

YTL Power International Berhad

(6742 | YTLPMK) Main | Utilities

Takes Control of Ranhill Utilities

KEY INVESTMENT HIGHLIGHTS

- **Acquires controlling stake in Ranhill Utilities**
- **Reasonable aggregate entry cost**
- **Strategic fit giving access to Johor water operations, Sabah electricity market and ready RE capacity**
- **Maintain BUY at TP of RM6.35**

What's new? Yesterday, YTL Power (YTLP) through 70%-owned subsidiary SIPP Power entered into an unconditional share purchase agreement with Ranhill Utilities' (Ranhill) largest shareholder, Tan Sri Hamdan (TSH) to acquire his 31.4% stake in Ranhill for a cash consideration of RM405m (RM0.995/share). Upon completion, SIPP Power's stake in Ranhill will increase from 2.9% to 34.3%, while YTLP's stake in Ranhill will ultimately increase from 21.8% to 53.2%. The acquisition by SIPP Power will trigger a Mandatory Takeover Offer (MTO) for the remaining shares in Ranhill at the same cash offer price of RM0.995/share. SIPP Power's acquisition of TSH's 31.4% stake is expected to be completed in June, while the MTO is expected to be completed by 3QCY24. YTLP intends to maintain Ranhill's listing status.

Reasonable entry cost. The acquisition consideration for TSH's 31.4% stake at RM0.995/share is at a steep -37% discount to Ranhill's closing price the day prior of RM1.57 though we note that Ranhill's share price has been gaining significantly in the past month, ahead of the deal. From a valuation standpoint the deal values Ranhill at 21x FY25F PER, at a marginal premium to historical mean of 20x, which we reckon is a reasonably sweet deal for a transaction that gives YTLP control of Ranhill. In fact, YTLP's overall entry cost into Ranhill is attractive - we estimate YTLP's total cost for its aggregate 53.2% stake at RM580m (inclusive of its two earlier transactions), effectively valuing Ranhill at 18x FY25F PER, a 10% discount to mean of 20x.

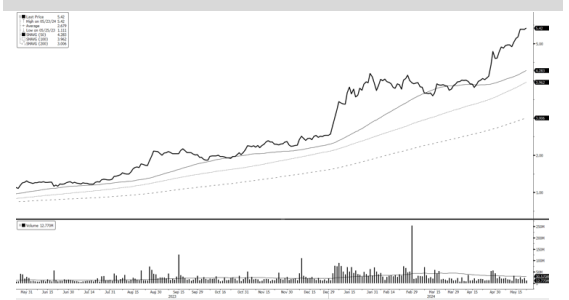
A strategic fit. We believe Ranhill is a strategic fit for YTLP as both are operating in similar businesses in water and power, albeit with differing scale and geographical presence. Ranhill will give YTLP access to exclusive Johor water operations allowing it to capitalise on prospects from the Johor-Singapore Special Economic Zone and potential demand from Johor's data centre hubs. Additionally, the synergistic expertise in water operations could drive further efficiency of Ranhill's Johor water business. The deal also gives YTLP access to the Sabah electricity market whereby Ranhill controls the largest IPP share, solidified further by a new 100MW CCGT due for COD in 2026. In addition, Ranhill has been making headways into RE with the commissioning of its LSS4 plant in February 2024. Overall, we see this acquisition as a mid to long-term positive for YTLP. Maintain **BUY** at unchanged SOP-derived **TP** of **RM6.35**.


Maintain BUY
Unchanged Target Price: RM6.35

RETURN STATISTICS

Price @ 28 th May 2024 (RM)	5.38
Expected share price return (%)	+27.0
Expected dividend yield (%)	+2.3
Expected total return (%)	+29.3

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	34.5	28.8
3 months	40.1	28.0
12 months	359.3	300.3

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)	22.4	13.1	13.0
DPS (sen/share)	6.0	11.5	11.5
Dividend Yield (%)	1.2	2.3	2.3

KEY STATISTICS

FBM KLCI	1,615.82
Issue shares (m)	8102.15
Estimated free float (%)	23.37
Market Capitalisation (RM'm)	40,510.80
52-wk price range	RM1.14-RM5.47
3-mth average daily volume (m)	31.07
3-mth average daily value (RM'm)	128.38
Top Shareholders (%)	
YTL Corp Bhd	48.84
Yeoh Tiong Lay & Sons Holdings	9.90
Cornerstone Crest Sdn Bhd	6.46

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Table 1: YTL Power Sum-of-Parts Valuation

SOP Component	Enterprise Value (RM m)	Stake	Per share (RM)	Method
Wessex Water	28,337	100%	3.47	1.1x EV/RCV
Power Seraya	28,207	100%	3.46	DCF (WACC: 8%)
PT Jawa Power	1,181	20%	0.14	DCF (WACC: 9%)
Telco division	1,843	60%	0.23	Asset Value
Attarat Jordan (Equity value)	2,178	45%	0.27	DCF (WACC: 9%)
Ranhill Utilities (Equity value)	337	19%	0.04	Based on prevailing market cap
Data Centre (Equity Value)	7,805	100%/60%	0.96	DCF (WACC: 7%) (48MW Co-location & 100MW AI DC)
SG Hydro-CCGT 600MW (Equity Value)	1,785	100%	0.22	DCF (WACC: 7%)
Total enterprise value	71,674		8.79	
Less: Group net debt	-19,984		-2.45	
Total equity value	51,690		6.35	

Source: Company, MIDFR

Table 2: Sector Valuation Summary

Companies	FYE	Rating	Shr Price	EPS (sen)		PE (x)		ROE	Div Yield	Market Cap	TP
			(RM)	FY24	FY25	FY24	FY25	(%)	(%)	(RM'm)	(RM)
Ranhill Utilities	Dec	SELL	1.35	4.2	4.2	31.8	32.5	6.9	2.5	1,729.8	1.07
Tenaga Nasional	Dec	NEUTRAL	13.26	75.3	82.7	17.6	16.0	6.8	3.5	75,814.3	11.00
YTL Power	Jun	BUY	5.00	38.3	38.4	13.1	13.0	16.5	2.3	40,510.8	6.35
Samaiden	Jun	BUY	1.36	5.9	7.0	23.1	19.4	19.5	0.0	535.8	1.57
Sunview	Mar	BUY	0.67	2.3	3.5	28.9	19.0	17.5	0.0	311.2	0.88
Pekat	Dec	BUY	0.76	2.7	3.3	28.1	23.0	9.5	0.0	490.2	0.88

Source: Company, Bloomberg, 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)	3.2	2.9	2.5	2.2	2.0
PER (x)	102.6	266.7	22.4	13.1	13.0

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