YTL Power International Berhad

(6742 | YTLP MK) Utilities | Power Generation

Maintain BUY

Yet another consensus-beating quarter

***Revised* Target Price: RM1.03**

(from RM0.90 previously)

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 earnings beats expectations**
- **Strong performance from Seraya amid tighter electricity market and Tuaspring contribution**
- **Wessex Water to recover upon tariff adjustment in 4QFY23**
- **FY23F/24F earnings raised 64%/34%**
- **Reaffirm BUY at higher TP of RM1.03, dividend yields attractive at 6.6%-8.8%**

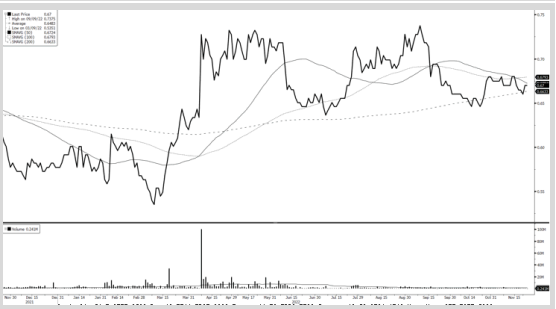
Yet another beat. YTL Power's (YTLP) 1QFY23 results marks the second consecutive quarter of earnings beat. The group reported a core net profit of RM129m (>156%yoy) for 1QFY23, making up 50% and 38% of our and consensus estimates respectively. Stronger than expected performance at Seraya contributed to the outperformance against our numbers. No dividends were declared this quarter as YTLP usually declares dividends in the 3Q and 4Q.

Seraya sustains its strong momentum. Group core earnings rose +156%yoy in 1QFY23 primarily driven by strength at Seraya. Seraya registered a +64%yoy increase in revenue while PBT margins expanded +5.1ppts to 8.4% driving a more than quadrupling in earnings. This was driven by higher demand and higher tariffs amid a tighter Singapore electricity market and reflects contribution from Tuaspring from June 2022 onwards (which effectively increases capacity by an estimated 16%). Singapore's electricity supply capacity is expected to reduce by 6%yoy in CY23 leading to a tighter market with reserve margins projected to gap down to a range of 29%-34% in CY23 from 46%-53% in CY22 – this should lead to sustainably higher tariffs going forward.

Wessex Water weakness is temporary. Wessex Water's (WW) pretax earnings improved +88%qoq but remains well below historical trend given impact from higher base cost (energy in particular) and on index linked bond interest (non-cash). Nevertheless, WW operates in a regulated environment which considers cost inflation as both its revenues and regulated asset base (RAB) are indexed to the UK's CPI and CPIH. Upwards tariff revenue adjustment is done on annual basis and will eventually be adjusted from April 2023 to reflect the higher cost, upon which WW's revenue is expected to rise by around 6% and the impact is expected to flow down to bottomline. Hence, we expect WW's earnings to remain exceptionally below trend in the next few quarters before rising to above-trend levels towards 4QFY23 and into FY24. Meantime, we expect the strong performance from Seraya to more than offset the temporarily weaker WW earnings.

RETURN STATISTICS	
Price @ 24th Nov 2022 (RM)	0.68
Expected share price return (%)	+52.0
Expected dividend yield (%)	+6.6
Expected total return (%)	**+58.6**

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	1501.88
Syariah compliant	No
F4BGM Index	No
ESG Grading Band (Star rating)	N/A
Issue shares (m)	8102.16
Estimated free float (%)	17.03
Market Capitalisation (RM'm)	5,428.44
52-wk price range	RM0.56 - RM0.84
Beta vs FBM KLCI (x)	0.86
Monthly velocity (%)	0.00
Monthly volatility (%)	11.84
3-mth average daily volume (m)	1.33
3-mth average daily value (RM'm)	0.94
Top Shareholders (%)	
YTL Corp Bhd	49.08
Yeoh Tiong Lay & Sons Holdings	9.91
Cornerstone Crest Sdn Bhd	6.87

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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	1,623.2	2,042.9
Pre-tax Profit (RM'm)	423.8	636.5	1,396.4	823.2	1,243.7
Core net profit (RM'm)	328.1	397.4	152.9	427.6	544.5
FD EPS (sen)	4.0	4.9	1.9	5.2	6.7
EPS growth (%)	(43.4)	21.1	(61.5)	179.7	27.3
PER (x)	16.9	14.0	36.3	13.0	10.2
Net Dividend (sen)	0.0	4.5	4.5	4.5	6.0
Net Dividend Yield (%)	0.0	6.6	6.6	6.6	8.8

Source: Company, MIDFR

Rollout of EV charging infrastructure. Seraya is part of the Strides Automotive Services consortium which has been shortlisted (earlier this month) to rollout EV charging infrastructure across HDB car parks in Singapore via a tender that was finalized earlier this month by Singapore's Land Transport Authority (LTA). The consortium will be responsible for charging point rollout in the Central and East region with a targeted 1200 charging points by 2025. The Singapore Government is targeting to deploy 60K EV charging points across Singapore by 2030 of which 40K will be in public car parks and the other 20K in private premises. While still early to gauge the potential returns, we believe this is a move in the right direction for YTLP to tap on the rapid acceleration in Singapore's EV take up given the wealthy population. Singapore is taking an aggressive approach, targeting clean energy models (which includes electric, hybrid or hydrogen fuel cell models) for all new car and taxi registration by 2030.

Earnings revision. Given the stronger than expected result, we raise our FY23F/24F net profit by 64%/34% to reflect mainly stronger Seraya performance. We expect FY23F earnings to recover by +180%yoy driven by earnings improvement at Seraya, followed by another +27%yoy increase in FY24F which will be driven largely by earnings recovery at Wessex Water upon its scheduled tariff revision. Due to these revisions, our FY23F/24F earnings are now 26%/30% higher than consensus.

Reaffirm BUY. Our SOP-derived **TP** is raised to **RM1.03** (from RM0.90) to reflect the upward revision in earnings. Our valuation already conservatively excludes the 45%-owned Jordan shale plant given uncertainties surrounding the project. Against our 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 6.6%. 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)

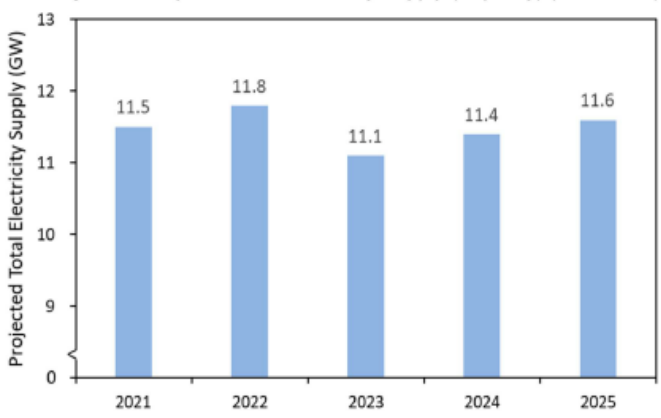
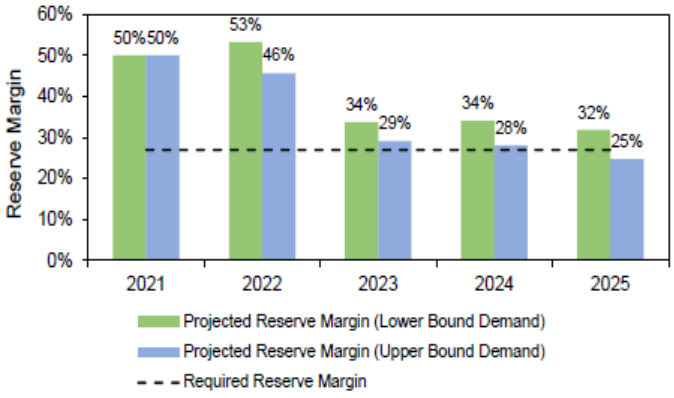


Exhibit 2: Reserve Margin (Singapore)



Source: EMA, MIDFR

Exhibit 3: Singapore electricity price trend

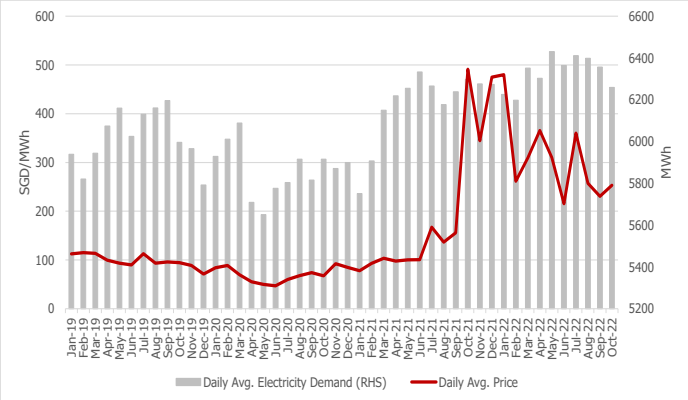
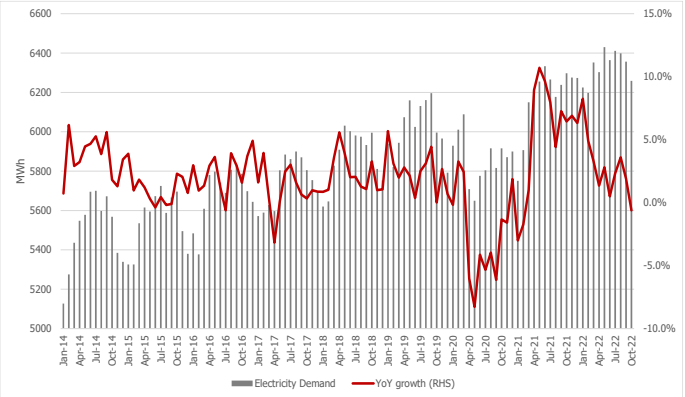


Exhibit 4: Singapore electricity demand



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	4,624	100%	0.57
PT Jawa Power	1,173	20%	0.14
Telco division	58	60%	0.01
Total enterprise value	**28,411**		**3.48**
Less: Group net debt	*-19,983*		-2.45
Total equity value	**8,428**		**1.03**

YTL POWER: 1QFY23 RESULT SUMMARY

FYE Jun (RMm)	1Q22	4Q22	1Q23	QoQ	YoY
Revenue	3,513.5	4,525.7	4,744.5	4.8%	35.0%
Operating profit	253.0	356.8	473.7	32.8%	87.2%
Interest expense	(240.1)	(276.5)	(331.9)	20.0%	38.2%
Associates	87.5	106.9	83.1	-22.3%	-5.0%
PBT	**100.3**	**187.2**	**224.9**	**20.1%**	**124.1%**
Tax	(49.0)	(30.0)	(57.3)	90.7%	16.8%
PAT	51.3	157.2	167.6	6.7%	226.6%
Minority Interest	15.9	(36.0)	(5.7)	-84.3%	-135.5%
Net profit	35.4	193.2	173.3	-10.3%	389.6%
Core net profit	**50.5**	**173.9**	**129.0**	**-25.8%**	**155.5%**
Core EPS (sen)	0.66	2.27	1.69	-25.8%	155.5%
GDPS (sen)	0.00	2.50	0.00		
EBIT margin	7.2%	7.9%	10.0%		
PBT margin	2.9%	4.1%	4.7%		
Tax rate	48.8%	16.0%	25.5%		
Core net profit margin	1.0%	3.8%	2.7%		

FYE Jun (RMm)	1Q22	4Q22	1Q23	QoQ	YoY
Revenue:	**3,513.5**	**4,525.7**	**4,744.5**		
Multi utilities business (merchant)	2,117.6	3,289.6	3,463.6	5.3%	63.6%
Water and sewerage	1,042.4	1,026.2	1,049.5	2.3%	0.7%
Telco business	273.6	128.3	112.9	-12.0%	-58.7%
Investment holding	79.8	81.6	118.4	45.1%	48.4%
PBT:	**100.3**	**187.2**	**224.9**		
Multi utilities business (merchant)	69.8	212.3	289.9	36.6%	315.6%
Water and sewerage	130.1	13.6	25.4	87.5%	-80.5%
Telco business	(34.2)	(60.8)	(84.0)	38.0%	145.8%
Investment Holding	(65.3)	22.2	(6.5)	-129.3%	-90.1%
PBT Margin (%)					
				ppts	**ppts**
Multi utilities business (merchant)	3.3%	6.5%	8.4%	*1.9*	*5.1*
Water and sewerage	12.5%	1.3%	2.4%	*1.1*	*-10.1*
Telco business	-12.5%	-47.4%	-74.4%	*-27.0*	*-61.9*
Investment Holding	-81.9%	27.1%	-5.5%	*-32.6*	*76.4*

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