

# YTL Corporation Berhad

(6742 | YTLPMK) Utilities | Power Generation

**Maintain NEUTRAL**

## Anticipating Short-Term Weakness

**Unchanged Target Price: RM0.85**

### KEY INVESTMENT HIGHLIGHTS

- **9MFY20 earnings disappointed both our and consensus estimates**
- **Dragged by weak performance at the utilities, hotel and management services division**
- **Hotel division affected by pandemic and accompanying lockdowns**
- **Utilities remain a drag in short-term, though underlying dynamics could see improvement in mid-term**
- **Maintain NEUTRAL at unchanged TP of RM0.85**

**3QFY20 disappoints.** YTL registered a core net profit of RM52m for its 3QFY20, which brought 9MFY20 earnings to RM62m. This was well below both our and consensus expectation, accounting for just 33% and 25% of FY20F respectively. The drag came from weakness at the hotel operations and management services division, while year-to-date effective tax rate is inflated at 41%.

#### Utilities Division Review:

**Power generation.** The power generation division (which reflects the Paka short-term PPA extension till June 2021) saw revenue fall 5%yoy in 3QFY20 due to lower energy payment. However, pretax was relatively stable at circa RM14m-RM15m as this is mainly driven by capacity payment which remains stable.

**Seraya.** Pretax losses narrowed to RM38m in 3QFY20 vs RM87m in the same period last year despite lower revenues (-39%yoy). This was mainly due to higher fuel oil tanking lease rates, higher retail and ancillary margin and lower depreciation charges. According to EMA of Singapore, supply capacity is expected to contract by 7%/4% in 2020/21 while reserve margins are expected to reduce to 21% by 2023 from 33% in 2020. Coupled with consolidation of players (following YTLPM's purchase of the Tuaspring plant previously owned by Hyflux), underlying sector dynamics should improve. However, the macro weakness following the pandemic outbreak could drag near-term performance.

**Attarat Jordan power plant delayed.** Construction of YTLPM's Attarat oil shale fired power plant in Jordan (owned via 45% stake in Attarat Power Company, APCO) is seeing delays vs. the scheduled COD in June 2020. This is due to the pandemic outbreak which led to restrictions on works at the site. As such, APCO will be invoking the force majeure provisions of the PPA. We gather however, that this will not involve any significant cost overruns.

### RETURN STATISTICS

Price @ 16 <sup>th</sup> June 2020 (RM)	0.855
Expected share price return (%)	-0.6
Expected dividend yield (%)	+1.3
<b>Expected total return (%)</b>	<b>+0.7</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	16.3	7.6
3 months	17.9	5.7
12 months	-25.0	-19.0

### KEY STATISTICS

FBM KLCI	1517.71
Syariah compliant	No
Issue shares (m)	10568.70
Estimated free float (%)	29.91
Market Capitalisation (RM'm)	9,105.63
52-wk price range	RM0.6 - RM1.16
Beta vs FBM KLCI (x)	1.29
Monthly velocity (%)	0.00
Monthly volatility (%)	16.97
3-mth average daily volume (m)	5.30
3-mth average daily value (RM'm)	4.34
Top Shareholders (%)	
Yeoh Tiong Lay & Sons Holdings	44.17
Employees Provident Fund Board	6.19
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	1,938	2,029	2,261
Pretax Profit	1,421	1,029	447	434	595
Minority Interest	-639	-464	-185	-84	-137
Core net profit	598	302	79	172	279
EPS (sen)	5.7	2.5	0.8	1.6	2.6
EPS growth	-26.5%	-56.0%	-69.9%	116.6%	62.7%
PER (x)	15.1	34.2	113.7	52.5	32.3
Dividend	4.0	4.0	0.5	1.1	1.9
Dividend yield (%)	4.7	4.7	0.6	1.3	2.2

Source: Company, MIDFR

**Cement division back to the black.** The cement division saw revenue improve 66%yoy given consolidation of Malayan Cement and an increase in sales volume and selling price from operations in China. However, pretax profit contracted 54%yoy given higher finance cost related to the acquisition of Malayan Cement.

**Hotels Division.** YTL's hotel division saw revenue fall by 16%yoy mainly due to the impact of the Covid-19 pandemic and the movement control order (MCO) imposed by the Governments in jurisdictions in which the group operates in. The division slipped into a marginal pretax loss (vs. RM44m pretax profit in 3QFY19). We however expect a much more significant impact in 4QFY20.

**Earnings revision.** While quarterly earnings did improve, it however, was not as strong as expected. Additionally, YTL's 4QFY20 is likely to be hit by weakness following lockdown measures taken worldwide in reaction to the Covid19 outbreak. Given the disappointing performance year-to-date, we slash our FY20F/21/21F earnings by 58%/21%/7%. We also tweak higher our effective tax rate assumption for FY20F/21F.

**Recommendation.** Maintain **NEUTRAL** on YTL, at unchanged SOP-based **TP of RM0.85/share** (the bulk of the SOP is pegged to our TP and market price of YTL's units). 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: 3QFY20 RESULTS SUMMARY

FYE Jun (RMm)	3Q19	2Q20	3Q20	YoY	QoQ	9M19	9M20	YTD
Revenue	4,312.7	5,543.8	4,813.6	11.6%	-13.2%	12,955.9	15,642.0	21%
<b>EBIT</b>	<b>595.8</b>	<b>556.3</b>	<b>549.1</b>	<b>-7.8%</b>	<b>-1.3%</b>	<b>1,810.4</b>	<b>1,688.7</b>	<b>-7%</b>
Finance cost	(429.6)	(485.1)	(469.4)	9.3%	-3.2%	(1,289.9)	(1,445.9)	12%
Associates	109.9	115.6	104.2	-5.2%	-9.8%	321.9	312.1	-3%
<b>PBT</b>	<b>276.1</b>	<b>186.8</b>	<b>183.9</b>	<b>-33.4%</b>	<b>-1.6%</b>	<b>842.3</b>	<b>554.8</b>	<b>-34%</b>
Tax	(63.2)	(90.8)	(54.3)	-14.1%	-40.2%	(207.5)	(228.9)	10%
Minority Interest	127.1	78.5	100.1	-21.3%	27.6%	378.4	263.5	-30%
Net profit	85.8	17.5	29.5	-65.6%	68.3%	256.4	62.4	-76%
<b>Core net profit</b>	<b>85.8</b>	<b>6.9</b>	<b>52.0</b>	<b>-39.4%</b>	<b>652.9%</b>	<b>256.4</b>	<b>61.7</b>	<b>-76%</b>
EPS (sen)	0.83	0.17	0.28	-65.6%	68.3%	2.47	0.60	-76%
GDPS (sen)	0.00	0.00	0.00	NA	NA	0.00	0.00	NA
EBIT margin	13.8%	10.0%	11.4%			14.0%	10.8%	
Pretax margin	6.4%	3.4%	3.8%			6.5%	3.5%	
Tax rate	22.9%	48.6%	29.5%			24.6%	41.3%	
Net profit margin	2.0%	0.1%	1.1%			2.0%	0.4%	

Source: Company, MIDFR

## YTL: 3QFY20 RESULTS BREAKDOWN

Segmental Breakdown	3Q19	2Q20	3Q20	YoY	QoQ	9M19	9M20	YTD
<b>Revenue (RMm):</b>	<b>4,312.7</b>	<b>5,543.8</b>	<b>4,813.6</b>			<b>12,955.9</b>	<b>15,642.0</b>	
Construction	216.2	570.2	717.7	232.0%	25.9%	710.1	1,728.8	143%
IT & e-commerce related business	0.8	1.0	1.2	44.8%	12.1%	3.4	3.3	-2%
Cement manufacturing	615.8	1,396.4	1,022.4	66.0%	-26.8%	1,942.7	3,580.3	84%
Property investment & development	215.2	335.3	207.5	-3.6%	-38.1%	648.5	931.0	44%
Management services & others	110.4	104.6	92.1	-16.6%	-11.9%	350.9	316.8	-10%
Hotels	353.2	435.2	296.2	-16.1%	-31.9%	949.3	1,052.3	11%
Utilities	2,801.1	2,701.1	2,476.5	-11.6%	-8.3%	8,350.9	8,029.5	-4%
<b>PBT (RMm):</b>	<b>276.1</b>	<b>186.8</b>	<b>183.9</b>			<b>842.3</b>	<b>554.8</b>	
Construction	17.2	49.6	52.5	205.2%	5.8%	35.6	169.0	375%
IT & e-commerce related business	(0.4)	0.8	(0.2)	-49.1%	-129.8%	2.4	2.2	-11%
Cement manufacturing	41.1	49.5	19.1	-53.6%	-61.5%	130.8	59.1	-55%
Property investment & development	46.2	7.7	77.4	67.6%	905.5%	192.5	113.1	-41%
Management services & others	13.2	15.4	(53.3)	-504.1%	-446.5%	0.6	(47.6)	-8307%
Hotels	44.1	32.2	(0.7)	-101.5%	-102.0%	53.2	51.3	-3%
Utilities	114.8	31.5	89.1	-22.4%	182.5%	427.3	207.8	-51%
<b>PBT margin</b>								
Construction	8.0%	8.7%	7.3%			5.0%	9.8%	
IT & e-commerce related business	-55.6%	73.6%	-19.6%			70.8%	64.8%	
Cement manufacturing	6.7%	3.5%	1.9%			6.7%	1.7%	
Property investment & development	21.5%	2.3%	37.3%			29.7%	12.1%	
Management services & others	12.0%	14.7%	-57.9%			0.2%	-15.0%	
Hotels	12.5%	7.4%	-0.2%			5.6%	4.9%	
Utilities	4.1%	1.2%	3.6%			5.1%	2.6%	

Source: Company, MIDFR

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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.