21 February 2025

Utilities | Power

YTL Power (YTLP MK)

Buy (Maintained)

20MW AI-DC Coming In July; Keep BUY

Target Price (Return):	MYR4.53 (36.0%)
Price (Market Cap):	MYR3.33 (USD6,177m)
ESG score:	2.9 (out of 4)
Avg Daily Turnover (MYR/USD)	74.4m/16.7m

- **Keep BUY, new MYR4.53 TP from MYR4.70, 36% upside with c.3% FY25F (Jun) yield.** YTL Power's 1HFY25 results came within expectations as we believe the moderation in its net profit will still be largely anchored by its UK subsidiary Wessex Water's earnings recovery and narrowed losses in the telecommunications arm. Management guided that the first 20MW artificial intelligence data centre (AI-DC) project is on track to be commercialised by July 2025 but the timeline of the remaining 80MW offtake remains unclear.
- **Within expectations.** 1HFY25 core profit of MYR1.4bn (-18% YoY) was within expectations, at 52% and 48% of our and Street's full-year estimates. No dividend was declared as expected.
- **2QFY25 core profit declined 16% QoQ to MYR655m**, no thanks to a slightly weaker PowerSeraya contribution, while YTLP's telecommunications arm was dragged by lower project billings. 1HFY25 core earnings also weakened 18% YoY on the back of the lower PowerSeraya contribution (-28% YoY, on lower pool and retail prices). This was partially cushioned by narrower losses from the telco division and improvement in Wessex Water's performance following a price revision, as well as earnings from Ranhill Utilities (RAHH MK, SELL, TP: MYR1.05).
- **Outlook.** We believe PowerSeraya's earnings normalisation will happen gradually, as more gas feedstock supply contracts are subjected to renewals over time till 2028. The construction of 600MW hydrogen-ready combined-cycle gas turbine (CCGT) is on track to be completed by end-CY27. Meanwhile, management guided that the first 20MW AI-DC is ready to be commercialised by July this year on a four-year offtaker agreement. Management is rather confident that the chip supply will be ready in the near term. However, the commercialisation of the remaining 80MW AI-DC remains uncertain for now. We reckon that it is crucial for the company to attain national validated end-user (NVEU) status to receive large allocations to ensure sustainable AI-DC developments. Over in the UK, Wessex Water together with other five water companies have asked the Water Services Regulation Authority (Ofwat) to raise the bills from what was agreed.
- **We cut our FY26-27 earnings forecasts by 2% and 7%** after slower progress in the AI-DC development masking stronger contribution from the 3-year MYR950m fibre-laying contract secured in Sabah. Our SOP-based TP drops to MYR4.53 from MYR4.70 as we impute a lower AI-DC valuation, assuming a lower 12x EV/EBITDA (from 15x previously) amidst the macro uncertainties. We also apply a 2% ESG discount to its intrinsic value to derive our TP, due to the company's ESG score of 2.9. Downside risks: Weaker-than-expected plant performance and higher-than-expected operating costs.

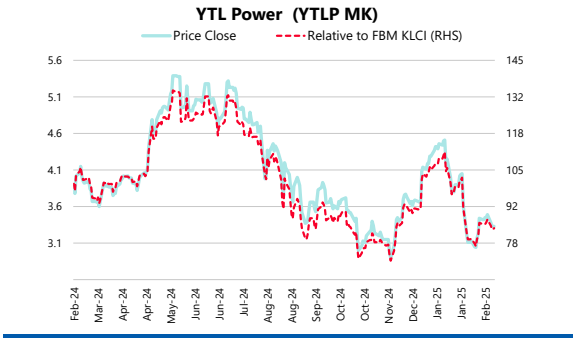
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(24.7)	(14.6)	5.7	(13.7)	(15.1)
Relative	(20.8)	(14.9)	7.0	(9.7)	(16.5)
52-wk Price low/high (MYR)					2.90 –5.39



Source: Bloomberg

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	21,890	22,321	19,288	19,954	19,100
Recurring net profit (MYRm)	2,058	3,328	2,743	2,673	2,573
Recurring net profit growth (%)	441.9	61.8	(17.6)	(2.6)	(3.7)
Recurring P/E (x)	13.20	8.16	9.90	10.16	10.56
P/B (x)	1.6	1.4	1.2	1.1	1.0
P/CF (x)	7.93	6.09	7.91	7.14	7.10
Dividend Yield (%)	1.8	2.9	2.0	2.5	2.4
EV/EBITDA (x)	7.91	5.94	6.91	6.78	6.78
Return on average equity (%)	13.2	18.1	12.9	11.5	10.2
Net debt to equity (%)	136.9	116.3	101.8	89.4	79.1

Source: Company data, RHB

Overall ESG Score: 2.9 (out of 4)

E Score: 2.5 (GOOD)
S Score: 3.3 (EXCELLENT)
G Score: 3.3 (EXCELLENT)
Please refer to the ESG analysis on the next page

Emissions And ESG

Trend analysis

Total emissions of YTLP increased by 7% YoY in FY23 due mainly to higher power generation in Singapore, which rose 13% for the financial year under review. However, the GHG intensity decreased 13% to 0.19 this year compared to 0.22 last year, based on scope 1 and 2 GHG emissions, measured against revenue.

Emissions (tCO2e)	Jun-22	Jun-23	Jun-24	Jun-25
Scope 1	3,718,000	3,921,000	na	na
Scope 2	118,000	150,000	na	na
Scope 3	na	45,000	na	na
Total emissions	3,836,000	4,116,000	na	na

Source: Company data, RHB

Latest ESG-Related Developments

Being a leading power generator in Singapore, YTL PowerSeraya is committed to reducing its emissions by 60% from the 2010 level by 2030.

Wessex Water also published its own detailed plan in mid-2021 to achieve net zero operational carbon emissions by 2030, alongside a goal to achieve full decarbonisation by 2040, a decade ahead of the UK government's 2050 target.

ESG Unbundled

Overall ESG Score: 2.9 (out of 4)

Last Updated: June 2024

E Score: 2.5 (GOOD)

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. The potential development of solar assets in Kulai could ramp up the RE capacity in the longer run.

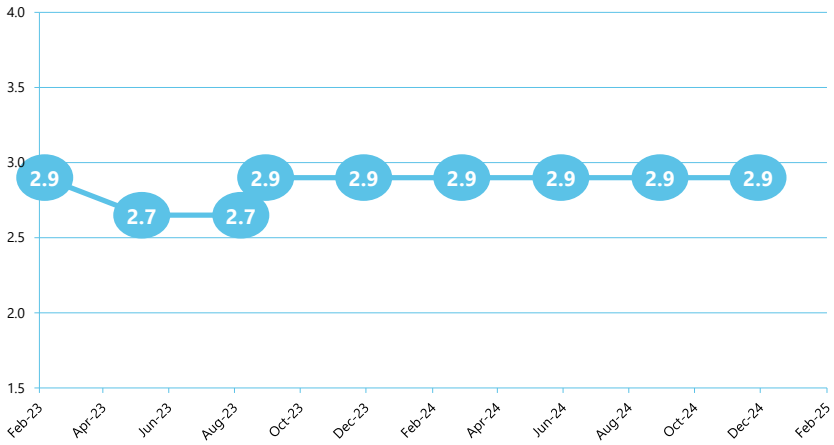
S Score: 3.3 (EXCELLENT)

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. In 2023, employee engagement increased by 17% which lead to a declined in injury and frequency rates. The group is very active in community engagement activities, through its business units.

G Score: 3.3 (EXCELLENT)

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

ESG Rating History



Source: RHB

Financial Exhibits

Asia
Malaysia
Utilities
YTL Power
YTLP MK
Buy

Valuation basis

SOP

Key drivers

i. Stronger contribution from Wessex Water and PowerSeraya.

Key risks

i. Execution risk for its Java and Jordan power plant projects;
ii. Weaker contribution from Wessex Water and PowerSeraya.

Company Profile

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.

Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Recurring EPS	0.25	0.41	0.34	0.33	0.32
DPS	0.06	0.10	0.07	0.08	0.08
BVPS	2.06	2.46	2.73	2.98	3.22
Return on average equity (%)	13.2	18.1	12.9	11.5	10.2

Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Recurring P/E (x)	13.20	8.16	9.90	10.16	10.56
P/B (x)	1.6	1.4	1.2	1.1	1.0
FCF Yield (%)	4.3	4.1	4.3	5.7	5.8
Dividend Yield (%)	1.8	2.9	2.0	2.5	2.4
EV/EBITDA (x)	7.91	5.94	6.91	6.78	6.78
EV/EBIT (x)	10.97	7.43	8.89	8.73	8.80

Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover	21,890	22,321	19,288	19,954	19,100
Gross profit	4,187	6,084	5,151	5,186	5,087
EBITDA	5,123	7,047	6,050	6,100	6,015
Depreciation and amortisation	(1,426)	(1,412)	(1,348)	(1,363)	(1,378)
Operating profit	3,697	5,635	4,702	4,737	4,637
Net interest	(1,580)	(1,785)	(1,652)	(1,703)	(1,755)
Pre-tax profit	2,450	4,115	3,328	3,312	3,160
Taxation	(417)	(604)	(549)	(546)	(490)
Reported net profit	2,058	3,328	2,743	2,673	2,573
Recurring net profit	2,058	3,328	2,743	2,673	2,573

Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Change in working capital	(198)	(781)	(416)	(44)	57
Cash flow from operations	3,425	4,464	3,433	3,807	3,827
Capex	(2,266)	(3,339)	(2,261)	(2,261)	(2,261)
Cash flow from investing activities	(2,498)	(2,916)	(2,261)	(2,261)	(2,261)
Dividends paid	(405)	(529)	(549)	(668)	(643)
Cash flow from financing activities	463	(1,596)	614	365	390
Cash at beginning of period	6,880	8,999	8,890	10,676	12,587
Net change in cash	1,390	(48)	1,787	1,911	1,957
Ending balance cash	8,823	9,010	10,676	12,587	14,544

Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total cash and equivalents	9,025	9,125	10,911	12,822	14,779
Tangible fixed assets	28,505	31,400	32,364	33,311	34,245
Total investments	5,378	6,245	6,523	6,801	7,079
Total assets	59,132	66,784	68,591	71,848	74,747
Short-term debt	4,002	2,010	2,010	2,010	2,010
Total long-term debt	27,482	30,379	31,542	32,575	33,609
Total liabilities	42,731	46,780	46,357	47,517	48,389
Total equity	16,401	20,003	22,234	24,331	26,359
Total liabilities & equity	59,132	66,784	68,591	71,848	74,747

Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Revenue growth (%)	22.9	2.0	(13.6)	3.5	(4.3)
Recurrent EPS growth (%)	441.9	61.8	(17.6)	(2.6)	(3.7)
Gross margin (%)	19.1	27.3	26.7	26.0	26.6
Operating EBITDA margin (%)	23.4	31.6	31.4	30.6	31.5
Net profit margin (%)	9.4	14.9	14.2	13.4	13.5
Dividend payout ratio (%)	23.8	24.0	20.0	25.0	25.0
Capex/sales (%)	10.4	15.0	11.7	11.3	11.8
Interest cover (x)	2.34	3.16	2.85	2.78	2.64

Source: Company data, RHB

Figure 1: 1HFY25 results review

FYE Jun (MYRm)	2QFY24	1QFY25	2QFY25	QoQ (%)	YoY (%)	1HFY24	1HFY25	YoY (%)	Comments
Revenue	**5,374**	**5,684**	**5,680**	**(0.1)**	**5.7**	**10,819**	**11,363**	**5.0**	1HFY25: Higher YoY, due to improvements in non-household retail market and prices (Wessex Water) and telecommunications division masking lower PowerSeraya revenue (lower retail pool prices)
EBITDA	**1,714**	**1,609**	**1,497**	**(7.0)**	**(12.7)**	**3,576**	**3,105**	**(13.2)**	
Depreciation	-300	-360	-338	(6.2)	12.5	-658	-697	6.0	
EBIT	**1,414**	**1,249**	**1,159**	**(7.2)**	**(18.0)**	**2,918**	**2,408**	**(17.5)**	
Interest expense	-457	-392	-416	6.2	(8.8)	-944	-809	(14.3)	
Associates	50	115	84	(27.6)	66.1	126	199	58.6	
EI/Others	18	-307	112	nm	nm	-44	-195	nm	
Pretax profit	**1,025**	**665**	**939**	**41.2**	**(8.4)**	**2,056**	**1,603**	**(22.0)**	2QFY25: Excluding multiple impairments and MYR6m in gain from PPE disposal, MYR15m FV losses on derivatives & investments, and MYR133m FX gain, etc
Tax	-165	-154	-166	7.4	0.6	-346	-320	(7.5)	
Minority interest	-15	-40	-5	(86.5)	(64.1)	-17	-45	160.7	
Net profit	**845**	**471**	**768**	**63.1**	**(9.2)**	**1,693**	**1,238**	**(26.9)**	
Core profit	**828**	**778**	**655**	**(15.8)**	**(20.8)**	**1,737**	**1,433**	**(17.5)**	
Net margin (%)	*15.4*	*13.7*	*11.5*			*16.1*	*12.6*		Within expectations

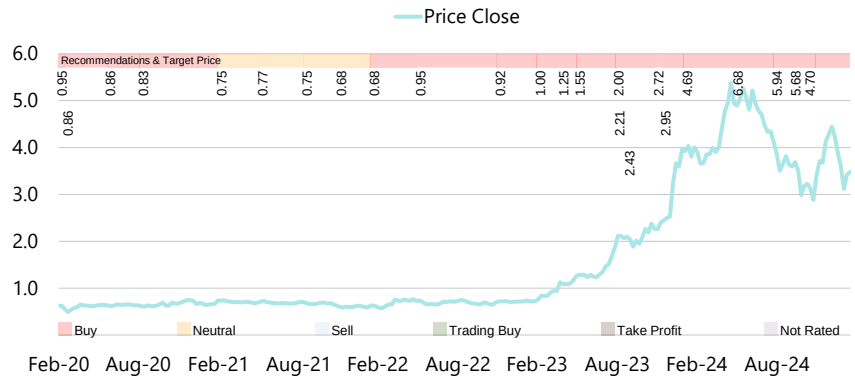
Source: RHB

Figure 2: SOP valuation

Segments	Value (MYRm)	Remarks
Wessex Water	8136.5	DCF, based on WACC of 6.3%
PowerSeraya	23515.0	2.5x FY24 P/BV
Mobile broadband network	1412.8	1x FY24 P/BV
Investment in associates (Java+Attarat plants)	4199.4	1.7x FY24 investment in associate
WTE plant	604.2	50% equity stake, 7.5% WACC, MYR4.5bn capex, 16-year duration, 12% IRR, 300MW, 11% IRR, 14-year contract tenure
Data centre investments	3797.9	WACC: 7.5%
AI-DC	4184.5	12x EV/EBITDA assuming a 20% ramp up in 100MW AI-DC, 14% project IRR, 60% stake and USD3bn capex
Minus: Company net debt	-8162.8	FY24 company net debt
Total (MYR)	**37687.6**	
Shares (m)	8158.0	
ESG premium/(discount)	-0.02	Based on its score of 2.9
TP (MYR)	**4.53**	

Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-11-27	Buy	4.70	3.42
2024-10-03	Buy	5.68	3.57
2024-08-21	Buy	5.94	3.75
2024-05-24	Buy	6.68	4.95
2024-02-23	Buy	4.69	4.02
2024-01-29	Buy	4.69	3.95
2023-12-11	Buy	2.95	2.51
2023-11-24	Buy	2.72	2.28
2023-11-01	Buy	2.43	2.18
2023-09-17	Buy	2.43	2.08
2023-08-24	Buy	2.21	1.75
2023-08-22	Buy	2.00	1.78
2023-05-25	Buy	1.55	1.15
2023-04-18	Buy	1.25	1.09
2023-02-24	Buy	1.00	0.74

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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Not Rated:	Stock is not within regular research coverage

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