YTL Power International Berhad

(6742 | YTLP MK) Utilities | Power Generation

Maintain BUY

Another consensus beating quarter

***Revised* Target Price: RM1.12**

(from RM1.03 previously)

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 earnings beat expectations**
- **Seraya sustains strong earnings momentum**
- **Wessex Water to recover upon tariff adjustment in 4QFY23**
- **FY23F/24F earnings raised 42%/22%**
- **Reaffirm BUY at higher TP of RM1.12, dividend yields attractive at 6.1%-7.7%**

Third consecutive outperformance. YTL Power's (YTLP) 2QFY23 result marks the third consecutive quarter of earnings beat. The group reported a net profit of RM199m for 2QFY23 (up almost 11-fold year-on-year), which brought 1HFY23 net profit to RM372m; making up 87% and 88% of our and consensus estimates respectively. The outperformance against our numbers was attributable to Seraya and higher investment holding income. No dividends were declared this quarter as YTLP usually declares dividends in the 3Q and 4Q.

Benefitting from a tighter electricity market. YTLP's strong 2QFY23 was primarily driven by strength at Seraya, which registered a 21-fold year-on-year increase in PBT due to much stronger margins from higher retail electricity tariffs amid a tighter demand-supply condition. According to EMA, 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. Seraya's earnings was also boosted by contribution from Tuaspring from June 2022 (which effectively increases capacity by an estimated 16%).

Seraya more than offset Wessex Water's short-term weakness. Wessex Water (WW) fell into a pretax loss of -RM16m in 2QFY23 due to a one-off, non-cash impact of interest accruals on index-linked bonds amounting to RM75m (GBP14m). Even excluding this, WW's earnings was still well below historical trends given higher base cost. Nevertheless, WW operates in a regulated environment which considers cost inflation as both its revenue and regulated asset base (RAB) are indexed to the UK's CPI and CPIH. Upwards tariff adjustment is done on annual basis and will eventually be adjusted from April 2023 to reflect the higher cost. We expect WW's earnings to remain exceptionally below trend in the next few quarters before rising to above-trend levels from 4QFY23. The strong performance from Seraya so far this year has more than offset the temporarily weaker WW earnings.

RETURN STATISTICS	
Price @ 23rd Feb 2023 (RM)	0.74
Expected share price return (%)	+51.8
Expected dividend yield (%)	+6.1
Expected total return (%)	**+57.8**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.7	3.4
3 months	2.8	8.4
12 months	16.7	26.7

KEY STATISTICS	
FBM KLCI	1457.65
Syariah compliant	No
F4BGM Index	No
ESG Grading Band (Star rating)	N/A
Issue shares (m)	8102.16
Estimated free float (%)	17.00
Market Capitalisation (RM'm)	5,955.08
52-wk price range	RM0.56 - RM0.84
Beta vs FBM KLCI (x)	0.88
Monthly velocity (%)	0.00
Monthly volatility (%)	11.84
3-mth average daily volume (m)	1.45
3-mth average daily value (RM'm)	1.06
Top Shareholders (%)	
YTL Corp Bhd	49.08
Yeoh Tiong Lay & Sons Holdings	9.91
Amanah Saham Nasional 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	18,950.8	19,045.9
Operating profit (RM'm)	1,051.5	1,222.8	2,066.1	1,662.7	1,973.3
Pre-tax profit (RM'm)	423.8	636.5	1,396.4	855.2	1,156.2
Core net profit (RM'm)	328.1	397.4	152.9	608.8	661.4
FD EPS (sen)	4.0	4.9	1.9	7.5	8.1
EPS growth (%)	(43.4)	21.1	(61.5)	298.2	8.6
PER (x)	18.4	15.2	39.5	9.9	9.1
Net Dividend (sen)	0.0	4.5	4.5	4.5	5.7
Net Dividend Yield (%)	0.0	6.1	6.1	6.1	7.7

Source: Company, MIDFR

Earnings revision. Given the stronger than expected result, we raise FY23F/24F net profit by 42%/22% to factor in stronger margins at Seraya and to reflect higher investment holding interest income. We now expect FY23F earnings to grow by +298%yoy driven by earnings improvement at Seraya, partly offset by weaker WW earnings and larger telco losses. FY24F earnings growth of +9%yoy is expected to be driven mainly by the scheduled tariff revision at WW. Due to these revisions, our FY23F/24F earnings are now 44%/32% higher than consensus.

Reaffirm BUY. Our SOP-derived **TP** is raised to **RM1.12** (from RM1.03) following the upward earnings revision. Our valuation currently excludes YTLP's 45%-owned Jordan shale power plant given uncertainties surrounding the project. Nevertheless, we gather there is a possibility of the Jordan power plant proceeding with commercial operations under the original PPA tariffs until a final decision of a revised tariff (if any) is derived from the arbitration process. 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 6.1%. 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 in CY24 with Sea Ltd. and GDS Holdings as anchor tenants for the initial 48MW.

Exhibit 1: Electricity Supply (Singapore)

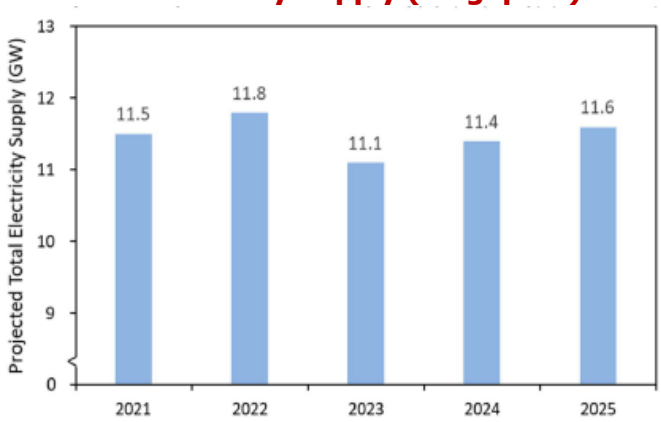
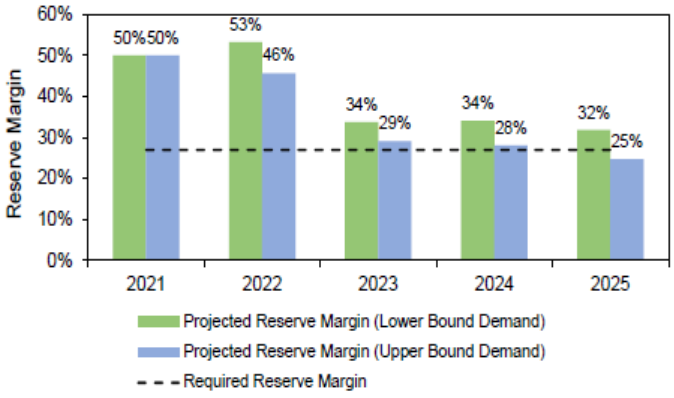


Exhibit 2: Reserve Margin (Singapore)



Source: EMA, MIDFR

Exhibit 3: Singapore electricity price trend

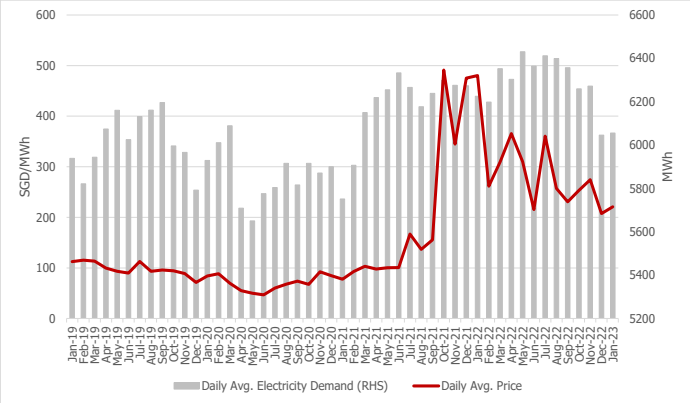
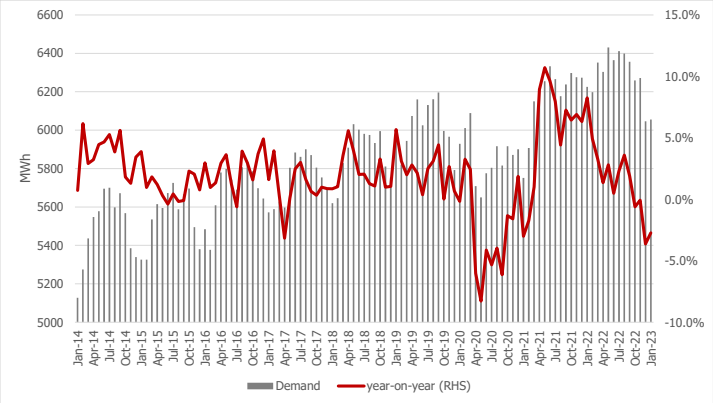


Exhibit 4: Singapore electricity demand



Source: EMA, MIDFR

Exhibit 5: YTLP Sum-of-Parts Valuation

SOP Component	Enterprise Value (RMm)	Stake	Per share (RM)
Wessex Water	21,613	100%	2.65
Power Seraya	7,209	100%	0.88
PT Jawa Power	1,173	20%	0.14
Telco division	58	60%	0.01
Total enterprise value	**30,053**		**3.69**
Less: Group net debt	*-20,894*		-2.56
Total equity value	**9,160**		**1.12**

YTL POWER: 1HFY23 RESULT SUMMARY

FYE Jun (RMm)	2Q22	1Q23	2Q23	QoQ	YoY	1H22	1H23	YTD
Revenue	5,107.2	4,744.5	4,702.8	-0.9%	-7.9%	8,647.3	9,447.2	9.3%
Operating profit	240.4	473.7	555.4	17.2%	131.0%	493.4	1,029.1	108.6%
Interest expense	(228.9)	(331.9)	(378.8)	14.1%	65.5%	(469.0)	(710.7)	51.5%
Associates	64.6	83.1	79.3	-4.6%	22.7%	152.1	162.4	6.8%
PBT	**76.2**	**224.9**	**255.9**	**13.8%**	**235.9%**	**176.5**	**480.8**	**172.4%**
Tax	(34.2)	(57.3)	(65.2)	13.9%	90.8%	(83.2)	(122.5)	47.2%
PAT	42.0	167.6	190.7	13.8%	354.0%	93.3	358.3	283.9%
Minority Interest	23.2	(5.7)	(8.1)	-43.4%	-134.9%	39.2	(13.8)	135.2%
Net profit	18.8	173.3	198.8	14.7%	958.0%	54.2	372.1	586.7%
Core net profit	**18.8**	**173.3**	**198.8**	**14.7%**	**958.0%**	**54.2**	**372.1**	**586.7%**
Core EPS (sen)	0.25	2.27	2.60	14.7%	958.0%	0.71	4.87	
GDPS (sen)	0.00	0.00	0.00			0.00	0.00	
Operating margin	4.7%	10.0%	11.8%			5.7%	10.9%	
PBT margin	1.5%	4.7%	5.4%			2.0%	5.1%	
Tax rate	44.9%	25.5%	25.5%			47.1%	25.5%	
Core net profit margin	0.4%	3.7%	4.2%			0.6%	3.9%	

FYE Jun (RMm)	2Q22	1Q23	2Q23	QoQ	YoY	1H22	1H23	QoQ
Revenue:	**5,133.9**	**4,744.5**	**4,702.8**			**8,647.3**	**9,447.2**	
Multi utilities business (merchant)	3,863.7	3,463.6	3,386.8	-2.2%	-12.3%	5,981.3	6,850.4	14.5%
Water and sewerage	1,026.1	1,049.5	1,039.4	-1.0%	1.3%	2,068.5	2,089.0	1.0%
Telco business	160.5	112.9	138.7	22.8%	-13.6%	434.2	251.6	-42.1%
Investment holding	83.5	118.4	137.8	16.4%	65.1%	163.3	256.3	56.9%
PBT:	**76.2**	**224.9**	**255.9**			**176.5**	**480.8**	
Multi utilities business (merchant)	8.7	289.9	301.5	4.0%	3381.3%	78.4	591.4	654.1%
Water and sewerage	145.2	25.4	(16.1)	-163.2%	-111.1%	275.3	9.3	-96.6%
Telco business	(16.4)	(84.0)	(71.9)	14.3%	-338.0%	-50.6	-155.9	-208.2%
Investment Holding	(61.3)	(6.5)	42.5	754.4%	169.4%	-126.6	36.0	128.4%
PBT Margin (%)				**ppts**	**ppts**			**ppts**
Multi utilities business (merchant)	0.2%	8.4%	8.9%	*0.5*	*8.7*	1.3%	8.6%	*7.3*
Water and sewerage	14.2%	2.4%	-1.5%	*-4.0*	*-15.7*	13.3%	0.4%	*-12.9*
Telco business	-10.2%	-74.4%	-51.9%	*22.5*	*-41.6*	-11.7%	-62.0%	*-50.3*
Investment Holding	-73.4%	-5.5%	30.8%	*36.3*	*104.2*	-77.5%	14.1%	*91.6*

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