

22 August 2023

Utilities | Power

## YTL Power (YTLP MK)

**Buy** (Maintained)

### Co-Developing WTE Project; Keep BUY

Target Price (Return): MYR2.00 (11.1%)  
 Price (Market Cap): MYR1.80 (USD3,137m)  
 ESG score: 2.7 (out of 4)  
 Avg Daily Turnover (MYR/USD) 22.4m/4.86m

- **Keep BUY, with new MYR2.00 TP from MYR1.55, 11% upside and c.5% FY24F (Jun) yield.** We are overall positive on YTL Power's waste-to-energy (WTE) plant development as it is regarded as a more effective way to treat solid waste than using landfill. We expect YTLP to deliver another strong set of results in 4QFY23F. Post earnings upgrade, the stock is trading at an attractive 6x FY24F P/E, or -1.5SD from its 5-year mean. Its venture into digital banking and green data centre businesses are long-term positives, despite minimal near-term earnings impact.
- **WTE development project.** Yesterday, YTLP confirmed that it is a co-developer with KDEB Waste Management for a proposed 2400 tonnes/day WTE plant in Selangor, with a gross generating capacity of 58MW, in response to *The Edge Malaysia* article titled "KDEB Waste Management, YTL Power to build MYR4.5bn waste-to-energy plant in Rawang" dated 21 Aug 2023. According to the article, the project is estimated at MYR4.5bn. Firm timeline was not guided, but it was highlighted that an advisory outfit is involved to handle the environment impact assessment (EIA) and social impact assessment (SIA). The approval is targeted in the next 6-12 months.
- **We are overall positive on such development** as WTE is regarded as a more effective way to treat solid waste than using landfill. The project details have yet to be ironed out, including the capex and equity stake. Assuming an ROI of 8%, and the quoted estimated capex of MYR4.5bn, this project could provide a gross annual return of MYR360m. Based on our preliminary calculation, the project could be valued at MYR0.07 per share using DCF approach on the following assumptions – MYR4.5bn capex, 7.5% WACC, 16 years duration, 12% IRR, 50% equity stake, and 80% debt financing.
- **Expecting stronger 4QFY23F.** YTLP is announcing its 4QFY23 results this week. We expect stronger QoQ earnings from its 3QFY23's MYR530m core earnings. This is on the back of stronger performance by PowerSeraya, led by higher wholesale prices. Note that the Uniform Singapore Energy Price (USEP) has averaged SGD374/MWh between Apr-Jun 2023 (+43% QoQ). Furthermore, Wessex Water numbers are expected to improve as the tariff has been lifted by an average 9%, effective Apr 2023.
- **Stay BUY.** We raise FY23F-25F earnings by 15-22% after inserting better contribution from the power generation and Wessex Water divisions. Our SOP-based TP is lifted to MYR2.00 after we imputed higher valuations for PowerSeraya, Wessex Water, and preliminary valuation for WTE, and rolling forward our valuation base year to FY24F. Note that we also incorporated a 6% discount based on the ESG score of 2.7. Downside risks: Weaker-than-expected plant performance, and higher-than-expected operating costs.

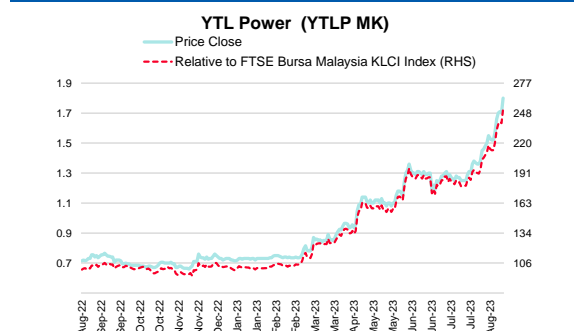
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	151.7	37.4	56.5	144.9	148.3
Relative	154.7	34.8	55.0	146.5	151.9
52-wk Price low/high (MYR)				0.66 – 1.80	



Source: Bloomberg

#### Overall ESG Score: 2.7 (out of 4)

##### E: MODERATE

The different business units are exposed to a number of environmental risks. In line with the company'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 14% to 3,833 ktCO<sub>2</sub>e 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, it recorded 3.63 Lost Time Injury rate and one fatality for FY22. It 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. Its directors are skilled and experienced, and there is female representation. However, the board falls short of independent directors required by MCGG. YTL Power ensures timely and 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	18,715	18,788	18,582
Recurring net profit (MYRm)	386	359	1,443	1,644	1,431
Recurring net profit growth (%)	12.5	(7.0)	301.7	13.9	(13.0)
Recurring P/E (x)	38.04	40.89	10.18	8.93	10.26
P/B (x)	1.1	1.0	1.0	0.9	0.9
P/CF (x)	11.05	11.25	8.38	5.63	6.13
Dividend Yield (%)	2.5	2.5	3.9	4.5	3.9
EV/EBITDA (x)	13.32	9.17	7.52	7.16	7.59
Return on average equity (%)	3.1	2.6	9.8	10.5	8.6
Net debt to equity (%)	168.4	148.2	144.3	132.4	123.7

Source: Company data, RHB

See important disclosures at the end of this report

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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (MYR)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
Malaysia	Recurring EPS	0.05	0.04	0.18	0.20	0.18
Utilities	DPS	0.05	0.05	0.07	0.08	0.07
<b>YTL Power</b>	BVPS	1.60	1.75	1.86	1.98	2.09
YTLP MK	Return on average equity (%)	3.1	2.6	9.8	10.5	8.6
Buy						
	<b>Valuation metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
<b>Valuation basis</b>	Recurring P/E (x)	38.04	40.89	10.18	8.93	10.26
SOP	P/B (x)	1.1	1.0	1.0	0.9	0.9
	FCF Yield (%)	(2.8)	(3.1)	1.3	7.1	5.7
<b>Key drivers</b>	Dividend Yield (%)	2.5	2.5	3.9	4.5	3.9
Stronger contribution from Wessex Water and PowerSeraya	EV/EBITDA (x)	13.32	9.17	7.52	7.16	7.59
	EV/EBIT (x)	25.72	14.97	10.86	9.95	10.81
<b>Key risks</b>	<b>Income statement (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
i. Execution risk for its Java and Jordan power plant projects;	Total turnover	10,785	17,805	18,715	18,788	18,582
ii. Weaker contribution from Wessex Water and PowerSeraya.	Gross profit	1,439	1,648	3,833	4,065	3,796
	EBITDA	2,355	3,310	4,141	4,313	4,036
	Depreciation and amortisation	(1,135)	(1,282)	(1,271)	(1,211)	(1,202)
	Operating profit	1,219	2,028	2,870	3,102	2,834
	Net interest	(952)	(990)	(1,326)	(1,233)	(1,261)
	Pre-tax profit	634	1,373	1,889	2,179	1,883
	Taxation	(737)	(187)	(386)	(467)	(393)
	Reported net profit	386	359	1,443	1,644	1,431
	Recurring net profit	386	359	1,443	1,644	1,431
<b>Company Profile</b>	<b>Cash flow (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
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.	Change in working capital	(88)	(0)	(676)	(5)	14
	Cash flow from operations	1,329	1,306	1,753	2,608	2,396
	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)	(577)	(657)	(572)
	Cash flow from financing activities	1,073	(2,706)	2,173	28	113
	Cash at beginning of period	7,485	8,593	6,880	8,836	9,907
	Net change in cash	1,276	(1,737)	2,362	1,071	945
	Ending balance cash	9,128	6,810	9,242	9,907	10,852
	<b>Balance sheet (MYRm)</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Total cash and equivalents	8,621	6,906	8,861	9,933	10,877
	Tangible fixed assets	24,201	24,556	24,900	25,303	25,715
	Total investments	4,381	4,773	5,118	5,428	5,738
	Total assets	52,074	51,001	54,426	56,180	57,744
	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	39,443	40,142	40,788
	Total equity	12,907	14,057	14,983	16,038	16,955
	Total liabilities & equity	52,074	51,001	54,426	56,180	57,744
	<b>Key metrics</b>	<b>Jun-21</b>	<b>Jun-22</b>	<b>Jun-23F</b>	<b>Jun-24F</b>	<b>Jun-25F</b>
	Revenue growth (%)	1.4	65.1	5.1	0.4	(1.1)
	Recurrent EPS growth (%)	12.5	(7.0)	301.7	13.9	(13.0)
	Gross margin (%)	13.3	9.3	20.5	21.6	20.4
	Operating EBITDA margin (%)	21.8	18.6	22.1	23.0	21.7
	Net profit margin (%)	3.6	2.0	7.7	8.7	7.7
	Dividend payout ratio (%)	95.1	102.2	40.0	40.0	40.0
	Capex/sales (%)	16.2	9.9	8.4	8.3	8.4
	Interest cover (x)	1.28	2.05	2.16	2.52	2.25

Source: Company data, RHB

Figure 1: SOP valuation

Segments	Value (MYRm)	Remarks
Wessex Water	9167.86	DCF, based on WACC of 6.3%
PowerSeraya	9032.34	DCF, based on WACC of 7.7%.
Mobile broadband network	964.40	0.5x FY22 P/BV
Investment in associates (Java+Attarat plants)	2300.54	1.3x FY22 investment in associate
WTE plant	604.21	50% equity stake, 7.5% WACC, MYR4.5bn capex, 16 years duration, 12% IRR
Minus: Company net debt	-4675.84	Estimated FY23 company net debt
<b>Total (MYR)</b>	<b>17393.51</b>	
Shares (m)	8158.00	
ESG premium/(discount)	-0.06	Based on scoring of 2.7
<b>TP (MYR)</b>	<b>2.00</b>	

Source: RHB

## Recommendation Chart

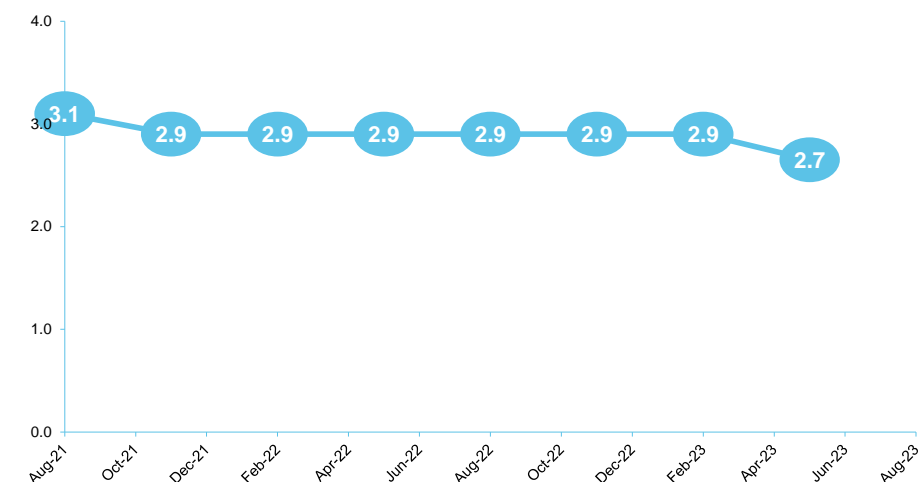


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-05-25	Buy	1.55	1.15
2023-04-18	Buy	1.25	1.09
2023-02-24	Buy	1.00	0.74
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

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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