YTL Corporation Berhad

(4677 | YTLP MK) Utilities | Power Generation

Maintain **NEUTRAL**

Weak 1H, but outlook improving

Revised **Target Price: RM0.85**

(Previously RM0.78)

KEY INVESTMENT HIGHLIGHTS

- **1HFY20 earnings disappoints**
- **Dragged by utilities division mainly given oversupply in Singapore power and absence of Bestarinet contribution**
- **Cement division returned to the black on improving cement prices**
- **Malayan Cement registering positive EBITDA, targeting bottomline turnaround in next 12-24 months**
- **Maintain NEUTRAL but TP revised up to RM0.85 to reflect run-up in Malayan Cement share price**

2QFY20 disappoints. YTL reported a net profit of RM18m for its 2QFY20, which brought 1HFY20 earnings to RM33m. This accounts for just 17% of our and 13% of consensus' FY20F. Group 2QFY20 earnings fell 61%yoy dragged by weak performance at the utilities division mainly.

Weak contribution from utilities unit. Power Seraya remained in the red in 2QFY20, though the quarter's pretax loss of RM48m was slightly lower sequentially (1QFY20 pretax loss: RM69m). On a year-on-year basis however, Power Seraya's losses narrowed substantially as 2QFY19 was impacted by a one-off impairment of receivables, coupled with lower depreciation this quarter. Vesting contract levels were lower in 2QFY20; in line with the vesting contract rollback schedule, vesting contract levels were reduced to 20% up till mid-last year, while only LNG vesting contracts are made available up until mid-2023. Thereafter, all forms of vesting contracts will be fully phased out. Vesting contracts are priced at profitable levels (and higher compared to current depressed USEP or wholesale rates), which provide the gencos with better earnings visibility previously. The phasing out of vesting contracts increases the earnings risk for gencos as a larger portion of generation have to be sold at market price, (which is unprofitable currently given the capacity oversupply in the market). Beyond 2023 however, we would expect the majority of the take-or-pay LNG supply contracts signed by gencos previously to have expired, which would reduce the necessity to continue producing in the current oversupply situation.

Telco losses ballooned. YTLP's telco division saw losses balloon to RM107m in 2QFY20 given the absence of the Bestarinet project and price reductions in an effort to increase YES' subscriber base. To recap, YTLP's Bestarinet contract which accounted for half of the telco divison's revenue was not renewed after its expiry in 4QFY19. The Education Ministry was reported to be looking to re-tender the contract this year and YTLP will not be excluded from the bidding. We understand that YES' network piggybacks some of Bestarinet's base stations, which helped lower its costs previously; the absence of this might have an implication on YES' future cost base.

RETURN STATISTICS	
Price @ 20th Feb 2020 (RM)	0.95
Expected share price return (%)	-9.3
Expected dividend yield (%)	+1.5
Expected total return (%)	**-7.8**

SHARE PRICE CHART

Share price performance (%)	Absolute	Relative
1 month	-1.5	2.0
3 months	-1.0	13.1
12 months	-15.7	-5.1

KEY STATISTICS	
FBM KLCI	1534.98
Syariah compliant	No
Issue shares (m)	10568.70
Estimated free float (%)	30.00
Market Capitalisation (RM'm)	10,330.36
52-wk price range	RM0.82 - RM1.25
Beta vs FBM KLCI (x)	1.26
Monthly velocity (%)	0.01
Monthly volatility (%)	16.97
3-mth average daily volume (m)	5.36
3-mth average daily value (RM'm)	5.06
Top Shareholders (%)	
Yeoh Tiong Lay & Sons Holdings Sdn	44.17
Employees Provident Fund Board	6.14
Credit Suisse Group AG	4.65

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INVESTMENT STATISTICS

FYE June (RMm)	2018	2019	2020F	2021F	2022F
Revenue	15,859	17,995	16,926	18,039	19,003
EBIT	2,650	2,378	1,867	2,029	2,261
Pretax Profit	1,421	1,029	376	434	595
Minority Interest	-639	-464	-93	-107	-147
Core net profit	598	302	189	218	299
EPS (sen)	5.7	2.5	1.8	2.1	2.8
EPS growth	-26.5%	-56.0%	-28.1%	15.3%	37.2%
PER (x)	16.7	38.0	52.9	45.9	33.5
Dividend	4.0	4.0	1.3	1.4	2.0
Dividend yield (%)	4.2	4.2	1.3	1.5	2.1

Source: Company, MIDFR

Cement division back to the black. YTL's cement division turned in a pretax profit of RM50m (from a loss of RM10m in 1QFY19) thanks to higher sales volume and selling price in the quarter. Cement prices is estimated to have risen to RM230/tonne in the period from around RM200/tonne in 1QFY19 and this is expected to improve further in 3QFY20. Post-Malayan Cement acquisition mid-last year, YTL Cement now controls ~60% of the market, which has led to gradual improvement in cement prices. Malayan Cement remains positive at the EBITDA level, although still loss making at the bottomline. YTL is targeting to turn Malayan Cement around within the next 12-24 months, targeting to extract further cost savings from economies of scale, reduction of duplicated functions and corporate overheads.

Property Division. YTL's property division saw increased revenue in 2QFY20 (+43%yoy) driven by sales of completed properties of the 3 Orchard By-The-Park and The Fennel projects. However, earnings declined substantially given recognition of losses on sale of completed units and qualifying certificate extension fee incurred for the 3 Orchard By-The-Park project.

Earnings revision. While earnings were technically short of expectations, we leave our forecasts unchanged for now as further improvement in market cement prices and gradual improvement in Malayan Cement's contribution could drive stronger earnings for YTL in the comping quarters.

Recommendation. Maintain **NEUTRAL** on YTL, though we raise our **TP** to **RM0.85**/share (from RM0.78/share previously) to incorporate the latest listed entities' share price levels (for Malayan Cement in particular which has seen share price rise meaningfully) into our SOP valuation for YTL. Earnings at the utilities division is expected to remain weak in the near-term, but prospects for the cement division should gradually improve on the back of a consolidated market. On top of this, the construction division could see an improving outlook on the back of a potential HSR (high speed rail) project revival, progress on the existing Gemas-Johor Bahru double tracking project and progress on the Tanjung Jati (Indonesia) power plant project which could see YTL grabbing around USD1b (RM4.2b) in EPC works.

YTL: 2QFY20 RESULTS SUMMARY

FYE Jun (RMm)	2Q19	1Q20	2Q20	YoY	QoQ	1H19	1H20	YTD
Revenue	4,554.6	5,284.7	5,543.8	21.7%	4.9%	8,643.1	10,828.5	25%
EBIT	**535.6**	**583.3**	**556.3**	**3.9%**	**-4.6%**	**1,214.5**	**1,139.6**	**-6%**
Finance cost	(431.6)	(491.5)	(485.1)	12.4%	-1.3%	(860.3)	(976.6)	14%
Associates	120.2	92.3	115.6	-3.8%	25.2%	211.9	207.9	-2%
PBT	**224.2**	**184.1**	**186.8**	**-16.7%**	**1.5%**	**566.2**	**370.9**	**-34%**
Tax	(66.7)	(83.8)	(90.8)	36.1%	8.4%	(144.2)	(174.6)	21%
Minority Interest	112.7	85.0	78.5	-30.4%	-7.7%	251.3	163.4	-35%
Net profit	44.8	15.3	17.5	-60.9%	14.6%	170.6	32.8	-81%
Core net profit	**44.8**	**15.3**	**17.5**	**-60.9%**	**14.6%**	**170.6**	**32.8**	**-81%**
EPS (sen)	0.43	0.15	0.17	-60.9%	14.6%	1.65	0.32	-81%
GDPS (sen)	0.00	0.00	0.00	NA	NA	0.00	0.00	NA
EBIT margin	11.8%	11.0%	10.0%			14.1%	10.5%	
Pretax margin	4.9%	3.5%	3.4%			6.6%	3.4%	
Tax rate	29.8%	45.5%	48.6%			25.5%	47.1%	
Net profit margin	1.0%	0.3%	0.3%			2.0%	0.3%	

Source: Company, MIDFR

YTL: 2QFY20 RESULTS BREAKDOWN

Segmental Breakdown	2Q19	1Q20	2Q20	YoY	QoQ	1H19	1H20	YTD
Revenue (RMm):	**4,554.6**	**5,284.7**	**5,543.8**			**8,643.1**	**10,828.5**	
Construction	387.3	441.0	570.2	47.2%	29.3%	493.9	1,011.1	105%
IT & e-commerce related business	1.5	1.1	1.0	-32.0%	-9.0%	2.6	2.2	-17%
Cement manufacturing	665.2	1,161.4	1,396.4	109.9%	20.2%	1,326.9	2,557.9	93%
Property investment & development	235.1	388.2	335.3	42.6%	-13.6%	433.3	723.4	67%
Management services & others	128.2	120.1	104.6	-18.4%	-12.9%	240.5	224.7	-7%
Hotels	307.1	320.9	435.2	41.7%	35.6%	596.1	756.1	27%
Utilities	2,830.1	2,852.0	2,701.1	-4.6%	-5.3%	5,549.9	5,553.1	0%
PBT (RMm):	**224.2**	**184.1**	**186.8**			**566.2**	**370.9**	
Construction	17.7	66.8	49.6	179.7%	-25.7%	18.3	116.4	535%
IT & e-commerce related business	1.6	1.6	0.8	-51.7%	-53.2%	2.9	2.4	-17%
Cement manufacturing	46.2	(9.5)	49.5	7.3%	NA	89.7	40.0	-55%
Property investment & development	60.3	28.0	7.7	-87.2%	-72.5%	146.3	35.7	-76%
Management services & others	(7.0)	(9.7)	15.4	NA	NA	(12.6)	5.7	NA
Hotels	2.0	19.7	32.2	1533.0%	63.3%	9.1	52.0	474%
Utilities	103.4	87.1	31.5	-69.5%	-63.8%	312.6	118.7	-62%
PBT margin								
Construction	4.6%	15.1%	8.7%			3.7%	11.5%	
IT & e-commerce related business	103.6%	142.8%	73.6%			109.6%	109.8%	
Cement manufacturing	6.9%	-0.8%	3.5%			6.8%	1.6%	
Property investment & development	25.7%	7.2%	2.3%			33.8%	4.9%	
Management services & others	-5.5%	-8.0%	14.7%			-5.2%	2.6%	
Hotels	0.6%	6.2%	7.4%			1.5%	6.9%	
Utilities	3.7%	3.1%	1.2%			5.6%	2.1%	

Source: Company, MIDFR

DISCLOSURES AND DISCLAIMER

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.