

Equity Beat

01 March 2010

2QFY10 Results Review

YTL Power International

Trailing expectation

Maintain BUY

Unchanged Target Price (TP): RM2.45

- YTL Power announced its 2Q10 result which was below ours and market's expectation.
- 1H10 earnings came in at RM481.3m, accounting for 43% of our full year estimate of RM1.13b. The shortcoming was due to a lower than expected gross margin.
- A slight revision (-7%) made to our forecasts with EPS for FY10 and FY11 at 15.4 sen and 17.8 sen respectively.
- **Maintain BUY on YTL Power with target price unchanged at RM2.45/share based on DCF with a 10% hurdle rate.**

STOCK INFO


Price (19 Nov 09)	RM2.16	KLCI	1,270.78
Issued shares (mil)	6,853.1	Bursa / Bloomberg	6742 / YTLP MK
Par Value (RM)	0.50	Board / Sector	Main / IPC
Market cap. (RM'm)	14,802.8	Syariah Compliant	Yes
Price over NTA	2.0		
52-wk price Range	RM1.85- RM2.28	Major Shareholders	
Beta (against KLCI)	0.58	YTL Corp	50.4%
3-mth Avg Daily Vol	4.2m	EPF	11.3%
3-mth Avg Daily Value	RM9.1m	Yeoh Tiong Lay & Sons	4.8%

M&A bearing fruit. The acquisition of PowerSearaya started to show meaningful impact to earnings, helping revenue to increase more than 2-fold year-on-year. 6-month pretax profit grew at a slower pace of 25.1%yoy, mainly due to lower margins of PowerSeraya versus the group's average. 2Q10 net profits rose to RM250.3m or +16.4%yoy.

Forex fluctuation and lower margins hampered a stronger earnings momentum. Contribution from Wessex Water took a hit in 1Q10, as revenue declined 5.9%yoy and gross profits fell 20.3%. As for margins, volatile forex notwithstanding, its overall profitability was undermined by the higher operating cost at PowerSeraya, where margin in 2Q10 was 0.2%-pt higher to 16%. We do not expect significant shift in its operating costs environment in the near to medium term.

An interim dividend. The group has announced a 3.75 sen single-tier interim dividend. The book closure and payment dates are 17 Mar 2010 and 31 Mar 2010 respectively.

A slight adjustment to forecast. There is a slight revision to our forecast for FY10 by 7%. Key risk factors would be (i) unfavourable forex movements and (ii) capex burden from the roll out of Wimax program. The acquisition of PowerSeraya is beginning to show some promise, thus could limit the downside from its volatile domestic operation as well concerns over PPA going forward.

Maintain BUY with a target price of RM2.45. Our BUY call is in line with overall market view with target price at RM2.45 based on DCF with a 10% hurdle rate. Furthermore, adding the probable dividend return of 11.1 sen, the counter would offer more than 18% potential return from the current level. 

FYE 30 June	FY08A	FY09A	FY10F	FY11F
Revenue (RM'm)	4,242.6	6,101.9	8,574.5	8,874.5
EBIT (RM'm)	1,945.9	2,005.0	2,511.0	2,752.8
Pretax Profit (RM'm)	1,383.7	1,352.4	1,324.3	1,684.1
Net Profit (RM'm)	1,038.5	625.8	1,052.0	1,218.3
EPS (sen)	15.1	9.1	15.4	17.8
EPS growth (%)	-11.7	-40.9	60.0	16.5
PER(x)	14.3	23.7	14.0	12.1
Net Dividend (sen)	11.7	12.7	11.1	11.1
Net Dividend Yield (%)	5.4	5.9	8.9	8.9

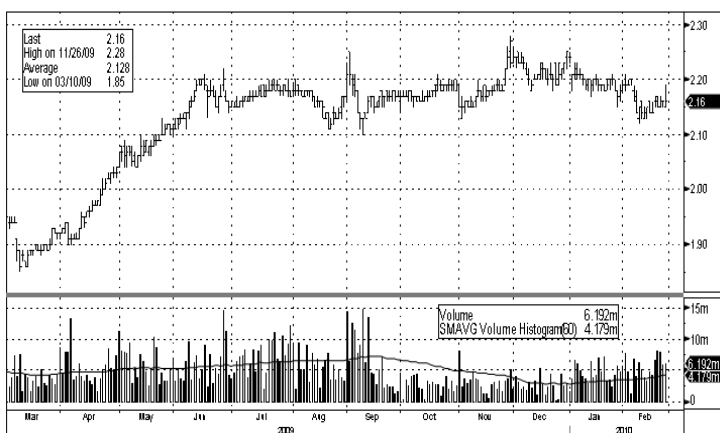
Source: Company, Forecasts by MIDFR

YTL Power: 2Q10 RESULTS SUMMARY

FY Jun (RM'm)	Quarterly Results			Cumulative		
	2Q10	%YoY	%QoQ	6MFY10	%YoY	
Turnover	3,134.7	265.9%	-2.2%	6,338.4	232.6%	Power revenue went up strongly from the full contribution from PowerSeraya with revenue from Wessex Water improved 5.3%yoy
Op profit	500.4	15.0%	-1.3%	1,007.5	15.0%	An improvement in margins but fell short of our estimate.
Interest expense	(214.0)	10.2%	-11.6%	(456.0)	7.9%	Higher interest expense mainly due to issuance of RM2.2b bond for the acquisition of PowerSeraya
Associates	58.2	33.8%	8.3%	111.9	46.6%	
Pretax profit	344.5	21.2%	8.0%	663.5	25.1%	Higher interest expense undermined pretax profit growth
Tax	(94.2)	35.9%	7.1%	(182.2)	35.2%	
Net Profit	250.3	16.4%	8.3%	481.4	21.7%	Net profit is expected to be better in subsequent quarters
		+/-	+/-		+/-	
		ppts	ppts		ppts	
Op margin (%)	16.0%	-34.8	0.2	15.9%	-30.08	
Tax rate (%)	27.3%	2.92	-0.3	27.5%	2.08	

Source: Company, MIDFR

DAILY PRICE CHART



Zulkifli Hamzah
 Wan Azhar
 wan.azhar@midf.com.my
 03-2173 8393

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

OVERWEIGHT	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.
UNDERWEIGHT	The sector is expected to underperform the overall market over the next 12 months.