Securities

AFFIN HWANG CAPITAL

Out think. Out perform.

Finally a resolution

We are positive on the signing of the power purchase agreement (PPA) and land lease agreement (LLA) between Tenaga (TNB MK) and YTL Power (YTLP MK) for the extension of YTLP's Paka Power Plant, as the extension was granted by the Energy Commission (EC) back in 2015 but the signing was delayed due to disagreements on the land lease agreement.

A longer extension than previously agreed

When the extension was granted by the EC in August 2015, the tenure of the extension was for a period of 2 years and 10 months commencing on 1 March 2016 until December 2018; however, the new arrangement grants a longer extension period of 3 years and 10 months commencing on 1 September 2017. We believe the longer tenure is to compensate YTLP for the operating costs it incurred as a result of the signing delay.

Stronger year-on-year growth due to lower base

We estimate losses due to the delay of around RM70mn in FY17, and we look for the re-starting of the power plant to result in the Malaysia operation profitability turning positive over the next 3 years. Without the expected losses in FY17, our net profit forecast would be 7% higher.

Extension is for capacity of up to 585 MW

Although the new capacity payment is lower than when the PPA was first granted in 1993, the additional capex is minimal; hence a higher potential ROA. The Paka power plant is fully depreciated based on the tenure of its first PPA contract, which expired in September 2015 (21 years).

Maintain HOLD and TP of RM1.60

We maintain our HOLD call on YTLP with an unchanged 12-month target price of RM1.60, based on a 10% discount to our RNAV of RM1.78. While the group has good medium-term prospects from new power plants, we think YTLP lacks short-term catalysts due to ongoing losses from its mobile broadband operations.

Risk to our call

Upside risks include: 1) a higher-than-expected dividend payout; and 2) less intense competition in Singapore's electricity market. Downside risks include: 1) weaker-than-expected GDP and SGD; and 2) higher-than-expected losses in its mobile broadband unit.

Earnings & Valuation Summary

FYE 30 Jun	2014	2015	2016	2017E	2018E
Revenue (RMm)	14,436.6	11,925.9	10,240.5	11,861.3	12,871.9
EBITDA (RMm)	2,914.4	3,125.3	2,807.2	2,880.7	2,858.5
Pretax profit (RMm)	1,126.6	1,230.6	1,300.0	1,145.6	1,178.6
Net profit (RMm)	1,202.4	901.2	1,044.7	911.5	1,030.5
EPS (sen)	16.7	12.5	14.5	12.7	14.3
PER (x)	9.0	12.1	10.4	11.9	10.6
Core net profit (RMm)	1,202.4	901.2	1,044.7	911.5	1,030.5
Core EPS (sen)	15.4	11.5	13.4	11.7	13.2
Core EPS growth (%)	14.0	(25.1)	15.9	(12.7)	13.1
Core PER (x)	9.8	13.1	11.3	13.0	11.5
Net DPS (sen)	10.0	10.0	10.0	10.0	10.0
Dividend Yield (%)	6.6	6.6	6.6	6.6	6.6
EV/EBITDA (x)	9.0	8.5	9.5	9.4	9.6
Chg in EPS (%)				-	-
Affin/Consensus (x)				1.2	1.2

Source: Company, Affin Hwang forecasts, Bloomberg

Company Note

YTL Power International

YTLP MK
Sector: Utilities

RM1.51 @ 9 May 2017

HOLD (maintain)
Upside 6 %

Price Target: RM1.60
Previous Target: RM1.60

Price Performance

	1M	3M	12M
Absolute	0.0%	2.7%	2.7%
Rel to KLCI	-1.5%	-1.2%	-4.9%

Stock Data

Issued shares (m)	7,759
Mkt cap (RMm)/(US$m)	11,716/2,695
Avg daily vol - 6mth (m)	2.9
52-wk range (RM)	1.38-1.64
Est free float	23.3%
BV per share (RM)	1.68
P/BV (x)	0.90
Net cash/ (debt) (RMm)	(15,816)
ROE (2017E)	8.2%
Derivatives	Yes
(Warr 06/18, WP RM0.385, EP RM1.14)	
Shariah Compliant	No

Key Shareholders

YTL CORP BHD	47.3%
CORNERSTONE CREST	6.3%
EPF	5.1%

Source: Affin Hwang, Bloomberg

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Fig 1: YTL Power's RNAV valuation (2017E)

Breakdown	Enterprise Value (RMm)	Comment
Wessex Water, UK	17,251	(1) 1.2x RAB; (2) RM6.00/GBP
PowerSeraya, Singapore	7,228	DCF (discount rate 8.5%, terminal growth 0%)
Power generation - Paka	1,747	DCF (discount rate 8.5%, 34-month PPA extension to Paka)
PT Jawa Power , Indonesia	897	US$1.2m/MW
Electranet, Australia	577	(1) 1.5x RAB; (2) RM2.90/AUD
YTL Communications	114	4x EV/EBITDA
Total enterprise value	27,814	
Less debt	(15,725)	
Total equity value	**12,089**	
Add: Jordan oil shale project	698	45% stake
Add: Cash proceeds from warrants	1,227	1.08bn shares of WB (2008/2018)
FD equity value	14,014.2	
FD share base	7,870	
FD equity value/ share	**1.78**	
Price Target	**1.60**	**Based on a 10% discount to our RNAV**

Source: Affin Hwang estimates and forecasts

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Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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