YTL Corporation Berhad

(4677 | YTL MK) Main | Utilities

Maintain BUY

Yet Another Beat

***Revised* Target Price: RM1.05**
(previously RM0.83)

KEY INVESTMENT HIGHLIGHTS

- **Second consecutive quarter of earnings outperformance**
- **Utilities division core driver of earnings growth, benefitting from tighter Singapore electricity market**
- **Cement division earnings more than doubled on higher ASP and demand**
- **FY23F/24F earnings revised up by +191%/+134%**
- **Reaffirm BUY at higher TP of RM1.05**

Smashed estimates. YTL Corp's (YTL) comeback got stronger with a 2nd consecutive quarter of outperformance. The group reported 3QFY23 net profit of RM414m, bringing 9MFY23 earnings to RM548m. This accounted for 220%/248% of our/consensus' full year estimates. Topline grew +19%yoy driven by growth across most business segments. Coupled with strong core margin uplift, bottomline turned around from a core net loss of -RM123m in 3QFY22 to a net profit of RM414m in 3QFY23.

Utilities division earnings (+391%yoy) was the core driver of the 3QFY23 growth as Seraya is benefitting from higher prices in the Singapore electricity market. Given a tighter market from minimal new capacity and sustained strong demand, Singapore's reserve margins are expected to gap down to a range of 29%-34% in CY23 from 46%-53% in CY22, based on the EMA's projection. This level of reserve margin is expected to sustain until CY25, at least, suggesting Seraya's strong earnings could be sustained in the near to mid-term. Seraya was also boosted by contribution from Tuaspring from June 2022, which effectively increased its capacity by an estimated 16%. Wessex Water remained in the red in 3QFY23 given inflationary cost pressure, but an average 9% tariff hike from 1st April 2023 is expected to lift it back into the black.

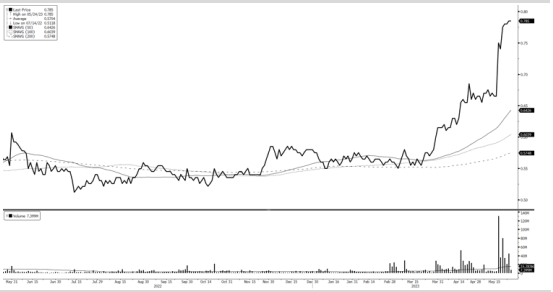
Cement division another key driver. The cement division registered a +19%yoy topline growth and a +130%yoy PBT growth driven by higher demand and higher ASPs - PBT margins almost doubled to 9.7% in 3QFY23. We reckon lower coal prices (which has more than halved from a peak of USD464/MT back in 1QFY23) also contributed to the improved margins. Coal prices have reduced further since Mar'23 to the latest USD144/MT, which bodes well for cement margins going forward. Other than the cement division, YTL's hotel operations continued to stage a strong recovery riding on easing pandemic restrictions - earnings have now exceeded pre-pandemic levels.

Earnings estimates. Given the strong outperformance, we raise FY23F/24F net profit by +191%/+134% to reflect our upward revision of YTL Power earnings as well as higher cement ASP and margins.

BUY reaffirmed. We raise our SOP-derived **TP** to **RM1.05** (from RM0.83) to reflect upwards revisions to our TPs for YTL Power (RM1.54 from RM1.12 previously) and Malayan Cement (RM3.74 from RM2.61 previously). YTL's latest set of results underpin our thesis of a strong

RETURN STATISTICS	
Price @ 25th May 2023 (RM)	0.78
Expected share price return (%)	+34.43
Expected dividend yield (%)	4.86
Expected total return (%)	**+39.29**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	13.9	15.7
3 months	26.8	44.7
12 months	31.1	43.5

INVESTMENT STATISTICS

FYE Jun (RMm)	2022A	2023F	2024F
Revenue	24,161.1	27,821.4	28,553.0
Operating Profit	2,739.5	3,056.1	3,308.5
Profit Before Tax	1,558.7	1,727.3	1,986.8
Core PATAMI	69.1	725.5	834.4
Core EPS (sen/share)	0.7	6.9	7.9
DPS (sen/share)	3.0	3.8	4.4
Dividend Yield (%)	3.8	4.9	5.6

KEY STATISTICS	
FBM KLCI	1,402.48
Issue shares (m)	10,964.1
Estimated free float (%)	29.9
Market Capitalisation (RM'm)	8,552.0
52-wk price range	RM0.53-RM0.81
3-mth average daily volume (m)	15.7
3-mth average daily value (RM'm)	10.5
Top Shareholders (%)	
Yeoh Tiong Lay & Sons Holdings	50.2
Employees Provident Fund Board	5.0
Credit Suisse Group AG	4.6

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earnings recovery from FY23 given: (1) Improved earnings at the utilities division driven primarily by Power Seraya, (2) Gradually improving cement earnings as cost pressures ease amid improving demand and ASPs, (3) The hotel division as a reopening play riding on reopening of international borders and easing travel restrictions. Dividend yields are attractive at 4.9%-5.6% while valuations are undemanding at 10x FY24F PER.

Table 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%	1.54	10,832.9	MIDF TP	6,019.9	0.55
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%	1.00	1,694.0	Market price	931.7	0.08
Starhill Global REIT	37%	0.54*	3,666.1**	Market price	1,374.0	0.12
Malayan Cement	76%	3.74	4,582.3	MIDF TP	3,459.9	0.31
Unlisted Units:						
ERL concession	45%			Equity NPV	383	0.03
Construction	100%			12xPE	1,035	0.09
Gross Value					**14,213**	**1.29**
less: holding co net debt					*-1,391*	*-0.13*
Total SOP Value					**12,821**	**1.17**
10% conglo discount						**1.05**

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

Table 2: YTL 9MFY23 Result Summary

FYE Jun (RMm)	3Q22	2Q23	3Q23	YoY	QoQ	9M22	9M23	YTD
Revenue	6,170.7	6,592.6	7,329.0	18.8%	11.2%	18,086.9	20,410.2	13%
EBITDA	1,647.4	1,313.3	1,824.8	10.8%	38.9%	3,601.8	4,302.7	19%
Depreciation & Amortisation	(416.1)	(464.8)	(389.9)	-6%	-16%	(1,362.0)	(1,320.2)	-3%
Operating profit	**1,231.3**	**727.2**	**1,337.8**	**8.6%**	**84.0%**	**2,239.8**	**2,636.8**	**18%**
Finance cost	(397.0)	(561.9)	(619.1)	55.9%	10.2%	(1,162.1)	(1,676.2)	44%
Associates	83.3	121.4	97.1	17%	-20%	307.3	345.7	12%
PBT	**917.6**	**286.6**	**815.8**	**-11%**	**185%**	**1,384.9**	**1,306.3**	**-6%**
Tax	(88.9)	(89.9)	(156.4)	75.8%	73.9%	(315.0)	(326.6)	4%
PAT	828.7	196.6	659.4	-20%	235%	1,070.0	979.7	-8%
Minority Interest	414.1	99.7	245.3	-41%	146%	548.1	432.0	-21%
Net profit	414.6	96.9	414.1	-0.1%	327%	521.9	547.7	5%
Core net profit	**(123.0)**	**96.9**	**414.1**	**437%**	**327%**	**60.5**	**547.7**	**806%**
EPS (sen)	3.77	0.88	3.76	-0.1%	327%	4.74	4.98	4.9%
GDPS (sen)	0.00	0.00	0.00	NA	NA	0.00	0.00	NA0!
Operating margin	20.0%	11.0%	18.3%			12.4%	12.9%	
Pretax margin	14.9%	4.3%	11.1%			7.7%	6.4%	
Tax rate	9.7%	31.4%	19.2%			22.7%	25.0%	
Core net profit margin	-2.0%	1.5%	5.7%			2.9%	2.7%	

Table 3: YTL 9MFY23 Segmental Breakdown

Segmental Breakdown	3Q22	2Q23	3Q23	YoY	QoQ	9M22	9M23	YTD
Revenue (RMm):								
Construction	228.5	317.3	278.6	21.9%	-12.2%	874.5	870.7	0%
Cement manufacturing	1,046.7	1,170.9	1,245.2	19.0%	6.3%	2,831.3	3,536.6	25%
Property investment & development	51.7	62.6	52.2	1.1%	-16.6%	575.5	197.2	-66%
Management services & others	95.4	142.3	153.0	60.4%	7.5%	268.0	396.5	48%
Hotels	160.8	338.0	379.1	135.7%	12.1%	474.9	1,005.5	112%
Utilities	4,587.5	4,561.4	5,221.0	13.8%	14.5%	13,062.7	14,403.7	10%
PBT (RMm):								
Construction	8.0	3.0	6.9	-13.5%	132.3%	52.0	13.6	-74%
Cement manufacturing	52.6	52.1	120.9	130.0%	131.8%	148.1	211.2	43%
Property investment & development	(39.0)	(12.8)	(14.1)	-63.9%	10.3%	247.5	(40.4)	-116%
Management services & others	794.4	(19.3)	(13.8)	-101.7%	-28.4%	574.8	(119.7)	121%
Hotels	(32.4)	49.1	57.6	-277.9%	17.3%	(77.1)	136.3	-277%
Utilities	134.1	214.4	658.3	391.0%	207.0%	439.7	1,105.3	151%
PBT margin								
Construction	3.5%	0.9%	2.5%			5.9%	1.6%	
Cement manufacturing	5.0%	4.5%	9.7%			5.2%	6.0%	
Property investment & development	-75.5%	-20.4%	-27.0%			43.0%	-20.5%	
Management services & others	833.1%	-13.5%	-9.0%			214.5%	-30.2%	
Hotels	-20.1%	14.5%	15.2%			-16.2%	13.6%	
Utilities	2.9%	4.7%	12.6%			3.4%	7.7%	

FINANCIAL SUMMARY

Income Statement (RMm)	2020	2021	2022	2023F	2024F
Revenue	19,178.4	17,270.4	24,161.1	27,821.4	28,553.0
Operating profit	2,022.8	1,791.3	2,739.5	3,056.1	3,308.5
Net finance cost	(1,860.7)	(1,555.0)	(1,586.7)	(1,748.8)	(1,741.7)
Associates	257.2	395.5	405.9	420.0	420.0
Pretax profit	**419.3**	**631.8**	**1,558.7**	**1,727.3**	**1,986.8**
Taxation	(414.6)	(959.2)	(385.0)	(431.8)	(496.7)
Minority Interest	(193.9)	(40.3)	(643.1)	(570.0)	(655.6)
Net profit	(189.2)	(367.7)	530.5	725.5	834.4
Core net profit	**(189.2)**	**(65.0)**	**69.1**	**725.5**	**834.4**
Balance Sheet (RM m)	**2020**	**2021**	**2022**	**2023F**	**2024F**
Property, plant and equipment	30,475	32,120	31,943	32,194	32,903
Associates	4,217	4,405	3,704	3,704	3,704
Intangible assets	8,631	8,500	8,990	6,990	6,990
Others	6,577	6,901	7,614	7,614	7,614
Total non-current assets	**49,901**	**51,926**	**52,251**	**50,502**	**51,211**
Inventories	2,184	1,137	1,249	3,811	3,911
Receivables	3,205	3,924	4,728	6,327	6,571
Cash & near cash	11,661	13,679	11,399	7,795	8,457
Others	2,957	3,197	2,715	2,715	2,715
Total current assets	**20,008**	**21,937**	**20,091**	**20,648**	**21,655**
Payables	3,045	3,696	4,525	5,442	5,546
Borrowings	11,334	9,664	6,911	6,911	6,911
Other current liabilities	1,248	1,723	1,497	1,497	1,497
Total current liabilities	**15,627**	**15,082**	**12,933**	**13,850**	**13,954**
Borrowings	32,252	35,411	35,345	32,908	34,146
Others	6,419	7,033	6,546	6,546	6,546
Total long term liabilities	**38,671**	**42,443**	**41,891**	**39,454**	**40,691**
Share capital	3,468	3,468	3,468	3,468	3,468
Share premium	-	-	-	-	-
Other Reserves	513	892	993	993	993
Retained profit	8,982	8,483	8,532	8,858	9,234
Treasury	(502)	(54)	(54)	(54)	(54)
Shareholder funds	**12,460**	**12,788**	**12,939**	**13,265**	**13,640**
Minority interest	3,150	3,549	4,581	4,581	4,581
Shareholders' equity	**15,610**	**16,338**	**17,519**	**17,846**	**18,221**

Cashflow Statement (RM'm)	2020	2021	2022	2023F	2024F
Pretax profit	419.3	631.8	1,548.9	1,727.3	1,986.8
Non-cash adjustment	2,310.8	2,814.5	1,965.5	1,835.4	1,849.8
Net change in WC	911.6	979.1	(86.9)	(3,243.2)	(240.8)
Others	(599.0)	(1,415.0)	(1,883.4)	(1,001.8)	(1,152.3)
Operating cash flow	**3,042.7**	**3,010.3**	**1,544.2**	**(682.4)**	**2,443.5**
Capex	(1,579.7)	(1,910.8)	(1,906.3)	(2,086.0)	(2,559.1)
Others	(1,463.3)	801.4	999.0	2,000.0	0.0
Investing cash flow	**(3,043.0)**	**(1,109.5)**	**(907.3)**	**(86.0)**	**(2,559.1)**
Dividends paid	(297.1)	(426.8)	0.0	(274.1)	(399.0)
Proceeds from borrowings	6,827.0	3,549.4	6,411.5	2,716.1	3,332.1
Repayment of borrowings	(6,107.5)	(2,901.7)	(8,407.4)	(5,328.6)	(2,272.4)
Others	(1,229.8)	78.0	(1,021.3)	50.9	117.6
Financing cash flow	**(807.5)**	**298.9**	**(3,017.2)**	**(2,835.6)**	**778.3**
Net change in cash	**(807.8)**	**2,199.7**	**(2,380.4)**	**(3,604.0)**	**662.7**
Adjustments for forex & bank overdraft	144.0	352.8	126.3	0.0	0.0
B/f cash balance	11,763.8	11,100.1	13,678.6	11,398.6	7,794.6
Ending cash balance	**11,661.2**	**13,678.6**	**11,398.6**	**7,794.6**	**8,457.3**

Key Ratios	2020	2021	2022	2023F	2024F
Operating profit margin	10.5%	10.4%	11.3%	11.0%	11.6%
Pretax margin	2.2%	3.7%	6.5%	6.2%	7.0%
ROE (%)	-1.5%	-0.5%	0.5%	5.5%	6.1%
ROA (%)	-0.3%	-0.1%	0.1%	1.0%	1.1%
Net gearing	256%	246%	238%	241%	239%
BV per share (RM)	1.18	1.21	1.23	1.26	1.29
PBV (x)	0.66	0.64	0.64	0.62	0.60
PER (x)	NA	NA	118.9	11.3	9.8

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