25 August 2023

Utilities | Power

YTL Power (YTLP MK)

Buy (Maintained)

Net Profit Hits a Record High; Reiterate BUY

Target Price (Return):	MYR2.21 (+26%)
Price (Market Cap):	MYR1.75 (USD3,052m)
ESG score:	2.7 (out of 4)
Avg Daily Turnover (MYR/USD)	22.7m/4.93m

- **Reiterate BUY, TP rises to MYR2.21 from MYR2, 26% upside with c.4% FY24F (Jun) yield.** YTL Power delivered another strong set of results, backed by the power generation division which masked Wessex Water's contribution. Post-earnings estimates upgrade, the stock is trading at an attractive 8x FY24F P/E, or -2SD from the 5-year mean. Its venture into the digital banking and green data centre businesses, in our view, are long-term positives despite the near-term earnings impact being minimal.
- **Results a big beat.** FY23 core profit of MYR2.1bn (+4.4x YoY) significantly surpassed expectations, and accounts for 142% and 158% of our and Street estimates. Its performance was mainly led by the stronger-than-expected contribution from the power generation division. A second interim DPS of 3.5 sen was declared, lifting its FY23 DPS to 6 sen (FY22: 4.5 sen).
- **4QFY23 core profit doubled QoQ to MYR1.1bn** on stronger power generation (+5.0x), higher interest income and accrued technical service income related to its power plant in Jordan and narrower losses in the telco division – which masked the weaker contribution from Wessex Water. Although Wessex Water's revenue improved by 19% QoQ, its segmental losses still widened by 21% due to a higher cost base and it continuing to be dragged by interest accruals on index-linked bonds, which is a non-cash impact. Cumulatively, FY23 core earnings still strengthened by 4.4x to MYR2.1bn, mainly driven by better numbers from power generation.
- **Outlook.** The power division (which includes the PowerSeraya and Tuaspring plants) should deliver solid earnings. We were guided that the pool prices (which could be referenced by the Uniform Singapore Energy Price (USEP)) only accounted for <15% of PowerSeraya's profit in 4QFY23. We also expect its JV& associate profit to be much stronger in FY24, led by full-year contributions from its 45%-owned oil shale plant in Jordan. While operating results will still be affected by accounting anomalies/additional finance cost from index-linked bonds, which has no cash impact, Wessex Water numbers should improve as the tariff rose by an average of 9% effective Apr 2023. The 48MW IT load hyperscale data centre in Kulai is being built, and should be in service by 1QCY24. Meanwhile, YTLP confirmed that it is a co-developer with KDEB Waste Management of a proposed 2400 tonnes/day waste-to-energy plant in Selangor, with a gross generating capacity of 58MW. However, the timeline remains uncertain as the project is still undergoing the environment impact assessment and social impact assessment procedures.
- **We raise FY24-26F earnings by 10-11%** after imputing better contributions from the power generation division, including profit from the 45%-owned Jordan plant. Our new TP includes an unchanged 6% discount, based on its ESG score of 2.7. Downside risks: Weaker-than-expected plant performance, and higher-than-expected operating costs.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	17,805	21,893	19,516	19,382	18,797
Recurring net profit (MYRm)	380	2,052	1,815	1,592	1,542
Recurring net profit growth (%)	(1.6)	440.3	(11.5)	(12.3)	(3.2)
Recurring P/E (x)	37.60	6.96	7.87	8.97	9.26
P/B (x)	1.0	0.9	0.8	0.7	0.7
P/CF (x)	10.93	4.13	8.53	5.87	5.92
Dividend Yield (%)	2.6	3.4	3.8	3.3	3.2
EV/EBITDA (x)	9.09	6.21	7.05	7.38	7.32
Return on average equity (%)	2.8	13.2	10.4	8.6	7.8
Net debt to equity (%)	148.2	137.1	131.4	121.2	112.3

Source: Company data, RHB

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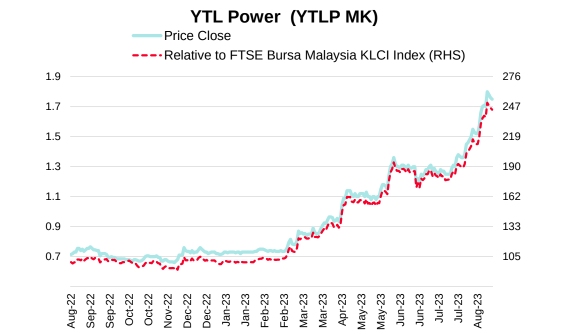
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	144.8	34.6	49.6	138.1	144.8
Relative	148.2	33.2	47.1	138.9	146.3
52-wk Price low/high (MYR)					0.66 – 1.80



Source: Bloomberg

Overall ESG Score: 2.7 (out of 4)

E: MODERATE
Different 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 to cut GHG emissions by 60% from its power plants by 2030, while Wessex Water 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 a 3.63 lost time injury rate and one fatality for FY22. It is very active in community engagement activities.

G: EXCELLENT
The size of the Board is within the industry average. Directors are skilled and experienced, and there is female representation. However, the Board falls short of the number of independent directors recommended by the Malaysian Code on Corporate Governance. YTL Power ensures timely, reliable, information is provided to shareholders. Shareholder rights are also protected.

Financial Exhibits

Asia
Malaysia
Utilities
YTL Power
YTLP MK
Buy

Valuation basis

SOP

Key drivers

Stronger contributions from Wessex Water and PowerSeraya.

Key risks

i. Execution risks related to its power plants in Java and Jordan;
ii. Decline in contributions from Wessex Water and PowerSeraya.

Company Profile

YTL Power is an independent power producer with a presence in Malaysia and Singapore. It also provides water and sewerage services in the UK. The company has also ventured into the provision of internet services in Malaysia.

Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Recurring EPS	0.05	0.25	0.22	0.20	0.19
DPS	0.05	0.06	0.07	0.06	0.06
BVPS	1.75	2.06	2.21	2.35	2.48
Return on average equity (%)	2.8	13.2	10.4	8.6	7.8

Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Recurring P/E (x)	37.60	6.96	7.87	8.97	9.26
P/B (x)	1.0	0.9	0.8	0.7	0.7
FCF Yield (%)	(3.2)	8.4	0.8	6.1	5.9
Dividend Yield (%)	2.6	3.4	3.8	3.3	3.2
EV/EBITDA (x)	9.09	6.21	7.05	7.38	7.32
EV/EBIT (x)	14.84	8.61	10.09	10.86	10.82

Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover	17,805	21,893	19,516	19,382	18,797
Gross profit	1,648	4,177	3,706	3,432	3,396
EBITDA	3,311	5,124	4,613	4,341	4,307
Depreciation and amortisation	(1,283)	(1,429)	(1,389)	(1,391)	(1,393)
Operating profit	2,028	3,695	3,224	2,949	2,914
Net interest	(990)	(1,580)	(1,541)	(1,576)	(1,610)
Pre-tax profit	1,373	2,443	2,311	2,002	1,932
Taxation	(187)	(417)	(421)	(343)	(326)
Reported net profit	380	2,052	1,815	1,592	1,542
Recurring net profit	380	2,052	1,815	1,592	1,542

Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Change in working capital	(0)	(207)	(978)	9	39
Cash flow from operations	1,306	3,459	1,673	2,431	2,410
Capex	(1,759)	(2,266)	(1,564)	(1,564)	(1,564)
Cash flow from investing activities	(336)	(2,535)	(1,564)	(1,564)	(1,564)
Dividends paid	(365)	(405)	(544)	(478)	(463)
Cash flow from financing activities	(2,706)	466	(857)	207	222
Cash at beginning of period	8,593	6,880	8,999	7,850	8,924
Net change in cash	(1,737)	1,390	(747)	1,074	1,069
Ending balance cash	6,810	8,823	8,252	8,924	9,993

Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total cash and equivalents	6,906	8,999	7,850	8,924	9,993
Tangible fixed assets	24,556	28,502	28,727	28,950	29,170
Total investments	4,773	5,383	6,011	6,640	7,268
Total assets	51,001	59,155	58,977	60,818	62,536
Short-term debt	2,477	3,067	3,067	3,067	3,067
Total long-term debt	25,260	28,417	28,105	28,790	29,475
Total liabilities	36,944	42,755	41,231	41,890	42,465
Total equity	14,057	16,401	17,746	18,927	20,071
Total liabilities & equity	51,001	59,155	58,977	60,818	62,536

Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Revenue growth (%)	65.1	23.0	(10.9)	(0.7)	(3.0)
Recurrent EPS growth (%)	(1.6)	440.3	(11.5)	(12.3)	(3.2)
Gross margin (%)	9.3	19.1	19.0	17.7	18.1
Operating EBITDA margin (%)	18.6	23.4	23.6	22.4	22.9
Net profit margin (%)	2.1	9.4	9.3	8.2	8.2
Dividend payout ratio (%)	96.7	23.9	30.0	30.0	30.0
Capex/sales (%)	9.9	10.4	8.0	8.1	8.3
Interest cover (x)	2.05	2.34	2.09	1.87	1.81

Source: Company data, RHB

Figure 1: FY23 results review

FYE Jun (MYRm)	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
Revenue	**4,526**	**5,357**	**7,088**	**32.3**	**56.6**	**17,794**	**21,893**	**23.0**	Higher YoY, due to higher pool and retail prices.
EBITDA	**708**	**1,240**	**2,029**	**63.7**	**186.4**	**2,441**	**5,001**	**104.9**	
Depreciation	-305	-233	-402	72.4	31.7	-1,237	-1,276	3.1	
EBIT	**403**	**1,006**	**1,627**	**61.6**	**303.7**	**1,203**	**3,725**	**209.5**	
Interest expense	-277	-433	-437	0.9	57.9	-996	-1,580	58.6	
Associates	107	47	119	154.7	11.5	316	328	3.9	
EI/Others	-46	-10	43	nm	nm	878	-30	nm	
Pretax profit	**187**	**610**	**1,352**	**121.5**	**622.2**	**1,401**	**2,443**	**74.4**	4QFY23: Excluding multiple impairments and MY4m in gains from disposal, and a MYR118m FX gain, etc.
Tax	-30	-103	-192	86.4	537.8	-174	-417	140.1	
Minority interest	36	12	-30	(351.7)	(183.9)	30	-4	(114.6)	
Net profit	**193**	**520**	**1,130**	**117.5**	**485.1**	**1,258**	**2,022**	**60.8**	
Core profit	**239**	**530**	**1,088**	**105.4**	**354.5**	**380**	**2,052**	**440.3**	
Net margin (%)	*5.3*	*9.9*	*15.3*			*2.1*	*9.4*		Beat expectations.

Source: Company data, RHB

Figure 2: SOP valuation

Segments	Value (MYRm)	Remarks
Wessex Water	9157.78	DCF, based on WACC of 6.3%
PowerSeraya	10109.35	DCF, based on WACC of 7.7%.
Mobile broadband network	964.40	0.5x FY22 P/BV
Investment in associates (Java+Attarat plants)	3008.39	1.7x 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	Estimatd FY23 company net debt
Total (MYR)	**19168.30**	
Shares (m)	8158.00	
ESG premium/(discount)	-0.06	Based on scoring of 2.7
TP (MYR)	**2.21**	

Source: RHB

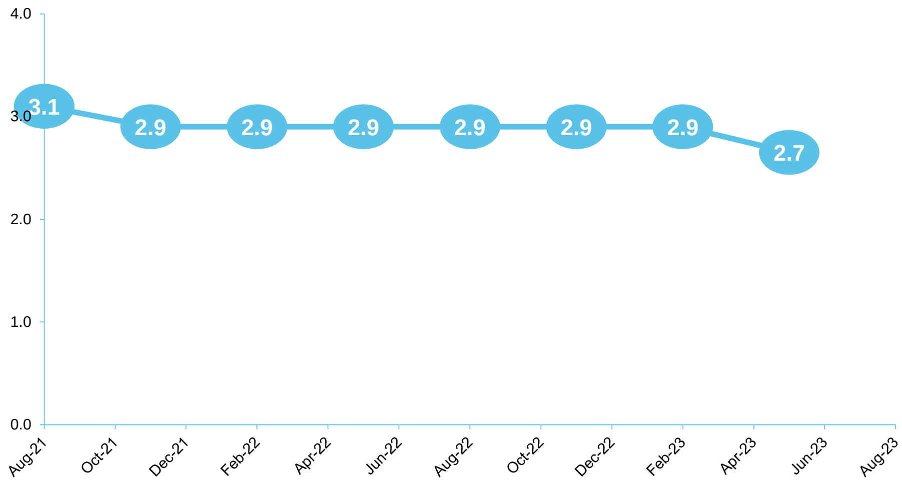
Recommendation Chart

Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
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

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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