

YTL Power International Berhad

(6742 | YTLP MK) Utilities | Power Generation

Little catalyst in 1HFY20

KEY INVESTMENT HIGHLIGHTS

- **1HFY20 earnings within ours but missed consensus estimates**
- **2QFY20 core earnings down 48%yoy but improved 7%qoq**
- **Power Seraya remains in the red though losses narrowed slightly versus 1QFY19**
- **Telcos division losses ballooned on absence of Bestarinet contribution, uncertainties on impairment and renewal in the near-term**
- **Maintain NEUTRAL at unchanged TP of RM0.70/per share**

2QFY20 behind consensus estimates. YTLP reported 2QFY20 core net profit of RM84m, which brought 1HFY20 core earnings to RM163m. This was within our estimates but below consensus expectation, accounting for 51% and 45% of full year projections respectively. Group earnings were down 48%yoy in 2QFY20 dragged mainly by losses at the telco division following the expiry of the group's Bestarinet contract. Additionally, Power Seraya continued to be a drag on group earnings.

Seraya remains in the red. 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 will 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 division'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.

Maintain NEUTRAL

Unchanged Target Price: RM0.70

RETURN STATISTICS

Price @ 20 th Feb 2020 (RM)	0.72
Expected share price return (%)	-3.1
Expected dividend yield (%)	+5.3
Expected total return (%)	+2.3

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-9.4	-6.1
3 months	-5.8	11.3
12 months	-21.6	-11.8

KEY STATISTICS

FBM KLCI	1534.98
Syariah compliant	No
Issue shares (m)	7675.30
Estimated free float (%)	19.64
Market Capitalisation (RM'm)	5,564.59
52-wk price range	RM0.67 - RM0.94
Beta vs FBM KLCI (x)	0.91
Monthly velocity (%)	0.01
Monthly volatility (%)	11.84
3-mth average daily volume (m)	4.57
3-mth average daily value (RM'm)	3.52
Top Shareholders (%)	
YTL Corp Bhd	48.66
Yeoh Tiong Lay & Sons Holdings	9.85
Cornerstone Crest Sdn Bhd	6.45

Analyst(s)


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INVESTMENT STATISTICS

FYE Jun	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	10,589.7	11,677.1	12,380.5	12,793.0	13,079.6
EBIT (RM'm)	1,613.8	1,479.7	1,208.1	1,306.6	1,421.1
Pre-tax Profit (RM'm)	943.2	733.7	421.4	510.1	503.8
Core net profit (RM'm)	763.6	543.6	321.8	417.9	413.3
FD EPS (sen)	10.0	7.1	4.2	5.5	5.4
EPS growth (%)	13.4	(28.8)	(40.8)	29.9	(1.1)
PER (x)	7.2	10.1	17.1	13.2	13.3
Net Dividend (sen)	5.0	5.0	2.9	3.8	3.8
Net Dividend Yield (%)	6.9	6.9	4.1	5.3	5.3

Source: Company, MIDFR

Recommendation. Maintain **NEUTRAL** on YTL at unchanged TP of **RM0.70**. We do expect meaningful earnings recovery in FY21F once YTL's 45%-owned Attarat oil shale power plant comes on-stream in FY21F. However, in the near-term uncertainties regarding impairments for YTL's Bestarinet investments and its renewal, if at all, is likely to drag share price performance. 

YTL POWER: 2QFY20 RESULTS SUMMARY

FYE Jun (RMm)	2Q19	1Q20	2Q20	QoQ	YoY	1H19	1H20	YTD
Revenue	2,927.4	2,959.5	2,795.6	-5.5%	-4.5%	5,730.8	5,755.1	0.4%
EBIT	297.3	306.3	273.0	-10.9%	-8.2%	682.8	579.3	-15.2%
Interest expense	(283.9)	(289.2)	(280.7)	-2.9%	-1.1%	(571.3)	(569.9)	-0.2%
Associates	115.6	90.6	110.2	21.6%	-4.7%	208.2	200.8	-3.6%
PBT	129.0	107.7	102.4	-4.9%	-20.6%	319.8	210.1	-34.3%
Tax	(27.6)	(37.6)	(32.8)	-12.8%	18.7%	(68.0)	(70.4)	3.6%
PAT	101.4	70.1	69.6	-0.7%	-31.3%	251.8	139.7	-44.5%
Minority Interest	29.6	2.7	(0.6)	-123.8%	-102.2%	53.7	2.1	-96.1%
Net profit	71.8	67.4	70.3	4.3%	-2.1%	198.0	137.6	-30.5%
Core net profit	162.0	78.5	84.2	7.3%	-48.0%	304.8	162.8	-46.6%
Core EPS (sen)	2.12	1.03	1.10			3.99	2.13	
GDPS (sen)	0.00	0.00	0.00			0.00	0.00	
EBIT margin	10.2%	10.3%	9.8%			11.9%	10.1%	
PBT margin	4.4%	3.6%	3.7%			5.6%	3.7%	
Tax rate	21.4%	34.9%	32.0%			21.3%	33.5%	
Net profit margin	2.5%	2.3%	2.5%			3.5%	2.4%	
Revenue:	2Q19	1Q20	2Q20	QoQ	YoY	1H19	1H20	QoQ
Power generation (contracted)	192.7	208.7	222.6	6.7%	15.5%	400.6	431.2	7.6%
Multi utilities business (merchant)	1,554.2	1,692.4	1,492.5	-11.8%	-4.0%	3,025.0	3,184.9	5.3%
Water and sewerage	876.1	857.2	891.5	4.0%	1.8%	1,725.9	1,748.7	1.3%
Telco business	211.0	97.6	98.9	1.3%	-53.2%	405.6	196.5	-51.6%
Investment holding	93.4	103.7	90.2	-13.0%	-3.4%	173.6	193.9	11.7%
PBT:	2,927.4	2,959.5	2,795.6			5,730.8	5,755.1	
Power generation (contracted)	12.9	13.7	15.7	14.9%	21.9%	27.0	29.4	9.0%
Multi utilities business (merchant)	(117.2)	(69.2)	(48.4)	-30.1%	-58.7%	-133.1	-117.5	-11.7%
Water and sewerage	199.2	195.0	189.1	-3.0%	-5.1%	399.7	384.1	-3.9%
Telco business	(10.1)	(69.7)	(107.2)	NA	958.7%	-18.4	-176.9	861.6%
Investment Holding	44.2	37.9	53.1	40.2%	NA	44.6	91.0	104.3%
PBT Margin (%)	129.0	107.7	102.4			319.8	210.1	
Power generation (contracted)	6.7%	6.6%	7.1%			6.7%	6.8%	
Multi utilities business (merchant)	-7.5%	-4.1%	-3.2%			-4.4%	-3.7%	
Water and sewerage	22.7%	22.8%	21.2%			23.2%	22.0%	
Telco business	-4.8%	-71.5%	-108.4%			-4.5%	-90.0%	
Investment Holding	47.4%	36.5%	58.9%			25.7%	46.9%	

Source: Company, 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.