**	**428.7**	**440.2**	**2.7%**
Tax	(49.8)	(57.7)	(62.6)	8.5%	25.8%	(88.0)	(120.4)	36.8%
PAT	190.1	155.1	164.7	6.2%	-13.4%	340.8	319.8	-6.1%
Minority Interest	23.4	22.7	28.2	24.3%	NA	27.4	50.9	85.4%
Net profit	166.8	132.4	136.5	3.1%	-18.1%	313.3	268.9	-14.2%
Core net profit	**166.8**	**157.0**	**156.4**	**-0.4%**	**-6.2%**	**313.3**	**312.8**	**-0.2%**
Core EPS (sen)	2.18	2.05	2.05			4.10	4.09	
GDPS (sen)	0.00	0.00	0.00			0.00	0.00	
EBIT margin	13.7%	15.4%	14.7%			13.4%	15.1%	
PBT margin	9.7%	8.3%	8.6%			8.9%	8.4%	
Tax rate	20.8%	27.1%	27.6%			20.5%	27.3%	
Net profit margin	6.8%	5.1%	5.2%			6.5%	5.2%	

Source: Company, MIDF

EXHIBIT 2: 2QFY18 RESULTS BREAKDOWN

Revenue (RMm):	**2Q17**	**1Q18**	**2Q18**	**QoQ**	**YoY**	**1H17**	**1H18**	**QoQ**
Power generation (contracted)	-	49.8	197.1	295.9%	NA	-	246.9	NA
Multi utilities business	1,472.1	1,401.1	1,324.3	-5.5%	-10.0%	2,821.6	2,725.4	-3.4%
Water and sewerage	747.2	861.4	859.1	-0.3%	15.0%	1,510.1	1,720.5	13.9%
Mobile broadband network	198.6	196.4	203.4	3.6%	2.4%	387.6	399.8	3.1%
Investment holding	46.9	69.8	56.9	-18.4%	21.5%	86.0	126.7	47.2%
PBT (RMm):								
Power generation (contracted)	(26.1)	(18.2)	14.4	NA	NA	(52.1)	(3.8)	-92.7%
Multi utilities business	59.1	26.4	29.6	12.2%	-49.9%	94.0	56.0	-40.4%
Water and sewerage	217.4	220.7	202.3	-8.4%	-7.0%	457.7	423.0	-7.6%
Mobile broadband network	(15.4)	(17.6)	(20.1)	14.1%	30.4%	(80.7)	(37.7)	-53.3%
Investment Holding	5.0	1.6	1.1	-32.4%	-77.7%	9.8	2.7	-72.2%
PBT Margin (%)								
Power generation (contracted)	NA	-36.6%	7.3%			NA	NA	
Multi utilities business	4.0%	1.9%	2.2%			3.3%	2.1%	
Water and sewerage	29.1%	25.6%	23.5%			30.3%	24.6%	
Mobile broadband network	-7.8%	-9.0%	-9.9%			-20.8%	-9.4%	
Investment Holding	10.6%	2.3%	1.9%			11.4%	2.2%	

Source: Company, MIDF

DAILY PRICE CHART

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NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
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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.
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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.