YTL Corporation Berhad

(64677 | YTL MK) Conglo | Power Generation

***Maintain* BUY**

The worst should be over

***Revised* Target Price: RM0.83**

(from RM0.79)

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 result weaker than expected**
- **Stronger performance at the utilities division offset by weaker cement earnings**
- **Hotel division sustained improvements, returns to the black in 1QFY23**
- **Easing coal prices to improve cement margins going forward**
- **Maintain BUY at higher TP of RM0.83**

Weak start. YTL reported a core net profit of RM11m for its 1QFY23, which was weaker than expected accounting for 9% and 7% of our and consensus' FY23 estimates respectively. The weaker than expected result was primarily due to weaker earnings form the cement division, partly offset by stringer than expected performance of the utilities division.

Utilities driven by strong Seraya performance. YTL's RM11m 1QFY23 core earnings is a significant improvement vs. the core net loss of RM124m registered in 1QFY22 (normalized for RM306m gain on disposal of land). Improvements were mainly seen at the utilities division (1QFY23 PBT: +39%yoy), which saw Seraya's earnings more than quadruple on the back of higher demand and higher tariffs in a tighter demand-supply electricity market in Singapore as well as contribution from Tuaspring from June 2022. This was partly offset by weaker earnings from Wessex Water from temporary margin pressure given a lag in tariff adjustment to offset the current cost inflation in the UK.

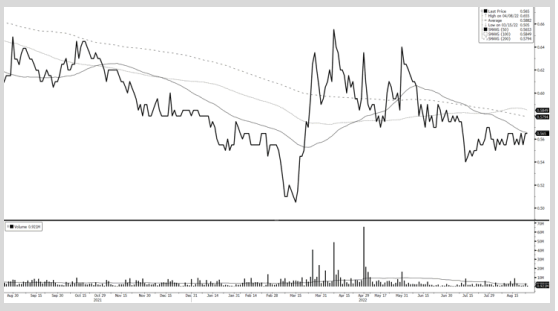
Drag from cement division. The cement division registered a sequential drop in 1QFY23 PBT (-67%qoq). Despite a +6%qoq growth in revenue, margins were impacted by peak coal prices during the quarter - we understand that coal cost accounts for more than half of revenue. However, market coal prices have peaked and has eased reasonably – given the division's leverage to coal cost, we expect the easing of coal cost to improve cement division's earnings from 2QFY23 onwards.

Hotel division returns to the black. The hotel division continued to show progressive improvement with its maiden profit in 1QFY23 after suffering almost 8 consecutive quarter of losses due to the Covid19 restrictions. We expect the hotel division to sustain this performance on easing of pandemic restrictions and reopening of international borders.

Earnings revision. Despite weaker than expected results, we raise FY23F/24F net profit slightly by 6%/3% - this reflects stronger than expected performance at the utilities division, partly offset by lower earnings expectation for the cement division from higher coal prices.

RETURN STATISTICS	
Price @ 24th Nov 2022 (RM)	0.55
Expected share price return (%)	+51.5
Expected dividend yield (%)	+5.8
Expected total return (%)	**+57.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	1.8	0.1
3 months	-3.4	-2.4
12 months	-11.7	-7.2

KEY STATISTICS	
FBM KLCI	1501.88
Syariah compliant	No
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	10964.09
Estimated free float (%)	38.54
Market Capitalisation (RM'm)	6,194.71
52-wk price range	RM0.5 - RM0.67
Beta vs FBM KLCI (x)	0.84
Monthly velocity (%)	0.00
Monthly volatility (%)	16.97
3-mth average daily volume (m)	3.05
3-mth average daily value (RM'm)	1.77
Top Shareholders (%)	
YTL Corporation	36.27
Yeoh Tiong Lay & Sons Holdings	7.32
Employees Provident Fund Board	5.82

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INVESTMENT STATISTICS

FYE June (RMm)	2020	2021	2022	2023F	2024F
Revenue	19,178.4	17,356.2	24,161.1	26,736.1	25,546.6
EBIT	2,022.8	1,797.9	2,739.5	2,092.9	2,676.6
Pretax Profit	419.3	638.5	1,558.7	692.7	1,328.7
Core net profit	-189.2	-66.0	69.1	124.7	239.2
EPS (sen)	(1.8)	(0.6)	0.7	1.2	2.3
EPS growth	-171.9%	-65.1%	-204.7%	80.4%	91.8%
PER (x)	(30.6)	(87.8)	83.8	46.5	24.2
Dividend	0.0	2.5	3.0	3.2	3.1
Dividend yield (%)	0.0	4.5	5.5	5.8	5.6

Source: Company, MIDFR

Recommendation. We expect YTL's earnings to further improve in FY23F driven by: (1) Improved earnings at the utilities division (primarily from Power Seraya), (2) Gradually improving cement earnings as cost pressures ease amid improving demand and ASPs, (3) Improving outlook for the hotel division with the transition to the endemic phase and reopening of international borders. Maintain **BUY**. Our SOP-derived **TP** is raised slightly to RM0.83 (from RM0.79) to reflect our updated TP for YTL Power. Dividend yields are attractive at 5.6% and the stock is trading at a deep 57% discount to FY23F book value.

Exhibit 1: YTL Sum-of-Parts Valuation

Group's businesses	YTL's shareholding	Price (RM/share)	Market Cap (RMm)	Valuation method	Value (RMm)	Value/share (RMm)
Listed Units:						
YTL Power	56%	1.03	7,245.4	MIDF TP	4,026.3	0.37
YTL Land	91%	0.36	298.5	Privatisation price	270.0	0.02
YTL e-Solutions	100%	0.55	739.9	Privatisation price	739.9	0.07
YTL Hospitality REIT	55%	0.94	1,592.4	Market price	875.8	0.08
Starhill Global REIT	37%	0.58*	3937.6**	Market price	1,475.8	0.13
Malayan Cement	76%	3.00	3,675.6	MIDF TP	2,775.4	0.25
Unlisted Units:						
ERL concession	45%			Equity NPV	383	0.03
Construction	100%			12xPE	1,035	0.09
Gross Value					**11,581**	**1.05**
less: holding co net debt					*-1,391*	*-0.13*
Total SOP Value					**10,189**	**0.93**
10% conglo discount						**0.83**

Source: Company, MIDFR **SGD/share* ***Converted to RM*

YTL CORPORATION: 1QFY23 RESULT SUMMARY

FYE Jun (RMm)	1Q22	4Q22	1Q23	YoY	QoQ
Revenue	5,064.6	6,074.2	6,488.7	28.1%	6.8%
EBITDA	1,076.9	968.2	1,037.4	-3.7%	7.1%
Depreciation & Amortisation	(489.7)	(468.5)	(465.5)	-4.9%	-0.7%
EBIT	**587.2**	**499.7**	**571.9**	**-2.6%**	**14.4%**
Finance cost	(379.3)	(424.6)	(495.2)	30.5%	16.6%
Associates	117.6	98.6	127.3	8.2%	29.0%
PBT	**325.4**	**173.8**	**204.0**	**-37.3%**	**17.4%**
Tax	(147.4)	(70.0)	(80.4)	-45.5%	14.7%
PAT	178.0	103.7	123.6	-30.5%	19.2%
Minority Interest	72.8	95.1	87.0	19.5%	-8.5%
Net profit	105.2	8.7	36.6	-65.2%	322.1%
Core net profit	**(124.3)**	**8.7**	**10.6**	**108.5%**	**21.7%**
EPS (sen)	0.96	0.08	0.33	-65.2%	322.1%
GDPS (sen)	0.00	3.00	0.00	#DIV/0!	NA
EBIT margin	11.6%	8.2%	8.8%		
Pretax margin	6.4%	2.9%	3.1%		
Tax rate	45.3%	40.3%	39.4%		
Net profit margin	-2.5%	0.1%	0.2%		

Source: Company, MIDFR

YTL CORPORATION: 1QFY23 RESULT BREAKDOWN

Segmental Breakdown	1Q22	4Q22	1Q23	YoY	QoQ
Revenue (RMm):	**5,064.6**	**6,074.2**	**6,488.7**		
Construction	240.9	261.7	274.8	14.1%	5.0%
Cement manufacturing	706.2	1,059.6	1,120.5	58.7%	5.7%
Property investment & development	467.3	63.2	82.3	-82.4%	30.3%
Management services & others	74.3	42.9	101.2	36.2%	136.0%
Hotels	147.9	221.2	288.4	95.1%	30.4%
Utilities	3,428.1	4,425.5	4,621.4	34.8%	4.4%
PBT (RMm):	**325.4**	**173.8**	**204.0**		
Construction	24.0	9.4	3.6	-84.8%	-61.4%
Cement manufacturing	(18.9)	115.5	38.2	-302.4%	-66.9%
Property investment & development	306.2	(43.7)	(13.5)	-104.4%	-69.0%
Management services & others	(140.0)	(69.0)	(86.6)	-38.1%	25.6%
Hotels	(12.9)	(4.6)	29.7	-330.9%	-745.1%
Utilities	167.0	166.0	232.6	39.3%	40.1%
PBT margin					
Construction	9.9%	3.6%	1.3%		
Cement manufacturing	-2.7%	10.9%	3.4%		
Property investment & development	65.5%	-69.1%	-16.4%		
Management services & others	-188.3%	-160.8%	-85.6%		
Hotels	-8.7%	-2.1%	10.3%		
Utilities	4.9%	3.8%	5.0%		

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 *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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology