

26 February 2021

YTL Power International

2QFY21 Above; PowerSeraya Surprises

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2QFY21 core profit of RM108.8m beat estimates, boosted by 2nd quarterly surprise from PowerSeraya as it remained in the black after a turnaround in the preceding quarter which seems sustainable with the improved business environment here. As such, we raised FY21-FY22 estimates substantially by 32%-48% but we believe the share price has already imputed this. Thus, we keep our MP rating but with a higher TP of RM0.72.

1HFY21 above. At 69%/68% of house/street's FY21 estimates, 1HFY21 core profit of RM223.9m beat expectation given the 2nd quarterly surprise pre-tax profit of RM91.4m from PowerSeraya due to the strong recovery from higher retail distribution margins. No dividend was declared in 2QFY21 as expected as it only pays final dividend in the final quarter.

Yet another earnings surprise from PowerSeraya... 2QFY21 core profit fell 6% QoQ to RM108.8m from RM115.2m despite revenue rising 5% over the quarter, as the bottom-line was impacted by a higher taxation by RM19.6m. Operationally, PowerSeraya reported core PBT of RM91.4m, after stripping out RM54.1m write-back of impairment of receivables arising from an appeal against a High Court's decision, against PBT of RM36.1m in 1QFY21 due to the better margin from retail distribution. Earnings for Paka Power Plant recovered to RM14.5m from a loss of RM1.8m previously which was hit by a one-off write-down of inventories. Meanwhile, Wessex Water's earnings and Mobile unit's losses were fairly within expectations.

... led to a strong yearly earnings growth. YoY, owing to the strong recovery of PowerSeraya, 2QFY21 and 1HFY21 earnings leapt 16% and 15%, respectively, from RM94.0m and RM195.5m previously. In the previous period, PowerSeraya posted losses before tax of RM48.4m and RM117.5m. Meanwhile, losses of Mobile unit narrowed mainly on lower depreciation charges while Wessex Water's earnings fell 29% and 31% respectively in 2QFY21 and 1HFY21 on lower new tariff. However, interest expense declined 17% and 19% on lower cost of fund for Wessex Water's bonds which coupons are inflation-linked benefitting from falling UK inflation rate.

A better earning prospects for now thanks to the recovery of PowerSeraya which we believe is sustainable for now given the improved business operating environment for the industry in Singapore. Furthermore, with the yet to be completed Tuaspring acquisition, it will help PowerSeraya capture more from the value-chain from generation to wholesale to distribution for better profit margin. In view of this, we expect PowerSeraya to turn profitable from now onward while other business segments forecasts remain unchanged. We raise FY21 and FY22 earnings forecasts by 32% and 48%, respectively. Our new forecasts also adjusted for a lower cost of fund as mentioned above.

But it is priced in; Maintain MP. While prospect for PowerSeraya has improved, we maintain our neutral view on the stock given that the catalysts are fairly reflected on its share price, in our view. Thus, we reiterate our MP rating on the stock with a higher TP of RM0.72 from RM0.67 based on unchanged 30% discount to its SoP valuation, post earnings revision. We reckon that any turnaround or corporate exercise in Mobile unit will be a price catalyst which is an upside risk to our call.

MARKET PERFORM ↔

Price: RM0.725
Target Price: RM0.720 ↑

Share Price Performance



KLCI	1,581.54
YTD KLCI chg	-2.8%
YTD stock price chg	-13.1%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	YTLP MK
Market Cap (RM m)	7,291.1
Shares Outstanding	10,964.1
52-week range (H)	1.02
52-week range (L)	0.58
3-mth avg daily vol:	30,735,500
Free Float	24%
Beta	1.0

Major Shareholders

YTL Corp Bhd	50.2%
Yeoh Tiong Lay	6.3%
Cornerstone Crest Sdn Bhd	4.6%

Summary Earnings Table

FY June (RM m)	2020	2021F	2022F
Turnover	10670	11295	10682
EBIT	1205	1129	1099
PBT	424	627	617
Net Profit (NP)	65	429	422
Core Net Profit	209	429	422
Consensus (NP)	79.4	108.0	193.0
Earnings Revision (%)		+31.9	+47.8
Core EPS (sen)	0.9	6.0	5.9
Core EPS growth (%)	-66.1	105.5	-1.6
NDPS (sen)	6.3	5.0	5.0
BV/Share (RM)	0.85	0.86	0.86
NTA/Share (RM)	0.48	0.48	0.48
Core PER (x)	28.5	13.9	14.1
PBV (x)	0.85	0.85	0.85
P/NTA (x)	1.40	1.52	1.52
Gearing (x)	1.66	1.66	1.69
Dividend Yield (%)	9.4	6.9	6.9

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Income Statement

	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
FY June (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	2,616.6	2,502.8	5%	2,795.6	-6%	5,119.4	5,755.1	-11%
EBITDA	555.9	553.6	0%	584.0	-5%	1,109.5	1,193.4	-7%
Depreciation	-253.6	-254.9	-1%	-287.4	-12%	-508.5	-547.2	-7%
EBIT	302.3	298.7	1%	296.7	2%	601.0	646.2	-7%
Interest expense	-231.8	-239.1	-3%	-280.7	-17%	-470.9	-578.9	-19%
Associates	90.3	87.5	3%	110.2	-18%	177.8	200.8	-11%
Exceptional items	45.8	-38.3	-220%	-23.7	-293%	7.5	-57.9	-113%
Pretax profit	206.6	108.9	90%	102.4	102%	315.4	210.1	50%
Taxation	-50.6	-31.0	63%	-32.8	54%	-81.6	-70.4	16%
Profit after tax	156.0	77.9	100%	69.6	124%	233.9	139.7	67%
Minority interest	-1.4	-1.0	45%	0.6	-322%	-2.4	-2.1	17%
Net profit	154.6	76.9	101%	70.3	120%	231.4	137.6	68%
Core profit	108.8	115.2	-6%	94.0	16%	223.9	195.5	15%
EPS (sen)	1.9	0.9	101%	0.9	120%	3.8	2.5	50%
Core EPS (sen)	1.3	1.4	-6%	1.1	16%	4.1	3.6	14%
DPS (sen)	0.0	0.0	0%	0.0	0%	0.0	0.0	0%
NTA/share (RM)	0.57	0.50	13%	0.56	3%	0.57	0.50	13%
EBITDA margin	21%	22%		21%		22%	21%	
EBIT margin	12%	12%		11%		12%	11%	
Pretax margin	8%	4%		4%		6%	4%	
Effective tax rate	24%	28%		32%		26%	34%	

Source: Company

Segment Breakdown

Segmental Breakdown	2Q	1Q	Q-o-Q	2Q	Y-o-Y	1H	1H	Y-o-Y
	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Segment revenue:								
Power Generation	64.1	72.3	-11%	222.6	-71%	136.4	431.2	-68%
Multi Utilities Business	1,483.6	1,406.3	5%	1,492.5	-1%	2,890.0	3,184.9	-9%
Water & Sewerage	935.8	873.9	7%	891.5	5%	1,809.7	1,748.7	3%
Telco Business	96.8	101.5	-5%	98.9	-2%	198.2	196.5	1%
Investment Holding	36.3	48.8	-26%	90.2	-60%	85.1	193.9	-56%
Group revenue	2,616.6	2,502.8	5%	2,795.6	-6%	5,119.4	5,755.1	-11%
Segment result:								
Power Generation	14.5	-1.8	-925%	15.7	-8%	12.8	29.4	-57%
Multi Utilities Business	145.5	36.1	303%	-48.4	-401%	181.7	-117.5	-255%
Water & Sewerage	135.1	131.1	3%	189.1	-29%	266.3	384.1	-31%
Mobile Broadband Network	-76.0	-69.6	9%	-107.2	-29%	-145.5	-176.9	-18%
Investment Holding	-12.6	12.9	-198%	53.1	-124%	0.3	91.0	-100%
Group PBT	206.6	108.9	90%	102.4	102%	315.4	210.1	50%
PBT margin:								
Power Generation	23%	-2%		7%		9%	7%	
Multi Utilities Business	10%	3%		-3%		6%	-4%	
Water & Sewerage	14%	15%		21%		15%	22%	
Telco Business	-79%	-69%		-108%		-73%	-90%	
Investment Holding	-35%	26%		59%		0%	47%	
Group PBT margin	8%	4%		4%		6%	4%	

Source: Company

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Valuation - New

(RM m)	RM m	RM/Share	%	Valuation Basic
Local IPPs	0	0.00	0.0%	FCFF @ 6.6% discount rate
Singapore IPP	534	0.07	6.4%	FCFF @ 5.8% discount rate
Wessex	15,796	1.92	187.8%	RCV
PT Jawa	145	0.02	1.7%	FCFF @ 13.5% discount rate
Other Investment	2,105	0.26	25.0%	Estimated book value
Net Cash/(Debt)	-10,167	-1.24	-120.8%	
	8,413	1.02	100.0%	
No of shares	8,218			
RNAV per share – basic	1.02			
Holding company discount 30%	-0.31			
Target Price	RM0.72			

Source: Kenanga Research

Valuation - Old

(RM m)	RM m	RM/Share	%	Valuation Basic
Local IPPs	0	0.00	0.0%	FCFF @ 6.6% discount rate
Singapore IPP	143	0.02	1.8%	FCFF @ 5.8% discount rate
Wessex	15,796	1.92	199.5%	RCV
PT Jawa	145	0.02	1.8%	FCFF @ 13.5% discount rate
Other Investment	2,105	0.26	26.6%	Estimated book value
Net Cash/(Debt)	-10,271	-1.25	-129.7%	
	7,918	0.96	100.0%	
No of shares	8,218			
RNAV per share – basic	0.96			
Holding company discount 30%	-0.29			
Target Price	RM0.67			

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap (RM m)	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
GAS MALAYSIA BHD	2.65	3,402.6	Y	12/2020	-1.7%	13.0%	11.8%	7.6%	19.8	17.7	16.5	3.3	3.2	18.2%	5.1%	2.85	MP
MALAKOFF CORP BHD	0.815	3,982.9	Y	12/2021	25.1%	0.3%	26.8%	3.0%	16.1	12.7	12.3	0.8	0.8	6.0%	6.3%	1.05	OP
PESTECH INTERNATIONAL BHD	1.23	936.2	Y	06/2021	19.2%	5.3%	33.5%	8.3%	16.8	12.6	11.6	1.8	1.5	13.2%	0.0%	1.46	OP
PETRONAS GAS BHD	16.30	32,253.3	Y	12/2021	0.6%	0.9%	-2.9%	1.4%	16.1	16.6	16.4	2.6	2.5	15.2%	5.1%	16.97	MP
TENAGA NASIONAL BHD	10.12	57,731.1	Y	12/2020	4.0%	1.8%	-29.1%	31.4%	10.3	15.6	11.9	0.9	1.0	6.3%	3.2%	12.40	OP
YTL POWER INTERNATIONAL BHD	0.725	5,874.1	N	06/2021	5.9%	-5.4%	105.3%	-1.6%	24.9	12.1	12.4	0.4	0.4	3.6%	6.9%	0.720	MP
Simple Average					8.8%	2.6%	24.2%	8.4%	17.4	14.6	13.5	1.6	1.6	10.4%	4.4%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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