

22 August 2024

Utilities | Power

YTL Power (YTLP MK)

Buy (Maintained)

A Solid Landing; Keep BUY

Target Price (Return): MYR5.94 (58.4%)
 Price (Market Cap): MYR3.75 (USD7,027m)
 ESG score: 2.9 (out of 4)
 Avg Daily Turnover (MYR/USD) 92.8m/20.1m

- **Keep BUY, with new MYR5.94 TP from MYR6.68, 58% upside and c.2% FY25F (Jun) yield.** FY24 results surpassed our expectations thanks to better-than-expected contribution from Wessex Water and its telecommunications division. Moving forward, earnings moderation will be largely anchored by Wessex Water's earnings recovery. Meanwhile, YTL Power is confident of securing Nvidia Corp's chips by 1HCY25, and we could expect to see the first 20MW artificial intelligence data centre (AI-DC) ramping up next year.
- **Above expectations.** FY24 core profit of MYR3.3bn (+62% YoY) came in above expectations at 107% and 106% of our and Street full-year estimates. The positive deviation was led by the better-than-expected contribution from Wessex Water and telecommunications division. A second interim DPS of 4 sen was declared, summing up to 7 sen in FY24 (4QFY23: 3.5sen).
- **4QFY24 core profit was up 29% QoQ to MYR896m** on a turnaround of Wessex Water led by a tariff hike as well as its telecommunications division following the commencement of a 3-year contract secured in Sabah. This partially offset weaker PowerSeraya contribution resulted from lower power dispatch and higher overhead costs. Cumulatively, FY24 core earnings still improved 62% YoY on the back of stronger PowerSeraya contribution.
- **Outlook.** We believe PowerSeraya's earnings normalisation will happen gradually in FY25 and FY26 as retail contracts still accounted for more than 70% of the output. Despite some concerns over potential chip delay from Nvidia, YTLP is also confident of securing chip supplies on time ie by 1HCY25. As the server installations may take months to complete, we could expect to see the first 20MW AI-DC ramping up in CY25. YTLP also guided that a hyperscaler has locked in 40MW new phase of DC for 15 years. As evident by the turnaround in this quarter, we expect Wessex Water to recover more meaningfully in FY25F, backed by annual tariff adjustments. The outcome of a new 5-year plan will be known by end of this year. Similarly, we believe the 3-year MYR950m fibre laying contract secured in Sabah will help to narrow losses in its telecommunications division.
- **We tweak our FY25F-26F earnings by 2% post housekeeping adjustments.** Our SOP-based TP is lowered to MYR5.94 from MYR6.68 as we impute a lower AI-DC valuation assuming 15x EV/EBITDA with a 40% ramp up (from 60%) in 100MW DC given the remaining 80MW will take some time to kick in. We also apply a 2% ESG discount based on its 2.9 ESG score. Downside risks: Weaker-than-expected plant performance and higher-than-expected operating costs.

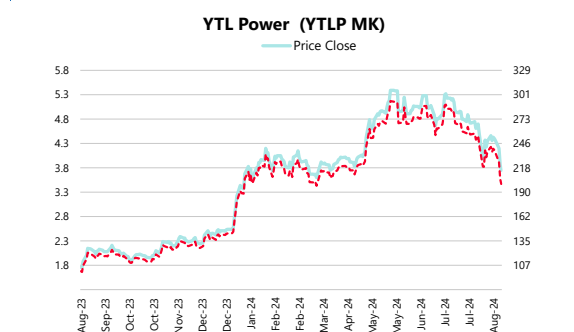
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	47.6	(21.9)	(30.3)	(3.9)	108.3
Relative	35.2	(21.8)	(31.1)	(9.2)	95.6
52-wk Price low/high (MYR)				1.75	–5.39



Source: Bloomberg

Overall ESG Score: 2.9 (out of 4)

E: 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 their RE capacity in the longer run.

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. 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: 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 Malaysian Code on Corporate Governance. YTL Power ensures timely, reliable, information is provided to shareholders. Shareholder rights are also protected.

Forecasts and Valuation	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	21,890	22,321	20,476	25,471	24,560
Recurring net profit (MYRm)	2,058	3,328	2,991	3,063	3,077
Recurring net profit growth (%)	441.9	61.8	(10.2)	2.4	0.5
Recurring P/E (x)	14.87	9.19	10.23	9.99	9.94
P/B (x)	1.8	1.5	1.4	1.2	1.1
P/CF (x)	8.93	6.85	8.49	7.56	6.77
Dividend Yield (%)	1.6	2.6	2.0	2.5	2.5
EV/EBITDA (x)	8.37	6.28	6.95	6.51	6.29
Return on average equity (%)	13.2	18.1	14.0	13.0	11.9
Net debt to equity (%)	136.9	116.3	100.4	86.1	72.6

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
Malaysia	Recurring EPS	0.25	0.41	0.37	0.38	0.38
Utilities	DPS	0.06	0.10	0.07	0.09	0.09
YTL Power	BVPS	2.06	2.46	2.76	3.04	3.32
YTLPMK	Return on average equity (%)	13.2	18.1	14.0	13.0	11.9
Buy						
Valuation basis	Valuation metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
SOP	Recurring P/E (x)	14.87	9.19	10.23	9.99	9.94
	P/B (x)	1.8	1.5	1.4	1.2	1.1
	FCF Yield (%)	3.8	3.7	4.4	5.8	7.4
	Dividend Yield (%)	1.6	2.6	2.0	2.5	2.5
Key drivers	EV/EBITDA (x)	8.37	6.28	6.95	6.51	6.29
Stronger contribution from Wessex Water and PowerSeraya.	EV/EBIT (x)	11.60	7.85	8.82	8.16	7.87
Key risks	Income statement (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
i. Execution risk for its Java and Jordan power plant projects;	Total turnover	21,890	22,321	20,476	25,471	24,560
ii. Weaker contribution from Wessex Water and PowerSeraya.	Gross profit	4,187	6,084	5,456	5,828	5,918
	EBITDA	5,123	7,047	6,354	6,742	6,846
	Depreciation and amortisation	(1,426)	(1,412)	(1,348)	(1,363)	(1,378)
	Operating profit	3,697	5,635	5,006	5,379	5,468
	Net interest	(1,580)	(1,785)	(1,652)	(1,703)	(1,755)
	Pre-tax profit	2,450	4,115	3,633	3,953	3,991
	Taxation	(417)	(604)	(604)	(662)	(631)
	Reported net profit	2,058	3,328	2,991	3,063	3,077
	Recurring net profit	2,058	3,328	2,991	3,063	3,077
Company Profile	Cash flow (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
YTL Power is an independent power producer 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	(198)	(781)	(495)	(332)	61
	Cash flow from operations	3,425	4,464	3,604	4,045	4,521
	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)	(598)	(766)	(769)
	Cash flow from financing activities	463	(1,596)	565	268	264
	Cash at beginning of period	6,880	8,999	8,890	10,798	12,849
	Net change in cash	1,390	(48)	1,908	2,052	2,524
	Ending balance cash	8,823	9,010	10,798	12,849	15,373
	Balance sheet (MYRm)	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Total cash and equivalents	9,025	9,125	11,033	13,084	15,608
	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	69,016	73,519	76,971
	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	46,581	48,558	49,420
	Total equity	16,401	20,003	22,434	24,960	27,551
	Total liabilities & equity	59,132	66,784	69,016	73,519	76,971
	Key metrics	Jun-23	Jun-24	Jun-25F	Jun-26F	Jun-27F
	Revenue growth (%)	22.9	2.0	(8.3)	24.4	(3.6)
	Recurrent EPS growth (%)	441.9	61.8	(10.2)	2.4	0.5
	Gross margin (%)	19.1	27.3	26.6	22.9	24.1
	Operating EBITDA margin (%)	23.4	31.6	31.0	26.5	27.9
	Net profit margin (%)	9.4	14.9	14.6	12.0	12.5
	Dividend payout ratio (%)	23.8	24.0	20.0	25.0	25.0
	Capex/sales (%)	10.4	15.0	11.0	8.9	9.2
	Interest cover (x)	2.34	3.16	3.03	3.16	3.12

Source: Company data, RHB

22 August 2024

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Figure 1: FY24 results review

FYE Jun (MYRm)	4QFY23	3QFY24	4QFY24	QoQ (%)	YoY (%)	FY23	FY24	YoY (%)	Comments
Revenue	7,086	5,160	6,341	22.9	(10.5)	21,890	22,321	2.0	FY24: Higher YoY, due to improvements in non-household retail market and prices (Wessex Water) and telecommunications division masking lower PowerSeraya revenue (lower pool prices).
EBITDA	2,031	1,477	1,749	18.4	(13.9)	5,003	6,801	35.9	
Depreciation	-402	-313	-331	5.7	(17.7)	-1,276	-1,302	2.0	
EBIT	1,629	1,164	1,418	21.8	(13.0)	3,727	5,499	47.6	
Interest expense	-437	-439	-403	(8.3)	(7.8)	-1,580	-1,785	13.0	
Associates	123	92	47	(48.5)	(61.5)	332	265	(20.3)	4QFY24: Excluding multiple impairments and MYR6m in loss from PPE disposal, MYR200m FV gain on investments, and MYR14m FX gain, etc.
El/Others	43	3	177	nm	nm	-30	136	nm	
Pretax profit	1,358	819	1,239	51.3	(8.8)	2,450	4,115	68.0	
Tax	-192	-138	-121	(12.3)	(37.0)	-417	-604	44.9	
Minority interest	-30	17	-46	(367.1)	51.6	-5	-46	905.6	
Net profit	1,136	699	1,072	53.5	(5.6)	2,028	3,464	70.8	Above expectations.
Core profit	1,094	696	896	28.7	(18.1)	2,058	3,328	61.8	
Net margin (%)	15.4	13.5	14.1			9.4	14.9		

Source: RHB

Figure 2: SOP valuation

Segments	Value (MYRm)	Remarks
Wessex Water	9137.6	DCF, based on WACC of 6.3%
PowerSeraya	25992.3	3.5x FY23 P/BV
Mobile broadband network	1194.4	1x FY23 P/BV
Investment in associates (Java+Attarat plants)	3325.6	1.7x FY23 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	12338.9	15x EV/EBITDA assuming a 40% ramp up in 100MW AI-DC, 14% project IRR, 60% stake and USD3bn capex
Minus: Company net debt	(6989.9)	FY23 company net debt
Total (MYR)	49401.0	
Shares (m)	8158.0	
ESG premium/(discount)	(0.02)	Based on its score of 2.9
TP (MYR)	5.94	

Source: RHB

Emissions And ESG

Trend analysis

Total emissions of YTL Power increased by 7% YoY in FY23 due mainly to higher power generation in Singapore, which rose 13% for the financial year under review. However, their 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.

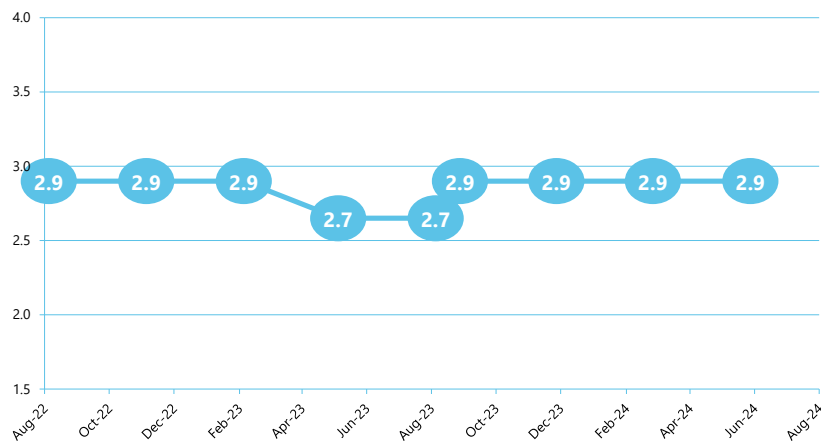
Emissions (tCO ₂ e)	Jun-22	Jun-23	Jun-24
Scope 1	3,718,000	3,921,000	na
Scope 2	118,000	150,000	na
Scope 3	na	45,000	na
Total emissions	3,836,000	4,116,000	na

Source: Company data, RHB

Latest ESG-Related Developments

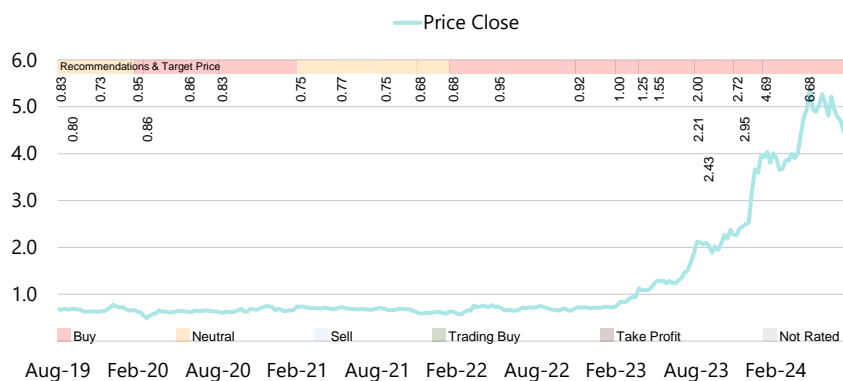
- Being a leading power generator in Singapore, YTL PowerSeraya is committed to reducing its emissions by 60% from the 2010 level by 2030.
- Wessex Water also published its own detailed plan in mid-2021 to achieve net zero operational carbon emissions by 2030, alongside a goal to achieve full decarbonisation by 2040, a decade ahead of the UK Government's 2050 target.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2022-11-25	Buy	0.92	0.71
2022-08-26	Buy	0.95	0.73

Source: RHB, Bloomberg

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