

09 September 2021

# YTL Power International

## FY21 Ending Nicely

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While headline numbers were hugely impacted by deferred taxation for Wessex Water, FY21 core profit came in strongly, surging 21% to RM462.7m as two wildcards PowerSeraya and YES managed to consistently post substantially improved results in the past year. With an improved earnings outlook and attractive dividend yield of >7%, OP is maintained with a slightly revised TP of RM0.89.

**FY21 results in line.** After adjusting for RM608.9m deferred tax, FY21 core profit of RM462.7m is spot on our forecast but beat consensus slightly by 6%. The huge deferred tax was mainly due to the RM540.5m debit for re-measurement of deferred tax balance as the UK corporation tax is due to increase from 19% to 25%, effective 01 Apr 2023. The headline FY21 net loss was RM143.1m. Meanwhile, a 2<sup>nd</sup> interim NDPS of 2.5 sen (ex-date: 23 Sep; payment date: 12 Oct) was declared in 4QFY21, totalling FY21 NDPS to 4.5 sen which came below our forecast of 5.0 sen. In FY20, it declared a 1-for-16 treasury share distribution in 4QFY20, valued at 6.3 sen back then.

**A weak sequential result** with core profit falling 8% to RM116.9m from RM127.1m, despite revenue rising 15% over the quarter which was due to better revenue from PowerSeraya and Wessex Water. This was attributable to the earnings decline in PowerSeraya and Wessex Water by 59% and 34% as we believe the former was impacted by lower margin while the latter could be affected by higher depreciation given that the group's depreciation has risen 12% QoQ. However, this weaker set of results were mitigated by higher local IPP earnings, continued narrowing YES losses and higher profit from investment holding on the back of fair value gains on investment properties.

**Better set of PowerSeraya and YES numbers over last year.** YoY, 4QFY21 core profit jumped 41% from RM82.7m, on the back of 30% hike in revenue, attributable to broad-based improvement for all business segments. PowerSeraya has turned around since 1QFY21 on improved business operating environment for the industry in Singapore. Meanwhile, Wessex Water posted higher earnings by 27% given lower allowance for impairment of receivables. YES saw its losses narrowing by more than half to RM17.9m from RM41.2m on higher subscriber base. YTD, FY21 core profit leapt 21% to RM462.7m from RM381.9m on the similar reasons as mentioned above.

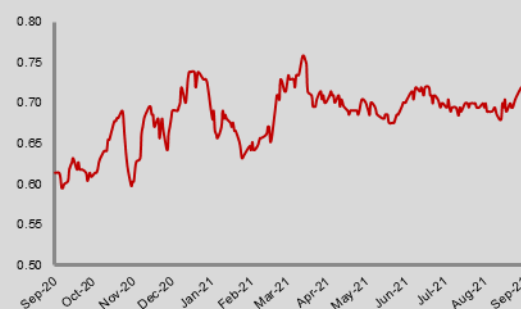
**A stable earnings outlook**, primarily thanks to the recovery of PowerSeraya which we believe is sustainable given the improved business operating environment for the industry in Singapore. Furthermore, the yet to be completed Tuaspring acquisition will help PowerSeraya capture more value from the value-chain, from generation to wholesale to distribution for better profit margins. Meanwhile, YES is expected to see improving results from better economies of scale from higher subscriber base. Post 4QY21 results, while we keep FY22 estimates unchanged, we launched our new FY23 forecasts with earnings expected to grow by 6%. FY22-23 NDPS are forecasted at 5.0 sen.

**Better outlook is underappreciated; maintain OP.** Since our rating upgrade three months ago, its share price has remained largely stagnant. Given its stable earnings outlook on the back of the sustainable turnaround in PowerSeraya and consistently improving YES performance in the past one year, we believe market is underappreciating its improved outlook. As such, we continue to rate the stock an OP with a revised TP of RM0.89 from RM0.90 on valuation base roll-over, based on 20% discount to its SoP valuation. The stock is also supported by above average yield of 7%. **Risks** to our upgraded call are: (i) losses at YES worsening, and (ii) PowerSeraya failing to maintain its profitability.

# OUTPERFORM ↔

Price: RM0.715  
Target Price: RM0.890 ↓

### Share Price Performance



KLCI	1,597.63
YTD KLCI chg	-1.8%
YTD stock price chg	-4.0%

### Stock Information

Shariah Compliant	No
Bloomberg Ticker	YTLP MK
Market Cap (RM m)	5,793.0
Shares Outstanding	8,102.2
52-week range (H)	0.79
52-week range (L)	0.61
3-mth avg daily vol:	858,998
Free Float	21%
Beta	1.0

### Major Shareholders

YTL Corp Bhd	49.1%
Yeoh Tiong Lay	9.9%
Cornerstone Crest Sdn Bhd	6.5%

### Summary Earnings Table

FY June (RM m)	2021	2022F	2023F
Turnover	10783	10263	10425
EBIT	1220	1290	1282
PBT	636	650	691
<b>Net Profit (NP)</b>	<b>-143</b>	<b>445</b>	<b>473</b>
<b>Core Net Profit</b>	<b>463</b>	<b>445</b>	<b>473</b>
Consensus (NP)		464	500
Earnings Revision (%)		-	New
Core EPS (sen)	6.4	6.2	6.6
Core EPS growth (%)	21.2	-3.9	6.2
NDPS (sen)	4.5	5.0	5.0
BV/Share (RM)	0.93	1.60	1.61
NTA/Share (RM)	0.62	0.53	0.54
Core PER (x)	12.6	13.1	12.3
PBV (x)	0.77	0.45	0.44
P/NTA (x)	1.16	1.34	1.32
Gearing (x)	1.67	1.69	1.70
Dividend Yield (%)	6.3	7.0	7.0

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### Income Statement

FY June (RM m)	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	3,026.9	2,636.5	15%	2,324.7	30%	10,782.8	10,670.3	1%
EBITDA	595.2	609.9	-2%	447.0	33%	2,309.4	2,203.1	5%
Depreciation	-306.7	-274.6	12%	-185.9	65%	-1,089.8	-987.7	10%
EBIT	288.5	335.3	-14%	261.0	11%	1,219.6	1,215.4	0%
Interest expense	-241.9	-239.6	1%	-245.8	-2%	-952.3	-1,091.0	-13%
Associates	100.5	87.7	15%	146.9	-32%	366.0	454.2	-19%
Exceptional items	5.3	-14.9	-136%	-64.1	-108%	3.1	-154.9	-102%
Pretax profit	152.4	168.6	-10%	98.0	56%	636.5	423.8	50%
Taxation	-614.7	-38.9	1480%	-193.1	218%	-735.1	-298.2	147%
Profit after tax	-462.2	129.7	-456%	-95.1	386%	-98.7	125.6	-179%
Minority interest	-24.5	-17.5	40%	-48.7	-50%	-44.4	-61.0	-27%
Net profit	-486.7	112.2	-534%	-143.8	238%	-143.1	64.6	-322%
Core profit	116.9	127.1	-8%	82.7	41%	462.7	381.9	21%
EPS (sen)	-6.0	1.4	-534%	-1.8	238%	6.2	5.9	6%
Core EPS (sen)	1.4	1.6	-8%	1.0	41%	14.0	12.2	15%
DPS (sen)	2.5	2.0	25%	6.3	-60%	4.5	6.3	-29%
NTA/share (RM)	0.53	0.56	-4%	0.40	32%	0.53	0.56	-4%
EBITDA margin	20%	23%		19%		21%	21%	
EBIT margin	10%	13%		11%		11%	11%	
Pretax margin	5%	6%		4%		6%	4%	
Effective tax rate	403%	23%		197%		116%	70%	

Source: Company

### Segment Breakdown

Segmental Breakdown	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Segment revenue:								
Power Generation	62.7	62.1	1%	84.6	-26%	261.1	633.4	-59%
Multi Utilities Business	1,656.1	1,468.5	13%	1,212.4	37%	6,014.5	5,766.1	4%
Water & Sewerage	1,054.7	909.6	16%	859.1	23%	3,774.0	3,486.8	8%
Telco Business	189.3	156.0	21%	111.5	70%	543.5	457.3	19%
Investment Holding	64.2	40.4	59%	57.0	13%	189.6	326.6	-42%
<b>Group revenue</b>	<b>3,026.9</b>	<b>2,636.5</b>	<b>15%</b>	<b>2,324.7</b>	<b>30%</b>	<b>10,782.8</b>	<b>10,670.3</b>	<b>1%</b>
Segment result:								
Power Generation	13.3	9.2	46%	13.1	1%	35.2	56.7	-38%
Multi Utilities Business	27.1	66.5	-59%	-17.1	-258%	275.3	-172.4	-260%
Water & Sewerage	90.8	136.8	-34%	71.5	27%	493.8	608.3	-19%
Mobile Broadband Network	-17.9	-27.1	-34%	-41.2	-57%	-190.5	-261.4	-27%
Investment Holding	39.2	-16.7	-334%	71.7	-45%	22.7	192.6	-88%
<b>Group PBT</b>	<b>152.4</b>	<b>168.6</b>	<b>-10%</b>	<b>98.0</b>	<b>56%</b>	<b>636.5</b>	<b>423.8</b>	<b>50%</b>
PBT margin:								
Power Generation	21%	15%		16%		13%	9%	
Multi Utilities Business	2%	5%		-1%		5%	-3%	
Water & Sewerage	9%	15%		8%		13%	17%	
Telco Business	-9%	-17%		-37%		-35%	-57%	
Investment Holding	61%	-41%		126%		12%	59%	
<b>Group PBT margin</b>	<b>5%</b>	<b>6%</b>		<b>4%</b>		<b>6%</b>	<b>4%</b>	

Source: Company

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## Valuation - New

(RM m)	RM m	RM/Share	%	Valuation Basic
Local IPPs	0	0.00	0.0%	PPA expired in Jun 2021
Singapore IPP	2,412	0.30	26.7%	FCFF @ 5.8% discount rate
Wessex	15,075	1.85	166.8%	FY20A RCV @ 10% discount
Yes	0	0.00	0.0%	Zero value
Other Investment	2,212	0.27	24.5%	FY20A associate book value
Net Cash/(Debt)	-10,662	-1.31	-118.0%	
	9,037	1.11	100.0%	
No of shares	8,158			
<b>RNAV per share</b>	<b>1.11</b>			
Holding company discount 20%	-0.22			
<b>Target Price</b>	<b>RM0.89</b>			

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	2,660	0.33	29.0%	FCFF @ 5.8% discount rate
Wessex	15,075	1.85	164.1%	FY20A RCV @ 10% discount
Yes	0	0.00	0.0%	Zero value
Other Investment	2,215	0.27	24.1%	FY20A associate book value
Net Cash/(Debt)	-10,763	-1.32	-117.1%	
	9,188	1.13	100.0%	
No of shares	8,158			
<b>RNAV per share</b>	<b>1.13</b>			
Holding company discount 20%	-0.23			
<b>Target Price</b>	<b>RM0.90</b>			

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 Price (RM)	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.		
GAS MALAYSIA BHD	2.73	3,505.3	Y	12/2021	-11.9%	8.6%	-0.4%	5.4%	15.7	15.7	14.9	3.2	3.2	20.4%	5.7%	3.00	OP
MALAKOFF CORP BHD	0.875	4,276.1	Y	12/2021	-8.0%	0.4%	24.9%	3.3%	17.3	13.8	13.4	0.8	0.8	5.9%	5.8%	1.06	OP
PESTECH INTERNATIONAL BHD	1.04	791.6	Y	06/2022	12.4%	5.0%	4.7%	14.9%	11.0	10.5	9.1	1.4	1.2	12.2%	0.0%	1.39	OP
PETRONAS GAS BHD	17.10	33,836.3	Y	12/2021	0.7%	1.4%	3.5%	0.5%	16.9	16.3	16.3	2.7	2.6	16.2%	5.2%	17.06	OP
TENAGA NASIONAL BHD	10.30	58,978.7	Y	12/2021	14.6%	1.0%	27.2%	8.9%	14.4	12.1	11.1	1.0	1.0	8.5%	4.1%	11.76	OP
YTL POWER INTERNATIONAL BHD	0.715	5,793.0	N	06/2022	-4.8%	1.6%	-3.9%	6.2%	11.1	11.6	10.9	0.4	0.4	3.4%	7.0%	0.890	OP
<b>Simple Average</b>					<b>0.5%</b>	<b>3.0%</b>	<b>9.3%</b>	<b>6.5%</b>	<b>14.4</b>	<b>13.3</b>	<b>12.6</b>	<b>1.6</b>	<b>1.5</b>	<b>11.1%</b>	<b>4.6%</b>		

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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