YTL Power International Berhad

(6742 | YTLP MK) Main | Utilities

Maintain BUY

Explosive Growth

Revised Target Price: RM1.54
(previously RM1.12)

KEY INVESTMENT HIGHLIGHTS

- **YTL Power smashed estimates yet again in 9MFY23**
- **Strong performance driven by tight electricity market in Singapore**
- **Further boost expected from Wessex Water's upcoming tariff hike**
- **FY23F/24F earnings raised +82%/+88%**
- **Reaffirm BUY at a higher TP of RM1.54**

Yet another consensus-beating quarter. YTL Power's (YTLP) 9MFY23 earnings smashed estimates. The group reported a net profit of RM520m for its 3QFY23, which brought 9MFY23 earnings to RM892m. This accounted for 146%/124% of our/consensus' full year estimates respectively. An interim dividend of 2.5sen/share (+25%yoy) was declared.

Key takeaways. Group revenue grew +15%yoy driven by higher prices in the Singapore electricity market. This drove sharply improved margins resulting in a significant turnaround in bottomline from a core net loss of -RM19m in 3QFY22 to a net profit of RM520m in 3QFY23. Given a tighter market from minimal new capacity and sustained strong demand, Singapore's reserve margin is expected to gap down to a range of 29%-34% in CY23 from 46%-53% in CY22, based on the EMA's projection. This level of reserve margin is expected to sustain until CY25, at least, suggesting Seraya's strong earnings could be sustained in the near to mid-term. The strong year-on-year growth in Seraya's earnings was also boosted by contribution from Tuaspring from June 2022, which effectively increased Seraya's capacity by an estimated 16%. In the short-term, we expect the weaker RM against the SGD to also artificially lift earnings contribution from Seraya.

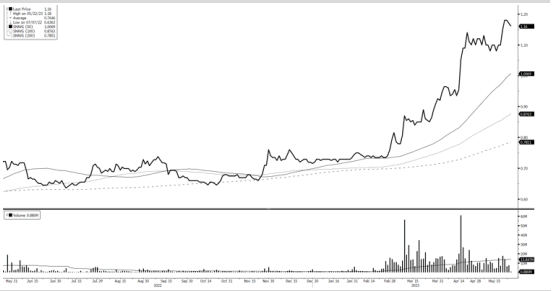
Wessex Water (WW) remained in the red in 3QFY23 due to non-cash interest accruals on index-linked bonds of -RM75m (-GBP14m). However, WW is expected to see earnings recovery going forward following an average 9% tariff hike from 1st April 2023. This is expected to partly compensate the current inflationary pressure on cost and lift WW back into profits in FY24F.

Earnings estimates. Given the strong outperformance, we raise FY23F/24F net profit by +82%/+88% respectively to factor in higher margins and higher average rate assumption for Seraya.

BUY reaffirmed. We lift our SOP-derived **TP** to **RM1.54** (from RM1.12 previously) following the earnings revision. Our valuation conservatively excludes YTLP's 45%-owned Jordan shale power plant given the current arbitration process. Valuations are undemanding at 7.5x FY24F PER (40% discount to 10yr historical mean of 13x) while dividend yields are attractive at 4.7%/6.6% (FY23F/24F). The group is also well positioned to benefit from lifting of the RE export ban given its advantage in having existing generation and retail operations in Singapore. Near-term, earnings is set to be boosted further by WW's tariff hike.

RETURN STATISTICS	
Price @ 25th May 2023 (RM)	1.15
Expected share price return (%)	+33.64
Expected dividend yield (%)	4.74
Expected total return (%)	**+38.38**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	3.6	5.3
3 months	24.3	62.5
12 months	49.4	63.5

INVESTMENT STATISTICS

FYE Jun (RMm)	2022A	2023F	2024F
Revenue	17,793.9	19,425.8	20,082.4
Operating Profit	2,066.1	2,238.4	2,439.8
Profit Before Tax	1,396.4	1,430.9	1,622.7
Core PATAMI	152.9	1,110.4	1,243.5
Core EPS (sen/share)	1.9	13.6	15.2
DPS (sen/share)	4.5	5.4	7.6
Dividend Yield (%)	3.9	4.7	6.6

KEY STATISTICS

FBM KLCI	1,402.48
Issue shares (m)	8,102.2
Estimated free float (%)	17.4
Market Capitalisation (RM'm)	9,398.5
52-wk price range	RM0.65 - RM1.2
3-mth average daily volume (m)	14.0
3-mth average daily value (RM'm)	13.4
Top Shareholders (%)	
YTL Corp Bhd	49.1
Yeoh Tiong Lay & Sons Holdings	9.9
Amanah Saham Nasional Bhd	6.9

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Table 1: YTL Power 9MFY23 Result Summary

FYE Jun (RMm)	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YTD
Revenue	4,670.8	4,702.8	5,357.5	13.9%	14.7%	13,318.1	14,804.7	11.2%
Operating profit	1,231.1	555.4	996.5	79.4%	-19.1%	1,724.5	2,025.6	17.5%
Interest expense	(250.9)	(378.8)	(432.9)	14.3%	72.5%	(719.9)	(1,143.5)	58.8%
Associates	56.9	79.3	46.8	-41.0%	-17.8%	209.0	209.2	0.1%
PBT	**1,037.0**	**255.9**	**610.4**	**138.5%**	**-41.1%**	**1,213.6**	**1,091.2**	**-10.1%**
Tax	(60.4)	(65.2)	(102.8)	57.5%	70.2%	(143.6)	(225.3)	56.9%
PAT	976.7	190.7	507.6	166.2%	-48.0%	1,070.0	866.0	-19.1%
Minority Interest	(33.6)	(8.1)	(12.0)	47.9%	-64.3%	5.6	(25.8)	-561.5%
Net profit	1,010.2	198.8	519.6	161.4%	-48.6%	1,064.4	891.7	-16.2%
Core net profit	**(18.6)**	**198.8**	**519.6**	**161.4%**	**2888.9%**	**97.0**	**891.7**	**819.0%**
Core EPS (sen)	-0.24	2.60	6.80	161.4%	-2888.9%	1.27	11.66	
GDPS (sen)	2.00	0.00	2.50			2.00	2.50	
Operating margin	26.4%	11.8%	18.6%			12.9%	13.7%	
PBT margin	22.2%	5.4%	11.4%			9.1%	7.4%	
Tax rate	5.8%	25.5%	16.8%			11.8%	20.6%	
Core net profit margin	-0.4%	4.2%	9.7%			8.0%	6.0%	

FYE Jun (RMm)	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	QoQ
Revenue:	**4,670.8**	**4,702.8**	**5,357.5**			**13,318.1**	**14,804.7**	
Multi utilities business (merchant)	3,453.3	3,386.8	4,120.1	21.7%	19.3%	9,434.6	10,970.5	16.3%
Water and sewerage	1,010.7	1,039.4	995.5	-4.2%	-1.5%	3,079.2	3,084.5	0.2%
Telco business	115.6	138.7	109.3	-21.2%	-5.4%	549.7	360.9	-34.4%
Investment holding	91.3	137.8	132.5	-3.9%	45.2%	254.6	388.8	52.7%
PBT:	**1,037.0**	**255.9**	**610.4**			**1,213.6**	**1,091.2**	
Multi utilities business (merchant)	129.9	301.5	806.4	167.5%	520.7%	208.3	1,397.8	570.9%
Water and sewerage	89.1	(16.1)	(47.2)	193.4%	-152.9%	364.5	-37.8	-110.4%
Telco business	(85.7)	(71.9)	(103.2)	43.4%	20.4%	-136.3	-259.1	90.1%
Investment Holding	903.7	42.5	(45.6)	-207.3%	-105.0%	777.1	-9.6	-101.2%
PBT Margin (%)				**ppts**	**ppts**			**ppts**
Multi utilities business (merchant)	3.8%	8.9%	19.6%	*10.7*	*15.8*	2.2%	12.7%	*10.5*
Water and sewerage	8.8%	-1.5%	-4.7%	*-3.2*	*-13.6*	11.8%	-1.2%	*-13.1*
Telco business	-74.2%	-51.9%	-94.4%	*-42.5*	*-20.3*	-24.8%	-71.8%	*-47.0*
Investment Holding	990.3%	30.8%	-34.4%	*-65.3*	*-1024.7*	305.2%	-2.5%	*-307.7*

Source: Company, MIDFR

Chart 1: Electricity Supply (Singapore)

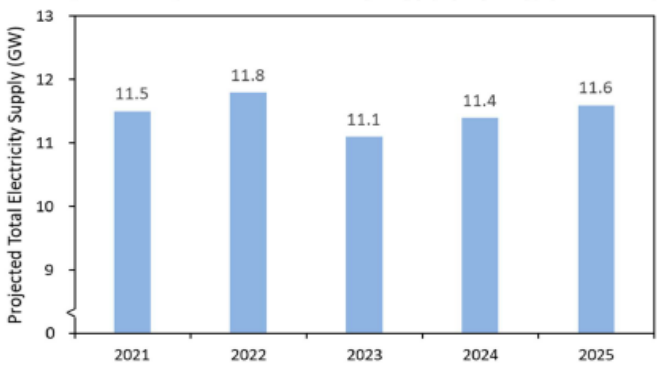
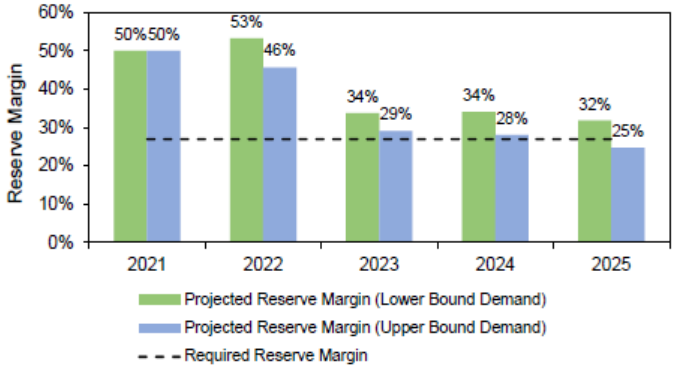


Chart 2: Reserve Margin (Singapore)



Source: EMA, MIDFR

Chart 3: Singapore electricity price trend

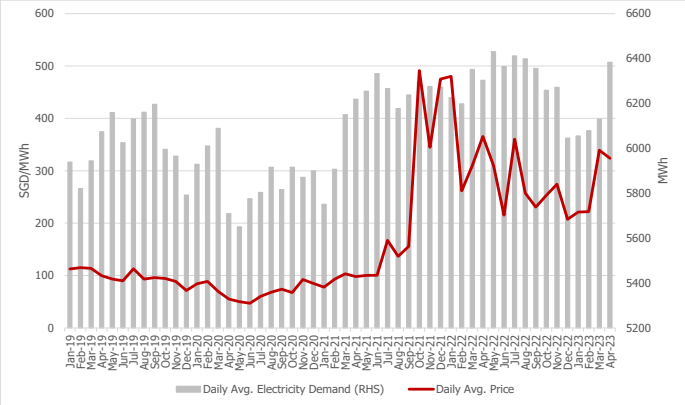
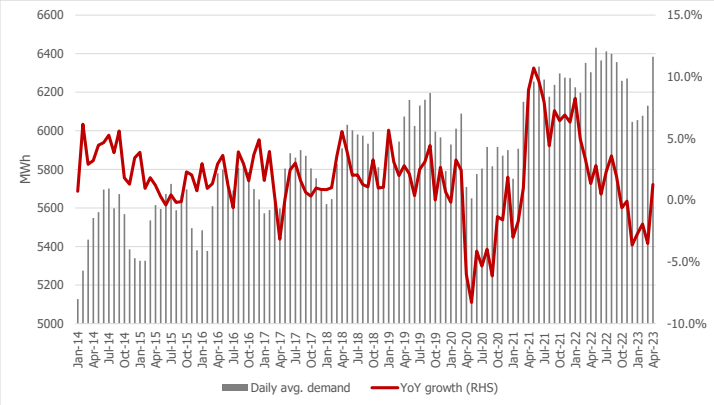


Chart 4: Singapore electricity demand



Source: EMA, MIDFR

Table 2: YTL Power Sum-of-Parts Valuation

SOP Component	Enterprise Value (RM m)	Stake	Per share (RM)
Wessex Water	21,150	100%	2.59
Power Seraya	10,627	100%	1.30
PT Jawa Power	1,173	20%	0.14
Telco division	58	60%	0.01
Total enterprise value	**33,008**		**4.05**
Less: Group net debt	*(20,474)*		(2.51)
Total equity value	**12,533**		**1.54**

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2020	2021	2022	2023F	2024F
Revenue	**10,670.3**	**10,782.8**	**17,793.9**	**19,425.8**	**20,082.4**
Operating expenses	(9,618.8)	(9,560.0)	(15,727.8)	(17,187.4)	(17,642.6)
Operating profit	**1,051.5**	**1,222.8**	**2,066.1**	**2,238.4**	**2,439.8**
Interest expense	(1,082.0)	(952.3)	(989.9)	(1,121.4)	(1,130.9)
Associates	454.2	366.0	320.2	313.9	313.9
PBT	**423.8**	**636.5**	**1,396.4**	**1,430.9**	**1,622.7**
Taxation	(298.2)	(735.1)	(173.6)	(286.2)	(340.8)
Minority Interest	61.0	44.4	(34.8)	34.3	38.5
Net profit	64.6	(143.1)	1,257.6	1,110.4	1,243.5
Core net profit	**328.1**	**397.4**	**152.9**	**1,110.4**	**1,243.5**
Balance Sheet (RM'm)	**2020**	**2021**	**2022**	**2023F**	**2024F**
PPE	21,876.5	24,200.9	24,586.0	24,852.4	24,184.3
Investments in associate	2,139.9	2,139.9	2,139.9	2,139.9	2,139.9
Others	11,610.7	11,876.2	12,184.2	12,184.2	12,184.2
Non-current assets	**35,627.1**	**38,217.0**	**38,910.1**	**39,176.5**	**38,508.4**
Inventories	355.2	351.2	493.1	542.8	561.1
Receivables	2,352.2	2,897.3	3,550.5	3,908.6	4,040.7
Others	4,171.8	2,016.2	1,156.7	1,156.7	1,156.7
Cash & equivalent	4,594.9	8,592.6	6,857.2	7,880.3	9,026.3
Current assets	**11,474.1**	**13,857.3**	**12,057.5**	**13,488.5**	**14,784.9**
Share capital	7,038.6	7,038.6	7,038.6	7,038.6	7,038.6
Minority Interest	24.7	(110.2)	(269.5)	(235.2)	(196.7)
Reserves	4,897.3	5,979.1	7,272.0	7,938.2	8,560.0
Total Equity	**11,960.6**	**12,907.4**	**14,041.1**	**14,741.6**	**15,401.8**
Long-term borrowings	20,083.2	25,910.9	25,259.8	25,900.5	25,737.2
Deferred tax liabilities	2,030.0	2,030.0	2,030.0	2,030.0	2,030.0
Others	2,861.4	3,893.6	3,441.2	3,441.2	3,441.2
Non-current liabilities	**24,974.6**	**31,834.5**	**30,731.0**	**31,371.8**	**31,208.5**
Short-term borrowings	7,968.6	4,445.0	2,454.2	2,454.2	2,454.2
Payables	2,018.3	2,685.5	3,530.3	3,886.4	4,017.8
Others	179.1	201.8	210.9	210.9	210.9
Current liabilities	**10,166.0**	**7,332.4**	**6,195.5**	**6,551.6**	**6,682.9**

Cash Flow Statement (RM'm)	2020	2021	2022	2023F	2024F
PAT	125.6	607.1	225.3	1,144.7	1,282.0
Depreciation & Amortization	1,948.2	2,168.7	2,273.4	2,370.6	2,460.2
Chgs in working capital	(4.0)	126.2	49.7	(51.8)	(19.1)
Others	(454.2)	(1,572.7)	(1,705.7)	(1,085.9)	(313.9)
Operating cash flow	**1,615.6**	**1,329.4**	**842.7**	**2,377.7**	**3,409.2**
Capex	(6,310.1)	(1,742.7)	(1,750.5)	(1,792.1)	(1,792.1)
Others	454.2	616.4	1,876.1	313.9	313.9
Investing cash flow	**(5,855.8)**	**(1,126.3)**	**125.6**	**(1,478.2)**	**(1,478.2)**
Dividends paid	(45.2)	(315.5)	(512.1)	(444.2)	(621.8)
Net movement in borrowings	1,338.1	(963.8)	(4,245.6)	640.7	(163.3)
Others	0.0	2,352.1	2,052.5	0.0	0.0
Financing cash flow	**1,292.9**	**1,072.8**	**(2,705.2)**	**196.6**	**(785.1)**
Net changes in cash	(2,947.3)	1,275.9	(1,736.9)	1,096.1	1,145.9
Beginning cash	**7,542.2**	**6,923.6**	**8,566.6**	**6,784.2**	**7,880.3**
Forex, Overdrafts & Deposits	0.0	393.2	27.5	0.0	0.0
Ending cash	**4,594.9**	**8,592.6**	**6,857.2**	**7,880.3**	**9,026.3**

Key Ratios	2020	2021	2022	2023F	2024F
Operating profit margin	9.9%	11.3%	11.6%	11.5%	12.1%
Core net profit margin	3.1%	3.7%	0.9%	5.7%	6.2%
ROE	0.5%	3.9%	0.9%	7.4%	8.0%
ROA	0.1%	1.0%	0.3%	2.1%	2.3%
Net gearing (%)	196.1%	168.6%	148.5%	138.9%	124.4%
Book value/share (RM)	1.47	1.58	1.72	1.81	1.89
PBV (x)	0.8	0.7	0.7	0.6	0.6
PER (x)	28.6	23.6	61.3	8.4	7.5

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