

16 July 2018 | Corporate Update

## YTL Power International

### *Tg Jati clears major hurdle*

#### INVESTMENT HIGHLIGHTS

- **New PPA terms for Tg Jati finalised**
- **On track for financial close within 2HCY18**
- **Lucrative project returns despite near-term debt build-up**
- **Re-affirm BUY at higher TP of RM1.55**

**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. 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.

**On track for financial close.** 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 expected to commence next year.

**Attractive returns.** While we understand the PPA negotiation was prolonged as the local regulators intended to renegotiate rates, returns for the project are still attractive at an indicative 12%-13% IRR, versus earlier mid-teens IRR guidance. Rates had to be renegotiated as this is an old project awarded based on prevailing rates years back. The project was delayed given relocation of the project site to Cirebon from Jepara originally. YTLP will also be involved in O&M for the project hence returns are likely to be at the higher end of the 12%-13% range.

**Earnings adjustments.** While the development is positive, in the near-term, debt at YTLP is likely to build up to finance Tg Jati. We adjust our FY19F earnings down by 14% to reflect higher finance cost and introduce our FY20F earnings of RM695m.

**Value accretion from new projects.** Though earnings are tweaked lower due to the debt build-up over the next few years, we also now factor in valuations of both the Tg Jati plant and the 45%-owned Attarat shale plant in Jordan into our SOP. Both the projects raise our gross SOP by a substantial 52sen/share or 43%.

**Lucrative returns for Jordan project.** To recap, YTL Power also has a 45% stake in Attarat Power Company (APCO), which will construct and operate Jordan's first oil shale power plant, located in Attarat Um Ghundran, expected to be in operation in mid-CY20. The USD2.1b 470MW plant entails a 30-year PPA with the National Electric Power Company. Other partners are China-based Guangdong Yudean Group (45%) and Eesti Energia AS (10%). Construction is undertaken by the Chinese party and is currently well underway. The project comprises of the power plant itself, a fuel and mixing yard, an oil shale mine, water wells and mine infrastructure. Given that this is the first such plant in Jordan, the concession entails a very attractive IRR of 19%.

**Maintain BUY**

**Revised Target Price TP: RM1.55**  
**(from RM1.20)**

#### RETURN STATS

|                              |               |
|------------------------------|---------------|
| Price (13 Jul 2018)          | RM1.17        |
| Target Price                 | RM1.55        |
| Expected Share Price Return  | +32.5%        |
| Expected Dividend Yield      | +3.9%         |
| <b>Expected Total Return</b> | <b>+36.4%</b> |

#### STOCK INFO

|                        |                 |
|------------------------|-----------------|
| KLCI                   | 1721.93         |
| Bursa / Bloomberg      | 6742/YTLP MK    |
| Board / Sector         | Main / Power    |
| Syariah Compliant      | No              |
| Issued shares (mil)    | 7773.79         |
| Market cap. (RM'm)     | 5830.34         |
| 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 Corporation        | 48.2%           |
| Yeoh Tiong Lay         | 9.4%            |
| Cornerstone Sdn Bhd    | 6.4%            |

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## INVESTMENT STATISTICS

| FYE June               | FY16     | FY17    | FY18F    | FY19F    | FY20F    |
|------------------------|----------|---------|----------|----------|----------|
| Revenue (RM'm)         | 10,240.5 | 9,778.2 | 13,097.4 | 13,508.5 | 13,847.5 |
| EBIT (RM'm)            | 1,564.6  | 1,345.5 | 1,507.5  | 1,572.7  | 1,673.2  |
| Pre-tax Profit (RM'm)  | 1,300.0  | 867.6   | 934.6    | 924.4    | 929.5    |
| Core net profit (RM'm) | 616.9    | 673.4   | 698.5    | 691.0    | 694.8    |
| FD EPS (sen)           | 8.1      | 8.8     | 9.1      | 9.0      | 9.1      |
| EPS growth (%)         | -31.5    | 9.2     | 3.7      | -1.1     | 0.5      |
| PER (x)                | 14.5     | 13.3    | 12.8     | 12.9     | 12.9     |
| Net Dividend (sen)     | 10.0     | 5.0     | 4.6      | 4.5      | 4.5      |
| Net Dividend Yield (%) | 8.5      | 4.3     | 3.9      | 3.9      | 3.9      |

Source: Company, MIDFR

**Re-affirm BUY.** Re-affirm our BUY on YTLP being one of the few local proxies to lucrative overseas power plant projects. We raise our TP to RM1.55 (from RM1.20 previously) as we factor in the 80%-owned Tg Jati and 45%-owned Attarat plants into our SOP-based valuation. Despite higher finance cost over the next few years, dividend yields are decent 3.9% over our forecast horizon 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) 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.

## 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 <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. |