

06 June 2023

YTL Power International

A Giant Awakens

By Teh Kian Yeong | tehky@kenanga.com.my

PowerSeraya will remain YTLPOWER's key earnings driver over the immediate term, while Wessex Water should turn profitable thanks to a c.9% tariff hike. Attarah Power Plant in Jordan has commenced operation while YTLPOWER's data centre and digital banking ventures will broaden its earnings base over the longer term. We maintain our forecasts, TP of RM1.48 and **OUTPERFORM** call.

We came away from its analysts briefing last Friday feeling positive about its earnings outlook. The key takeaways are as follows:

- The company expects PowerSeraya's earnings to sustain at least in the next 2-3 years given: (i) no new plant-up of power plants in Singapore for the next three years which would sustain good retail price that it currently enjoys, (ii) no more "take or pay" LNG supply agreements which have ended between 2020 and 2023, which reduces input costs, and (iii) its locked-in low gas prices secured during the early days of the pandemic which will last for the next 2-3 years, thus keeping its fuel cost low.
- Wessex Water is expected to turn profitable from pre-tax losses of RM16.1m and RM47.2m in 2QFY23 and 3QFY23 (FYE Jun) after an average c.9% tariff hike from 1 Apr 2023, which should be sufficient to offset the rising operating cost. The tariff hike was to adjust for United Kingdom's Nov 2022 consumer price index. We still believe the overall impact is neutral, if not better, as compared with pre-high inflationary period.
- Its 45%-owned 554MW oil shale-fired Attarah Power Plant in Jordan achieved full commercial operation date (COD) recently after some significant delay from the COD, initially scheduled for Jun 2020, due to the lockdowns. They will soon receive payment from its off-taker. Recall, the investment was prompted by Jordan's energy independence goal. At present, the Middle-Eastern kingdom depends heavily on foreign fuel sources, i.e., oil and gas to fire its power plants.
- The RM1.5b Phase 1 of data centre in YTL Green Data Center Park in Johor is on track to meet the targeted completion in 1QCY24 and the company sees great potential in this new venture given the strong demand in this business as tech companies especially those from China such as Alibaba, Sea Ltd and others set up their server in Southeast Asia. Meanwhile, the company expects Sea Ltd-YTL Digital Bank, a consortium comprising regional e-commerce giant Sea Ltd and YTLPOWER's wholly-owned YTL Digital Capital Sdn Bhd, to contribute earnings in FY25. Recall, the consortium was one of the five successful bidders for Bank Negara Malaysia's digital banking licences in Apr 2022.

Forecasts. Maintained. Our forecasts have not reflected any contribution from the data centre project.

We also maintain our TP of RM1.48 based on sum-of-parts valuation (see Page 2). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

We continue to like YTLPOWER for: (i) its improved earnings prospects with the turnaround of PowerSeraya, (ii) the revised new tariff rate from Apr 2023 keeping Wessex Water's earnings resilient, and (iii) huge earnings potential from the new data centre venture. In addition, its dividend yield is attractive at c.4%. Maintain **OUTPERFORM**.

OUTPERFORM ↔

Price: RM1.30
Target Price: RM1.48 ↔

Share Price Performance



KLCI	1,381.26
YTD KLCI chg	-7.6%
YTD stock price chg	81.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	YTLP MK Equity
Market Cap (RM m)	10,532.8
Shares Outstanding	8,102.2
52-week range (H)	1.36
52-week range (L)	0.66
3-mth avg daily vol:	15,314,590
Free Float	18%
Beta	0.8

Major Shareholders

YTL Corp Bhd	49.1%
Yeoh Tiong Lay & Son	9.9%
Amanah Saham Nasional	6.9%

Summary Earnings Table

FY June (RM m)	2022A	2023F	2024F
Turnover	17844	19246	20047
EBIT	1083	2720	2400
PBT	1401	1582	1292
Net Profit (NP)	1258	1226	1001
Core Net Profit	259	1226	1001
Consensus (NP)	-	1183	1152
Earnings Revision (%)	-	-	-
Core EPS (sen)	3.6	17.1	13.9
Core EPS growth (%)	-44.1	374.2	-18.3
NDPS (sen)	4.5	5.0	5.0
BV/Share (RM)	1.75	1.86	1.93
NTA/Share (RM)	0.79	0.79	0.87
Core PER (x)	21.6	8.6	10.6
PBV (x)	0.39	0.70	0.67
P/NTA (x)	0.86	1.64	1.50
Gearing (x)	1.46	1.33	1.26
Dividend Yield (%)	6.6	3.8	3.8

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Risk to our recommendation include: (i) stringent ESG standards in developed markets, (ii) regulatory risk in the power sector in Singapore, (iii) the new data centre business fails to take off, and (iv) sustained losses at YES.

YTLPOWR's Sum-of-Parts Valuation			
(RM m)	RM m	RM/Share	Basis
Singapore IPP	4,114	0.50	FCFF @ 5.8% discount rate
Wessex	10,245	1.26	FCFF @ 2.3% discount rate; TG: 2%
Yes	0	0.00	Zero value
Data Centre	731	0.09	FCFF @ 7.7% discount rate
Other Investment	2,064	0.25	FY22A book value
Net Cash/(Debt)	-5,073	-0.62	Estimated FY23F
TP	12,081	1.48	

Source: Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
GAS MALAYSIA BHD	MP	3.07	3.54	15.3%	3,941.9	Y	12/2023	27.1	25.2	-11.5%	-6.8%	11.3	12.2	2.9	26.2%	19.0	6.2%
MALAKOFF CORP BHD	OP	0.615	0.800	30.1%	3,005.5	Y	12/2023	4.2	6.0	-50.2%	43.4%	14.7	10.3	0.5	3.7%	3.3	5.4%
PETRONAS GAS BHD	MP	16.68	17.13	2.7%	33,005.2	Y	12/2023	95.8	97.2	9.8%	1.4%	17.4	17.2	2.5	14.3%	81.5	4.9%
SAMAIDEN GROUP BHD	OP	0.905	1.15	27.1%	350.6	Y	06/2023	3.2	4.4	0.5%	35.0%	28.0	20.7	3.5	13.5%	0.0	0.0%
TENAGA NASIONAL BHD	OP	9.42	10.64	13.0%	54,194.0	Y	12/2023	83.2	84.4	24.1%	1.4%	11.3	11.2	0.9	8.0%	41.6	4.4%
YTL POWER INTERNATIONAL BHD	OP	1.30	1.48	13.8%	10,532.8	N	06/2023	15.0	12.3	374.2%	-18.3%	8.6	10.6	0.7	8.3%	5.0	3.8%
Sector Aggregate					105,030.0					27.2%	-0.7%	12.4	12.5	1.8	12.3%		4.1%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★			
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	★		
	Anti-Corruption Policy	★	★	★		
	Emissions Management	★	★	★		
SPECIFIC	Transition to Renewables	★	★			
	Reliable Energy & Fair Tariff	★	★	★		
	Effluent/Waste Management	★	★	★		
	Ethical Practices	★	★	★		
	Supply Chain Management	★	★	★		
	Customer Satisfaction	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP
 ★★★★★ +10% premium to TP

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
 Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
 Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

