

27 May 2022

Utilities | Power

YTL Power (YTLP MK)

Buy (Maintained)

An Impending Rebound; Keep BUY

- **Keep BUY, and new MYR0.95 TP from MYR0.68, 23% upside and c.5% FY23F (Jun) yield.** Despite YTL Power's disappointing 3QFY22 results, we expect earnings to recover in the coming quarters, led by better PowerSeraya and Wessex Water contribution. We believe the aggressive ventures into digital banking and green data centre businesses are long term positives and could be funded internally via proceeds from the ElectraNet disposal.
- **Missed expectations.** Core profit of MYR140m (-61% YoY) in 9MFY22 fell below our and Street estimates, at 43% and 64% of full-year projections. The negative surprise was led by higher-than-expected losses from the telecommunications arm. Interim DPS of 2 sen was declared, as expected (3QFY21: 2 sen).
- **YTLP recorded core losses of MYR2m in 3QFY22 from 2QFY22's MYR67m core profit,** dragged weaker Wessex Water and widened losses from its telecommunications arm. As such, 9MFY22 core earnings declined by 61%, mainly due to the CSR expenses and losses from the power generation. We also saw reduced profitability of PowerSeraya – which, in turn, was led by higher fuel costs despite revenue surging by 116% in 9MFY22.
- **Outlook.** We are overall positive over the digital banking license win by the consortium of Sea Ltd (SE US, NR) and YTL Digital Capital, a subsidiary of YTLP as the new venture will create and leverage synergies between YTLP and Sea's Shopee e-commerce platform. However, we do not anticipate an immediate impact upon the award of the digital banking licences, as successful applicants will undergo a period of operational readiness which may take 12-24 months to complete. Meanwhile, YTLP also developing the YTL Green Data Centre Park in Kulai, the first data centre campus in Malaysia to be powered by on-site renewable solar energy. Construction of the first 72MW capacity is ongoing and expected to be in service by 1Q24. We believe YTLP is capable to fund these ventures internally, especially subsequent to the disposal of ElectraNet. On the other hand, the Tuaspring power plant acquisition remains conditional upon the completion of financing. Lastly, PowerSeraya's profitability has improved significantly (+8.5x QoQ; +1.0x YoY) in 3QFY22 led by higher pool gains and retail margins. We are guided that overall earnings are likely to remain strong on the back of strong wholesale price in FY23F.
- **Stay BUY.** We cut FY24F earnings by 32% mainly to account for higher losses from the telecommunications arm and tax expenses. Our SOP-based TP is lifted to MYR0.95 post earnings adjustment, accounting for the ElectraNet disposal gain with the incorporation of a 2% discount based on an unchanged ESG scoring of 2.9. Downside risks to our call: Weaker-than-expected plant performance, and higher-than-expected operating costs.

Target Price (Return): MYR0.95 (+23%)
 Price (Market Cap): MYR0.77 (USD1,419m)
 ESG score: 2.90 (out of 4)
 Avg Daily Turnover (MYR/USD) 4.97m/1.17m

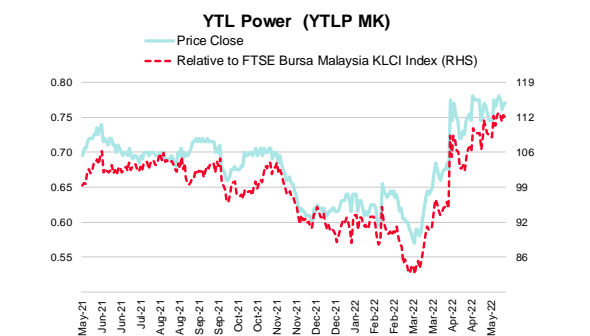
Analyst

Sean Lim
 +603 9280 8867
sean.lim@rhbgroup.com



Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	25.2	2.0	24.2	20.3	10.8
Relative	26.9	5.5	27.4	18.4	13.1
52-wk Price low/high (MYR)				0.57 – 0.78	



Source: Bloomberg

Overall ESG Score: 2.90 (out of 4)

E: MODERATE

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, Wessex Water and PowerSeraya aim for net zero operational carbon emissions by 2030, and carbon neutral operations by 2050. PowerSeraya has set an interim target of 60% GHG emissions reduction from its power plant operations by 2030.

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, there were recorded LTI and fatalities. 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 MCGG. YTL Power ensures timely, reliable, information is provided to shareholders. Shareholder rights are also protected.

Forecasts and Valuation	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Total turnover (MYRm)	10,637	10,785	16,889	17,010	17,083
Recurring net profit (MYRm)	343	386	221	375	417
Recurring net profit growth (%)	(36.8)	12.5	(42.7)	69.6	11.2
Recurring P/E (x)	18.31	16.27	28.42	16.75	15.07
P/B (x)	0.5	0.5	0.4	0.4	0.4
P/CF (x)	5.60	4.73	7.68	4.38	4.40
Dividend Yield (%)	5.6	5.8	2.8	4.8	5.3
EV/EBITDA (x)	10.89	10.95	9.76	8.56	8.52
Return on average equity (%)	2.8	3.1	1.6	2.4	2.7
Net debt to equity (%)	165.6	168.4	131.7	133.4	135.1

Source: Company data, RHB

See important disclosures at the end of this report

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

Financial Exhibits

Asia	Financial summary (MYR)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Malaysia	Recurring EPS	0.04	0.05	0.03	0.05	0.05
Utilities	DPS	0.04	0.05	0.02	0.04	0.04
YTL Power	BVPS	1.47	1.60	1.88	1.89	1.90
YTLP MK	Return on average equity (%)	2.8	3.1	1.6	2.4	2.7
Buy						
	Valuation metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Valuation basis	Recurring P/E (x)	18.31	16.27	28.42	16.75	15.07
SOP	P/B (x)	0.5	0.5	0.4	0.4	0.4
	FCF Yield (%)	(5.3)	(6.6)	(11.9)	(2.1)	(2.2)
Key drivers	Dividend Yield (%)	5.6	5.8	2.8	4.8	5.3
Start-up of new power plant projects	EV/EBITDA (x)	10.89	10.95	9.76	8.56	8.52
	EV/EBIT (x)	22.87	21.15	20.18	14.48	13.76
	Income statement (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
Key risks	Total turnover	10,637	10,785	16,889	17,010	17,083
i. Execution risk for its Java and Jordan power plant projects	Gross profit	1,506	1,439	1,428	1,934	2,058
ii. Weaker contribution from Wessex Water and PowerSeraya	EBITDA	2,215	2,355	2,499	2,901	2,970
	Depreciation and amortisation	(1,161)	(1,135)	(1,290)	(1,186)	(1,131)
Company Profile	Operating profit	1,055	1,219	1,209	1,715	1,839
YTL Power 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.	Net interest	(1,084)	(952)	(1,178)	(1,206)	(1,233)
	Pre-tax profit	425	634	281	689	786
	Taxation	(297)	(737)	(24)	(254)	(303)
	Reported net profit	343	386	221	375	417
	Recurring net profit	343	386	221	375	417
	Cash flow (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Change in working capital	11	(88)	(478)	(8)	(5)
	Cash flow from operations	1,122	1,329	818	1,433	1,429
	Capex	(1,456)	(1,743)	(1,564)	(1,564)	(1,564)
	Cash flow from investing activities	(1,518)	(1,126)	(1,564)	(1,564)	(1,564)
	Dividends paid	(650)	(162)	(177)	(300)	(333)
	Cash flow from financing activities	(328)	1,073	(731)	385	352
	Cash at beginning of period	7,560	7,485	8,593	9,686	9,940
	Net change in cash	(724)	1,276	(1,477)	254	216
	Ending balance cash	6,944	9,128	7,116	9,940	10,156
	Balance sheet (MYRm)	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Total cash and equivalents	7,520	8,621	9,715	9,968	10,185
	Tangible fixed assets	21,880	24,201	23,751	24,178	24,662
	Total investments	4,078	4,381	4,631	4,811	4,991
	Total assets	47,138	52,074	54,011	54,853	55,701
	Short-term debt	7,312	4,445	4,445	4,445	4,445
	Total long-term debt	20,153	25,911	25,357	26,042	26,727
	Total liabilities	35,095	39,167	38,762	39,470	40,169
	Total equity	12,043	12,907	15,248	15,383	15,532
	Total liabilities & equity	47,138	52,074	54,011	54,853	55,701
	Key metrics	Jun-20	Jun-21	Jun-22F	Jun-23F	Jun-24F
	Revenue growth (%)	(8.9)	1.4	56.6	0.7	0.4
	Recurrent EPS growth (%)	(36.8)	12.5	(42.7)	69.6	11.2
	Gross margin (%)	14.2	13.3	8.5	11.4	12.0
	Operating EBITDA margin (%)	20.8	21.8	14.8	17.1	17.4
	Net profit margin (%)	3.2	3.6	1.3	2.2	2.4
	Dividend payout ratio (%)	102.6	95.1	80.0	80.0	80.0
	Capex/sales (%)	13.7	16.2	9.3	9.2	9.2
	Interest cover (x)	0.97	1.28	1.03	1.42	1.49

Source: Company data, RHB

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Figure 1: 9MFY22 results review

FYE Jun (MYRm)	3QFY21	2QFY22	3QFY22	QoQ (%)	YoY (%)	9MFY21	9MFY22	YoY (%)	Comments
Revenue	2,636	5,134	4,671	(9.0)	77.2	7,756	13,318	71.7	Higher YoY due to higher pool price and fuel oil price (PowerSeraya) and improved in non-household retail market and price (Wessex Water)
EBITDA	681	604	508	(15.8)	(25.4)	1,872	1,732	(8.5)	
Depreciation	(323)	(316)	(289)	(8.4)	(10.6)	(931)	(932)	0.1	
EBIT	358	288	219	(24.0)	(38.8)	941	800	(16.9)	
Interest expense	(240)	(229)	(251)	9.6	4.7	(710)	(720)	1.3	
Interest income	88	65	57	(12.0)	(35.1)	265	209	(21.3)	
Associates	(37)	(48)	1,012	nm	nm	(12)	924	nm	
El/others	169	76	1,037	1,261.0	515.2	484	1,214	150.7	Excluding multiple impairments and MYR1.3bn disposal gains, and MYR8m FX loss, etc
Pretax profit	(39)	(34)	(60)	76.6	55.2	(120)	(144)	19.2	
Tax	(17)	(23)	34	(244.6)	(292.0)	(20)	(6)	(72.0)	
Minority interest	112	19	1,010	5,275.9	800.4	344	1,064	209.8	
Net profit	150	67	(2)	(102.8)	(101.3)	356	140	(65.8)	
Core profit	5.7	1.3	(0.0)			4.6	1.1		Below expectations

Source: RHB

Figure 2: SOP valuation

Segments	Value (MYRm)	Remarks
Wessex Water	7317.19	DCF, based on WACC of 6.7%
PowerSeraya	3087.80	DCF, based on WACC of 11.9%.
Attarat	129.96	DCF, based on WACC of 11.6%, 50% discount
Mobile broadband network	987.87	0.5x FY21 P/BV
ElectraNet disposal gain and Java plants	3969.80	0.8x FY21 investment in associate
Minus: Company net debt	-7547.48	FY21 company net debt
Total (MYR)	7945.15	
Shares (m)	8158.00	
ESG discount	2%	Based on scoring of 2.9
TP (MYR)	0.95	

Source: RHB

Recommendation Chart

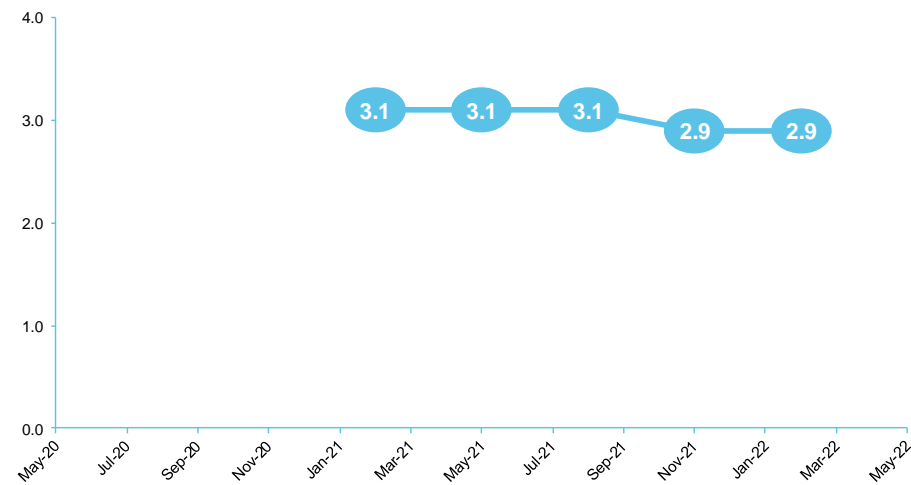


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2020-03-13	Buy	0.86	0.56
2020-02-21	Buy	0.95	0.68
2019-11-27	Neutral	0.73	0.65
2019-09-25	Neutral	0.80	0.70
2019-06-03	Neutral	0.83	0.79
2019-02-28	Neutral	0.96	0.84
2018-12-12	Buy	0.96	0.81

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Bank Berhad (Singapore branch)
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470