

# YTL Power International Berhad

(6742 | YTLP MK) Main | Utilities

**Maintain BUY**

## Opportunity to Accumulate on Dips

**Unchanged Target Price: RM1.54**

### KEY INVESTMENT HIGHLIGHTS

- **New dynamic price cap for Singapore wholesale electricity market caused knee-jerk share price reaction**
- **In the long-run, we believe this impacts the less efficient generators**
- **The bulk of Seraya's capacity are on long-term contracts, tight market bodes well for renewals**
- **Maintain BUY at unchanged TP of RM1.54**

**New price cap to curb volatility.** The Energy Market Authority (EMA) is implementing a new price cap mechanism for the wholesale electricity market from Jul'23 till 3QCY25 to curb excessive price volatility from temporary capacity outages and gas supply shortages. The new price cap is essentially a switch from the current SGD4500/MWh to a dynamic cap on cost-plus model at 1.5x-3.0x a CCGT's long run marginal cost (fuel and non-fuel variable cost) under varying gas spread scenarios.

**Our view.** Firstly, based on simulations by the EMA for period Oct'22-Apr'23, market prices breached the theoretical price only 0.6% of the trading period observed, while impact on average USEP was -3.2%, meaning the majority of the time, the market is "well behaved". While we believe the new cap will weed out temporary extreme spikes, it still gives sufficient room for returns as the multiplier is some 3x a CCGT's LRMC in periods of stable gas prices. Secondly, we estimate ~75% of Seraya's revenue are tied on long-term contracts (ranging from half a year up to 2 years), which entail stable rates and margins. Given still tight electricity market expected in the next 3 years with minimal new capacity additions, we think renewal prospects of the long-term contracts remains favourable. Thirdly, we believe the long-term impact of the new price cap is mainly on the less efficient generators which are typically the last get on the grid, while incumbents such as Seraya should be less impacted.

**Earnings estimates.** We make no changes to our projections, which has factored in some normalisation in earnings for Seraya from FY26F in line with expectations of stabilising fuel prices over the mid-term. As we believe the bulk of Seraya's recent quarterly results still reflected the long-term contracts locked in 1-2 years ago, we reckon it has yet to fully capture the strong rates in the wholesale market.

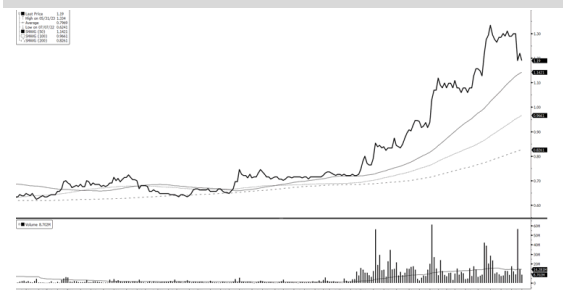
**BUY maintained.** We keep our SOP-derived **TP of RM1.54**. Valuations are undemanding at 7.8x FY24F PER, especially after the recent sell down (~40% discount to 10yr historical mean of 13x) while dividend yields are attractive at 4.6%/6.4% (FY23F/24F). YTLP is well positioned to benefit from Malaysia's 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 a recovery in Wessex Water's earnings from its recent Apr23' tariff hike and still strong Seraya earnings from a tight Singapore electricity market, while near-term, the group could temporarily benefit from a weaker Ringgit against the SGD and GBP. Our valuations have yet to factor in YTLP's 45%-owned Jordan shale oil power plant, which we believe could start contributing to earnings soon.



### RETURN STATISTICS

Price @ 22 <sup>nd</sup> June 2023 (RM)	1.19
Expected share price return (%)	+29.15
Expected dividend yield (%)	4.58
<b>Expected total return (%)</b>	<b>+33.73</b>

### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	13.0	16.3
3 months	40.5	55.5
12 months	91.2	100.6

### 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 (%)	3.8	4.6	6.4

### KEY STATISTICS

FBM KLCI	1,394.67
Issue shares (m)	8,102.2
Estimated free float (%)	17.51
Market Capitalisation (RM'm)	9641.62
52-wk price range	RM0.66-RM1.36
3-mth average daily volume (m)	14.24
3-mth average daily value (RM'm)	15.50
Top Shareholders (%)	
YTL Corp Bhd	49.08
Yeoh Tiona Lav & Sons Holdings	9.91
Amanah Saham Nasional Bhd	6.87

### Analyst

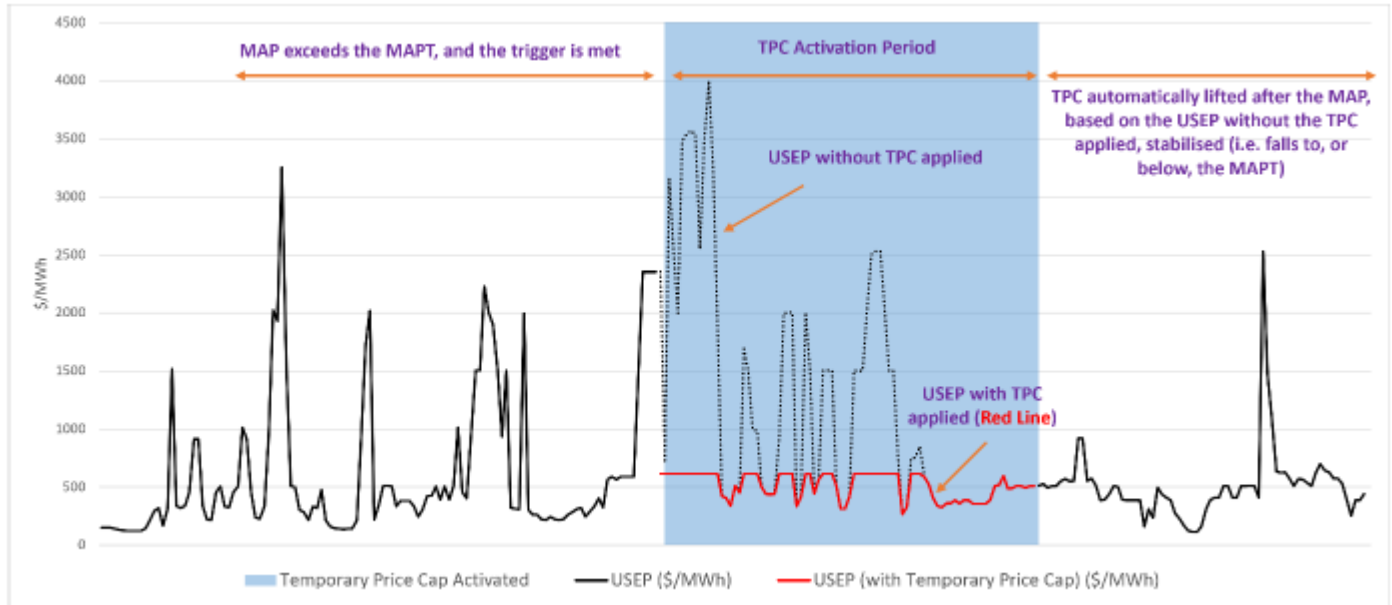
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**Table 1: Gas spread (difference between spot and term gas price) and corresponding multiplier**

Multiplier	Gas Spread (\$\$/mmbtu)
1 <sup>st</sup> Quartile: 3x	Gas Spread ≤ 2.31
2 <sup>nd</sup> Quartile: 2.5x	2.31 < Gas Spread ≤ 14.39
3 <sup>rd</sup> Quartile: 2x	14.39 < Gas Spread ≤ 29.54
4 <sup>th</sup> Quartile: 1.5x	29.54 < Gas Spread

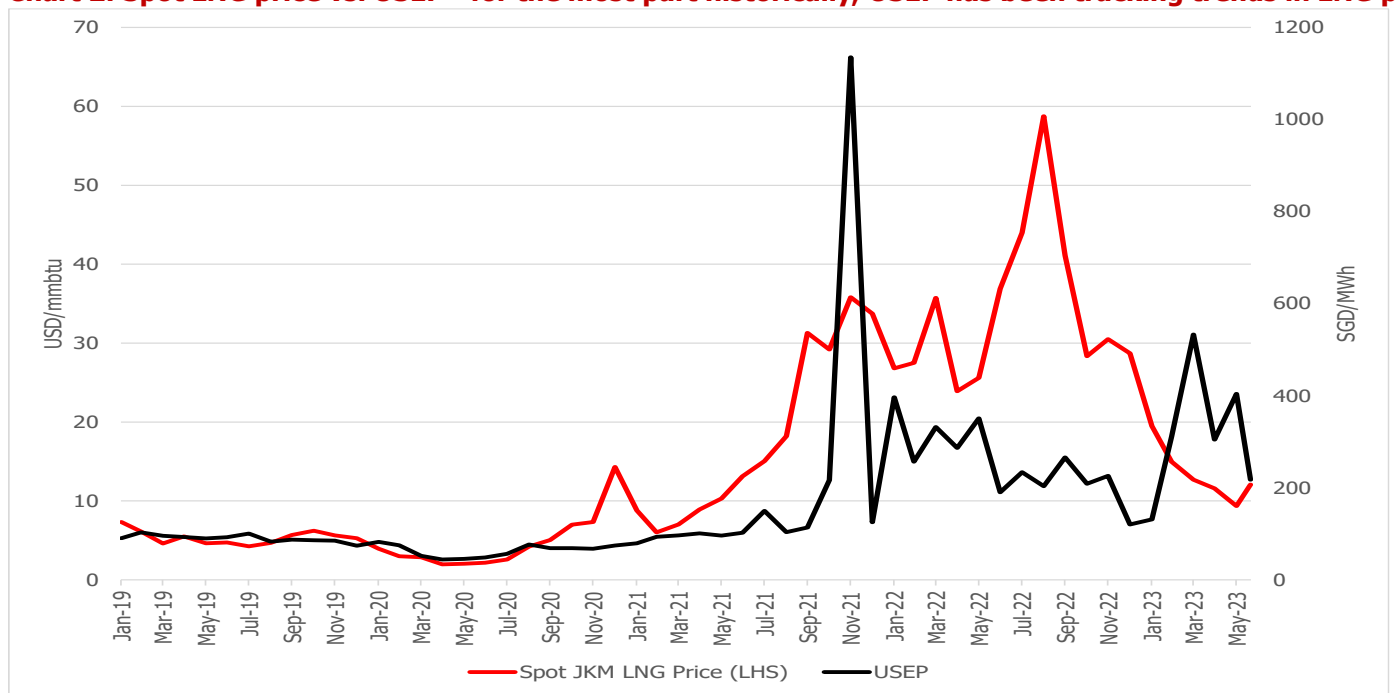
Source: EMA, MIDFR

**Chart 1: Illustration of the price cap mechanism**



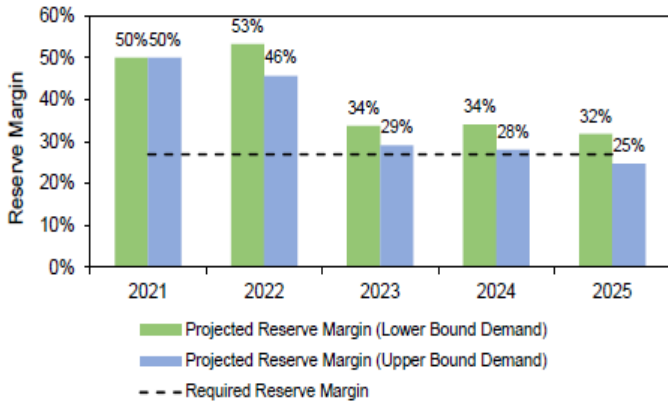
Source: EMA, MIDFR

**Chart 2: Spot LNG price vs. USEP - for the most part historically, USEP has been tracking trends in LNG prices**



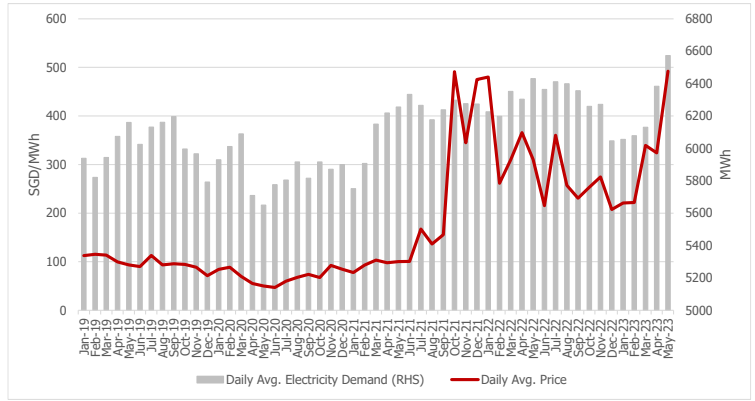
Source: Bloomberg, MIDFR

**Chart 3: Reserve Margin (Singapore)**



Source: EMA, MIDFR

**Chart 4: Singapore electricity price trend**



**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
<b>Total enterprise value</b>	<b>33,008</b>		<b>4.05</b>
Less: Group net debt	(20,474)		(2.51)
<b>Total equity value</b>	<b>12,533</b>		<b>1.54</b>

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
<b>Revenue</b>	<b>10,670.3</b>	<b>10,782.8</b>	<b>17,793.9</b>	<b>19,425.8</b>	<b>20,082.4</b>
Operating expenses	(9,618.8)	(9,560.0)	(15,727.8)	(17,187.4)	(17,642.6)
<b>Operating profit</b>	<b>1,051.5</b>	<b>1,222.8</b>	<b>2,066.1</b>	<b>2,238.4</b>	<b>2,439.8</b>
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
<b>PBT</b>	<b>423.8</b>	<b>636.5</b>	<b>1,396.4</b>	<b>1,430.9</b>	<b>1,622.7</b>
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
<b>Core net profit</b>	<b>328.1</b>	<b>397.4</b>	<b>152.9</b>	<b>1,110.4</b>	<b>1,243.5</b>
<b>Balance Sheet (RM'm)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
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
<b>Non-current assets</b>	<b>35,627.1</b>	<b>38,217.0</b>	<b>38,910.1</b>	<b>39,176.5</b>	<b>38,508.4</b>
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
<b>Current assets</b>	<b>11,474.1</b>	<b>13,857.3</b>	<b>12,057.5</b>	<b>13,488.5</b>	<b>14,784.9</b>
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
<b>Total Equity</b>	<b>11,960.6</b>	<b>12,907.4</b>	<b>14,041.1</b>	<b>14,741.6</b>	<b>15,401.8</b>
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
<b>Non-current liabilities</b>	<b>24,974.6</b>	<b>31,834.5</b>	<b>30,731.0</b>	<b>31,371.8</b>	<b>31,208.5</b>
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
<b>Current liabilities</b>	<b>10,166.0</b>	<b>7,332.4</b>	<b>6,195.5</b>	<b>6,551.6</b>	<b>6,682.9</b>

<b>Cash Flow Statement (RM'm)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
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)
<b>Operating cash flow</b>	<b>1,615.6</b>	<b>1,329.4</b>	<b>842.7</b>	<b>2,377.7</b>	<b>3,409.2</b>
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
<b>Investing cash flow</b>	<b>(5,855.8)</b>	<b>(1,126.3)</b>	<b>125.6</b>	<b>(1,478.2)</b>	<b>(1,478.2)</b>
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
<b>Financing cash flow</b>	<b>1,292.9</b>	<b>1,072.8</b>	<b>(2,705.2)</b>	<b>196.6</b>	<b>(785.1)</b>
Net changes in cash	(2,947.3)	1,275.9	(1,736.9)	1,096.1	1,145.9
<b>Beginning cash</b>	<b>7,542.2</b>	<b>6,923.6</b>	<b>8,566.6</b>	<b>6,784.2</b>	<b>7,880.3</b>
Forex, Overdrafts & Deposits	0.0	393.2	27.5	0.0	0.0
<b>Ending cash</b>	<b>4,594.9</b>	<b>8,592.6</b>	<b>6,857.2</b>	<b>7,880.3</b>	<b>9,026.3</b>
<b>Key Ratios</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023F</b>	<b>2024F</b>
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	0.8	0.7	0.7	0.6
PER (x)	29.6	24.4	63.5	8.7	7.8

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