YTL Power International Berhad

(6742 | YTLP MK) Utilities | Power Generation

Strong performance by Seraya

***Maintain* BUY**

***Revised* Target Price: RM0.90**

(from RM0.92 previously)

KEY INVESTMENT HIGHLIGHTS

- **FY22 earnings came in above expectations**
- **Strong performance from Seraya amid tighter electricity market and partial Tuaspring contribution**
- **Wessex Water temporarily dragged by lag in tariff adjustment**
- **Maintain BUY albeit at marginally lower TP of RM0.90 – our valuations now conservatively exclude Jordan shale plant**

Beats estimates. YTL Power (YTLP) reported core net profit of RM174m (+>100%yoy) for its 4QFY22 bringing FY22 core earnings to RM153m (-61%yoy). This is ahead of estimates accounting for 134% of our forecast and is well ahead of consensus' RM28m net loss projection. Stronger than expected performance by Seraya and lower than expected losses at the telco division contributed to the outperformance against our numbers.

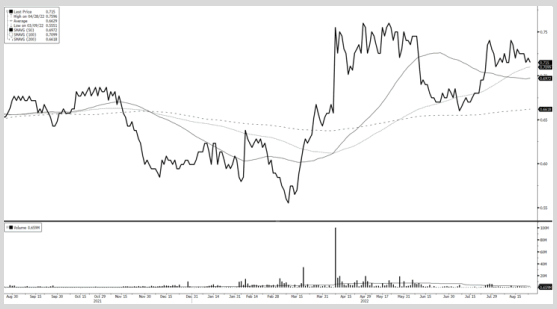
Dividends maintained. The group declared a second interim dividend of 2.5sen/share (ex-date: 10th November 2022) bringing full year dividends to 4.5sen/share. This is ahead of our expectation and represents a generous yield of 6.3%. We reckon the dividends were partly supported by the RM2b proceeds from the recent Electranet sale.

Strong momentum from Seraya. 4QFY22 revenue was up strongly by +49%yoy driven by a +99%yoy growth in revenue from Seraya, partly offset by a 32%yoy decline in revenue from the telco division. Seraya's strength was driven by higher tariffs in the Singapore electricity market, higher fuel oil prices and partly reflects contribution from Tuaspring from June onwards (which effectively increases capacity by an estimated 16%). PBT margin expanded 4.2ppts to 5.8% leading to +>100%yoy growth (+41%qoq) in Seraya's earnings. For the telco unit, LBT expanded to RM61m from RM18m last year due to higher subscriber acquisition cost for its 5G rollout, but the loss is narrower sequentially (-29%qoq).

Wessex Water takes a hit. Despite stable revenue, Wessex Water (WW) took a hit from higher cost in 4QFY22 which resulted in PBT contracting by -85%yoy. WW operates in a regulated environment which considers cost inflation, but there is a lag in tariff and revenue adjustment, hence we expect WW's earnings to be exceptionally below trend in the next few quarters before rising to above-trend levels in FY24. Nevertheless, we expect stronger performance from Seraya to offset the temporarily weaker WW earnings.

RETURN STATISTICS	
Price @ 25th August 2022 (RM)	0.72
Expected share price return (%)	+25.1
Expected dividend yield (%)	+6.2
Expected total return (%)	**+31.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.6	1.9
3 months	5.1	-3.9
12 months	3.6	8.8

KEY STATISTICS	
FBM KLCI	1,495.49
Syariah compliant	No
F4BGM Index	No
ESG Grading Band (Star rating)	N/A
Issue shares (m)	8102.20
Estimated free float (%)	16.37
Market Capitalisation (RM'm)	5,833.55
52-wk price range	RM0.56 - RM0.84
Beta vs FBM KLCI (x)	1.01
Monthly velocity (%)	0.00
Monthly volatility (%)	11.84
3-mth average daily volume (m)	2.58
3-mth average daily value (RM'm)	1.88
Top Shareholders (%)	
YTL Corp Bhd	49.08
Yeoh Tiong Lay & Sons Holdings	9.91
Cornerstone Crest Sdn Bhd	6.49

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INVESTMENT STATISTICS

FYE June (RMm)	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM'm)	10,670.3	10,782.8	17,793.9	19,129.3	17,885.1
EBIT (RM'm)	1,051.5	1,222.8	2,066.1	1,300.9	1,727.6
Pre-tax Profit (RM'm)	423.8	636.5	1,396.4	500.9	928.4
Core net profit (RM'm)	328.1	397.4	152.9	260.2	406.4
FD EPS (sen)	4.0	4.9	1.9	3.2	5.0
EPS growth (%)	(43.4)	21.1	(61.5)	70.2	56.2
PER (x)	17.9	14.8	38.4	22.6	14.4
Net Dividend (sen)	0.0	4.5	4.5	4.5	4.5
Net Dividend Yield (%)	0.0	6.3	6.3	6.2	6.2

Source: Company, MIDFR

Jati fully written off. An additional RM65m impairment for Tanjung Jati (Jati) coal plant project development cost was taken in 4QFY22 - total FY22 Jati write off stood at RM189m, meaning most if not all of the cost incurred for the project has now been fully written off. This is a painful measure to take but is necessary and we take comfort that write-off is now completed. We also think the decision not to proceed with Jati is a move in the right direction, especially given higher finance cost for coal plants as a result of the impact on capital flows from ESG.

Earnings revision. Despite stronger than expected performance, we trim our FY23F earnings by 12% as we conservatively exclude contribution from 45%-owned Jordan shale power plant given uncertainties surrounding this project. Despite the cut, we still expect FY23F earnings to grow +70%yoy driven by significantly improved Seraya earnings which is partly offset by temporarily weak WW earnings. FY24F earnings is expected to register another +56%yoy growth mainly driven by upward tariff adjustment at WW leading to above-trend earnings. Due to these revisions, our FY23F is now 15% below consensus but our FY24F is 11% higher.

Maintain BUY. Our SOP-derived **TP** is revised marginally lower to **RM0.90** (from RM0.92) as we conservatively exclude the 45%-owned Jordan shale plant from our valuations. We also now exclude the previous 20% discount to SOP which was to account for uncertainties surrounding the project. Against our now conservative valuation base, any positive outcome of the arbitration for the Jordan shale plant should result in an incremental positive to our valuation. YTLP is trading at deep 60% discount to FY23F BV and dividend yields are attractive at 6%. Notwithstanding the temporary drag from WW, earnings is set to improve from full year contribution of Tuaspring amid tighter demand-supply in the Singapore electricity market. Other potential catalysts include the planned 500MW green data centre park in Kulai, Johor to tap on strong demand from Singapore-based MNCs, which should kickstart maiden operations within the next 2 years with Sea Ltd. and GDS Holdings as anchor tenants. The recent digital banking license win is a long-term positive, but we anticipate that it will take a few years of gestation before hitting break-even.

Exhibit 1: Electricity Supply (Singapore)

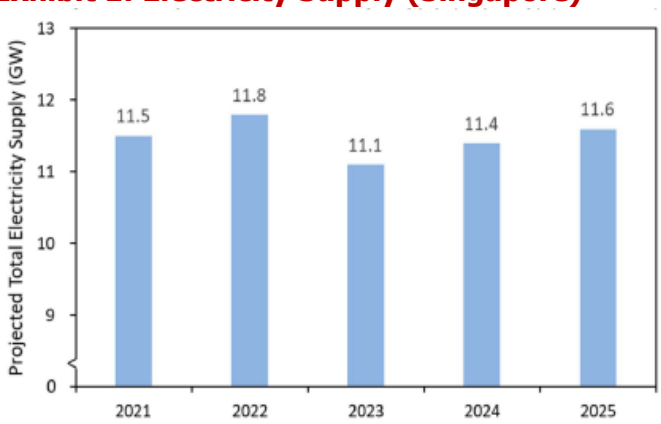
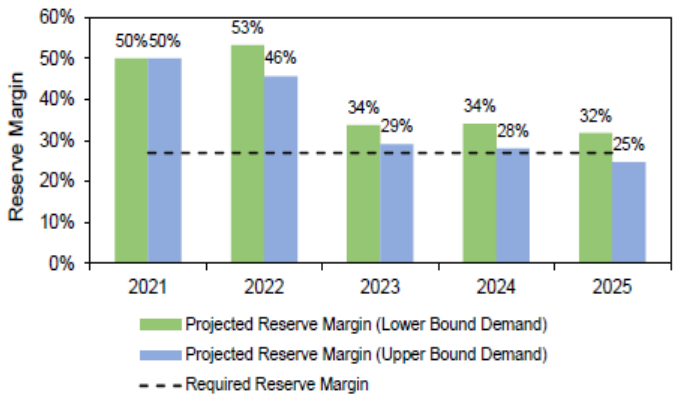


Exhibit 2: Reserve Margin (Singapore)



Source: EMA, MIDFR

Exhibit 3: Singapore electricity price trend

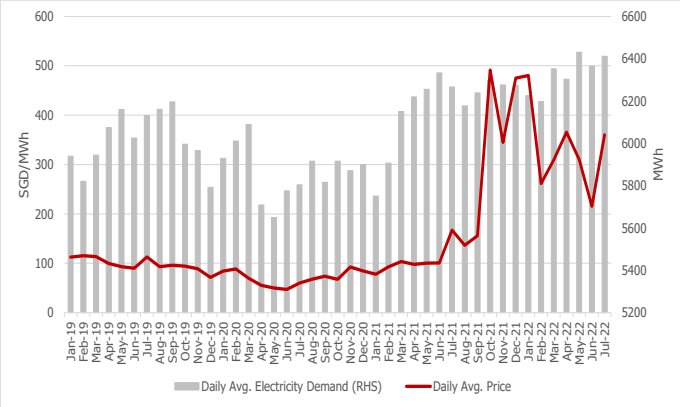
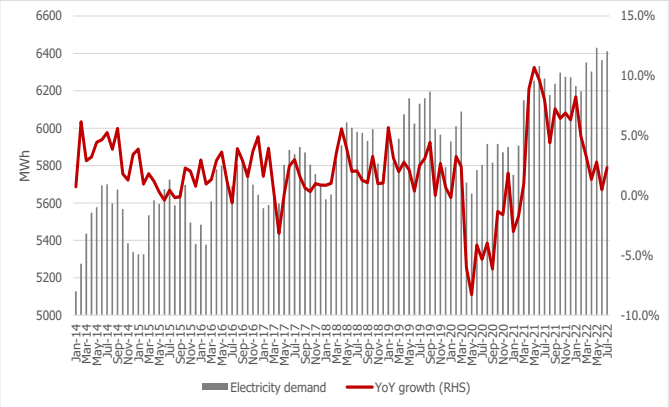


Exhibit 4: Singapore electricity demand



Source: EMA, MIDFR

Exhibit 5: YTLP sum-of-parts valuation

SOP Component	Enterprise Value (RMm)	Stake	Per share (RM)
Wessex Water	22,556	100%	2.77
Power Seraya	3,710	100%	0.45
PT Jawa Power	1,173	20%	0.14
Telco division	58	60%	0.01
Total enterprise value	**27,497**		**3.37**
Less: Group net debt	*-20,150*		-2.47
Total equity value	**7,347**		**0.90**

YTL POWER: 4QFY22 RESULT SUMMARY

FYE Jun (RMm)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Revenue	3,028.9	4,670.8	4,525.7	-3.1%	49.4%	10,784.7	17,793.9	65.0%
EBIT	290.4	1,231.1	356.8	-71.0%	22.9%	1,219.4	2,066.1	69.4%
Interest expense	(241.1)	(250.9)	(276.5)	10.2%	14.7%	(951.6)	(989.9)	4.0%
Associates	100.5	56.9	106.9	87.9%	6.4%	366.0	320.2	-12.5%
PBT	**149.8**	**1,037.0**	**187.2**	**-81.9%**	**25.0%**	**633.8**	**1,396.4**	**120.3%**
Tax	(616.5)	(60.4)	(30.0)	50.3%	95.1%	(736.9)	(173.6)	76.4%
PAT	(466.7)	976.7	157.2	-83.9%	-133.7%	(103.1)	1,222.8	-1285.7%
Minority Interest	23.5	(33.6)	(36.0)	-7.2%	-253.4%	43.4	(34.8)	--180.1%
Net profit	(490.2)	1,010.2	193.2	-80.9%	139.4%	(146.5)	1,257.6	958.3%
Core net profit	**50.3**	**(18.6)**	**173.9**	**1033.4%**	**245.4%**	**394.0**	**152.9**	**-61.2%**
Core EPS (sen)	0.66	-0.24	2.27			5.15	2.00	
GDPS (sen)	2.50	2.00	2.50			4.50	4.50	
EBIT margin	9.6%	26.4%	7.9%			11.3%	11.6%	
PBT margin	4.9%	22.2%	4.1%			5.9%	7.8%	
Tax rate	411.6%	5.8%	16.0%			116.3%	12.4%	
Core net profit margin	1.7%	-0.4%	3.8%			3.7%	0.9%	

FYE Jun (RMm)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Revenue:								
Power generation (contracted)	62.7	0.0	0.0	NA	-100.0%	261.1	0.0	-100.0%
Multi utilities business (merchant)	1,656.1	3,453.3	3,289.6	-4.7%	98.6%	6,014.5	12,724.2	111.6%
Water and sewerage	1,054.7	1,010.7	1,026.2	1.5%	-2.7%	3,774.0	4,105.4	8.8%
Telco business	189.3	115.6	128.3	11.0%	-32.2%	543.5	678.0	24.7%
Investment holding	64.2	91.3	81.6	-10.6%	27.1%	189.6	286.2	50.9%
PBT:								
Power generation (contracted)	13.3	(5.3)	21.4	-503.8%	60.5%	35.2	4.9	-86.1%
Multi utilities business (merchant)	27.1	135.2	191.0	41.2%	604.8%	275.3	415.8	51.1%
Water and sewerage	90.8	89.1	13.6	-84.8%	-85.1%	493.8	378.1	-23.4%
Telco business	(17.9)	(85.7)	(60.8)	29.0%	-239.4%	-190.5	-197.1	-3.5%
Investment Holding	39.2	903.7	22.2	-97.5%	-43.4%	22.7	794.9	3401.4%
PBT Margin (%)								
Power generation (contracted)	21.3%	NA	NA	**ppts**	**ppts**	13.5%	NA	**ppts**
Multi utilities business (merchant)	1.6%	3.9%	5.8%	*1.9*	*4.2*	4.6%	3.3%	*-1.3*
Water and sewerage	8.6%	8.8%	1.3%	*-7.5*	*-7.3*	13.1%	9.2%	*-3.9*
Telco business	-9.5%	-74.2%	-47.4%	*26.7*	*-37.9*	-35.1%	-29.1%	*6.0*
Investment Holding	61.0%	990.3%	27.1%	*-963.1*	*-33.9*	12.0%	277.7%	*265.7*

Source: Company, 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 *rise* 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 *fall* 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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology