midf RESEARCH

30 August 2018 | 4QFY18 Results Review

YTL Power International

Dividends sustained

***Maintain* BUY**

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

INVESTMENT HIGHLIGHTS

- **4QFY18 slightly ahead, declares 5sen final dividend**
- **USEP improving, possible consolidation in Singapore power**
- **Jati and Jordan shale plant upcoming catalysts**
- **Maintain BUY at unchanged TP of RM1.55, decent 4% yields**

Dividends maintained. YTL Power (YTLP) reported core earnings of RM223m for its 4QFY18, bringing FY18F core earnings to RM764m. This is slightly ahead of expectations accounting for 109% of our FY18F and 111% of consensus'. However this is largely due to slightly lower than expected effective tax rates (actual: 24% vs. our 27%). Pretax was in-line accounting for 101% of our FY18F. A final dividend of 5sen/share was declared, maintained at FY17 level, representing a 50% payout, in-line with expectations.

Singapore power. Seraya revenues were up 6%yoy but earnings were hit by lower margins for its oil tank leasing and electricity sale while finance cost was higher. On the bright side, average USEP wholesale electricity rates (SGD83/MWh a year ago vs. SGD109/MWh in 2Q18) (See Exhibit 1) is gradually improving. Meanwhile, Hyflux has filed court protection for 5 subsidiaries, including its Tuaspring plant (the last large capacity to come on-stream in Singapore). Hyflux has been reported to be looking to divest a 70% stake in the plant but this has been taking longer than expected. Possible consolidation in Singapore power generation should help to ease the oversupply condition in the sector. Hyflux Tuaspring accounts for 3% of Singapore generation capacity.

Tg Jati clears hurdle. YTL Power's 80%-owned Tg Jati power plant project in Indonesia is understood to have crossed a major hurdle having finalised PPA terms with the local regulators – amended and restated in March 2018. Despite the new PPA entailing lower rates, IRR is still estimated at an attractive 11%-13% vs. earlier mid-teens expectation. 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. With finalisation of PPA terms, the project is on track to reach financial close soon. The group is looking at several options, which may include Sukuk financing or USD financing (a bit more expensive than the former). We estimate finance rates to range between 5% to 7%. Construction of the plant is targeted to commence next year.

Broadband unit. Losses remained at RM26m given intense price competition. Bestarinet expected to progress till mid-CY19, until which a new tender is expected to be out. While the Ministry has been reported to be "unhappy" with the current performance, 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.

RETURN STATS	
Price (29 Aug 2018)	RM1.09
Target Price	RM1.55
Expected Share Price Return	+42.2%
Expected Dividend Yield	+4.1%
Expected Total Return	**+46.3%**

STOCK INFO	
KLCI	1820.64
Bursa / Bloomberg	6742/YTLP MK
Board / Sector	Main / Power
Syariah Compliant	No
Issued shares (mil)	7677.06
Market cap. (RM'm)	8367.99
Price over NA	0.66
52-wk price Range	RM.73-RM1.40
Beta (against KLCI)	0.73
3-mth Avg Daily Vol	17.4m
3-mth Avg Daily Value	RM18.0m
Major Shareholders (%)	
YTL Corporation	48.8%
Yeoh Tiong Lay	9.8%
Cornerstone Sdn Bhd	6.5%

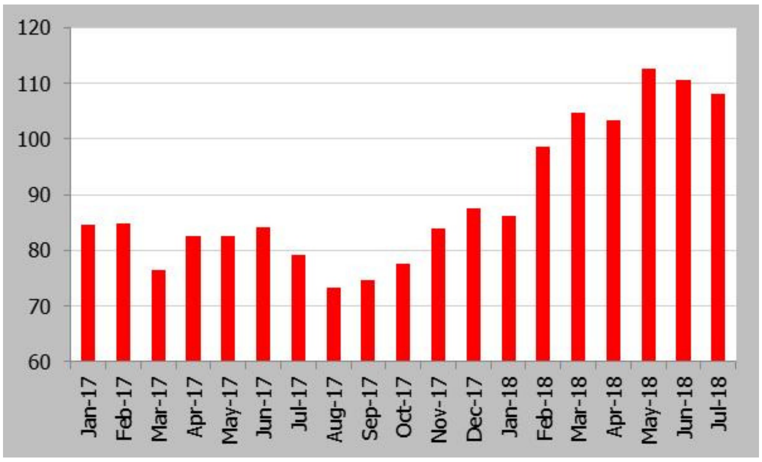
INVESTMENT STATISTICS

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)	13.5	12.4	10.9	12.1	12.0
Net Dividend (sen)	10.0	5.0	5.0	4.5	4.5
Net Dividend Yield (%)	9.2	4.6	4.6	4.1	4.2

Source: Company, MIDF

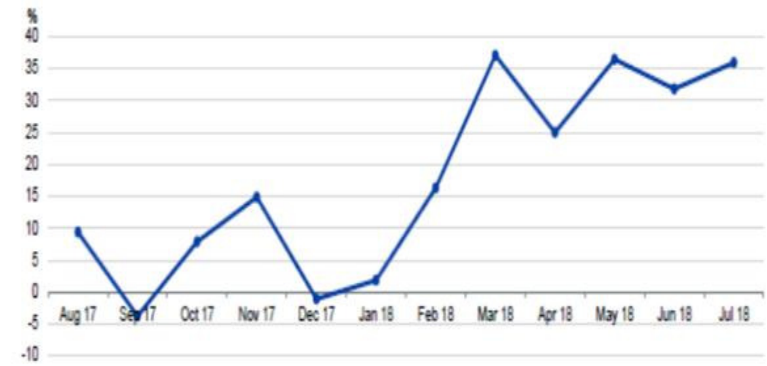
Re-affirm BUY on YTLP being one of the few local proxies to lucrative overseas power plant projects. Our TP is kept at RM.1.55. Despite higher finance cost over the next few years, dividend yields are generous at ~4% (even at just 50% payout ratio) while valuations are at a discount to the market's 16x-17x. 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, and (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 2: USEP RATE YEAR-ON-YEAR CHANGE



Source: Company, MIDF

EXHIBIT 3: 4QFY18 RESULTS REVIEW

FYE June	4Q17	3Q18	4Q18	QoQ	YoY	FY17	FY18	YTD
Revenue	2,586.4	2,590.0	2,780.4	7.4%	7.5%	9,778.2	10,589.7	8.3%
EBIT	389.1	383.1	445.1	16.2%	14.4%	1,345.5	1,613.8	19.9%
Interest expense	(239.2)	(267.4)	(268.9)	0.6%	12.4%	(846.4)	(1,080.6)	27.7%
Associates	73.4	102.4	108.7	6.2%	48.1%	368.5	410.1	11.3%
PBT	**223.3**	**218.2**	**284.9**	**30.6%**	**27.6%**	**867.6**	**943.2**	**8.7%**
Tax	0.3	(52.5)	(53.5)	1.8%	NA	(113.0)	(226.4)	100.4%
PAT	223.6	165.6	231.4	39.7%	3.5%	754.7	716.9	-5.0%
Minority Interest	24.1	20.6	24.7	20.1%	NA	81.3	96.2	18.4%
Net profit	199.5	145.0	206.7	42.5%	3.6%	673.4	620.7	-7.8%
Core net profit	**199.5**	**188.8**	**223.1**	**18.2%**	**11.8%**	**673.4**	**763.6**	**13.4%**
Core EPS (sen)	2.61	2.47	2.92			8.81	8.12	
GDPS (sen)	5.00	0.00	5.00			5.00	5.00	
EBIT margin	15.0%	14.8%	16.0%			13.8%	15.2%	
PBT margin	8.6%	8.4%	10.2%			8.9%	8.9%	
Tax rate	-0.1%	24.1%	18.8%			13.0%	24.0%	
Net profit margin	7.7%	5.6%	7.4%			6.9%	5.9%	

Source: Company, MIDF

EXHIBIT 4: 4QFY18 RESULTS BREAKDOWN

Revenue (RMm):	4Q17	3Q18	4Q18	QoQ	YoY	FY17	FY18	QoQ
Power generation (contracted)	-	191.4	176.1	-8.0%	NA	0.0	614.5	NA
Multi utilities business	1,410.1	1,340.7	1,487.4	10.9%	5.5%	5,626.2	5,553.4	-1.3%
Water and sewerage	856.1	797.1	819.6	2.8%	-4.3%	3,116.3	3,337.2	7.1%
Mobile broadband network	232.7	191.0	193.3	1.2%	-16.9%	825.1	784.0	-5.0%
Investment holding	87.6	69.8	104.0	48.9%	18.7%	210.7	300.5	42.6%
PBT (RMm):								
Power generation (contracted)	(14.7)	9.0	13.2	47.1%	NM	(104.3)	18.3	NM
Multi utilities business	25.3	12.2	2.0	-84.1%	-92.3%	158.0	70.2	-55.6%
Water and sewerage	207.5	244.4	318.7	30.4%	53.6%	877.3	986.1	12.4%
Mobile broadband network	(22.7)	(27.9)	(25.6)	-8.2%	12.4%	(119.1)	(91.1)	-23.5%
Investment Holding	27.9	(19.6)	(23.4)	19.0%	NM	55.7	(40.2)	NM
PBT Margin (%)								
Power generation (contracted)	NA	4.7%	7.5%			NA	3.0%	
Multi utilities business	1.8%	0.9%	0.1%			2.8%	1.3%	
Water and sewerage	24.2%	30.7%	38.9%			28.2%	29.5%	
Mobile broadband network	-9.8%	-14.6%	-13.2%			-14.4%	-11.6%	
Investment Holding	31.9%	-28.1%	-22.5%			26.5%	-13.4%	

Source: Company, MIDF

DAILY PRICE CHART

Source: Bloomberg, MIDFR

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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 *rise* 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 *fall* 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.