

YTL Power International Berhad

(6742 | YTLP MK) Main | Utilities

Electrifying Momentum

KEY INVESTMENT HIGHLIGHTS

- **1QFY24 result outperformed expectations**
- **Power Seraya key driver of group's +389%yoy 1QFY24 earnings growth**
- **FY24F/25F net profit raised +50%/+53%**
- **Re-affirm BUY at higher TP of RM2.99**

Still outperforming. YTL Power (YTLP) reported a net profit of RM847.9m for its 1QFY24, which was well ahead of estimates, accounting for 41.7%/39.3% of our/consensus full year projection respectively. The outperformance was attributable to stronger than expected margins at Seraya.

Key takeaways. Group 1QFY24 PBT was up +358.6%yoy driven mainly by Seraya which registered a +253.6%yoy PBT growth. Seraya is benefiting from a recovery in rates, cheap long term gas contracts and a stronger SGD. Notwithstanding some sequential softening in USEP following enforcement of the dynamic price cap since July 2023 by EMA, Seraya's margins continued to strengthen as it renews long-term retail contracts in a tight supply market with no capacity addition expected until 2026. Seraya takes a conservative strategy with ~70% of volumes locked into long-term contracts, shielding it from spot market volatility. Positively, USEP rates had since September 2023 recovered to >SGD200/MWh levels (See Chart 1), providing a good indicator to contract renewal momentum further out. Meanwhile, Wessex Water remained marginally in the red given non-cash impact of higher interest accruals on index-linked bonds of RM156m. However, the impact was expected to gradually reduce in tandem with easing UK inflation.

Earnings revision. Given stronger than expected results, we raise FY24F/25F net profit by +50.3%/+53.4% to factor in higher margins at Seraya. We now expect a +59%yoy FY24F earnings growth to be driven predominantly by Seraya from favourable retail contract renewals.

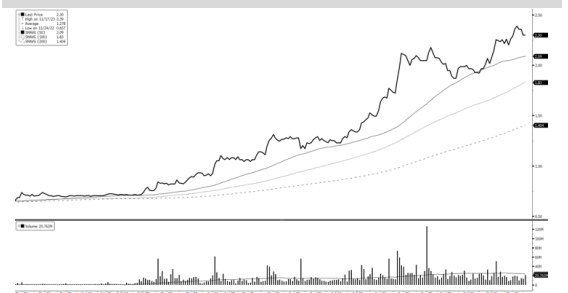
Recommendation. We re-affirm our **BUY** call on YTLP at higher SOP-derived **TP of RM2.99** (from RM2.45 previously) following the earnings upgrades in this report. We also factor in the valuation of YTLP's recently acquired 18.9% equity interest in Ranhill Utilities. We continue to like YTLP for: (1) Exposure to recovery in the Singapore electricity market, (2) Strategic expansion into data centre and RE. We also believe YTLP is a potential beneficiary from the strong RE growth trajectory under NETR, particularly for RE exports. Valuation is undemanding at just 6.5x FY24F PER while dividend yield of 7.7% (DPR: 50%) is attractive.

Maintain BUY
Revised Target Price: RM2.99
 (Previously RM2.45)

RETURN STATISTICS

Price @ 23 rd Nov. 2023 (RM)	2.30
Expected share price return (%)	+29.9
Expected dividend yield (%)	7.7
Expected total return (%)	+37.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	15.0	13.6
3 months	12.2	30.6
12 months	238.2	249.5

INVESTMENT STATISTICS

FYE Jun (RMm)	2023A	2024F	2025F
Revenue	21,892.5	23,540.2	24,058.2
Operating Profit	3,695.0	4,591.2	4,795.0
Profit Before Tax	2,443.2	3,577.6	3,815.6
Core PATAMI	1,822.0	2,904.3	3,097.5
Core EPS (sen/share)	22.3	35.6	38.0
PER (x)	10.3	6.5	6.1
DPS (sen/share)	6.0	17.8	19.0
Dividend Yield (%)	2.6	7.7	8.3

KEY STATISTICS

FBM KLCI	1,453.29
Issue shares (m)	8102.15
Estimated free float (%)	23.06
Market Capitalisation (RM'm)	18,634.95
52-wk price range	RM0.66-RM2.41
3-mth average daily volume (m)	24.13
3-mth average daily value (RM'm)	50.38
Top Shareholders (%)	
YTL Corp Bhd	49.08
Yeoh Tiong Lay & Sons Holdings	9.91
Cornerstone Crest Sdn Bhd	6.49

Analyst
Hafriz Hezry

 hafriz.hezry@midf.com.my
 +603 2173 8392

Table 1: YTL Power Sum-of-Parts Valuation

SOP Component	Enterprise Value (RM m)	Stake	Per share (RM)
Wessex Water	21,039	100%	2.58
Power Seraya	19,493	100%	2.39
PT Jawa Power	1,173	20%	0.14
Telco division	606	60%	0.07
Attarat Jordan	2,178	45%	0.27
Ranhill Utilities (Equity value)	220	19%	0.03
Total enterprise value	44,709		5.48
Less: Group net debt	-20,355		-2.50
Total equity value	24,355		2.99

Source: Company, MIDFR

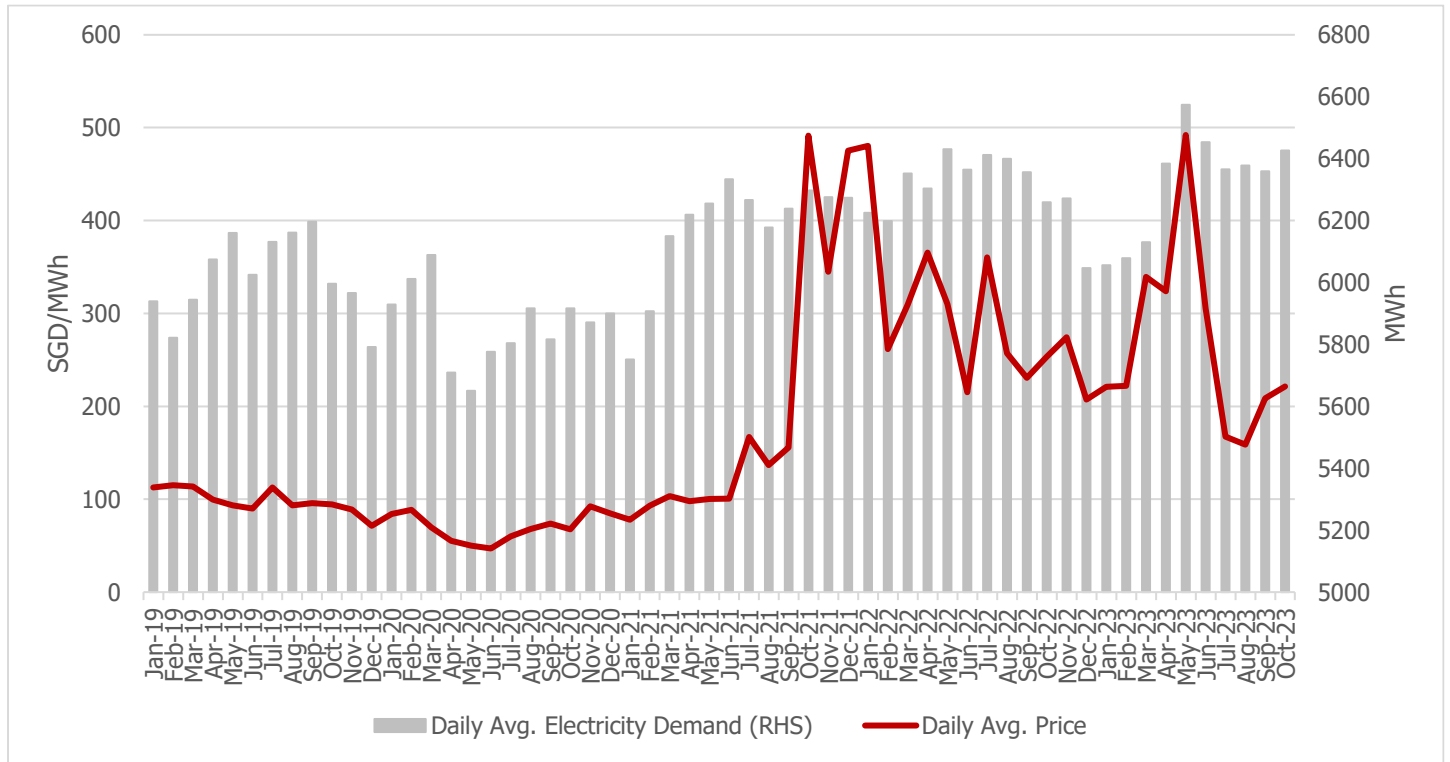
YTL POWER: 1QFY24 RESULT SUMMARY

FYE Jun (RMm)	1Q23	4Q23	1Q24	QoQ	YoY
Revenue	4,744.5	7,087.8	5,445.7	-23.2%	14.8%
Operating profit	473.7	1,669.4	1,443.2	-13.6%	204.7%
Interest expense	(331.9)	(436.6)	(486.9)	11.5%	46.7%
Associates	83.1	119.2	75.1	-36.9%	-9.6%
PBT	224.9	1,352.0	1,031.5	-23.7%	358.6%
Tax	(57.3)	(191.6)	(181.2)	-5.4%	216.4%
PAT	167.6	1,160.4	850.3	-26.7%	407.3%
Minority Interest	(5.7)	30.2	2.4	-92.1%	-142.3%
Net profit	173.3	1,130.2	847.9	-25.0%	389.3%
Core net profit	173.3	930.2	847.9	-8.8%	389.3%
Core EPS (sen)	2.27	11.48	10.47	-8.8%	361.8%
GDPS (sen)	0.00	3.50	0.00		
Operating profit margin	10.0%	23.6%	26.5%		
PBT margin	4.7%	19.1%	18.9%		
Tax rate	25.5%	14.2%	17.6%		
Core net profit margin	3.7%	13.1%	15.6%		

FYE Jun (RMm)	1Q23	4Q23	1Q24	QoQ	YoY
Revenue:	4,744.5	7,087.8	5,445.7		
Power generation	3,463.6	5,246.4	3,796.3	-27.6%	9.6%
Water and sewerage	1,049.5	1,181.3	1,214.3	2.8%	15.7%
Telco business	112.9	241.8	184.4	-23.7%	63.3%
Investment holding	118.4	418.3	250.7	-40.1%	111.7%
PBT:	224.9	1,352.0	1,031.5		
Power generation	289.9	1,067.4	1,025.1	-4.0%	253.6%
Water and sewerage	25.4	(57.0)	(34.8)	39.0%	-236.7%
Telco business	(84.0)	(8.9)	(71.5)	-707.1%	14.9%
Investment Holding	(6.5)	350.4	112.6	-67.9%	1832.9%
PBT Margin (%)				ppts	ppts
Power generation	8.4%	20.3%	27.0%	6.7	18.6
Water and sewerage	2.4%	-4.8%	-2.9%	2.0	-5.3
Telco business	-74.4%	-3.7%	-38.8%	-35.1	35.6
Investment Holding	-5.5%	83.8%	44.9%	-38.9	50.4

Source: Company, MIDFR

Chart 1: USEP (Uniform Singapore Energy Price) and Demand Trend



Source: EMA, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021	2022	2023	2024F	2025F
Revenue	10,782.8	17,793.9	21,892.5	23,540.2	24,058.2
Operating expenses	(9,560.0)	(15,727.8)	(18,197.5)	(18,949.0)	(19,263.3)
Operating profit	1,222.8	2,066.1	3,695.0	4,591.2	4,795.0
Interest expense	(952.3)	(989.9)	(1,580.1)	(1,413.7)	(1,405.7)
Associates	366.0	320.2	328.3	400.0	426.3
PBT	636.5	1,396.4	2,443.2	3,577.6	3,815.6
Taxation	(735.1)	(173.6)	(416.8)	(644.0)	(686.8)
Minority Interest	44.4	(34.8)	4.4	29.3	31.3
Net profit	(143.1)	1,257.6	2,022.0	2,904.3	3,097.5
Core net profit	397.4	152.9	1,822.0	2,904.3	3,097.5
Balance Sheet (RM'm)	2021	2022	2023	2024F	2025F
PPE	24,200.9	24,586.0	24,852.4	24,184.3	23,426.6
Investments in associate	2,139.9	2,139.9	2,139.9	2,139.9	2,139.9
Others	11,876.2	12,184.2	17,092.8	17,092.8	17,092.8
Non-current assets	38,217.0	38,910.1	44,085.1	43,417.0	42,659.3
Inventories	351.2	493.1	639.2	657.7	672.2
Receivables	2,897.3	3,550.5	4,602.6	4,736.5	4,840.7
Others	2,016.2	1,156.7	829.2	829.2	829.2
Cash & equivalent	8,592.6	6,857.2	8,999.4	7,836.8	10,004.4
Current assets	13,857.3	12,057.5	15,070.4	14,060.2	16,346.5
Share capital	7,038.6	7,038.6	7,038.6	7,038.6	7,038.6
Minority Interest	(110.2)	(269.5)	(371.0)	(341.7)	(310.4)
Reserves	5,979.1	7,272.0	9,733.1	11,185.2	12,734.0
Total Equity	12,907.4	14,041.1	16,400.6	17,882.1	19,462.1
Long-term borrowings	25,910.9	25,259.8	28,417.0	25,124.2	24,969.0
Deferred tax liabilities	2,030.0	2,030.0	2,030.0	2,030.0	2,030.0
Others	3,893.6	3,441.2	4,148.2	4,148.2	4,148.2
Non-current liabilities	31,834.5	30,731.0	34,595.2	31,302.4	31,147.2
Short-term borrowings	4,445.0	2,454.2	3,067.3	3,067.3	3,067.3
Payables	2,685.5	3,530.3	4,576.5	4,709.6	4,813.2
Others	201.8	210.9	515.9	515.9	515.9
Current liabilities	7,332.4	6,195.5	8,159.7	8,292.8	8,396.4

Cash Flow Statement (RM'm)	2021	2022	2023	2024F	2025F
PAT	(98.7)	1,222.8	2,026.4	2,933.6	3,128.8
Depreciation & Amortization	2,168.7	2,273.4	2,370.6	2,460.2	2,549.8
Chgs in working capital	126.2	49.7	(152.1)	(19.3)	(15.1)
Others	(866.9)	(2,703.3)	(786.3)	(400.0)	(426.3)
Operating cash flow	1,329.4	842.7	3,458.6	4,974.5	5,237.2
Capex	(1,742.7)	(1,750.5)	(1,792.1)	(1,792.1)	(1,792.1)
Others	616.4	1,876.1	(742.9)	400.0	426.3
Investing cash flow	(1,126.3)	125.6	(2,535.0)	(1,392.1)	(1,365.7)
Dividends paid	(315.5)	(512.1)	(616.3)	(1,452.1)	(1,548.8)
Net movement in borrowings	(963.8)	(4,245.6)	3,770.3	(3,292.8)	(155.1)
Others	2,352.1	2,052.5	(2,687.8)	0.0	0.0
Financing cash flow	1,072.8	(2,705.2)	466.1	(4,745.0)	(1,703.9)
Net changes in cash	1,275.9	(1,736.9)	1,389.8	(1,162.6)	2,167.6
Beginning cash	6,923.6	8,566.6	6,784.2	8,727.1	7,564.5
Forex, Overdrafts & Deposits	393.2	27.5	825.4	272.3	272.3
Ending cash	8,592.6	6,857.2	8,999.4	7,836.8	10,004.4
Key Ratios	2021	2022	2023	2024F	2025F
Operating profit margin	11.3%	11.6%	16.9%	19.5%	19.9%
Core net profit margin	3.7%	0.9%	8.3%	12.3%	12.9%
ROE	3.9%	0.9%	9.2%	15.9%	15.7%
ROA	1.0%	0.3%	2.6%	5.1%	5.2%
Net gearing (%)	168.6%	148.5%	137.1%	113.8%	92.7%
Book value/share (RM)	1.58	1.72	2.01	2.19	2.39
PBV (x)	1.1	1.0	0.9	1.0	1.0
PER (x)	35.9	93.4	7.8	6.5	6.1

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 <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.

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