midf RESEARCH

07 May 2015 | Initiate Coverage

YTL Corporation Berhad

Lacking immediate catalysts but expects dividend to stay competitive

***Initiate* NEUTRAL**

Target Price (TP): RM1.68

INVESTMENT HIGHLIGHTS

- **Exposed to diverse business operations across multiple countries.**
- **YTL's base earnings are well-supported by exposure in defensive sectors via its utilities business operation.**
- **We believe the attractive high dividend yield of around 6% will provide support to its current price level.**
- **Nonetheless, lack of immediate clear catalyst at the moment caps its potential upside.**
- **Initiate coverage with a NEUTRAL recommendation and a TP of RM1.68 per share.**

Malaysian conglomerate with presence in multiple countries. YTL Corporation Berhad or ("YTL") is one of the biggest companies listed on Bursa Malaysia. The Company has grown from a small local construction company to become a multinational player with 70% of its revenue derived outside of Malaysia. Its diverse operations range from (i) Construction; (ii) Information Technology; iii) Hotel Operations (iv) Cement; (v) Management Services (vi) Property Investment and (vii) Utilities.

Relatively stable utilities business to support its base earnings. We believe that YTL's base earnings are largely stable owing to its exposure to a defensive sector via its utilities division. Utilities division contributes about 74% and 50% to its revenue and PBT respectively in FY14. Nonetheless, contributions have been watered down over the years, credited to better performance from its other "growth" divisions namely cement and property division which are more cyclical in nature.

Attractive high dividend yield of c.6%. Taking cue from our forecasted dividend, YTL offers one of the highest dividend yields among the FBMKLCI constituent. We view this high dividend return as an attractive element for investors to stay invested in YTL.

Initiate with NEUTRAL recommendation. We are initiating coverage on YTL with a NEUTRAL recommendation while valuing YTL with a target price of RM1.68 per share based on sum-of-part-valuation methodology. Our target price translates into an implied FY16 forward PER of 13.0x.

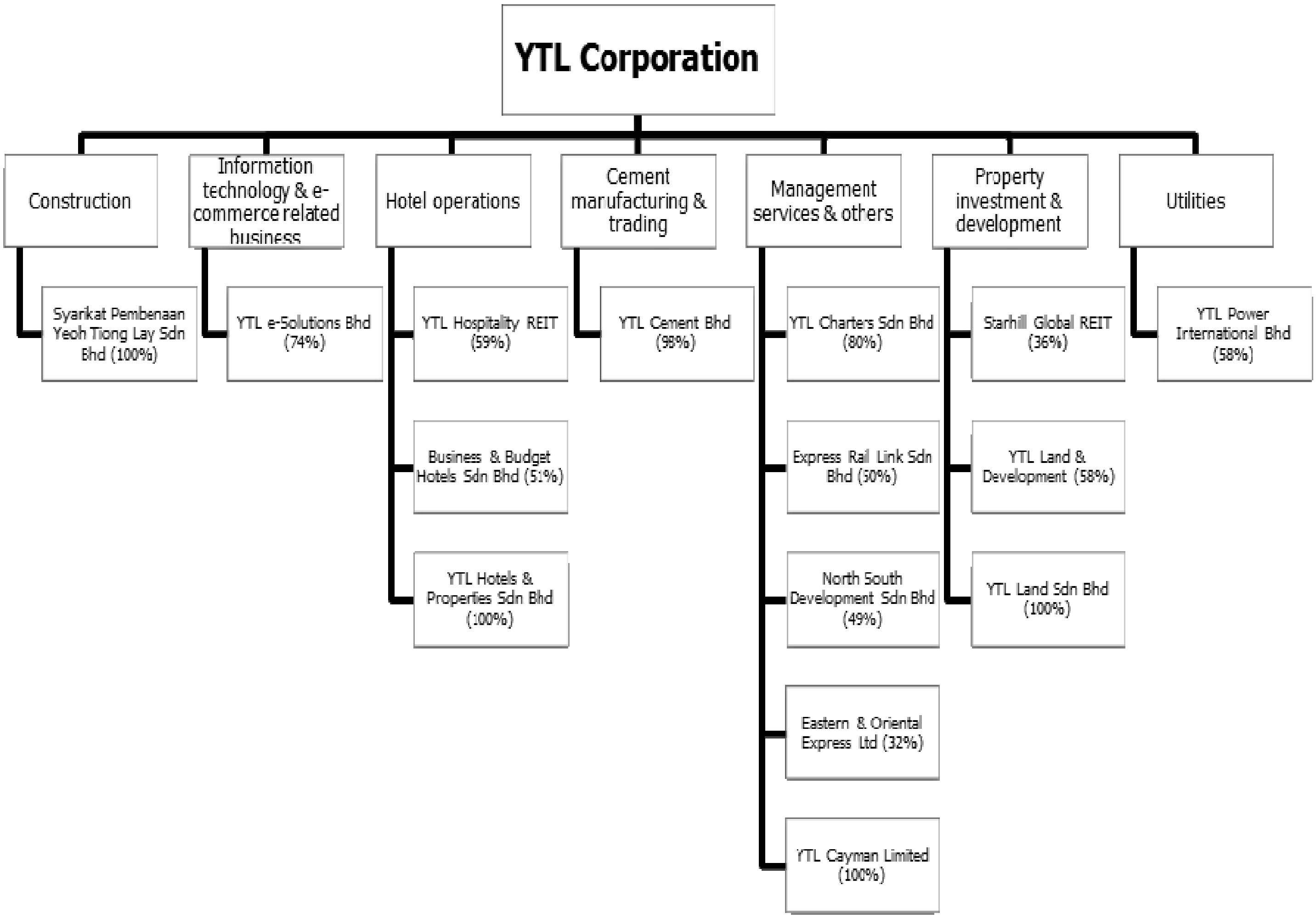
RETURN STATS	
Price (6 May 2015)	RM1.67
Target Price	RM1.68
Expected Share Price Return	+0.6%
Expected Dividend Yield	+6.2%
Expected Total Return	**+6.8%**

STOCK INFO	
KLCI	1,820.97
Bursa / Bloomberg	4677 / YTL MK
Board / Sector	Main / Conglo
Syariah Compliant	Yes
Issued shares (mil)	10,418.6
Par Value (RM)	0.10
Market cap. (RM'm)	17,399.1
Price over NTA	2.07x
52-wk price Range	RM1.54-RM1.79
Beta (against KLCI)	0.63x
3-mth Avg Daily Vol	6.99m
3-mth Avg Daily Value	RM11.61m
Major Shareholders	
YTL & Sons	60.6%
EPF	7.1%

COMPANY BACKGROUND

Founded in 1955 by Tan Sri Yeoh Tiong Lay, YTL started as a small construction company when it won jobs as contractor for the government buildings mainly schools and hospitals. YTL has grown to become one of the largest corporations in Malaysia and now known as a major turnkey developer and operator with expertise in power generation, construction contracting, property development, manufacturing and trading and hotels and tourism. Apart from these businesses, YTL are also involved in operation & maintenance (O&M) and information technology.

Figure 1: YTL's Organisation Chart



Source: YTL, MIDFR

YTL's transformation from being a pure construction company into one of the biggest conglomerates in Malaysia started when it ventured into utilities sector as it became the first Malaysian IPP in the 90s. YTL also ventured into public facility segment with its involvement in the construction and operation of ERL linking Kuala Lumpur and KLIA. Armed with steady earnings from its local business, YTL embarked on its global expansion in the beginning 21st century with the acquisition of Wessex Water in 2002 and various other utilities businesses across the globe.

YTL is now present in at least 11 countries, a truly remarkable achievement for this local based conglomerate.

Utilities

YTL Corporation carries out its utilities activities through its subsidiary YTL Power International Berhad ("YTLP"). In April 1993, YTLP was awarded the first licence to become an IPP in Malaysia. Work for the construction of two combined–cycle power plants located in Paka, Terengganu and Pasir Gudang, Johor began in November 1993. Both plants were successfully commissioned and these commenced operations within 22 months, a world record in combined cycle operations. YTLP is also listed on Bursa Malaysia and operates in Malaysia, the United Kingdom, Singapore, Australia and Indonesia. Among its key businesses, include (i) power generation and merchant business, (ii) electricity transmission, (iii) water supply and waste water services and; (iv) communications.

Countries	Activities
Malaysia	• Builder and owner of two gas fired combined cycle power plants with a combined capacity of 1,212 MW for a concession period of 21-years which will expire in September 2015. • O&M operator for Paka and Pasir Gudang via YTL Power Services Sdn Bhd. • Operates a 2.3GHz WiMAX wireless broadband network in Malaysia through YTL Communications Sdn Bhd.
Australia	• Through ElectraNet Pty Ltd (33.5% stake), YTLP owns and operates transmission grid for the State of South Australia with the rights to transmit power for 200 years.
United Kingdom	• YTL Power owns a 100% stake in Wessex Water, one of the most efficient water and sewerage operators in the UK. • Wessex Water has a 25-year rolling license into perpetuity to supply water to c.1.2m customers and wastewater services to c.2.5m customers over an area of 10,000sq km in Southwest England.
Indonesia	• With a 20% stake in PT Jawa Power, YTLP owns and operate a 1,220MW coal-fired power plant located at the Paiton Power Generation Complex in East Java, Indonesia. • Jawa Power is the second largest IPP in Indonesia and has a 30-year PPA with PT PLN (Persero), the state-owned electric utility company. • YTLP also owns the O&M company for PT Jawa Power which has a back to back 30-year agreement to manage and maintain the power plant.
Singapore	• YTLP's wholly-owned YTL PowerSeraya Pte Ltd is the second largest power generation company in Singapore in terms of installed capacity, with a total licensed capacity of 3,100 MW.

Source: YTL, MIDFR

Operation & Maintenance (O&M) activities

YTL provides condition-monitoring services for its power stations, cement plants and the Express Rail Link (ERL). These services were also extended to external clients in the oil and gas, water, chemical engineering and other sectors. On the high-speed rail business, YTL Corp holds a 50% stake in Express Rail Link Sdn Bhd (ERLSB) and its wholly-owned subsidiary, ERL Maintenance Support Sdn Bhd (ERLSB). ERLSB is the concession company responsible for constructing and operating the high-speed rail link between Kuala Lumpur Sentral Station and Kuala Lumpur International Airport under a 30-year concession (which includes an option to extend for further 30 years) to own and operate the ERL.

Cement Manufacturing

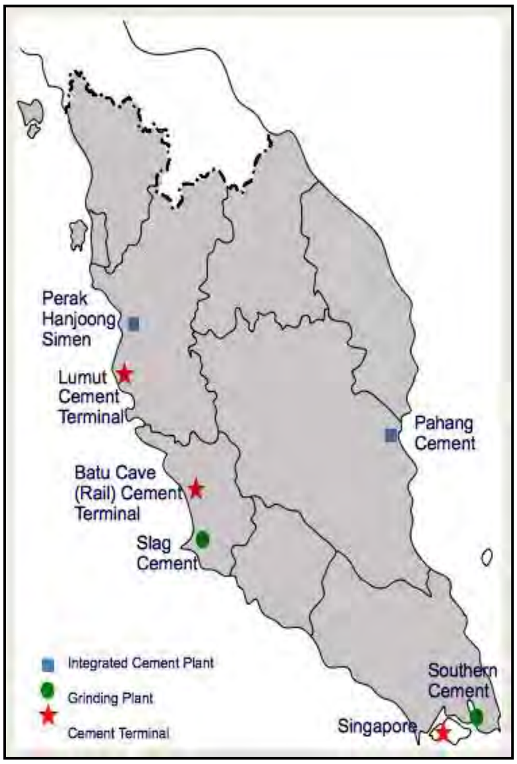
YTL carries out its cement manufacturing activities through its subsidiary, YTL Cement Berhad ("YTLC"). Principal activities of YTLC include the manufacturing and supply of cement products, concrete products, quarry products and provision of related services to the construction sector.

With an installed production capacity of c.7.9m tonnes per annum, YTL Cement is the second largest cement producer in Malaysia with a market share of c.23%. YTLC operates two world-class integrated cement plants in Pahang and Perak as well as grinding plants at Westport, Klang and Pasir Gudang, Johor.

Overseas, YTL Cement also owns an Integrated Cement Plant in Hangzhou, China, which has a production capacity of 1.55 million tonnes per annum of clinker and 2m tonnes per annum of cement.

For the ready mixed concrete products, YTL Cement through its subsidiary, Buildcon Concrete Sdn Bhd, operates more than 50 batching plants throughout Peninsular Malaysia, and operates with more than 700 mixer trucks comprising the largest fleet of mixer trucks in Malaysia.

Figure 2: YTLC's plants location



Source: YTL

Property development and investment

YTL's property development and investment activities encompass residential and commercial developments in Malaysia and Singapore. YTL also owns 36.3% stake in Starhill Global REIT, a company listed on the Singapore stock exchange which owns retail and office assets in Singapore, Malaysia, Australia, Japan and China.

Starhill Global REIT's property portfolio comprises stakes in Wisma Atria and Ngee Ann City, two prime shopping complexes along Singapore's famed Orchard Road, six boutique properties in up-market areas of Tokyo, Japan, a prime retail shopping centre in Chengdu, China, the David Jones Building and Plaza Arcade in Perth, Australia, and Starhill Gallery and parcels in Lot 10 Shopping Centre in Kuala Lumpur's Golden Triangle.

Meanwhile, property development activities for YTL Corp are undertaken by its 64%-owned subsidiary, YTL Land & Development Berhad (YTL L&D). This entity is listed on Bursa Malaysia and is known in the property development sector for building value added housing which meets the needs and preferences of customers.

YTL L&D currently has a land bank of more than 2,000 acres of strategic development land in Malaysia. Among YTL L&D's largest projects at present is in Sentul, with an innovative 294 acre of residential and commercial development and Malaysia's first private gated park in Kuala Lumpur, which is expected to generate an estimated RM8b sale over the next 7 years. Among YTL's new launches are Pantai Peak at Pantai Hillpark, U Thant Place at Jalan U-Thant, new phases in Sentul West and Sentul East in Kuala Lumpur, and Shorefront in George Town.

Figure 3: Starhill Global REIT Portfolio

Starhill Global REIT's portfolio comprises mainly retail assets which include 12 mid- to high-end properties over five countries. Singapore and Malaysia make up approximately 87% of its total assets.

Source: YTL

Construction contracting

To support its property development activities YTL is also involved in construction contracting business. YTL via its 100%-owned Syarikat Pembenaan Yeoh Tiong Lay Sdn Bhd (SPYTL) has successfully constructed buildings ranging from schools, army barracks, hospitals, hotels and high-rise office blocks and large scale infrastructure projects. Among YTL's turnkey projects are (i) Sibu Airport, (ii) Klang General Hospital, (iii) Kuala Terengganu Hospital, and few others. YTL also has a proven track record in healthcare, which it was awarded contract to design, construct and equip twelve (12) district hospitals in Malaysia, and these projects were completed early, up to nine months ahead of schedule.

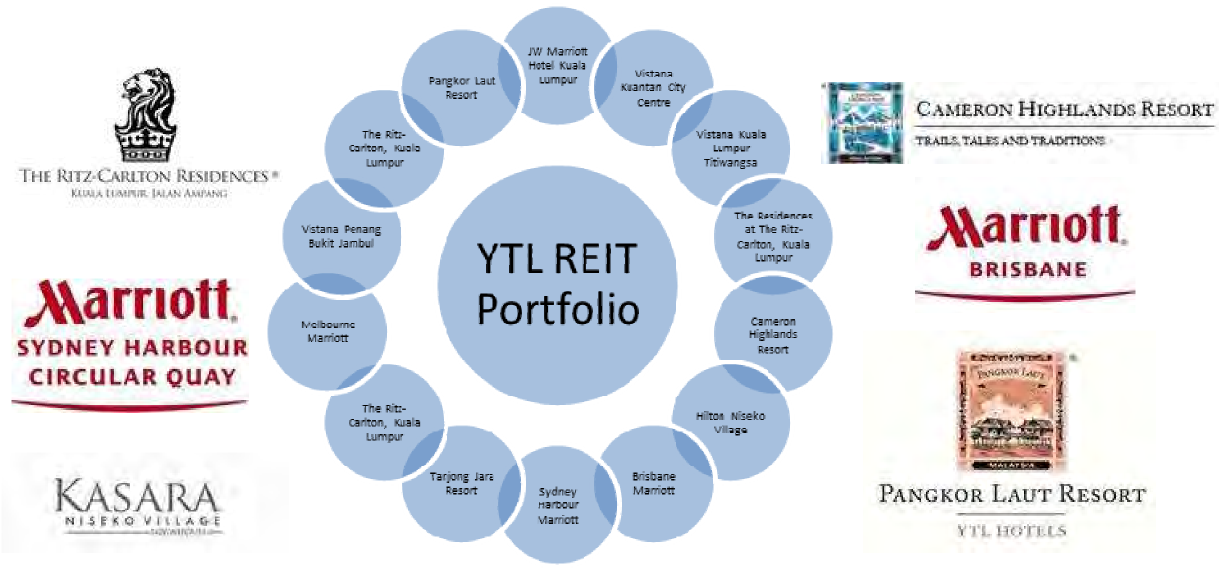
However, with its orderbooks mainly derived from the construction contracts related to its property development division, the growth of YTL's construction seems to be limited at this point of time with the ERL extension to KLIA2 being its last major external construction work.

Hotel & Resorts

Through its hospitality arm YTL Hotels, the company is involved in both ownership and management of properties and operations ranging from moderately-priced hotels to luxury trains. With a strong reputation for luxurious escapes, YTL Hotels has won numerous awards and accolades. These include:

- *i.* ***Pangkor Laut Resort*** - Number One in the World by Condé Nast Traveller, UK 2003
- ii. ***Spa Village Pangkor Laut*** - Best Destination Spa / Best Spa Experience by Asia Spa & Wellness Awards 2006
- iii. ***Tanjong Jara Resort*** - One Of The Seven Natural Wonders Of The World by Condé Nast Traveller, UK 2006
- iv. ***Spa Village Tanjong Jara*** - Most Innovative Spa by Tatler UK - Spa Awards 2007
- v. ***Cameron Highlands Resort*** - 5 Best Tea Plantation Hotels by The Independent, UK 2007
- vi. ***The Spa Village, Kuala Lumpur*** - Urban Spa of The Year by Asia Spa 2007
- vii. ***The Ritz-Carlton, Kuala Lumpur*** - Top 5 Butlers Hotel in the World by The Independent, UK 2005, Best Business Hotel in Kuala Lumpur by Travel & Leisure Magazine 2006, Best Employer in Malaysia by Hewitt Associates 2005, Top 8 Outstanding Best Employers in ASIA by Hewitt Associates 2005

Majority of YTL's hotel assets are owned by YTL Hospitality REIT, a Malaysian-listed real estate investment trust focused on prime, yield-accretive hotel and hospitality-related assets in Malaysia and internationally.



Source: YTL

Information technology & e-commerce

YTL's exposure in the information technology industry is through YTL e-Solutions Bhd (YTLE) – listed on ACE Market of Bursa Malaysia with a market capitalization of RM753.4m. The company provides and maintains information technology hardware and software systems, network and Internet connectivity infrastructure, and e-commerce systems. YTLE operates its business through three segments, namely (i) Information technology and e-commerce, (ii) Communications technology and (iii) Content and digital media.

KEY ATTRIBUTES

Reduced dependency on utilities division, which nevertheless presented the Company with a stable earnings base. YTL provides investors with a combined exposure in both defensive and growth cycles of business. Its exposure in the defensive sector includes utilities, which provides a natural hedge for the Company against fluctuations in its other business earnings cycles. Likewise, YTL's involvement in the cyclical business, namely cements and property development, provides investors with opportunities to ride on any potential upsides to its business when the economy is booming.

High dividend yield provides support to its current price level. YTL caught investors by surprise with its generous dividend payment of 12sen per share in FY14, which translates into a payout ratio of circa 80%. We attribute this to its rich cashflow generation and ability to upstream its cement division's cashflow through privatisation in 2012. Assuming a similar payout ratio assumption, we account for a dividend payment of circa 10 sen thus implying a dividend yield of approximately 6%. We view this as particularly attractive as it would be poised to be one of the best dividend-yielding stocks amongst the FMCKLCI constituents, which generally average at 3-4%.

Recognised management team. YTL remains one of the few successful family-run ventures in Malaysia, which we attribute to a strong management team and clarity in regards to its future succession planning. Led by the son of its founder, Tan Sri Dr Francis Yeoh, and backed by a team of highly experienced professionals, YTL has consistently delivered on its key projects. This is exemplified by its venture into the utilities business as the first IPP operator in Malaysia, during which time YTL was able to complete construction on its plant at a record 14 months ahead of schedule.

The Company has also managed to maintain its costs in constructing the ERL, even at the height of the Asian Financial Crisis in 1997. Its costs amounting to RM35m/km being the lowest construction cost for a High Speed Rail infrastructure in the world to date. We attribute its successes to its management team, which has proven over the years to be an integral asset for YTL.

A prospective earnings catalyst from Kuala Lumpur-Singapore High Speed Rail ("HSR").

Expected to be commence operation before 2025, the HSR would connect six cities in Malaysia to its Singaporean neighbour. Proposed by the government of Malaysia in 2010 as part of its Economic Transformation Programme ("ETP"), the rail track would span 350km mostly along the coastal route. It would reduce travel time from Kuala Lumpur to Singapore to 90 minutes compared to the current five hours by road.

Nevertheless, details remain uncertain. While the two neighbouring governments have voiced their commitment to undertake the project, its implementation is still in the discussion stage. We take note of the two Prime Ministers' recent meeting, in the first week of May, regarding the project. Both parties have indicated the need for a reassessment of the earlier 2020 operational target due to the scale and complexity of the venture. As such, a new timeline would be revealed by the end of the year. It was also indicated that the project would require a minimum period of two years to design and to tender out, as well as a further five-year period to construct the HSR.

Figure 4: Proposed alignment for the HSR project

Source: SPAD

The HSR will connect six cities in Malaysia – KL, Seremban, Melaka, Muar, Batu Pahat, Nusajaya – to Singapore.

With regard to the above, on the strength of its experience in constructing the ERL during 1997-2002, YTL may stand a decent chance to benefit from a potential involvement in this project. On this score, it is also noteworthy that YTL is an early proponent of the HSR since 2006.

As such, if YTL were to win the PDP role or a substantial portion of the construction works for the HSR, we are optimistic that it may help to substantially replenish its depleting construction orderbook.

KEY RISKS

Declining earnings from the expiration of Paka and Pasir Gudang PPAs. With the expiration of its power plant, YTLP faces a void in its earnings which need to be addressed. Although PBT contributions of these two power plants are rather small at circa 10% of YTLP's bottomline, we foresee a difficult time ahead for this division as heightened competition in the Singaporean merchant utility market could see its earnings decline further. Even as its earnings base remains stable due to contributions from its Wessex Water business, we also believe that future accretive earnings from this division are limited unless there is an M&A event or catalytic events such as winning a new power plant.

Overcapacity in Malaysia's cement industry. Risks specific to its cement operations would only arise should the current over-capacity in production deteriorates further due to any unexpected slowdown in demand. If this were to happen, we foresee YTLC's margin to be suppressed further as a result of intensified pricing competition.

Earnings are exposed to currency fluctuations. As a significant portion (>70%) of its revenue is derived from its overseas' operations, we are of the view that stock is exposed to fluctuations in Ringgit against the Singaporean dollar and the Pound sterling.

Inability to pay dividend. Owing to its nature as an investment holding company, YTL's ability to pay dividends would ultimately lie on its ability to upstream cash from its operating subsidiaries. Therein, an inability to pay dividends on the part of its subsidiaries would impose a risk to our dividend forecast. Additionally, the Company might want to conserve cash for future M&As and as such it may not maintain its FY14 payout ratio of 80%.

FINANCIAL OVERVIEW

Sturdy revenue grew at 18% CAGR over 7-years period. In the period between 2008 and 2014, YTL posted a commendable +18% CAGR growth on the back of revenue growth from its utilities section. However, we anticipate a decline to its revenue for FY15 and FY16 as PPA for its Paka and Pasir Gudang plants is due to expire in September 2015. Nevertheless, this might be offset from revenue growth derived from its other divisions such as cement and property development, which could mitigate a contraction from its utilities division.

Chart 1: Revenue growth

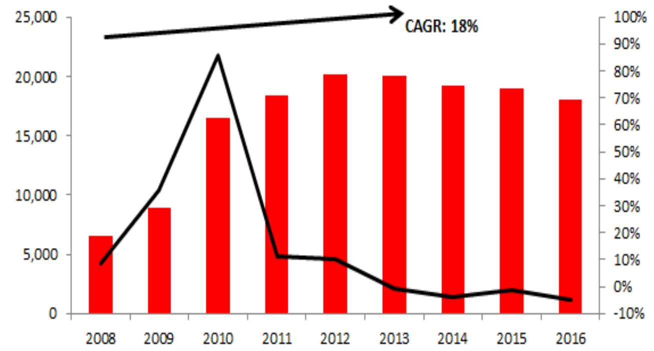
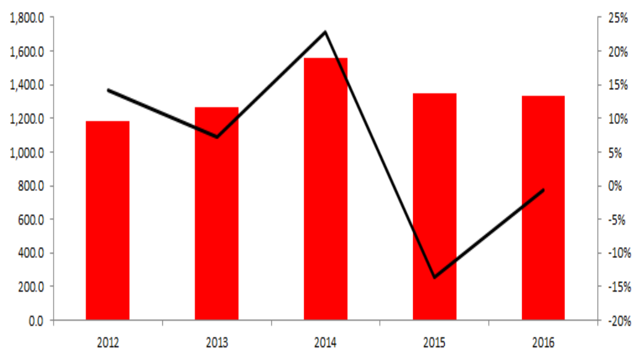


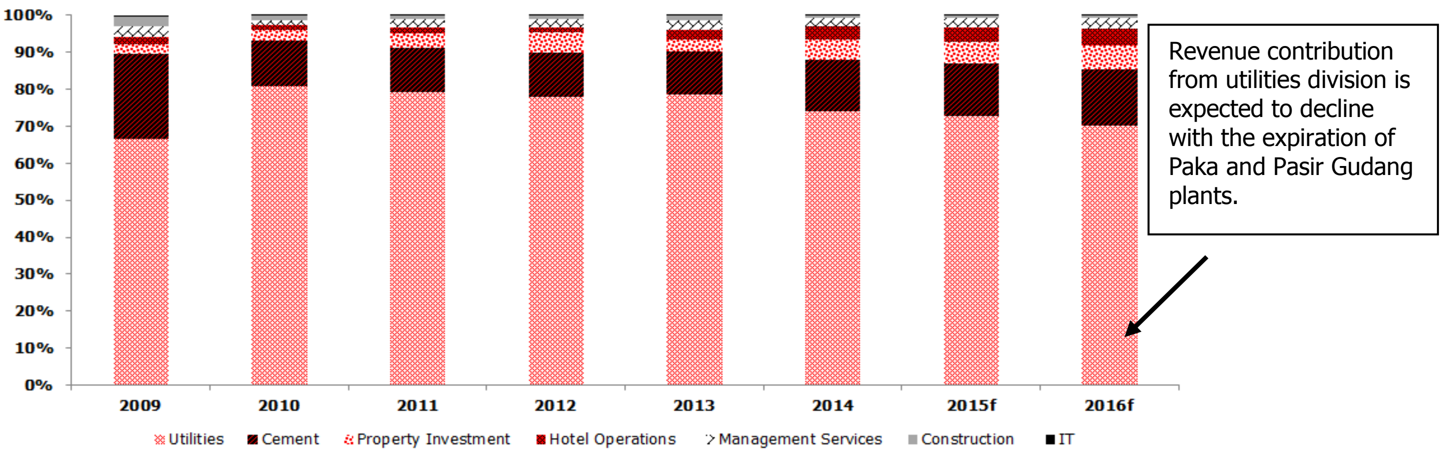
Chart 2: Margins Attribution



Source: YTL, MIDFR

However, utilities business remains the backbone of YTL. YTL's involvement in the utilities business is undertaken by its wholly-owned subsidiary, YTLP, which has become a main driver over the years. YTLP contributed c.74% and c.50% to YTL's revenue and PBT level as at FY14. We note that the contribution level from utilities has trended down partly owing to this division declining earnings and also due other businesses going about an upcycle in their respective earnings. Nevertheless, we believe that YTL's exposure in this defensive sector would provide the company with a steady earnings base owing to the nature of concessionaire business for its water and other utilities business in the United Kingdom, Australia and Indonesia.

Chart 3: Revenue breakdown by division (%)



Source: YTL, MIDFR

Table 1: PBT breakdown by divisions (%)

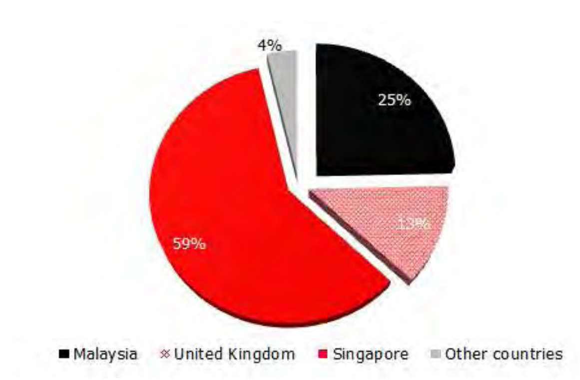
Cement is becoming an important earnings driver for YTL.

Year/Division	2010	2011	2012	2013	2014
Construction	2%	2%	1%	1%	-1%
IT	0%	0%	0%	0%	0%
Hotel Operations	0%	0%	1%	1%	0%
Cement	17%	19%	22%	22%	24%
Management Services	-3%	4%	4%	5%	-5%
Property Investment	2%	7%	16%	13%	32%
Utilities	81%	67%	57%	58%	50%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**

Source: YTL, MIDFR

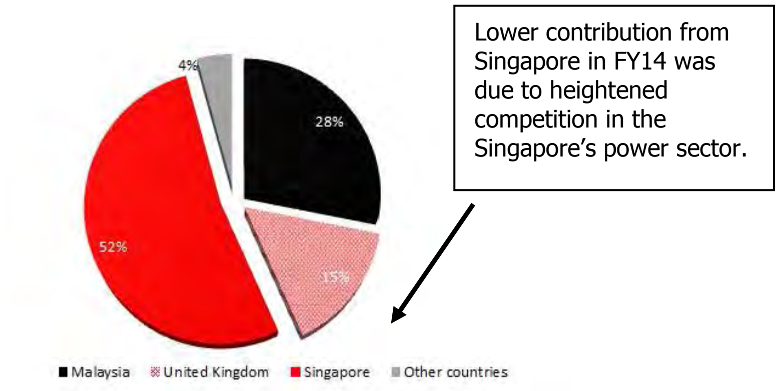
Exposure to international market. YTL is highly exposed to the international market with 72% of its revenue are derived from overseas market. The bulk of its overseas revenue could be attributed to its operations in Singapore and United Kingdom. YTLP's operations in the United Kingdom via its Wessex Water asset consisted c.15% of total revenue while revenue attributed to its Singaporean business are derived from utilities, cement trading and property investment & development.

Chart 4: Revenue-Geographical breakdown (FY13)



Source: YTL, MIDFR

Chart 5: Revenue-Geographical breakdown (FY14)



Source: YTL, MIDFR

Cement division is becoming an important driver. Cement division has achieved a consistent growth rate since its privatisation in December 2011. We expect contributions from this division to increase on the back of an aggressive capacity expansion. We also believe continuous trend of government spending on new infrastructure would stimulate demand for cements and elevate its earnings further in upcoming years.

1HFY15's performance has been lacklustre thus far. YTL's financial performance for the first six months has been subdued with revenue and PBT declining by -14.0% and -20.7% respectively relative to the same period in the previous financial year.

The uninspiring performance could be attributed to a plethora of factors which include: (1) weaker revenue from construction division due to lower revenue recognition of construction contracts; (2) depreciations in cement manufacturing & trading division's PBT on the back of intensified competition in the cement industry; (3) poorer revenue and PBT for property investment & development due to lower progress billings recognised from the Capers project and lower net fair value gain on investment properties contributed by Starhill Global Reit; (4) lower revenue and PBT for utilities division due to intense competition in Singapore electricity market which results in lower contributions from its multi-utilities in Singapore.

On an optimistic note, its IT, Hotel Operations and Management Services's positive performancehas helped to cushion impacts from its underperforming divisions. Its stronger yoy-performance was due to (1) increased revenue from its asset under management for its hotel operations; (2) greater digital media advertising revenue and higher interest income earned on cash deposits for its IT division; and 3) increased in share of profit of associate for its management services division.

SECTORAL PROSPECT

Construction Sector

We have a positive view on the Malaysian construction sector on the back of a healthy public infrastructure budget in the pipeline. With respect to the Government retaining its RM48.5b allocation for development expenditure in its revised 2015 Budget, we anticipate spending on railway and roads infrastructure to remain a key driver for construction activities in 2015 and beyond.

We expect the government to continue to push for further infrastructure development under the country's 11th Master Plan (11MP) as it will be the final 5-year period before the 2020 deadline for Malaysia to achieve a developed country status, as targeted under its Economic Transformation Programme (ETP). We see long-term growth opportunities in local construction companies' earnings from the development of KVMRT Line 2 and 3, KL-Singapore High Speed Rail, LRT 3, East Coast Rail Link and Gemas-Johor Bharu Electrified Double Tracking.

Specific to YTL, its construction division currently caters to internal works which mainly service the construction of new properties. With ERL's extension being its last major facilities works to date, we do not foresee any ready-made earnings catalyst for this division. Nonetheless, we view future earnings' catalyst to be derived from any potential construction packages for HSR construction.

Cement

Cement producers continue to face pressure on pricing, with average selling price (ASP) of cement continuing to be impacted by a production overcapacity. Cement production for the Peninsular currently has a total installed capacity of 29.8m MT/year while the average annual production of cement was 21.5m MT. We expect demand for cement to pick up pace from execution of public infrastructure projects and construction of affordable housing. This could mitigate the current overcapacity endemic in the industry.

As for YTL, impacts of intense competition could already be seen on its bottomline with its PBT margin declining to c.20% compared to the same period in the previous year, which yielded c.25%, which we attribute to the industrywide competition. In spite of that, its revenue remains on an uptrend which could be a benchmark for the demand of its cement products. We note that some of its products stand a premium to its peers, thus enabling it to withstand competition better than its competitors.

Property Investment

We view that demand for property will continue to ease down in 2015 as banks are expected to remain stringent in regards to approvals for property financing. With weaker consumer sentiment looming in the post-GST horizon, we anticipate yoy-decline to property industry sales.

Utilities

In view of the impending PPA expiration for the Paka and Pasir Gudang plants, we believe YTL's exposure to the Malaysian power generation sector to be at an end. We foresee a challenging time ahead for both of its Singaporean merchant and telecommunication divisions. An aggressive liberalisation for the electricity industry in Singapore in order to meet an increasing demand for energy has been widely anticipated to attract more players to the field. As such we believe competition would remain stiff as these companies continue to compete for a bigger share of the electricity-production market therefore worsening margin compression for YTL as it bids to maintain its 25% of market share.

We share a similar view for its Mobile segment as the challenging telecommunication market requires the Company to intensify efforts to continuously grow its subscribers' base in order to generate higher revenue.

On a brighter note, we anticipate Wessex Water and other associates to continue delivering consistent returns for its utilities division on the back of favourable market conditions. We opine that further depreciations in ringgit would be beneficial in softening any decline to this division earnings.

VALUATION AND RECOMMENDATION

Lacking an immediate catalyst as well as clarity for future plans. YTL's share performance has been lacklustre after the 1H12-surge to a high of RM2.12 in June 2012. We believe the appreciation in share price then was mainly driven by the privatisation of YTL Cement which was undertaken via a share swap exercise. Since then, the price has retraced and moved sideways. We also observe that YTL's share price has been trading within the range of RM1.55 – RM1.70 which we believe to be due to absence of an immediate catalyst and clarity on its future plans, the presence of which would catapult its price.

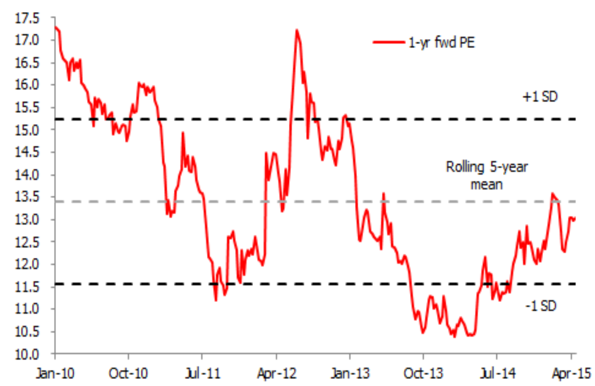
Valuation wise, the share price is currently trading close to its 5-year rolling average PE range which we believe is fair given the lack of immediate catalyst for this stock. On this note, we are of the view that its potential share price gain is limited at the moment. We are valuing YTL with at RM1.68 per share after applying sum-of-part valuation methodology to account for values accrued from its different operating businesses. Our TP implies FY16 forward PE of 13.0x, which is also derived after applying a 15% discount due to the conglomerate nature of the business as well as the lack of near-term visibility on its future.

Table 2: Sum of Part Valuation

Group's businesses	Valuation method	Value (RM'm)	Value/share
Listed			
YTL Power	MIDF's fair value of RM1.83	7,437	0.72
YTL Land	market price	374	0.04
YTL e-Solutions	market price	558	0.05
YTL Hospitality REIT	market price	813	0.08
Starhill Global REIT	market price	1,780	0.17
Unlisted			
Cement	13xEV/EBITDA	10,720	1.03
Construction	10xPE	26	0.00
		21,709	**2.09**
less: net debt @ holding Company		(1254.122)	(0.12)
Total Equity Value		**20,455**	**1.97**
15% conglomerate discount			**1.68**

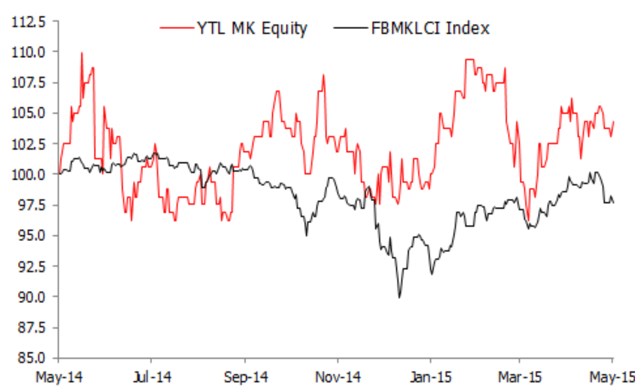
Source: MIDFR

Chart 6: 1-year forward PE



Source: YTL, MIDFR

Chart 7: 1-year performance against FBMKLCI



Source: YTL, MIDFR

Investment Statistics

FYE June	2013	2014	2015F	2016F	2017F
Revenue	20,033.1	19,269.2	19,001.1	18,019.0	18,399.6
EBIT	2,921.7	3,685.7	3,569.0	3,540.1	3,788.1
Pretax Profit	2,299.4	2,811.6	2,562.1	2,484.6	2,691.2
Minority Interest	(564.2)	(1,050.0)	(742.0)	(688.0)	(723.3)
Net profit	1,266.7	1,555.0	1,344.5	1,335.5	1,468.5
EPS (sen)	12.2	15.0	13.0	12.9	14.2
PER (x)	13.7	11.1	12.9	13.0	11.8
Dividend	2.5	12.0	10.4	10.3	11.3
Dividend yield (%) @ RM1.67	1.5	7.2	6.2	6.2	6.8

Source: YTL, MIDFR

DAILY PRICE CHART

Izzat Esa
muhammad.izzat@midf.com.my
03-2772 1679

Financial Statement

Income Statement (RMm)	2013	2014	2015F	2016F	2017F
Revenue	20,033	19,269	19,001	18,019	18,400
EBIT	2,922	3,686	3,569	3,540	3,788
Net finance cost	-1,019	-1,124	-1,264	-1,320	-1,370
Associates	396	250	257	265	273
Pretax profit	**2,299**	**2,812**	**2,562**	**2,485**	**2,691**
Taxation	-468	-207	-476	-461	-500
Minority Interest	-564	-1,050	-742	-688	-723
PATAMI	1,267	1,555	1,345	1,335	1,468
EPS (sen)	12.2	15.0	13.0	12.9	14.2
DPS (sen)	2.5	12.0	10.4	10.3	11.3

Balance Sheet (RM m)	2013	2014	2015F	2016F	2017F
Non-current assets					
Property, plant and equipment	22,207	25,314	26,472	27,388	28,315
Associates	3,430	1,649	1,649	1,649	1,649
Intangible assets	4,785	5,014	5,014	5,014	5,014
Others	2,505	9,405	9,405	9,405	9,405
Total non-current assets	**32,928**	**41,383**	**42,541**	**43,457**	**44,384**
Current assets					
Inventories	849	774	967	917	937
Receivables	3,537	2,967	2,978	2,824	2,883
Cash and bank balances	13,814	13,216	13,869	14,423	14,641
Others	2,476	2,703	2,703	2,703	2,703
Total current assets	**20,676**	**19,660**	**20,516**	**20,867**	**21,164**
Total assets	**53,603**	**61,042**	**63,057**	**64,323**	**65,548**
Current liabilities					
Payables	3,460	3,253	3,156	3,144	3,170
Borrowings	4,227	5,396	5,396	5,396	5,396
Other current liabilities	422	525	525	525	525
Total current liabilities	**8,110**	**9,174**	**9,078**	**9,065**	**9,092**
Long term liabilities					
Deferred taxation	2,404	2,276	2,276	2,276	2,276
Borrowings	26,515	28,189	30,032	31,043	31,947
Others	1,390	1,624	1,624	1,624	1,624
Total long term liabilities	**30,309**	**32,088**	**33,931**	**34,942**	**35,847**
Financed by:					
Share capital	1,074	1,074	1,074	1,074	1,074
Share premium	1,988	1,988	1,988	1,988	1,988
Other Reserves	(528)	(111)	(111)	(111)	(111)
Retained profit	11,201	12,033	12,302	12,569	12,863
Treasury	(593)	(597)	(597)	(597)	(597)
Shareholder funds	**13,142**	**14,387**	**14,656**	**14,923**	**15,216**
Minority interest	2,043	5,393	5,393	5,393	5,393
Shareholders' equity	**15,185**	**19,780**	**20,049**	**20,316**	**20,609**

Cashflow Statement (RM'm)	2013	2014	2015F	2016F	2017F
Cashflow from operations (CFO)					
Pretax profit	2,299	2,812	2,562	2,485	2,691
Non-cash adjustment	2,476	2,720	1,772	1,853	1,917
Δ Inventories	(39)	(75)	(193)	50	(19)
Δ Receivables	(21)	(570)	(11)	154	(60)
Δ Payables	(49)	(207)	(97)	(12)	26
Δ Others	(126)	(13)	-	-	-
Net change in WC	**(235)**	**(865)**	**(301)**	**192**	**(53)**
Tax paid	(468)	(207)	(476)	(461)	(500)
Others	(1,301)	(153)	(742)	(688)	(723)
CFO	**2,771**	**4,306**	**2,815**	**3,380**	**3,333**
Cashflow from investing (CFI)					
Capex	(3,241)	(2,680)	(2,930)	(2,769)	(2,844)
Others	(27)	120	-	-	-
CFI	**(3,268)**	**(2,560)**	**(2,930)**	**(2,769)**	**(2,844)**
Cashflow from financing (CFF)					
Dividends paid	(259)	(259)	(1,076)	(1,068)	(1,175)
Proceeds from borrowings	11,609	2,383	5,860	5,538	5,689
Repayment of borrowings	(9,624)	(3,263)	(4,161)	(4,671)	(4,931)
Others	(694)	(1,560)	143	145	146
CFF	**1,033**	**(2,700)**	**767**	**(57)**	**(271)**
Net change in cash	**535**	**(953)**	**652**	**554**	**218**
Effect of exchange rate & bank o\	1.727	356	-	-	-
B/f cash balance	13,277	13,814	13,216	13,869	14,423
Ending cash balance	13,814	13,216	13,869	14,423	14,641

Key Ratios	2013	2014	2015F	2016F	2017F
Return on Equity (%)	9.6%	10.8%	9.2%	8.9%	9.7%
Du Pont Analysis					
Profitability Margin	6.3%	8.1%	7.1%	7.4%	8.0%
Assets Utilisation	37.4%	31.6%	30.1%	28.0%	28.1%
Equity Contribution	407.9%	424.3%	430.3%	431.0%	430.8%
Return on Assets (%)	3.4%	4.3%	2.1%	2.1%	2.2%
Current Ratio (x)	2.5	2.1	2.3	2.3	2.3
Quick Ratio (x)	1.8	1.5	1.6	1.7	1.7
BV per share	1.3	1.4	1.4	1.4	1.5
Dividend Payout Ratios (%)	20%	80%	80%	80%	80%

Source: YTL, MIDFR

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <-15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.