

YTL Power International Berhad

(6742 | YTLPMK) Main | Utilities

Still Outperforms, but by A Smaller Margin

KEY INVESTMENT HIGHLIGHTS

- **1HFY24 result still outperformed but by a much narrower margin**
- **Seraya earnings seen peaking but Wessex Water recovery could start kicking in**
- **FY24F/25F net profit raised +7.5%/+1.2%**
- **Maintain BUY at revised TP of RM4.22**

Outperforms, but narrowing. YTL Power's (YTLPMK) 1HFY24 result still outperformed expectations but this time, by a much narrower margin. The group reported 2QFY24 net profit of RM845m, which brought 1HFY24 earnings to RM1.7b, making up 58%/59% of our/consensus' full year estimate.

Key takeaways. While significantly higher year-on-year given the sharp turnaround in Singapore's power market, group PBT was flattish sequentially (-0.6%qoq) with just a marginal increase in Seraya earnings (+0.8%qoq). This was offset by pretax losses at Wessex Water which was still dragged by interest accruals on index linked bonds. We expect WW's performance to gradually improve as the drag from high inflation in the UK dissipates. The next review of its index linked bond is due in March while the next annual tariff revision is due in April, which should drive earnings improvement in 4QFY24. Near-term however, we note that Singapore spot electricity prices have eased considerably to around SGD100-120/MWh average levels in January and February 2024 signalling peaking earnings momentum for Seraya. While Seraya locks in an estimated 70%-80% of volumes into 1.5-2 years retail contracts, we expect margins to gradually normalise as these contracts gradually reach expiry.

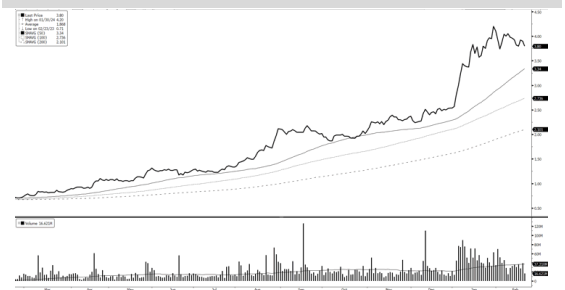
Awaiting the next kicker. The group's venture into data centres (DC) is expected to provide the next leg of upside for YTLPMK though we expect some gestation period before it takes off meaningfully. Phase 1 of its DC rollout entails a targeted capacity of 48MW of which Sea Ltd has committed to be the anchor tenant for 32MW. Rollout is expected to be gradual with the first 8MW to come on-stream 2HFY24 and further additions of 8MW per annum thereafter. While details are still scarce on the NVIDIA AI DC that the group is working on, it has a medium-term target of hitting 100MW capacity though this will involve much higher capex (estimated at USD4b or RM180m/MW) given more advanced hardware employed, especially for NVIDIA's H100 GPUs, compared to an estimated RM25-30m/MW for a typical IT load DC. We understand initial rollout of its flagship AI DC capacity is expected by end CY24. From a broader perspective, YTLPMK's 664ha Kulai land is able to accommodate up to 500MW DC capacity, which we reckon is its longer-term aspiration.

Maintain BUY
Revised Target Price: RM4.22
 (previously RM2.99)

RETURN STATISTICS

Price @ 22 nd Feb. 2023 (RM)	3.78
Expected share price return (%)	+11.6
Expected dividend yield (%)	3.0
Expected total return (%)	+14.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	-3.5
3 months	49.6	55.7
12 months	413.5	386.5

INVESTMENT STATISTICS

FYE Jun (RMm)	2023A	2024F	2025F
Revenue	21,892.5	23,540.2	24,058.2
Operating Profit	3,695.0	4,869.7	4,943.7
Profit Before Tax	2,443.2	3,847.3	3,859.8
Core PATAMI	1,822.0	3,123.3	3,133.4
Core EPS (sen/share)	22.3	38.3	38.4
PER (x)	16.9	9.9	9.8
DPS (sen/share)	6.0	11.5	11.5
Dividend Yield (%)	1.6	3.0	3.0

KEY STATISTICS

FBM KLCI	1,545.49
Issue shares (m)	8102.15
Estimated free float (%)	23.08
Market Capitalisation (RM'm)	30,788.19
52-wk price range	RM0.72-RM4.24
3-mth average daily volume (m)	36.52
3-mth average daily value (RM'm)	119.66
Top Shareholders (%)	
YTL Corp Bhd	49.08
Yeoh Tiona Lay & Sons Holdings	9.91
Cornerstone Crest Sdn Bhd	6.49

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Earnings revision. We raise FY24F net profit by +7.5 to reflect slightly stronger than expected margins for Seraya so far this year. FY25F net profit is raised by a smaller +1.2% as we expect more meaningful normalisation of Seraya’s earnings to set in.

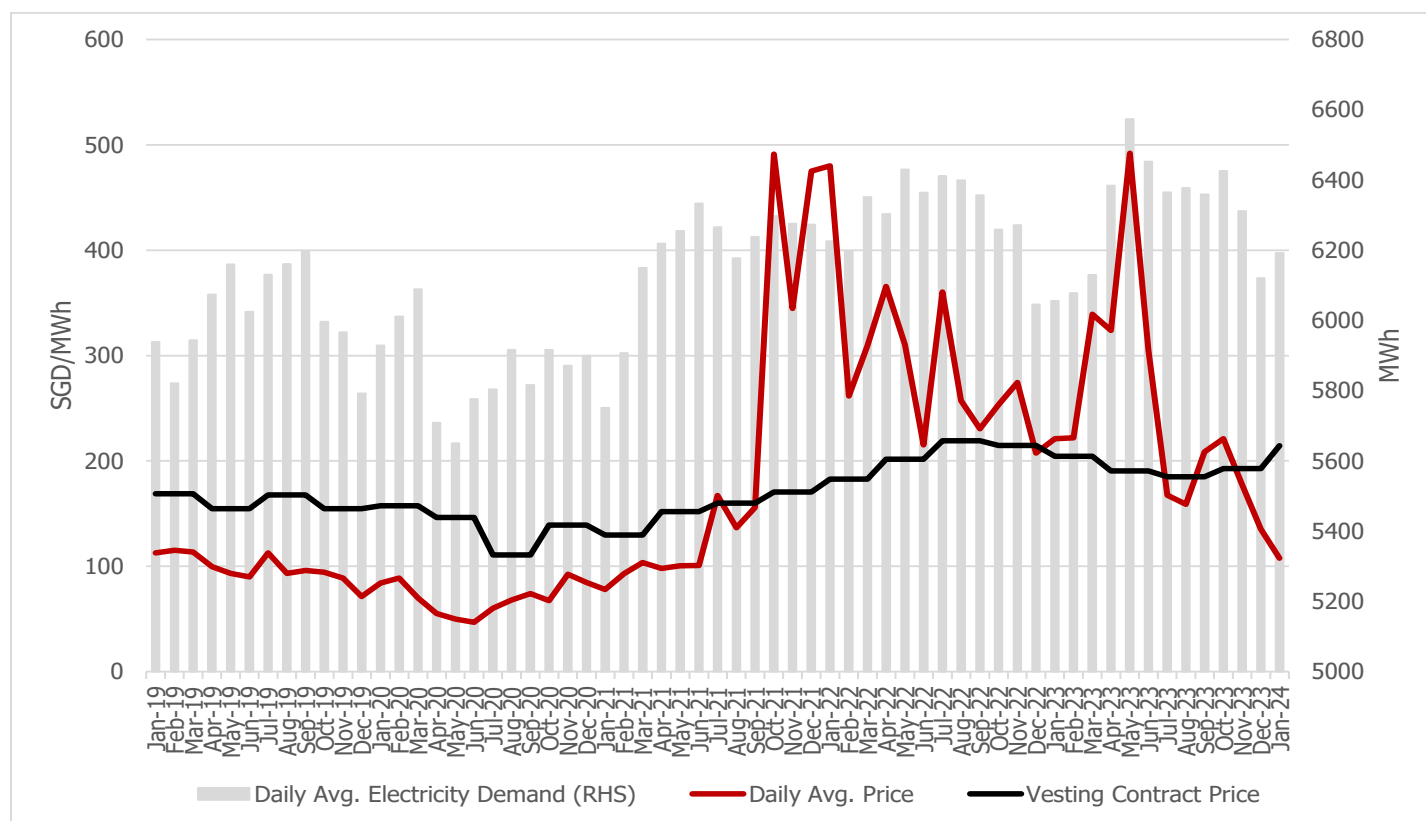
Maintain BUY. In terms of valuation, we raise our SOP-derived **TP** to **RM4.22** (from RM2.99) as we now factor in: (1) The group’s upcoming 600MW hydrogen ready CCGT plant – based on 30-year plant life and 7% WACC, (2) 48MW co-location and 100MW AI DC capacity based on a conservative low-teens PIRR expectation and 7% discount rate. We continue to like YTLP for strategic expansion into data centre and RE. We also believe YTLP is a potential beneficiary of the strong RE growth trajectory under NETR, particularly for RE exports given its presence in the Singapore power sector. Valuation is relatively undemanding at 10x FY25F PER.

Table 1: YTL Power Sum-of-Parts Valuation

SOP Component	Enterprise Value (RM m)	Stake	Per share (RM)
Wessex Water	21,068	100%	2.58
Power Seraya	19,629	100%	2.41
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)	274	19%	0.03
Data Centre (48MW+100MW) (Equity Value)	7,805	100%/60%	0.96
SG Hydrogen-CCGT 600MW (Equity Value)	1,785	100%	0.22
Total enterprise value	54,517		6.69
Less: Group net debt (FY24F)	-20,106		-2.47
Total equity value	34,412		4.22

Source: Company, MIDFR

Chart 1: Singapore Electricity Price Trend



Source: EMA, MIDFR

YTL POWER: 1HFY24 RESULT SUMMARY

FYE Jun (RMm)	2Q23	1Q24	2Q24	QoQ	YoY	1H23	1H24	YTD
Revenue	4,702.8	5,445.7	5,373.6	-1.3%	14.3%	9,447.2	10,819.3	14.5%
Operating profit	555.4	1,443.2	1,431.2	-0.8%	157.7%	1,029.1	2,874.4	179.3%
Interest expense	(378.8)	(486.9)	(456.7)	-6.2%	20.6%	(710.7)	(943.6)	32.8%
Associates	79.3	75.1	50.4	-33.0%	-36.5%	162.4	125.5	-22.7%
PBT	255.9	1,031.5	1,024.8	-0.6%	300.4%	480.8	2,056.3	327.6%
Tax	(65.2)	(181.2)	(164.7)	-9.1%	152.4%	(122.5)	(345.8)	182.3%
PAT	190.7	850.3	860.2	1.2%	351.0%	358.3	1,710.5	377.3%
Minority Interest	(8.1)	2.4	15.0	528.4%	-285.4%	(13.8)	17.4	-226.6%
Net profit	198.8	847.9	845.1	-0.3%	325.1%	372.1	1,693.0	355.0%
Core net profit	198.8	847.9	845.1	-0.3%	325.1%	372.1	1,693.0	355.0%
Core EPS (sen)	2.60	10.47	10.43			4.87	20.90	
GDPS (sen)	0.00	0.00	0.00			0.00	0.00	
Operating margin	11.8%	26.5%	26.6%			10.9%	26.6%	
PBT margin	5.4%	18.9%	19.1%			5.1%	19.0%	
Tax rate	25.5%	17.6%	16.1%			25.5%	16.8%	
Core net profit margin	4.2%	15.6%	15.7%			3.9%	15.6%	

FYE Jun (RMm)	2Q23	1Q24	2Q24	QoQ	YoY	1H23	1H24	QoQ
Revenue:	4,702.8	5,445.7	5,373.6			9,447.2	10,819.3	
Multi utilities business (merchant)	3,386.8	3,796.3	3,750.8	-1.2%	10.7%	6,850.4	7,547.1	10.2%
Water and sewerage	1,039.4	1,214.3	1,192.4	-1.8%	14.7%	2,089.0	2,406.7	15.2%
Telco business	138.7	184.4	180.8	-2.0%	30.3%	251.6	365.2	45.2%
Investment holding	137.8	250.7	249.6	-0.4%	81.1%	256.3	500.3	95.2%
PBT:	255.9	1,031.5	1,024.8			480.8	2,056.3	
Multi utilities business (merchant)	301.5	1,025.1	1,033.6	0.8%	242.9%	591.4	2,058.7	248.1%
Water and sewerage	(16.1)	(34.8)	(69.5)	99.8%	332.0%	9.3	(104.2)	-1215.2%
Telco business	(71.9)	(71.5)	(66.1)	-7.6%	-8.2%	-155.9	(137.5)	-11.8%
Investment Holding	42.5	112.6	126.8	12.6%	198.2%	36.0	239.3	564.6%
PBT Margin (%)				ppts	ppts			ppts
Power generation (contracted)	NA	NA	NA			NA	NA	
Multi utilities business (merchant)	8.9%	27.0%	27.6%	0.6	18.7	8.6%	27.3%	18.6
Water and sewerage	-1.5%	-2.9%	-5.8%	-3.0	-4.3	0.4%	-4.3%	-4.8
Telco business	-51.9%	-38.8%	-36.5%	2.2	15.3	-62.0%	-37.7%	24.3
Investment Holding	30.8%	44.9%	50.8%	5.9	19.9	14.1%	47.8%	33.8

Source: Company, 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)	(18,670.5)	(19,114.5)
Operating profit	1,222.8	2,066.1	3,695.0	4,869.7	4,943.7
Interest expense	(952.3)	(989.9)	(1,580.1)	(1,422.4)	(1,510.3)
Associates	366.0	320.2	328.3	400.0	426.3
PBT	636.5	1,396.4	2,443.2	3,847.3	3,859.8
Taxation	(735.1)	(173.6)	(416.8)	(692.5)	(694.8)
Minority Interest	44.4	(34.8)	4.4	31.5	31.7
Net profit	(143.1)	1,257.6	2,022.0	3,123.3	3,133.4
Core net profit	397.4	152.9	1,822.0	3,123.3	3,133.4
Balance Sheet (RM'm)	2021	2022	2023	2024F	2025F
PPE	24,200.9	24,586.0	24,852.4	24,671.8	28,764.1
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	43,904.5	47,996.8
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	8,435.7	9,880.7
Current assets	13,857.3	12,057.5	15,070.4	14,659.1	16,222.8
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)	(339.5)	(307.8)
Reserves	5,979.1	7,272.0	9,733.1	11,919.3	14,112.7
Total Equity	12,907.4	14,041.1	16,400.6	18,618.4	20,843.4
Long-term borrowings	25,910.9	25,259.8	28,417.0	25,474.2	28,801.5
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	31,652.4	34,979.7
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	3,154.8	3,165.0
Depreciation & Amortization	2,168.7	2,273.4	2,370.6	2,472.7	2,699.8
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	5,208.1	5,423.4
Capex	(1,742.7)	(1,750.5)	(1,792.1)	(2,292.1)	(6,792.1)
Others	616.4	1,876.1	(742.9)	400.0	426.3
Investing cash flow	(1,126.3)	125.6	(2,535.0)	(1,892.1)	(6,365.7)
Dividends paid	(315.5)	(512.1)	(616.3)	(937.0)	(940.0)
Net movement in borrowings	(963.8)	(4,245.6)	3,770.3	(2,942.8)	3,327.4
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	(3,879.8)	2,387.3
Net changes in cash	1,275.9	(1,736.9)	1,389.8	(563.7)	1,445.0
Beginning cash	6,923.6	8,566.6	6,784.2	8,727.1	8,163.4
Forex, Overdrafts & Deposits	393.2	27.5	825.4	272.3	272.3
Ending cash	8,592.6	6,857.2	8,999.4	8,435.7	9,880.7
Key Ratios	2021	2022	2023	2024F	2025F
Operating profit margin	11.3%	11.6%	16.9%	20.7%	20.5%
Core net profit margin	3.7%	0.9%	8.3%	13.3%	13.0%
ROE	3.9%	0.9%	9.2%	16.5%	14.8%
ROA	1.0%	0.3%	2.6%	5.3%	4.9%
Net gearing (%)	168.6%	148.5%	137.1%	108.0%	105.5%
Book value/share (RM)	1.58	1.72	2.01	2.28	2.56
PBV (x)	2.4	2.2	1.9	1.7	1.5
PER (x)	77.6	201.6	16.9	9.9	9.8

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