

21 February 2020

YTL Power International

2QFY20 Results Still Weak

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The poor 2QFY20 results were affected mainly by widening losses at YES after halving prices to woo new subscribers which burdened opex. It has managed to increase its subscriber base to 1m from 500k before which is a good start but containing operating costs is key to turn around the unit. Although FY20 may appear disappointing thus far, a recovery is in the pipeline given the June 2020 commissioning of its Jordanian power plant. We maintain our MP rating on the stock for its attractive yield with a revised TP of RM0.68.

1HFY20 below expectations. At 40%/53% of house/street's FY20 estimates, 1HFY20 core profit of RM195.5m came in below our expectation, but matched market consensus, due to widened losses at Telco business given higher operating costs in servicing an enlarged subscriber base that was boosted by big price cuts. No dividend was declared during the quarter as it only pays dividend once in the final quarter of the year.

Telco Business dragged sequential results. 2QFY20 core profit fell 7% QoQ to RM94.0m from RM101.6m as revenue fell 6% over the quarter. The decline in earnings was attributable to losses at Telco unit which widened to RM107.2m from RM69.7m as prices for YES was cut by half to attract new subscribers which doubled to 1m from 0.5m previously; thus, revenue for the unit was flat. Meanwhile, losses at PowerSeraya dropped to RM48.4m from RM69.2m as there was a write-down of RM23m in the previous quarter for high sulphur grade fuel oil which is no longer permitted for usage in Singapore. On the other hand, share of profit of investments rose 22% to RM110.2m partly due to the technical income of RM20m for the Attarat Power Plant in Jordan.

Wessex Water and Paka IPP earnings were on track. YoY, 2QFY20 core profit plunged 43% from RM165.9m in 2QFY19 while 1HFY20 core earnings contracted 36% to RM195.5m from RM304.9m; both pulled down by the Telco unit which is due to the reasons mentioned above while operating cost ballooned higher in tandem with the growing subscriber base. Earnings from Paka IPP were fairly resilient while Wessex Water saw higher revenue on increase in prices but higher opex deterred earnings growth with earnings declining 5% in 2QFY20 and 4% in 1HFY20.

Earnings expected to trend lower in FY20. With the expected weaker earnings from Wessex, PowerSeraya and YES, coupled with the Paka's Extension PPA contract expiring in June 2021, near-term earnings are set to be lacklustre. Meanwhile, the two greenfield projects, namely 45%-owned 554MW oil shale-fired Attarat Power Plant in Jordan is scheduled to start operation in Jun 2020, while the 80%-owned 2x660MW coal-fired PT Jati Power Plant in Indonesia has recently obtained the Business Viability Guarantee Letter from the MoF of Indonesia. As such, it is progressing to achieve financial close.

FY20 still a tough year; maintain MP. Post-results, we cut FY20/FY21 estimates slightly by 3%/1% as losses for YES are expected to further widen but keep 5.0 sen NDPS for both FY20 and FY21. On the other hand, we have yet to factor in Attarat Power Plant in FY21 pending completion of the power plant. Adjusting after earnings estimates, our target price is reduced slightly to RM0.68 from RM0.70 with unchanged holding company discount of 30%. It remains as MP which is supported by attractive yield of c.7%. **Upside risks to our call include** a sudden turnaround at both PowerSeraya and YES.

MARKET PERFORM ↔

Price: RM0.720
Target Price: RM0.680 ↓

Share Price Performance



| | |
|---------------------|----------|
| KLCI | 1,534.98 |
| YTD KLCI chg | -3.4% |
| YTD stock price chg | -6.5% |

Stock Information

| | |
|----------------------|-----------|
| Shariah Compliant | No |
| Bloomberg Ticker | YTLP MK |
| Market Cap (RM m) | 5,526.2 |
| Shares Outstanding | 7,675.3 |
| 52-week range (H) | 0.94 |
| 52-week range (L) | 0.67 |
| 3-mth avg daily vol: | 4,574,510 |
| Free Float | 20% |
| Beta | 0.9 |

Major Shareholders

| | |
|---------------------------|-------|
| YTL Corp Bhd | 48.7% |
| Yeoh Tiong Lay | 9.9% |
| Cornerstone Crest Sdn Bhd | 6.5% |

Summary Earnings Table

| FY Jun (RM m) | 2019 | 2020F | 2021F |
|------------------------|------------|------------|------------|
| Turnover | 11677 | 10835 | 11054 |
| EBIT | 1636 | 1302 | 1287 |
| PBT | 734 | 618 | 620 |
| Net Profit (NP) | 459 | 469 | 471 |
| Core Net Profit | 615 | 469 | 471 |
| Consensus (NP) | | 365 | 383 |
| Earnings Revision (%) | | -2.9 | -1.0 |
| Core EPS (sen) | 6.4 | 6.5 | 6.6 |
| Core EPS growth (%) | -10.9 | -23.7 | 0.4 |
| NDPS (sen) | 5.0 | 5.0 | 5.0 |
| BV/Share (RM) | 0.90 | 0.90 | 0.91 |
| NTA/Share (RM) | 0.66 | 0.66 | 0.67 |
| Core PER (x) | 9.6 | 12.6 | 12.6 |
| PBV (x) | 0.80 | 0.80 | 0.79 |
| P/NTA (x) | 1.24 | 1.08 | 1.07 |
| Gearing (x) | 1.51 | 1.51 | 1.51 |
| Dividend Yield (%) | 6.1 | 6.9 | 6.9 |

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Income Statement

| | 2Q | 1Q | Q-o-Q | 2Q | Y-o-Y | 1H | 1H | Y-o-Y |
|--------------------|---------|---------|-------|---------|-------|---------|---------|-------|
| FY Jun (RM m) | FY20 | FY20 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Turnover | 2,795.6 | 2,959.5 | -6% | 2,927.4 | -4% | 5,755.1 | 5,730.8 | 0% |
| EBITDA | 584.0 | 609.3 | -4% | 715.5 | -18% | 1,193.4 | 1,392.3 | -14% |
| Depreciation | (287.4) | (259.8) | 11% | (324.1) | -11% | (547.2) | (602.6) | -9% |
| EBIT | 296.7 | 349.5 | -15% | 391.3 | -24% | 646.2 | 789.7 | -18% |
| Interest expense | (280.7) | (298.2) | -6% | (283.9) | -1% | (578.9) | (571.3) | 1% |
| Associates | 110.2 | 90.6 | 22% | 115.6 | -5% | 200.8 | 208.2 | -4% |
| Exceptional items | (23.7) | (34.2) | -31% | (94.1) | -75% | (57.9) | (106.9) | -46% |
| Pretax profit | 102.4 | 107.7 | -5% | 129.0 | -21% | 210.1 | 319.8 | -34% |
| Taxation | (32.8) | (37.6) | -13% | (27.6) | 19% | (70.4) | (68.0) | 4% |
| Profit after tax | 69.6 | 70.1 | -1% | 101.4 | -31% | 139.7 | 251.8 | -45% |
| Minority interest | 0.6 | (2.7) | -124% | (29.6) | -102% | (2.1) | (53.7) | -96% |
| Net profit | 70.3 | 67.4 | 4% | 71.8 | -2% | 137.6 | 198.0 | -31% |
| Core profit | 94.0 | 101.6 | -7% | 165.9 | -43% | 195.5 | 304.9 | -36% |
| EPS (sen) | 0.9 | 0.8 | 4% | 0.9 | -2% | 2.5 | 3.9 | -37% |
| Core EPS (sen) | 1.1 | 1.2 | -7% | 2.0 | -43% | 3.6 | 5.4 | -33% |
| DPS (sen) | 0.0 | 0.0 | 0% | 0.0 | 0% | 0.0 | 0.0 | 0% |
| NTA/share (RM) | 0.56 | 0.55 | 0% | 0.56 | -1% | 0.56 | 0.55 | 0% |
| EBITDA margin | 21% | 21% | | 24% | | 21% | 24% | |
| EBIT margin | 11% | 12% | | 13% | | 11% | 14% | |
| Pretax margin | 4% | 4% | | 4% | | 4% | 6% | |
| Effective tax rate | 32% | 35% | | 21% | | 34% | 21% | |

Source: Company

Segment Breakdown

| Segmental Breakdown | 2Q | 1Q | Q-o-Q | 2Q | Y-o-Y | 1H | 1H | Y-o-Y |
|--------------------------|----------------|----------------|------------|----------------|-------------|----------------|----------------|-------------|
| | FY20 | FY20 | Chg | FY19 | Chg | FY20 | FY19 | Chg |
| Segment revenue: | | | | | | | | |
| Power Generation | 222.6 | 208.7 | 7% | 192.7 | 16% | 431.2 | 400.6 | 8% |
| Multi Utilities Business | 1,492.5 | 1,692.4 | -12% | 1,554.2 | -4% | 3,184.9 | 3,025.0 | 5% |
| Water & Sewerage | 891.5 | 857.2 | 4% | 876.1 | 2% | 1,748.7 | 1,725.9 | 1% |
| Telco Business | 98.9 | 97.6 | 1% | 211.0 | -53% | 196.5 | 405.6 | -52% |
| Investment Holding | 90.2 | 103.7 | -13% | 93.4 | -3% | 193.9 | 173.6 | 12% |
| Group revenue | 2,795.6 | 2,959.5 | -6% | 2,927.4 | -4% | 5,755.1 | 5,730.8 | 0% |
| Segment result: | | | | | | | | |
| Power Generation | 15.7 | 13.7 | 15% | 12.9 | 22% | 29.4 | 27.0 | 9% |
| Multi Utilities Business | (48.4) | (69.2) | -30% | (117.2) | -59% | (117.5) | (133.1) | -12% |
| Water & Sewerage | 189.1 | 195.0 | -3% | 199.2 | -5% | 384.1 | 399.7 | -4% |
| Mobile Broadband Network | (107.2) | (69.7) | 54% | (10.1) | 959% | (176.9) | (18.4) | 862% |
| Investment Holding | 53.1 | 37.9 | 40% | 44.2 | 20% | 91.0 | 44.6 | 104% |
| Group PBT | 102.4 | 107.7 | -5% | 129.0 | -21% | 210.1 | 319.8 | -34% |
| PBT margin: | | | | | | | | |
| Power Generation | 7% | 7% | | 7% | | 7% | 7% | |
| Multi Utilities Business | -3% | -4% | | -8% | | -4% | -4% | |
| Water & Sewerage | 21% | 23% | | 23% | | 22% | 23% | |
| Telco Business | -108% | -71% | | -5% | | -90% | -5% | |
| Investment Holding | 59% | 37% | | 47% | | 47% | 26% | |
| Group PBT margin | 4% | 4% | | 4% | | 4% | 6% | |

Source: Company

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Valuation - New

| (RM m) | RM m | RM/Share | % | Valuation Basic |
|-------------------------------|---------------|----------|---------|----------------------------|
| Local IPPs | 4 | 0.00 | 0.0% | FCFF @ 6.6% discount rate |
| Singapore IPP | 87 | 0.01 | 1.1% | FCFF @ 5.8% discount rate |
| Wessex | 15,796 | 1.92 | 198.5% | RCV |
| PT Jawa | 168 | 0.02 | 2.1% | FCFF @ 13.5% discount rate |
| Other Investment | 2,082 | 0.25 | 26.2% | Estimated book value |
| Net Cash/(Debt) | -10,181 | -1.24 | -128.0% | |
| | 7,956 | 0.97 | 100.0% | |
| No of shares | 8,218 | | | |
| RNAV per share – basic | RM0.97 | | | |
| Holding company discount 30% | -0.29 | | | |
| Target Price | RM0.68 | | | |

Source: Kenanga Research

Valuation - Old

| (RM m) | RM m | RM/Share | % | Valuation Basic |
|-------------------------------|---------------|----------|---------|----------------------------|
| Local IPPs | 4 | 0.00 | 0.0% | FCFF @ 6.6% discount rate |
| Singapore IPP | 86 | 0.01 | 1.0% | FCFF @ 5.8% discount rate |
| Wessex | 15,796 | 1.92 | 193.4% | RCV |
| PT Jawa | 168 | 0.02 | 2.1% | FCFF @ 13.5% discount rate |
| Other Investment | 2,082 | 0.25 | 25.5% | Estimated book value |
| Net Cash/(Debt) | -9,969 | -1.21 | -122.1% | |
| | 8,167 | 0.99 | 100.0% | |
| No of shares | 8,218 | | | |
| RNAV per share – basic | RM0.99 | | | |
| Holding company discount 20% | -0.30 | | | |
| Target Price | RM0.70 | | | |

Source: Kenanga Research

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Peer Comparison

| Name | Last Price | Market | Shariah | Current | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | Net Div. Yld. (%) | Target Price (RM) | 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. | | |
| GAS MALAYSIA BHD | 2.86 | 3,672.2 | Y | 12/2020 | 3.3% | 7.5% | 8.7% | 2.7% | 21.2 | 19.5 | 19.0 | 3.5 | 3.5 | 17.9% | 4.6% | 3.00 | OP |
| MALAKOFF CORP BHD | 0.900 | 4,398.3 | Y | 12/2020 | -0.1% | 0.3% | 4.5% | 3.1% | 18.6 | 17.8 | 17.2 | 0.8 | 0.8 | 4.5% | 4.6% | 1.00 | OP |
| PESTECH INTERNATIONAL BHD | 1.26 | 963.0 | Y | 06/2020 | 17.3% | 10.5% | 25.8% | 13.5% | 13.3 | 10.6 | 9.3 | 2.1 | 1.8 | 18.3% | 0.0% | 1.75 | OP |
| PETRONAS GAS BHD | 16.48 | 32,609.5 | Y | 12/2020 | 18.4% | 0.9% | 1.4% | 0.1% | 17.3 | 17.1 | 17.1 | 2.5 | 2.4 | 14.2% | 4.4% | 17.20 | MP |
| TENAGA NASIONAL BHD | 12.78 | 72,678.4 | Y | 12/2019 | 3.2% | 1.8% | 5.2% | 0.8% | 13.3 | 12.6 | 12.5 | 1.3 | 1.2 | 9.7% | 4.0% | 14.30 | OP |
| YTL POWER INTERNATIONAL BHD | 0.720 | 5,526.2 | N | 06/2020 | -7.2% | 2.0% | -23.7% | 0.4% | 8.4 | 11.0 | 11.0 | 0.4 | 0.4 | 3.7% | 6.9% | 0.680 | MP |
| Simple Average | | | | | 5.8% | 3.8% | 3.6% | 3.4% | 15.3 | 14.8 | 14.4 | 1.8 | 1.7 | 11.4% | 4.1% | | |

Source: Bloomberg, Kenanga Research

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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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