

03 June 2019

YTL Power International

PowerSeraya's Losses Worsened

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While 3Q19 core profit of RM134.8m met expectations, losses at PowerSeraya worsened if we strip off the RM70.5m impairment posted in the preceding quarter. With the continued PowerSeraya's losses and new earnings stream to kick in only in 3-4 years' time when its two greenfield projects come into the system, the outlook for YLTPOWR remains challenging. The stock is fairly valued currently. Maintain MP at revised TP of RM0.880.

3Q19 matched expectations. 3Q19 core profit of RM134.8m came within expectations, with 9M19 core profit of RM439.7m which accounted for 72%/75% of house/street's FY19 full-year estimates. No dividend was declared in 3Q19 as expected. It had been paying only final dividend in 4Q for the past five years.

PowerSeraya's losses still not abating... 1Q19 Core Profit fell 19% sequentially to RM134.8m from RM165.9m in 4Q19 while revenue dipped 1% over the quarter. The fall in earnings was largely attributable to 11% earnings decline in Wessex Water, which was due to higher depreciation charges. Meanwhile, losses at PowerSeraya narrowed to RM86.5m from RM117.2m in the preceding quarter as there was RM70.5m impairment of receivable in 2Q19 for an outstanding litigation for its electricity retail contract customers. Stripping this impairment, PowerSeraya's losses could have doubled over the quarter. On the other hand, local IPPs' earnings were fairly flattish at RM14.8m from RM12.9m previously while losses at YES were flat at RM9.9m from RM10.1m in 2Q19.

...and continued to weigh on groups' earnings. On YoY comparison, 3Q19 core profit contracted 15% from RM158.4m, despite revenue rising 12%, bringing 9M19 core profit to RM439.7m, 7% lower than last year although top-line hiked up 11%. This poorer set of results was largely attributed to the losses mentioned above from PowerSeraya. The Singapore unit posted RM219.6m loss before tax in 9M19, largely due to the impairment mentioned above as well as lower vesting, retail and tank leasing margin, higher operating and finance costs. This compared to RM68.2m PBT registered in 9M18. Meanwhile, Wessex Water also saw lower PBT by 27% in 3Q19 and 13% in 9M19 due to the strengthening of MYR against GBP, higher finance costs and depreciation charges. On the positive side, losses at YES narrowed to RM9.9m in 3Q19 from RM27.3m in 3Q18 and RM28.3m in 9M19 from RM65.5m in 9M18 due to higher revenues over the year.

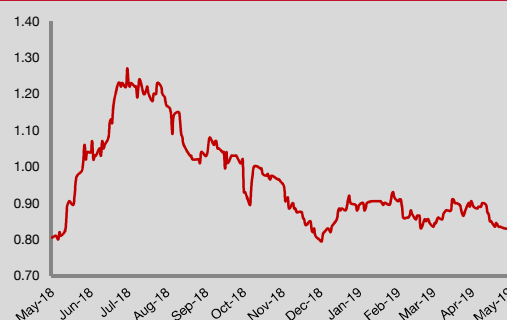
The going remains tough in the near term. Earnings prospects remain challenging in the immediate term before the two new greenfield projects, namely PT Tanjung Jati coal-fired power plant in Indonesia and Attarat Power's oil shale-fired power plant in Jordan, come on-stream in 3-4 years' time. For existing businesses, outlook for PowerSeraya remains challenging as the electricity market in Singapore remains competitive with generation capacity oversupply in the wholesale electricity market. Meanwhile, for Wessex Water, earnings are expected to be fairly flattish in GBP terms while YES will continue to be loss-making in the near term.

In the price, MARKET PERFORM reaffirmed, given the lack of near term earnings catalyst while losses from PowerSeraya and YES continue to dampen earnings. We reduce our target price to RM0.880 from RM0.900, which is based on unchanged 20% holding company discount to its RNAV, after rolling over valuation base-year to FY20 from FY19. Our MARKET PERFORM call is supported by an above average yield of c.6%. Risks to our call include: (i) a sudden recovery by PowerSeraya, and (ii) an unexpected turnaround at YES.

MARKET PERFORM ↔

Price: RM0.845
Target Price: RM0.880 ↓

Share Price Performance



KLCI	1,650.76
YTD KLCI chg	-2.4%
YTD stock price chg	1.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	YTLP MK
Market Cap (RM m)	6,485.6
Shares Outstanding	7,675.3
52-week range (H)	1.27
52-week range (L)	0.79
3-mth avg daily vol:	1,171,784
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)	2018A	2019F	2020F
Turnover	10580	10936	11225
EBIT	1618	1618	1673
PBT	943	916	989
Net Profit (NP)	620	615	664
Core Net Profit	625	615	664
Consensus (NP)		583	633
Earnings Revision (%)		-	-
Core EPS (sen)	8.6	8.6	9.2
Core EPS growth (%)	-9.7	-1.7	7.9
NDPS (sen)	5.0	5.0	5.0
BV/Share (RM)	0.92	0.97	0.99
NTA/Share (RM)	0.71	0.75	0.79
Core PER (x)	11.0	11.2	10.4
PBV (x)	0.91	0.87	0.85
P/NTA (x)	1.46	1.12	1.07
Gearing (x)	1.52	1.44	1.41
Dividend Yield (%)	4.9	5.9	5.9

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Income Statement

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FY Jun (RM m)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	2,887.6	2,927.4	-1%	2,589.4	12%	8,618.4	7,798.6	11%
EBITDA	615.2	715.5	-14%	663.8	-7%	2,007.5	2,039.7	-2%
Depreciation	(248.6)	(324.1)	-23%	(267.0)	-7%	(851.2)	(810.5)	5%
EBIT	366.6	391.3	-6%	396.8	-8%	1,156.3	1,229.2	-6%
Interest expense	(279.6)	(283.9)	-1%	(267.4)	5%	(850.9)	(811.7)	5%
Associates	103.9	115.6	-10%	102.4	1%	312.1	301.3	4%
Exceptional items	(23.5)	(94.1)	-75%	(13.1)	80%	(130.4)	(60.5)	116%
Pretax profit	167.3	129.0	30%	218.7	-24%	487.1	658.4	-26%
Taxation	(28.0)	(27.6)	1%	(52.5)	-47%	(96.0)	(172.9)	-44%
Profit after tax	139.3	101.4	37%	166.2	-16%	391.0	485.5	-19%
Minority interest	(28.0)	(29.6)	-5%	(20.8)	34%	(81.7)	(71.5)	14%
Net profit	111.3	71.8	55%	145.4	-23%	309.3	414.0	-25%
Core profit	134.8	165.9	-19%	158.4	-15%	439.7	474.5	-7%
EPS (sen)	1.4	0.9	55%	1.8	-23%	7.8	10.0	-22%
Core EPS (sen)	1.7	2.0	-19%	1.9	-15%	10.8	11.7	-7%
DPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.64	0.56	14%	0.68	-5%	0.64	0.56	14%
EBITDA margin	21%	24%		26%		23%	26%	
EBIT margin	13%	13%		15%		13%	16%	
Pretax margin	6%	4%		8%		6%	8%	
Effective tax rate	17%	21%		24%		20%	26%	

Source: Company

Segment Breakdown

Segmental Breakdown	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Segment revenue:								
Power Generation	193.9	192.7	1%	191.4	1%	594.5	438.3	36%
Multi Utilities Business	1,562.9	1,554.2	1%	1,340.7	17%	4,588.0	4,066.0	13%
Water & Sewerage	818.5	876.1	-7%	797.1	3%	2,544.5	2,517.7	1%
Mobile Broadband Network	229.4	211.0	9%	190.3	21%	634.9	580.1	9%
Investment Holding	82.8	93.4	-11%	69.8	19%	256.5	196.5	31%
Group revenue	2,887.6	2,927.4	-1%	2,589.4	12%	8,618.4	7,798.6	11%
Segment result:								
Power Generation	14.8	12.9	15%	9.0	65%	41.7	5.1	714%
Multi Utilities Business	(86.5)	(117.2)	-26%	12.2	-807%	(219.6)	68.2	-422%
Water & Sewerage	178.1	199.2	-11%	244.4	-27%	577.8	667.4	-13%
Mobile Broadband Network	(9.9)	(10.1)	-2%	(27.3)	-64%	(28.3)	(65.5)	-57%
Investment Holding	70.9	44.2	60%	(19.6)	-461%	115.5	(16.9)	-784%
Group PBT	167.3	129.0	30%	218.7	-24%	487.1	658.4	-26%
PBT margin:								
Power Generation	8%	7%		5%		7%	1%	
Multi Utilities Business	-6%	-8%		1%		-5%	2%	
Water & Sewerage	22%	23%		31%		23%	27%	
Mobile Broadband Network	-4%	-5%		-14%		-4%	-11%	
Investment Holding	86%	47%		-28%		45%	-9%	
Group PBT margin	6%	4%		8%		6%	8%	

Source: Company

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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)	-9,166	-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

Valuation - Old				
(RM m)	RM m	RM/Share	%	Valuation Basic
Local IPPs	15	0.00	0.2%	FCFF @ 6.6% discount rate
Singapore IPP	116	0.01	1.3%	FCFF @ 5.8% discount rate
Wessex	15,796	1.94	172.5%	FY16A RCV
PT Jawa	193	0.02	2.1%	FCFF @ 13.5% discount rate
Other Investment	2,057	0.25	22.5%	Estimated book value
Net Cash/(Debt)	-9,019	-1.11	-98.5%	
	9,158	1.12	100.0%	
No of shares (current)	8,156			
RNAV per share - basic	RM1.12			
RNAV	9,158	1.11	98.7%	
Proceeds from Warrants	117	0.01	1.3%	
	9,275	1.12	100.0%	
No. of shares (FD)	8,259			
FD RNAV per share	RM1.12			
Holding company discount 20%	-0.22			
Target Price	RM0.90			

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	12/2019	2.9%	7.7%	8.2%	2.2%	21.6	20.0	19.5	3.6	3.3	17.3%	3.8%	3.05	MP
MALAKOFF CORP BHD	0.830	4,056.2	Y	12/2019	-0.3%	-0.1%	11.0%	4.1%	18.9	17.1	16.4	0.7	0.7	4.3%	4.7%	0.900	OP
PESTECH INTERNATIONAL BHD	1.04	794.9	Y	06/2019	6.7%	22.2%	28.0%	30.9%	12.8	10.0	7.6	1.7	1.5	16.0%	0.0%	1.40	OP
PETRONAS GAS BHD	17.66	34,944.4	Y	12/2019	4.8%	-1.8%	5.7%	-14.7%	19.1	18.1	21.2	2.7	2.6	14.5%	3.9%	16.55	MP
TENAGA NASIONAL BHD	12.70	72,223.5	Y	11/2020	3.2%	1.8%	2.6%	2.0%	13.2	12.9	12.6	1.2	1.2	9.3%	3.1%	13.40	OP
YTL POWER INTERNATIONAL BHD	0.845	6,485.6	N	06/2019	3.4%	2.6%	-1.6%	8.0%	9.7	9.9	9.1	0.5	0.4	4.6%	5.9%	0.880	MP
Simple Average					3.4%	5.4%	9.0%	5.4%	15.9	14.6	14.4	1.7	1.6	11.0%	3.6%		

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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Published and printed by:

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