

24 February 2023

Utilities | Power

YTL Power (YTLP MK)

Buy (Maintained)

Another Strong Quarter; Maintain BUY

- **Keep BUY, with new TP of MYR1.00 from MYR0.92, 35% upside and 8% FY23F (Jun) yield.** YTL Power continued to deliver a strong set of results backed by the power generation division which masked Wessex Water's contribution. Post our earnings upgrade, the stock is trading at an attractive 9x FY24F P/E, which is at -1SD to its 5-year mean. Its ventures into digital banking and green data centre businesses, in our view, are long-term positives despite near-term earnings impact being minimal.
- **Above expectations.** 1HFY23 core profit of MYR434m (+2.1x YoY) significantly surpassed expectations at 101% and 103% of our and Street estimates, mainly led by the stronger-than-expected contribution from the power generation arm.
- **2QFY23 core profit surged 3.3x YoY to MYR284m** on the back of stronger power generation (+6.0x) that resulted from higher retail prices masking the weaker Wessex Water contribution and widened losses in the telco arm. Wessex Water recorded LBT of MYR16m (vs 2QFY22's MYR145m PBT) no thanks to interest accruals on index-linked bonds which is a non-cash impact. As such, 1HFY23 core earnings also strengthened by 2.1x to MYR434m.
- **Outlook.** The power division is expected to deliver solid earnings ahead, on strong wholesale prices in FY23F as well as the full-year contribution from the Tuaspring power plant. We are also guided that the 45%-owned oil shale plant in Jordan could potentially commence operations under the original power purchase agreement (PPA). Meanwhile, Wessex Water may see margin pressure, no thanks to the impact of higher inflation on opex and we are guided that such costs will be subsequently compensated in the coming year's tariff revenue. YTLP is also developing the YTL Green Data Centre Park in Kulai, the first data centre campus in Malaysia to be powered by on-site renewable solar energy. Construction of the first 72MW capacity is ongoing and the facility is expected to be in service by 1QCY24. Earlier this year, YTLP was granted a MYR1.1bn Islamic term financing facility for the 48MW IT load hyperscale data centre in Kulai. The newly acquired Kulai Young Estate in Johor allows the group to develop a large-scale solar facility, with a generation capacity up to 500MW. The digital banking arm, collectively operated by the consortium of Sea Ltd (SE US, NR) and YTL Power, is expected to commence operations in Jan 2024.
- **Stay BUY.** We increase our FY23F-25F earnings by 42-61% after imputing better contribution from the power generation arm (both Tuaspring and PowerSeraya plants). As such, our SOP-based TP is lifted to MYR1.00, with the incorporation of a 2% discount based on an unchanged ESG scoring of 2.9. Downside risks to our call: Weaker-than-expected plant performance, and higher-than-expected operating costs.

Target Price (Return): MYR1.00 (+35%)
 Price (Market Cap): MYR0.74 (USD1,343m)
 ESG score: 2.90 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.99m/0.23m

Analyst

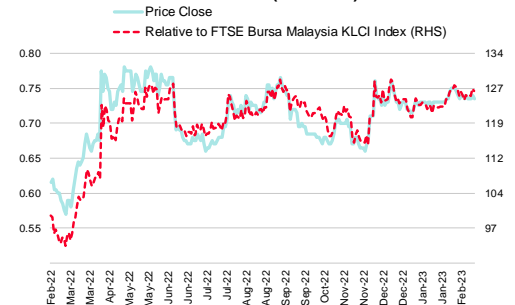
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	2.8	0.7	9.7	2.1	16.7
Relative	5.3	3.6	8.7	3.8	24.8
52-wk Price low/high (MYR)	0.57 – 0.78				

YTL Power (YTLP MK)



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: MODERATE

The different business units are exposed to a number of environmental risks. In line with YTL Group's aim to become carbon neutral by 2050, PowerSeraya has set an interim target of 60% GHG emissions reduction from its power plant operations by 2030 whereas Wessex Water's aims to achieve net zero operational carbon emissions by 2030 and full decarbonisation by 2040. Nonetheless, the group's total GHG emissions increased by 14% to 3,833 ktCO₂e for FY22.

S: EXCELLENT

YTL Power maintains good policies and competitive benefits for its employees. Further disclosures in this area could help improve the score. Health & Safety policies are in place, with good disclosure. However, the group recorded 3.63 Lost Time Injury (LTI) rate and one fatality for FY22. The group is very active in community engagement activities, through its business units.

G: EXCELLENT

YTL Power's board size is within the average of the industry, the directors are skilled and experienced, and there are female representation within the board. However, the board falls short of independent directors that are required by MCGG. YTL Power ensures timely, reliable, information is provided to shareholders. Shareholder rights are also protected.

Forecasts and Valuation	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Total turnover (MYRm)	10,785	17,805	17,792	17,865	17,865
Recurring net profit (MYRm)	386	359	689	660	664
Recurring net profit growth (%)	12.5	(7.0)	91.9	(4.2)	0.5
Recurring P/E (x)	15.53	16.70	8.70	9.08	9.04
P/B (x)	0.5	0.4	0.4	0.4	0.4
P/CF (x)	4.51	4.59	5.84	3.79	3.78
Dividend Yield (%)	6.1	6.1	8.0	7.7	7.7
EV/EBITDA (x)	10.87	7.42	7.88	8.08	8.14
Return on average equity (%)	3.1	2.6	4.8	4.5	4.5
Net debt to equity (%)	168.4	148.2	154.9	154.7	154.5

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Malaysia	Recurring EPS	0.05	0.04	0.08	0.08	0.08
Utilities	DPS	0.05	0.05	0.06	0.06	0.06
YTL Power	BVPS	1.60	1.75	1.78	1.80	1.83
YTLP MK	Return on average equity (%)	3.1	2.6	4.8	4.5	4.5
Buy	Valuation metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
	Recurring P/E (x)	15.53	16.70	8.70	9.08	9.04
	P/B (x)	0.5	0.4	0.4	0.4	0.4
	FCF Yield (%)	(6.9)	(7.6)	(9.0)	0.3	0.4
	Dividend Yield (%)	6.1	6.1	8.0	7.7	7.7
	EV/EBITDA (x)	10.87	7.42	7.88	8.08	8.14
	EV/EBIT (x)	21.00	12.12	12.30	12.34	12.35
Valuation basis	Income statement (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
SOP	Total turnover	10,785	17,805	17,792	17,865	17,865
	Gross profit	1,439	1,648	3,076	3,105	3,140
	EBITDA	2,355	3,310	3,299	3,273	3,304
	Depreciation and amortisation	(1,135)	(1,282)	(1,186)	(1,131)	(1,126)
	Operating profit	1,219	2,028	2,113	2,143	2,178
	Net interest	(952)	(990)	(1,206)	(1,233)	(1,261)
	Pre-tax profit	634	1,373	1,252	1,220	1,227
	Taxation	(737)	(187)	(454)	(455)	(459)
	Reported net profit	386	359	689	660	664
	Recurring net profit	386	359	689	660	664
Key drivers	Cash flow (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
Start-up of new power plant projects	Change in working capital	(88)	(0)	(614)	(5)	0
	Cash flow from operations	1,329	1,306	1,026	1,581	1,585
	Capex	(1,743)	(1,759)	(1,564)	(1,564)	(1,564)
	Cash flow from investing activities	(1,126)	(336)	(1,564)	(1,564)	(1,564)
	Dividends paid	(162)	(365)	(482)	(462)	(464)
	Cash flow from financing activities	1,073	(2,706)	2,268	223	221
	Cash at beginning of period	7,485	8,593	6,880	8,203	8,443
	Net change in cash	1,276	(1,737)	1,730	239	242
	Ending balance cash	9,128	6,810	8,610	8,443	8,684
Key risks	Balance sheet (MYRm)	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
i. Execution risk for its Java and Jordan power plant projects;	Total cash and equivalents	8,621	6,906	8,229	8,468	8,710
ii. Weaker contribution from Wessex Water and PowerSeraya.	Tangible fixed assets	24,201	24,556	24,984	25,467	25,955
	Total investments	4,381	4,773	5,118	5,428	5,738
	Total assets	52,074	51,001	53,642	54,644	55,633
	Short-term debt	4,445	2,477	2,477	2,477	2,477
	Total long-term debt	25,911	25,260	28,010	28,695	29,380
	Total liabilities	39,167	36,944	39,269	39,968	40,653
	Total equity	12,907	14,057	14,373	14,676	14,980
	Total liabilities & equity	52,074	51,001	53,642	54,644	55,633
Company Profile	Key metrics	Jun-21	Jun-22	Jun-23F	Jun-24F	Jun-25F
YTL Power (YTLP) is an independent power producer (IPP) with a presence in Malaysia and Singapore and it provides water and sewerage services in UK. It has also ventured into the provision of internet services in Malaysia.	Revenue growth (%)	1.4	65.1	(0.1)	0.4	0.0
	Recurrent EPS growth (%)	12.5	(7.0)	91.9	(4.2)	0.5
	Gross margin (%)	13.3	9.3	17.3	17.4	17.6
	Operating EBITDA margin (%)	21.8	18.6	18.5	18.3	18.5
	Net profit margin (%)	3.6	2.0	3.9	3.7	3.7
	Dividend payout ratio (%)	95.1	102.2	70.0	70.0	70.0
	Capex/sales (%)	16.2	9.9	8.8	8.8	8.8
	Interest cover (x)	1.28	2.05	1.75	1.74	1.73

Source: Company data, RHB

Figure 1: 1HFY23 results review

FYE Jun (MYRm)	2QFY22	1QFY23	2QFY23	QoQ (%)	YoY (%)	1HFY22	1HFY23	YoY (%)	Comments
Revenue	5,107	4,744	4,703	(0.9)	(7.9)	8,621	9,447	9.6	Higher YoY, due to higher pool and retail prices
EBITDA	604	770	962	24.9	59.3	1,224	1,732	41.5	
Depreciation	(316)	(320)	(321)	0.4	1.8	(643)	(641)	(0.3)	
EBIT	288	450	641	42.3	122.4	582	1,091	87.7	
Interest expense	(229)	(332)	(379)	14.1	65.5	(469)	(711)	51.5	
Associates	65	83	79	(4.6)	22.7	152	162	6.8	
El/Others	(48)	23	(86)	nm	nm	(88)	(62)	nm	
Pretax profit	76	225	256	13.8	235.9	177	481	172.4	2QFY23: Excluding multiple impairments and MY2m in gains from disposal, and a MYR64m FX loss, etc
Tax	(34)	(57)	(65)	13.9	90.8	(83)	(123)	47.2	
Minority interest	(23)	6	8	43.4	(134.9)	(39)	14	(135.2)	
Net profit	19	173	199	14.7	958.0	54	372	586.7	
Core profit	67	150	284	89.7	327.0	142	434	205.3	
<i>Net margin (%)</i>	<i>1.3</i>	<i>3.2</i>	<i>6.0</i>			<i>1.7</i>	<i>4.6</i>		Beat expectations

Source: RHB

Figure 2: SOP valuation

Segments	Value (MYRm)	Remarks
Wessex Water	7317.19	DCF, based on WACC of 6.7%
PowerSeraya	4246.67	DCF, based on WACC of 11.9%.
Attarat	129.96	DCF, based on WACC of 11.6%, 50% discount
Mobile broadband network	964.40	0.5x FY22 P/BV
ElectraNet disposal gain and Java plants	1415.72	0.8x FY22 investment in associate
Minus: Company net debt	-5775.84	FY22 company net debt
Total (MYR)	8298.09	
Shares (m)	8158.00	
ESG premium/(discount)	(2%)	Based on scoring of 2.9
TP (MYR)	1.00	

Source: RHB

Recommendation Chart

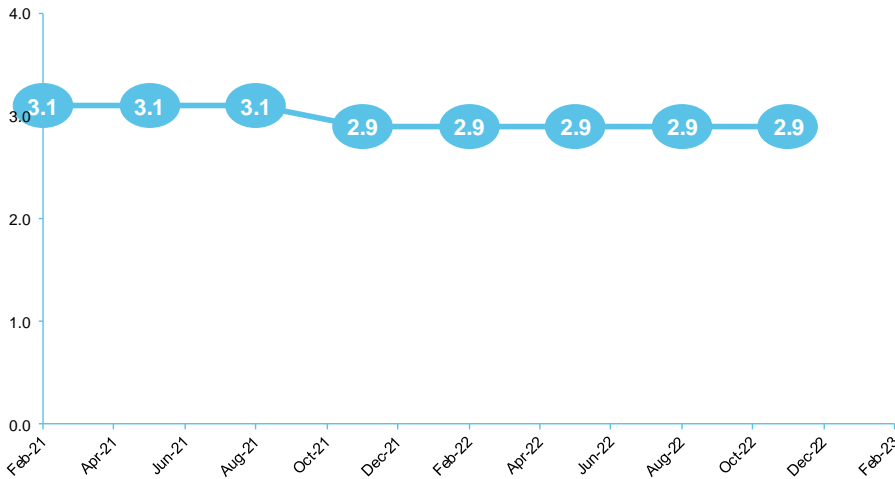


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-11-25	Buy	0.92	0.71
2022-08-26	Buy	0.95	0.73
2022-05-27	Buy	0.95	0.74
2022-02-25	Buy	0.68	0.62
2022-02-09	Buy	0.68	0.66
2021-11-26	Neutral	0.68	0.64
2021-09-08	Neutral	0.75	0.72
2021-05-30	Neutral	0.77	0.71
2021-02-25	Neutral	0.75	0.73
2020-08-31	Buy	0.83	0.65
2020-06-17	Buy	0.86	0.64
2020-03-13	Buy	0.86	0.56
2020-02-21	Buy	0.95	0.68
2019-11-27	Neutral	0.73	0.65
2019-09-25	Neutral	0.80	0.70

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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