

YTL Power International Berhad

(6742 | YTLPMK) Utilities | Power Generation

Consolidates Position in Singapore Power

KEY INVESTMENT HIGHLIGHTS

- **YTLP looking to acquire Hyflux's 396MW CCGT power plant for RM1b; to be settled by a mix of cash and shares in enlarged entity**
- **Acquisition comes at a 29% discount to estimated replacement cost of RM3.5m/MW**
- **Triggers much needed consolidation in Singapore power generation, marginal impact to YTLP's balance sheet**
- **Share price has retraced meaningfully; upgrade to BUY at unchanged TP of RM0.70**

Expands presence in Singapore power. YTL Power is acquiring Hyflux's Tuaspring 396MW CCGT power plant which has been placed under receivership for SGD331m (RM1b). The acquisition involves the plant and its associated assets as well as a land lease of the site with a 20-year remaining term. The purchase will be settled by: (1) SGD230m (RM697m) cash (2) SGD101.5m (RM308m) via shares and loan notes amounting to a 7.5% stake in the post-acquisition entity in YTL Utilities (which is the holding company of Power Seraya). The 7.5% stake comes with a put option exercisable within 3 years enabling the seller of the assets (i.e. Maybank) to require YTLP to repurchase the 7.5% stake at SGD40m (RM121m). The Tuaspring acquisition is conditional upon approval of the EMA (Energy Market Authority) and PUB (Public Utilities Board of Singapore) and is expected to be finalized by end-2QCY20.

Cheap buy. At RM1b consideration, the acquisition values The Tuaspring power plant at just RM2.5m/MW. This is considerably cheap relative to estimated replacement cost of RM3m-RM4m/MW for a typical CCGT plant.

Contract reset. Given that the assets have been placed under receivership, the Tuaspring plant is no longer tied to any previous take-or-pay LNG purchase contracts, which gives YTLP much better flexibility in output management. The plant was originally commissioned in 2016 at a capex of >SGD1b, inclusive of the water desalination plant (which is not part of YTLP's purchase).

Triggers a consolidation. Singapore power has been dragged by overcapacity since 2015, but the purchase triggers a much needed consolidation in the sector. Combined with Power Seraya (3100MW), YTLP would end up with a 19.6% capacity share from 15.6% currently, overtaking Senoko Energy as the second largest player (from 3rd) in the Singapore generation sector.

Upgrade to BUY

(from NEUTRAL)

Unchanged Target Price: RM0.70

RETURN STATISTICS

Price @ 12 th March 2020 (RM)	0.62
Expected share price return (%)	+12.6
Expected dividend yield (%)	+6.2
Expected total return (%)	+18.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-13.2	-5.9
3 months	-18.8	0.3
12 months	-27.7	-14.6

KEY STATISTICS

FBM KLCI	1419.43
Syariah compliant	No
Issue shares (m)	7675.30
Estimated free float (%)	19.69
Market Capitalisation (RM'm)	4,797.06
52-wk price range	RM0.62 - RM0.91
Beta vs FBM KLCI (x)	0.92
Monthly velocity (%)	0.01
Monthly volatility (%)	11.84
3-mth average daily volume (m)	5.30
3-mth average daily value (RM'm)	4.02
Top Shareholders (%)	
YTL Corp Bhd	48.66
Yeoh Tiong Lay & Sons Holdings	9.85
Cornerstone Crest Sdn Bhd	6.45

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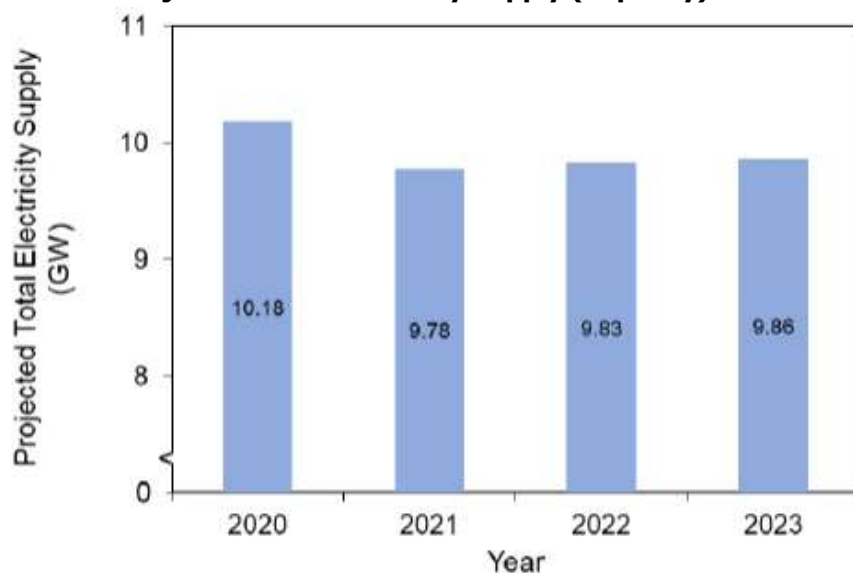
INVESTMENT STATISTICS

FYE Jun	FY18	FY19	FY20F	FY21F	FY22F
Revenue (RM'm)	10,589.7	11,677.1	12,380.5	12,793.0	13,079.6
EBIT (RM'm)	1,613.8	1,479.7	1,208.1	1,306.6	1,421.1
Pre-tax Profit (RM'm)	943.2	733.7	421.4	510.1	503.8
Core net profit (RM'm)	763.6	543.6	321.8	417.9	413.3
FD EPS (sen)	10.0	7.1	4.2	5.5	5.4
EPS growth (%)	13.4	(28.8)	(40.8)	29.9	(1.1)
PER (x)	6.2	8.7	14.7	11.3	11.5
Net Dividend (sen)	5.0	5.0	2.9	3.8	3.8
Net Dividend Yield (%)	8.1	8.1	4.8	6.2	6.1

Source: Company, MIDFR

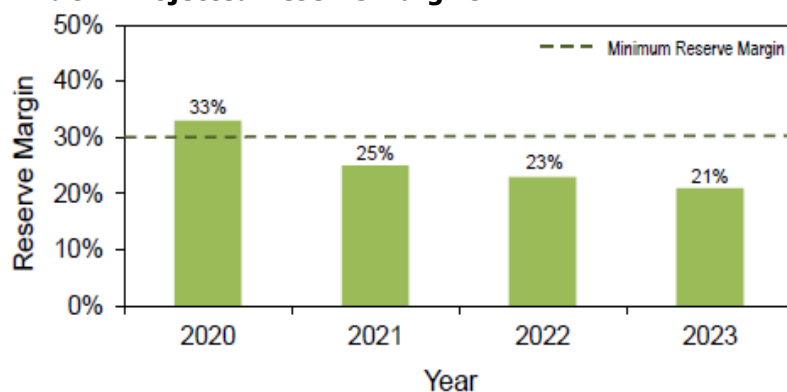
Marginally impacts balance sheet. The cash portion of the purchase consideration of RM690m represents 9% of YTLP's gross cash as at end-Dec19, and based on this, is estimated to raise net gearing marginally to 1.7x from 1.66x. Back in FY17, Tuaspring integrated Water and Power Plant registered a net loss of SGD82m (losses mainly from the power plant given weak electricity market). Coupled with an expected slowdown in the Singapore economy now, we think in the immediate term, the drag for the Singapore power sector will likely remain. In the mid-term nonetheless, consolidation of the sector should translate into improved pricing power for the gencos. EMA is projecting peak demand to grow by a CAGR of 1.5%-2.1% over the next decade (2020-2030) relative to a 7%/4% contraction in supply capacity in 2020/2021. Reserve margins are projected to reduce from 33% in 2020 to 21% by 2023.

Exhibit 1: Projected Total Electricity Supply (Capacity)



Source: EMA, MIDFR

Exhibit 2: Projected Reserve Margins



Source: EMA, MIDFR

Valuation surplus. At an estimated replacement cost of RM3.5m/MW, we estimate Tuaspring could entail a gross value of RM1.39b (18sen/share), or a valuation surplus of 5sen/share against the acquisition price. In the near-term however, the market might tag a higher risk premium to the purchase given the current overcapacity situation.


Recommendation. Share price has retraced significantly by up to 28% in the past 12 months and by 13% within just the past 1-month period. Following the sharp correction, we now raise YTLP to **BUY** from NEUTRAL previously. Our **TP** is kept at **RM0.70** pending completion of the deal. 

Exhibit 3: Singapore Gencos Current Market Share (%)

	2011	2012	2013	2014	2015	2016	2017	2018
Tuas Power Generation	26.3	24.5	20.1	21.3	21.0	21.0	21.4	20.6
Senoko Energy	24.1	26.3	26.2	22.4	20.1	19.2	17.4	17.3
YTL PowerSeraya	26.5	25.1	22.9	18.0	17.9	17.7	16.9	15.6
Keppel Merlimau Cogen	8.0	8.6	12.9	11.8	11.2	10.4	11.8	11.7
SembCorp Cogen	9.6	9.2	8.4	9.6	11.6	10.4	9.6	10.2
PacificLight Power	-	-	1.0	8.3	8.7	8.8	9.0	9.2
Tuaspring	-	-	-	-	-	3.6	3.9	4.0
Others	5.5	6.4	8.5	8.6	9.5	9.0	10.0	11.4

Source: EMA, MIDFR

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.