

MALAYSIA



POWER

RECOMMENDATION

OVERWEIGHT

NEUTRAL

UNDERWEIGHT

SECTOR FLASH NOTE

CIMB Analyst(s)


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Track 4A has arrived

The Energy Commission (EC) announced that Track 4A has been awarded to a consortium of YTL Power, Tenaga and SIPP Energy. The project was awarded through direct negotiations, which is likely to raise eyebrows among the public. However, we think that the Energy Commission (EC) resorted to direct negotiations on the premise that the Malaysian power grid could be at risk of outages by 2018 and thus planting up should be fast-tracked. We believe that the award will not be seen as a lopsided agreement which would leave Tenaga and the public paying more as Tenaga is part of the consortium. We maintain our Overweight position on the sector.

What Happened ►

Track 4A awarded. The media reported that the EC over the weekend announced that it had awarded a fast-track power plant project, also known as Track 4A, to a consortium consisting of YTL Power, Tenaga and SIPP Energy (linked to Johor's royalty) through direct negotiations. There were no details on the cost of the project, actual tariffs offered by the consortium and shareholding structure of the consortium. The capacity is yet to be confirmed, although it is expected to be c.1,000-1,400MW. The direct negotiations were a decision by the EC apparently in its attempt to get the plant operational by an earlier date of 2018, vs. its previous target of 2020.

What We Think ►

As expected. We are surprised that the winner is a consortium of the three parties mentioned above as we had thought that all three were competing with one another. We are, however, positive that YTL Power is part of the consortium, as it implies that it would remain a Malaysian power player, albeit on a smaller capacity. While details are scarce, we estimate that YTL Power's earnings could be boosted by 10-11% in 2018, assuming an IRR of 7-8% and an even stake in the consortium (33.3%). Imputing the DCF into our SOP-based target price would raise YTL Power's valuation by c.RM0.25-0.30 per share.

Fast-track justified. While the manner in which the project was awarded could be deemed as a backtracking of sector reforms, we think that the recent blackouts on 7 May due to unplanned outages in coal power plants do provide good justification for fast-tracking the project. This is to avoid longer-term problems in the grid which could be more costly in the future. Thus, while direct negotiations are not exactly ideal, we believe that the end justifies the means. Furthermore, we think that chances of a lopsided power purchase agreement (PPA) in favour of the IPPs are low as Tenaga, the sole offtaker of the power, is also in the consortium and ensuring the lowest offtake costs possible will be in its interest.

What You Should Do ►

YTL Power's time. Winning Track 4A will allow YTL Power to remain involved in the local power sector, which has been questioned in recent times after the non-renewal of its PPA, which will expire in mid-2015. Track 4A should ensure that YTL Power generates stable earnings and cash flows from the power sector in Malaysia and we maintain our Add rating. As for Tenaga, the award of Track 4A will do little to boost its earnings, in our estimation, although owning part of the project gives us comfort it would have better control of its cost of purchasing power.

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Outperform/Buy/Trading Buy/Add	56.2%	4.6%
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Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
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The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock.

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CIMB Stock Recommendation Framework #2 *

Outperform	The stock's total return is expected to exceed a relevant benchmark's total return by 5% or more over the next 12 months.
Neutral	The stock's total return is expected to be within +/-5% of a relevant benchmark's total return.
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Trading Buy	Expected positive total returns of 10% or more over the next 3 months.
Trading Sell	Expected negative total returns of 10% or more over the next 3 months.

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June 2, 2014

AAV – Good, **ADVANC** - Excellent, **AMATA** - Very Good, **ANAN** – Good, **AOT** - Excellent, **AP** - Very Good, **BANPU** - Excellent , **BAY** - Excellent , **BBL** - Excellent, **BCH** – Good, **BCP** - Excellent, **BEC** - Very Good, **BGH** - not available, **BJC** – Very Good, **BH** - Very Good, **BIGC** - Very Good, **BTS** - Excellent, **CCET** – Very Good, **CENTEL** – Very Good, **CK** - Excellent, **CPALL** - Very Good, **CPF** – Excellent, **CPN** - Excellent, **DELTA** - Very Good, **DTAC** - Excellent, **EGCO** – Excellent, **GLOBAL** - Good, **GLOW** - Very Good, **GRAMMY** – Excellent, **HANA** - Excellent, **HEMRAJ** - Excellent, **HMPRO** - Very Good, **INTUCH** – Excellent, **ITD** – Very Good, **IVL** - Excellent, **JAS** – Very Good, **KAMART** – not available, **KBANK** - Excellent, **KKP** – Excellent, **KTB** - Excellent, **LH** - Very Good, **LPN** - Excellent, **MAJOR** – Very Good, **MAKRO** – Very Good, **MCOT** - Excellent, **MEGA** – not available, **MINT** - Excellent, **PS** - Excellent, **PSL** - Excellent, **PTT** - Excellent, **PTTGC** - Excellent, **PTTEP** - Excellent, **QH** - Excellent, **RATCH** - Excellent, **ROBINS** - Excellent, **RS** – Excellent, **SAMART** – Excellent, **SC** – Excellent, **SCB** - Excellent, **SCC** - Excellent, **SCCC** - Very Good, **SIRI** – Very Good, **SPALI** - Excellent, **STA** - Good, **STEC** - Very Good, **TCAP** - Excellent, **THAI** - Excellent, **THCOM** – Excellent, **TICON** – Very Good, **TISCO** - Excellent, **TMB** - Excellent, **TOP** - Excellent, **TRUE** - Excellent, **TTW** – Excellent, **TUF** - Very Good, **VGI** – Excellent, **WORK** – Good.