

# Malaysia Flash Note

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DBS Group Research . Equity

21 Feb 2020

## YTL Power (YTLP MK) : BUY

Mkt. Cap: US\$1,327m | 3m Avg. Daily Val: US\$0.85m

Last Traded Price ( 20 Feb 2020): RM0.72

Price Target 12-mth: RM0.86 (19% upside) (Prev RM0.86)

### Analyst

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## Undervalued world-class assets

- 2QFY20 below expectations due to higher-than-expected losses from mobile business
- Wessex Water still the largest contributor
- Share price implies Wessex Water undervalued
- Maintain BUY with a SOP-based TP of RM0.86

### Forecasts and Valuation

FY Jun (RMm)	2019A	2020F	2021F	2022F
Revenue	11,733	11,289	11,308	11,330
EBITDA	2,951	3,096	3,187	3,290
Pre-tax Profit	753	692	725	767
Net Profit	477	408	433	465
Net Pft (Pre Ex.)	547	408	433	465
Net Pft Gth (Pre-ex) (%)	(11.7)	(25.5)	6.2	7.4
EPS (sen)	5.84	5.00	5.30	5.69
EPS Pre Ex. (sen)	6.71	5.00	5.30	5.69
EPS Gth Pre Ex (%)	(12)	(26)	6	7
Diluted EPS (sen)	5.77	4.93	5.24	5.63
Net DPS (sen)	5.00	5.00	5.00	5.00
BV Per Share (sen)	155	155	155	156
PE (X)	12.3	14.4	13.6	12.6
PE Pre Ex. (X)	10.7	14.4	13.6	12.6
P/Cash Flow (X)	4.7	4.2	4.2	3.9
EV/EBITDA (X)	8.1	7.7	7.5	7.3
Net Div Yield (%)	6.9	6.9	6.9	6.9
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	1.4	1.4	1.3	1.3
ROAE (%)	3.7	3.2	3.4	3.7

Source of all data on this page: Company, AllianceDBS, Bloomberg Finance L.P.

## Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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### What's New

**2QFY20 results below expectations.** YTL Power (YTLP) reported a net profit of RM70.3m (-50.6% y-o-y, -29.9% q-o-q) in 2QFY20, bringing 1HFY20 to RM170.4m (-36.5% y-o-y). Results were below expectations mainly due to the higher-than-expected losses from its mobile business. Revenue and earnings from other key segments met expectations.

**Wessex Water improved its revenue.** YTLP's water & sewerage business improved its revenue in 2QFY20 on the back of an increase in price as allowed by the regulator. However, profit before tax (PBT) was lower at -5.1% y-o-y and -3.0% q-o-q due to higher operating costs. The segment is still the largest contributor to YTLP and accounted for 76% of 1HFY20 PBT (excluding loss-making divisions).

**Singapore operations reported a sequentially lower pre-tax loss.** Its multi-utilities business in Singapore continued to suffer from excess generation capacity. YTLP's pre-tax loss further narrowed to RM48.4m in 2QFY20 (vs 1QFY20 pre-tax loss of RM69.2m). However, YTLP's mobile broadband division's pre-tax loss widened to RM107.2m in 2QFY20 compared to a loss of RM69.7m in 1QFY20. The loss was mainly due to absence of project revenue recognition. YTLP's mobile broadband business outlook remains challenging due to intense competition among local telecommunications (telco) players.

### Outlook

**Wessex Water to sustain contribution.** Wessex Water is expected to remain the largest contributor to YTLP. Based



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on the forward forecasts from the Office for Budget Responsibility (OBR), the average earnings growth is expected to increase at 3.0% in 2020-2023 (vs 2.5% previously). We expect the Group's Singapore operations to remain challenging but cash flow generation from Wessex Water should remain steady.

**New power plants in progress.** YTLP's 80%-owned PT Tanjung Jati Power Company is undertaking the development of Tanjung Jati, a 1,320MW coal-fired power plant in Java, Indonesia. The project, which has a 30-year power purchase agreement in place, is estimated to cost US\$2.7bn. Its 45%-owned Attarat Power Company, project owner of a 554MW oil shale power plant costing US\$2.1bn in Jordan, has begun construction on the project with scheduled commencement in mid-2020.

**Cut earnings factor in lower mobile business contribution.**

We cut FY20-22 net profit forecasts by 4.5%, 4.3% and 1.8% respectively to factor in higher losses from the mobile business.

### Valuation and Recommendation

**Maintain BUY.** We maintain BUY on YTLP and sum-of-parts (SOP)-based target price (TP) of RM0.86. This assumes YTLP's mobile broadband segment is valued at 10% of its book value (BV). Even if the value of the group's Singapore multi-utilities business and mobile operations are written off, we estimate that YTLP's remaining assets would still be worth RM0.75/share. We believe this should be the base value for the stock. In our view, YTLP's share price overly discounts its portfolio and masks the value of world-class regulated assets including Wessex Water and ElectraNet while free cashflows should be sufficient to sustain dividend payouts.

### SOP valuation

	Value (RM m)	Remarks
Power generation	263.6	1.0x BV
Multi-utilities business	612.9	15% of BV
Water & sewerage	2,925.7	1.0x BV
Mobile broadband	230.2	10% of BV
Others	2,963.7	0.9x BV
<b>Total</b>	<b>6,996.2</b>	
Share cap (m)	8,158.0	
<b>SOP value/share (RM)</b>	<b>0.86</b>	

Source Company, AllianceDBS

**Flash Note**
**Quarterly Income Statement (RMm)**

FY Jun	2Q2019	1Q2020	2Q2020	% chg yoy	% chg qoq
Revenue	2,927	2,960	2,796	(4.5)	(5.5)
Cost of Goods Sold	(2,437)	(2,543)	(2,381)	(2.3)	(6.4)
<b>Gross Profit</b>	<b>490</b>	<b>416</b>	<b>415</b>	<b>(15.4)</b>	<b>(0.4)</b>
Other Oper. (Exp)/Inc	(122)	(77.3)	(142)	15.7	83.4
<b>Operating Profit</b>	<b>368</b>	<b>339</b>	<b>273</b>	<b>(25.8)</b>	<b>(19.5)</b>
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	nm	nm
Associates & JV Inc	116	90.6	110	(4.7)	21.6
Net Interest (Exp)/Inc	(284)	(289)	(281)	1.1	2.9
Exceptional Gain/(Loss)	(70.5)	(32.8)	0.0	nm	nm
<b>Pre-tax Profit</b>	<b>129</b>	<b>108</b>	<b>102</b>	<b>(20.6)</b>	<b>(4.9)</b>
Tax	(27.7)	(37.6)	(32.8)	18.7	(12.8)
Minority Interest	(29.6)	(2.7)	0.65	nm	nm
<b>Net Profit</b>	<b>71.8</b>	<b>67.4</b>	<b>70.3</b>	<b>(2.1)</b>	<b>4.3</b>
Net profit bef Except.	142	100	70.3	(50.6)	(29.9)
EBITDA	809	652	678	(16.2)	4.0
<b>Margins (%)</b>					
Gross Margins	16.7	14.1	14.8		
Opg Profit Margins	12.6	11.5	9.8		
Net Profit Margins	2.5	2.3	2.5		

Source of all data: Company, AllianceDBS

**Target Price & Ratings History**


S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Feb 19	0.89	1.05	HOLD
2:	03 Jun 19	0.84	0.93	HOLD
3:	30 Aug 19	0.74	0.80	HOLD
4:	27 Nov 19	0.69	0.86	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: AllianceDBS

Analyst: Malaysia Research Team

**Flash Note**

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**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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