

24 May 2024

Utilities | Power

YTL Power (YTLP MK)

Buy (Maintained)

AI-DC Game Plan Still On Track; Reiterate BUY

Target Price (Return): MYR6.68 (24.2%)
 Price (Market Cap): MYR5.38 (USD9,313m)
 ESG score: 2.9 (out of 4)
 Avg Daily Turnover (MYR/USD) 119m/25.0m

- **Keep BUY and new MYR6.68 TP from MYR4.69, 24% upside, c.2% FY25F (Jun) yield.** The earnings moderation for YTL PowerSeraya in 3QFY24 is largely anticipated due to weaker pool prices and lower retail margins. Moving forward, such earnings moderation will be largely anchored by Wessex Water's earnings recovery. We remain positive over its long-term earnings potential from AI-DC development, and the near-term catalyst will be the conclusion of the offtaker for its first 20MW (out of 100MW) AI-DC.
- **Within expectations.** 9MFY24 core profit of MYR2.5bn (+1.5x YoY) came within expectations at 78% and 80% of ours and Street's full-year estimates. First interim DPS of 3sen was declared (3QFY23: 2.5sen).
- **3QFY24 core profit up 31% YoY to MYR696m** on stronger power generation (+5% YoY; from lower interest costs and a stronger SGD despite lower pool prices), masking softer numbers from Wessex Water and widened losses from the telco arm. QoQ, 3Q24 core earnings fell 16%, largely due to lower pool prices and retail margins for power generation segment.
- **Outlook.** The earnings moderation for PowerSeraya in 3QFY24 is largely anticipated due to weaker pool prices and lower retail margins. We reckon such earnings normalisation will happen gradually in FY25 and FY26 as retail contracts still accounted for more than 70% of the output. Meanwhile, management is still in discussions to lock on offtakers for its first 100MW Phase 1 AI-DC and we understand YTLP is in advanced discussions with potential clients for a possible 20MW portion. Management remains confident to kick-start a major part of the project in 12 months. YTLP is also considering leasing the remaining 16MW (out of the 48MW) of its conventional DC to an AI player or allowing YTLComms to convert into AI DC with H100 servers. As seen in its recent results, Wessex Water's numbers may remain affected by accounting anomalies/additional finance costs from index-linked bonds, which have no cash impact. However, we expect it to recover more meaningfully in FY25F, backed by annual tariff adjustments. Wessex Water also submitted its 5-year business proposal (2025-2030) to the water services regulation authority (Ofwat), including a higher return and capex allocation. The outcome is likely to be known by end of the year.
- **We raise FY25F-26F earnings by 5-16%** after factoring earnings contribution from AI-DC and stronger recovery from Wessex Water. Our SOP-based TP is lifted to MYR6.68 from MYR4.69 as we impute a higher AI-DC valuation assuming 15x EV/EBITDA (from 12x previously; still below global peers' average of 18x) with a 60% ramp up (from 20%) in 100MW DC, USD3bn capex, and 14% IRR. We also applied a 2% ESG discount based on its 2.9 ESG score. Downside risks: Weaker-than-expected plant performance and higher-than-expected operating costs.

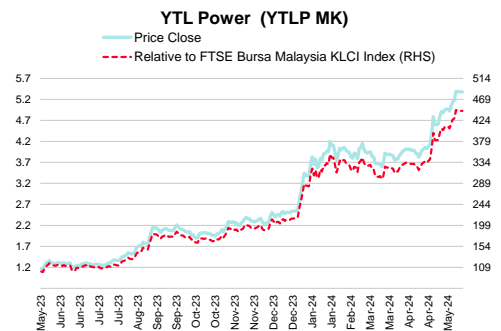
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	111.8	33.5	33.8	133.9	355.9
Relative	99.8	29.2	28.6	121.8	340.5
52-wk Price low/high (MYR)				1.15	-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, Power Seraya has set an interim target of 60% GHG emissions reduction from its power plant operations by 2030 while 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 RE capacity in long-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 17%, leading to a decline 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 required by MCCC. YTLP ensures timely, reliable information is provided to shareholders. Shareholder rights are also protected.

Forecasts and Valuation	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Total turnover (MYRm)	17,805	21,890	20,427	20,476	25,471
Recurring net profit (MYRm)	380	2,052	3,112	2,945	3,001
Recurring net profit growth (%)	(1.6)	440.3	51.7	(5.4)	1.9
Recurring P/E (x)	115.58	21.39	14.10	14.90	14.63
P/B (x)	3.1	2.6	2.3	2.1	1.9
P/CF (x)	33.61	12.81	13.36	10.99	11.17
Dividend Yield (%)	0.8	1.1	1.7	2.0	2.1
EV/EBITDA (x)	15.05	10.13	8.10	8.30	7.83
Return on average equity (%)	2.8	13.2	17.3	14.6	13.5
Net debt to equity (%)	148.2	136.9	118.0	102.1	88.5

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
Malaysia	Recurring EPS	0.05	0.25	0.38	0.36	0.37
Utilities	DPS	0.05	0.06	0.09	0.11	0.11
YTL Power	BVPS	1.75	2.06	2.35	2.60	2.86
YTLP MK	Return on average equity (%)	2.8	13.2	17.3	14.6	13.5
Buy						
	Valuation metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Recurring P/E (x)	115.58	21.39	14.10	14.90	14.63
	P/B (x)	3.1	2.6	2.3	2.1	1.9
	FCF Yield (%)	(1.0)	2.6	2.3	4.0	3.8
	Dividend Yield (%)	0.8	1.1	1.7	2.0	2.1
	EV/EBITDA (x)	15.05	10.13	8.10	8.30	7.83
	EV/EBIT (x)	24.57	14.04	10.29	10.55	9.84
	Income statement (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total turnover	17,805	21,890	20,427	20,476	25,471
	Gross profit	1,648	4,187	5,603	5,455	5,814
	EBITDA	3,311	5,123	6,499	6,313	6,688
	Depreciation and amortisation	(1,283)	(1,426)	(1,385)	(1,348)	(1,363)
	Operating profit	2,028	3,697	5,114	4,965	5,324
	Net interest	(990)	(1,580)	(1,600)	(1,652)	(1,703)
	Pre-tax profit	1,373	2,450	3,846	3,646	3,953
	Taxation	(187)	(417)	(703)	(663)	(724)
	Reported net profit	380	2,052	3,112	2,945	3,001
	Recurring net profit	380	2,052	3,112	2,945	3,001
	Cash flow (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Change in working capital	(0)	(198)	(912)	(3)	(332)
	Cash flow from operations	1,306	3,425	3,284	3,995	3,928
	Capex	(1,759)	(2,266)	(2,261)	(2,261)	(2,261)
	Cash flow from investing activities	(336)	(2,498)	(2,261)	(2,261)	(2,261)
	Dividends paid	(365)	(405)	(747)	(884)	(900)
	Cash flow from financing activities	(2,706)	463	287	150	133
	Cash at beginning of period	8,593	6,880	8,999	10,309	12,194
	Net change in cash	(1,737)	1,390	1,310	1,884	1,800
	Ending balance cash	6,810	8,823	10,309	12,194	13,994
	Balance sheet (MYRm)	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Total cash and equivalents	6,906	9,025	10,335	12,220	14,020
	Tangible fixed assets	24,556	28,505	29,431	30,394	31,342
	Total investments	4,773	5,378	5,710	6,043	6,375
	Total assets	51,001	59,132	62,091	65,233	69,539
	Short-term debt	2,477	4,002	4,002	4,002	4,002
	Total long-term debt	25,260	27,482	28,516	29,549	30,583
	Total liabilities	36,944	42,731	43,294	44,336	46,313
	Total equity	14,057	16,401	18,797	20,897	23,226
	Total liabilities & equity	51,001	59,132	62,091	65,233	69,539
	Key metrics	Jun-22	Jun-23	Jun-24F	Jun-25F	Jun-26F
	Revenue growth (%)	65.1	22.9	(6.7)	0.2	24.4
	Recurrent EPS growth (%)	(1.6)	440.3	51.7	(5.4)	1.9
	Gross margin (%)	9.3	19.1	27.4	26.6	22.8
	Operating EBITDA margin (%)	18.6	23.4	31.8	30.8	26.3
	Net profit margin (%)	2.1	9.4	15.2	14.4	11.8
	Dividend payout ratio (%)	96.7	23.9	24.0	30.0	30.0
	Capex/sales (%)	9.9	10.4	11.1	11.0	8.9
	Interest cover (x)	2.05	2.34	3.20	3.01	3.13

Source: Company data, RHB

Figure 1: 9MFY24 results review

FYE Jun (MYRm)	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)	Comments
Revenue	5,357	5,374	5,160	(4.0)	(3.7)	14,805	15,979	7.9	9MFY24: Higher YoY, due to improvements in non-household retail market and prices (Wessex Water) and telco arm
EBITDA	1,240	1,714	1,477	(13.8)	19.1	2,972	5,053	70.0	
Depreciation	-233	-300	-313	4.3	34.3	-874	-971	11.1	
EBIT	1,006	1,414	1,164	(17.7)	15.6	2,098	4,082	94.6	
Interest expense	-433	-457	-439	(3.9)	1.4	-1,144	-1,383	20.9	
Associates	47	50	92	82.6	96.6	209	217	4.0	
EI/Others	-10	18	3	nm	nm	-72	-41	nm	
Pretax profit	610	1,025	819	(20.1)	34.2	1,091	2,875	163.5	3QFY24: Excluding multiple impairments and MYR6m in gains from disposal, MYR3m FV gain on investments, and MYR33m FX gain, etc
Tax	-103	-165	-138	(16.4)	34.0	-225	-484	114.7	
Minority interest	12	-15	17	(214.5)	43.6	26	-0	(100.8)	
Net profit	520	845	699	(17.3)	34.5	892	2,392	168.2	
Core profit	530	828	696	(15.9)	31.4	964	2,433	152.4	
Net margin (%)	9.9	15.4	13.5			6.5	15.2		Within expectations

Source: RHB

Figure 2: SOP valuation

Segments	Value (MYRm)	Remarks
Wessex Water	9137.62	DCF, based on WACC of 6.3%.
PowerSeraya	25992.31	3.5x FY23 P/BV.
Mobile broadband network	1194.38	1x FY23 P/BV.
Investment in associates (Java+Attarat plants)	3325.59	1.7x FY23 investment in associate.
WTE plant	604.21	50% equity stake, 7.5% WACC, MYR4.5bn capex, 16-year duration, 12% IRR, 300MW, 11% IRR, 14-year contract tenure.
Data centre investments	3797.90	WACC: 7.5%
AI-DC	18508.30	15x EV/EBITDA assuming a 60% ramp up in 100MW AI-DC, 14% project IRR, 60% stake and USD3bn capex.
Minus: Company net debt	-6989.88	FY23 company net debt.
Total (MYR)	55570.43	
Shares (m)	8158.00	
ESG premium/(discount)	-0.02	Based on its score of 2.9.
TP (MYR)	6.68	

Source: RHB

Emissions And ESG

Trend analysis

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

Emissions (tCO2e)

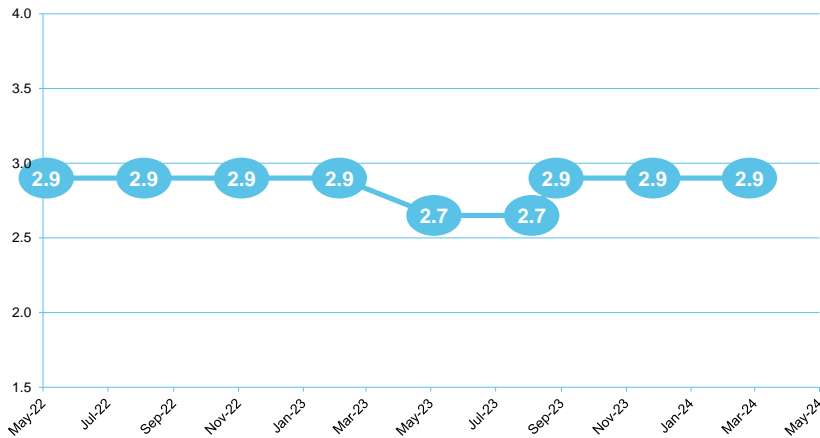
	Jun-21	Jun-22	Jun-23
Scope 1	3,242,000	3,718,000	3,921,000
Scope 2	121,000	118,000	150,000
Scope 3	na	na	45,000
Total emissions	3,363,000	3,836,000	4,116,000

Source: Company data, RHB

Latest ESG-Related Developments

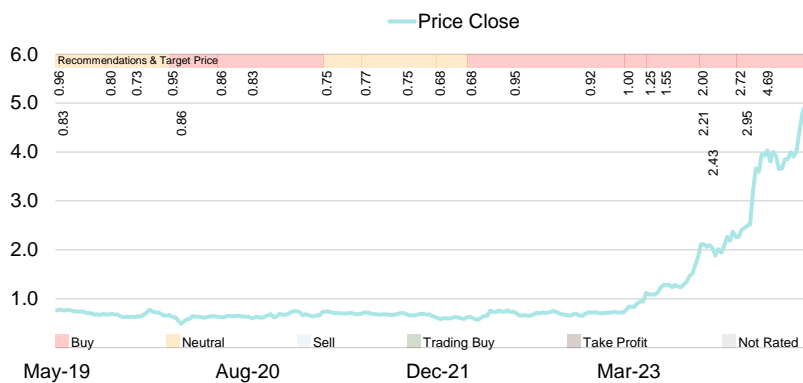
- Being a leading power generator in Singapore, YTL PowerSeraya is committed to reducing its emissions by 60% from the 2010 level by 2030.
- Wessex Water also published their own detailed plan in mid-2021 to achieve net zero operational carbon emissions by 2030, alongside a goal to achieve full decarbonisation 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
2024-02-23	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
2022-05-27	Buy	0.95	0.74
2022-02-25	Buy	0.68	0.62

Source: RHB, Bloomberg

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Analyst	Company
-	-

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