

YTL Power International

4Q19 In Line; Maiden YES Profit

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4Q19 results are fairly well on track with a pleasant surprise maiden profit from YES, and narrowed PowerSeraya's losses bolstering earnings. However, earnings sustainability is crucial for YTLPOWR in the immediate term before its two greenfield projects come into the system in 3-4 years time. Upgrade the stock to **OP** at RM0.82 as recent heavy sell-down is overdone while it trades at -1.5SD 3-year mean with attractive yield of >7%.

4Q19 in line. 4Q19 core profit which rose 30% QoQ to RM175.6m came within expectations, with FY19 core profit of RM615.3m coming on the dot of our forecast but 12% below market consensus. A first and final NDPS of 5.0 sen (ex-date: 25 Oct; payment date: 13 Nov) was declared for FY19, which is the same payout in FY18.

PowerSeraya's losses narrowed and a surprise turnaround at YES boosted sequential results. 4Q19 core profit jumped 30% QoQ to RM175.6m from RM134.8m in 3Q19 while revenue rose 6% over the quarter. The improved results were attributable to a sharp decline in pre-tax loss at PowerSeraya to RM22.4m from RM86.5m while YES posted its first ever PBT of RM10.0m from pre-tax loss of RM9.9m previously, due to higher revenue coupled with lower operating costs. Elsewhere, local IPP posted a lower PBT of RM9.6m from RM14.8m while Wessex Water also registered lower earnings by 6% to RM168.1m.

Earnings were still lower than last year. YoY, 4Q19 core profit contracted 19% from RM216.2m which was largely due to lower earnings from Wessex Water by RM155.9m owing to one-off pension credit recognised in 4Q18 while PowerSeraya was still profitable back then with PBT of RM3.6m. YTD, FY19 core income declined 11% to RM615.3m from RM690.6m, although revenue rose 10%, due largely to the loss-making PowerSeraya at the pre-tax level of RM242.1m, including RM70.5m impairment of receivable in 2Q19, from PBT of RM71.8m in FY18. However, the earnings decline was partly mitigated by losses at YES narrowing by 81% while local IPP posted improved results by 171% as the power plant resumed operations in end-1Q18 after being awarded the PPA Extension contract.

Sustainability of earnings is key going forward. While waiting for new earnings stream to start in the immediate term before the two new greenfield projects, namely PT Tanjung Jati coal-fired power plant in Indonesia and Attarat Power's oil shale-fired power plant in Jordan, come on-stream in 3-4 years' time, PowerSeraya remains a wildcard, although with improved numbers in 4Q19 while YES has also turned around for the first time, earnings sustainability is still the key factor. In addition, Brexit also put pressure on Wessex Water due to forex volatility. For now, we keep our FY20 forecast and introduce FY21 estimates with a flattish earnings projection.

Sell-down overdone; upgrade to OUTPERFORM. Although earnings risk remains a key concern, we believe the heavy sell-down partly due to MCSI index rebalancing and lacklustre earnings outlook, is overly done as the Wessex Water value minus group's net debt is worth RM0.73 per share, which is still higher than its current share price of RM0.685. In addition, there is a NDPS of 5.0 sen yielding >7% and the stock is trading close to its -1.5SD 3-year mean of 9x. As such, we upgrade the stock to OUTPERFORM from MARKET PERFORM with a lower target price of RM0.82, after adjusting for its latest FY19 cash position, from RM0.88 based on unchanged 20% holding company discount to its RNAV. **Risks to our upgrade include** (i) PowerSeraya losses worsening and (ii) YES turns loss-making again.

OUTPERFORM ↑

Price: **RM0.685**
Target Price: **RM0.820** ↓

Share Price Performance



KLCI	1,595.18
YTD KLCI chg	-5.6%
YTD stock price chg	-17.5%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	YTLP MK
Market Cap (RM m)	5,257.6
Shares Outstanding	7,675.3
52-week range (H)	1.18
52-week range (L)	0.69
3-mth avg daily vol:	1,632,821
Free Float	35%
Beta	1.0

Major Shareholders

YTL Corp Bhd	48.8%
Yeoh Tiong Lay	9.9%
Cornerstone Crest Sdn Bhd	6.5%

Summary Earnings Table

FY Jun (RM m)	2019	2020F	2021F
Turnover	11677	11225	11477
EBIT	1636	1673	1698
PBT	734	989	1030
Net Profit (NP)	459	664	668
Core Net Profit	615	664	668
Consensus (NP)		578	612
Earnings Revision (%)		-	New
Core EPS (sen)	6.4	9.2	9.3
Core EPS growth (%)	-10.9	7.9	0.6
NDPS (sen)	5.0	5.0	5.0
BV/Share (RM)	0.90	0.92	0.94
NTA/Share (RM)	0.66	0.65	0.69
Core PER (x)	9.1	8.4	8.4
PBV (x)	0.76	0.74	0.73
P/NTA (x)	1.03	1.06	1.00
Gearing (x)	1.51	1.57	1.53
Dividend Yield (%)	7.3	7.3	7.3

30 August 2019

Income Statement								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Jun (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	3,058.7	2,887.6	6%	2,807.3	9%	11,677.1	10,606.0	10%
EBITDA	696.6	615.2	13%	725.9	-4%	2,704.2	2,765.6	-2%
Depreciation	(217.4)	(248.6)	-13%	(270.8)	-20%	(1,068.6)	(1,081.3)	-1%
EBIT	479.2	366.6	31%	455.1	5%	1,635.5	1,684.3	-3%
Interest expense	(280.0)	(279.6)	0%	(265.8)	5%	(1,130.9)	(1,077.5)	5%
Associates	72.8	103.9	-30%	103.4	-30%	384.9	404.7	-5%
Exceptional items	(25.4)	(23.5)	8%	(10.5)	143%	(155.8)	(70.9)	120%
Pretax profit	246.6	167.3	47%	282.2	-13%	733.7	940.6	-22%
Taxation	(49.8)	(28.0)	78%	(49.4)	1%	(145.9)	(222.3)	-34%
Profit after tax	196.8	139.3	41%	232.8	-15%	587.8	718.3	-18%
Minority interest	(46.6)	(28.0)	67%	(27.2)	72%	(128.3)	(98.6)	30%
Net profit	150.2	111.3	35%	205.7	-27%	459.5	619.7	-26%
Core profit	175.6	134.8	30%	216.2	-19%	615.3	690.6	-11%
EPS (sen)	1.8	1.4	35%	2.5	-27%	13.4	17.6	-24%
Core EPS (sen)	2.2	1.7	30%	2.7	-19%	18.4	20.1	-9%
DPS (sen)	5.0	0.0	N/A	5.0	0%	5.0	5.0	0%
NTA/share (RM)	0.63	0.64	-2%	0.71	-12%	0.63	0.64	-2%
EBITDA margin	23%	21%		26%		23%	26%	
EBIT margin	16%	13%		16%		14%	16%	
Pretax margin	8%	6%		10%		6%	9%	
Effective tax rate	20%	17%		17%		20%	24%	

Source: Company

Segment Breakdown								
Segmental Breakdown	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segment revenue:								
Power Generation	204.0	193.9	5%	176.1	16%	798.5	614.5	30%
Multi Utilities Business	1,686.0	1,562.9	8%	1,487.4	13%	6,274.0	5,553.4	13%
Water & Sewerage	841.6	818.5	3%	847.7	-1%	3,386.1	3,365.3	1%
Mobile Broadband Network	237.0	229.4	3%	192.1	23%	871.9	772.2	13%
Investment Holding	90.1	82.8	9%	104.0	-13%	346.6	300.5	15%
Group revenue	3,058.7	2,887.6	6%	2,807.3	9%	11,677.1	10,606.0	10%
Segment result:								
Power Generation	9.6	14.8	-35%	13.8	-30%	51.4	19.0	171%
Multi Utilities Business	(22.4)	(86.5)	-74%	3.6	-723%	(242.1)	71.8	-437%
Water & Sewerage	168.1	178.1	-6%	324.0	-48%	745.9	991.4	-25%
Mobile Broadband Network	10.0	(9.9)	-201%	(32.5)	-131%	(18.3)	(98.1)	-81%
Investment Holding	81.3	70.9	15%	(26.7)	-405%	196.8	(43.6)	-552%
Group PBT	246.6	167.3	47%	282.2	-13%	733.7	940.6	-22%
PBT margin:								
Power Generation	5%	8%		8%		6%	3%	
Multi Utilities Business	-1%	-6%		0%		-4%	1%	
Water & Sewerage	20%	22%		38%		22%	29%	
Mobile Broadband Network	4%	-4%		-17%		-2%	-13%	
Investment Holding	90%	86%		-26%		57%	-14%	
Group PBT margin	8%	6%		10%		6%	9%	

Source: Company

30 August 2019

Valuation – New				
(RM m)	RM m	RM/Share	%	Valuation Basic
Local IPPs	4	0.00	0.2%	FCFF @ 6.6% discount rate
Singapore IPP	113	0.01	1.3%	FCFF @ 5.8% discount rate
Wessex	15,796	1.94	172.5%	FY16A RCV
PT Jawa	168	0.02	2.1%	FCFF @ 13.5% discount rate
Other Investment	2,082	0.26	22.5%	Estimated book value
Net Cash/(Debt)	-9,818	-1.20	-98.5%	
	8,345	1.02	100.0%	
No of shares (current)	8,156			
RNAV per share – basic	RM1.02			
RNAV	8,345	1.01	98.7%	
Proceeds from Warrants	117	0.01	1.3%	
	8,462	1.02	100.0%	
No. of shares (FD)	8,259			
FD RNAV per share	1.02			
Holding company discount 20%	-0.20			
Target Price	RM0.82			

Source: Kenanga Research

Valuation – New				
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Wessex	15,796	1.94	172.5%	FY16A RCV
PT Jawa	168	0.02	2.1%	FCFF @ 13.5% discount rate
Other Investment	2,082	0.26	22.5%	Estimated book value
Net Cash/(Debt)	-9,166	-1.12	-98.5%	
	8,996	1.10	100.0%	
No of shares (current)	8,156			
RNAV per share – basic	RM1.10			
RNAV	8,996	1.09	98.7%	
Proceeds from Warrants	117	0.01	1.3%	
	9,113	1.10	100.0%	
No. of shares (FD)	8,259			
FD RNAV per share	1.10			
Holding company discount 20%	-0.22			
Target Price	RM0.88			

Source: Kenanga Research

30 August 2019

Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM'm)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.81	3,608.0	Y	12/2019	2.9%	7.7%	8.2%	2.2%	21.2	19.6	19.2	3.5	3.3	17.3%	4.6%	3.00	MP
MALAKOFF CORP BHD	0.860	4,202.8	Y	12/2019	-0.3%	-0.1%	10.5%	4.5%	19.6	17.7	17.0	0.8	0.8	4.3%	4.5%	1.00	OP
PESTECH INTERNATIONAL BHD	1.36	1,039.4	Y	06/2020	17.3%	10.5%	25.8%	13.5%	14.4	11.4	10.1	2.3	1.9	18.3%	0.0%	1.75	OP
PETRONAS GAS BHD	15.86	31,382.7	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	17.2	16.3	19.1	2.4	2.3	14.5%	4.3%	15.75	MP
TENAGA NASIONAL BHD	13.80	78,479.1	Y	12/2019	3.2%	1.8%	2.6%	2.0%	14.4	14.0	13.7	1.3	1.3	9.3%	3.6%	13.40	MP
YTL POWER INTERNATIONAL BHD	0.685	5,257.6	N	06/2020	-3.9%	2.2%	8.0%	0.6%	8.0	7.4	7.4	0.4	0.4	5.0%	7.3%	0.820	OP
Simple Average					4.0%	3.4%	10.1%	1.3%	15.8	14.4	14.4	1.8	1.6	11.4%	4.0%		

Source: Bloomberg, Kenanga Research

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30 August 2019

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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