

24 May 2024

YTL Power International

Priced to Perfection

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YTLPOWER's 9MFY24 results beat expectations as PowerSeraya's quarterly earnings eased more slowly from its peak. The power unit's long-term outlook is buoyed by strong electricity demand growth in Singapore. Meanwhile, YTLPOWER's data centre should start contributing from 4QFY24. We raise our FY24-25F net profit forecasts by 11% and 34%, respectively, lift our TP by 27% to RM5.22 (from RM4.10). Downgrade to MARKET PERFORM from OUTPERFORM after the strong run-up in its share price.

YTLPOWER's 9MFY24 core profit of RM2.45b beat expectations, coming in at 85% and 80% of our full-year forecast and the full-year consensus estimate, respectively. The key variance against our forecast was PowerSeraya's quarterly earnings easing more slowly from its peak. Its 9MFY24 PBT of RM2.9b made up 79% of our full-year PBT forecasts of RM3.67b. A 3.0 sen 1st interim NDPS was declared in 3QFY24 (ex-date: 11 Jun; payment date: 28 Jun) vs. 2.5 sen NDPS paid in 3QFY23

YoY, its 9MFY24 revenue rose 8% on better performance across all business segments, led by Wessex Water (+18%) on tariff hike and new contracts secured within the non-household retail market, as well as a stronger GBP against MYR. Meanwhile, its core profit jumped 1.6x as PowerSeraya's earnings doubled on the back of low gas cost coupled with SGD's strength against MYR.

Meanwhile, its investment holding PBT surged to RM390m from loss of RM9.6m as new power plant Attarat Power Company (APCO) started contributing from 4QFY23, partially offset by RM155.5m pretax loss from Wessex Water (vs. pretax loss of RM37.8m in 9MFY23) due to higher interest accruals on index-link bonds of RM423.1m (vs. RM313.7m previously)

QoQ. Its 3QFY24 core profit contracted by 15% on a 4% contraction in the top line. PowerSeraya's earnings declined by 18% as power pooling prices eased while retail margin (a profit measurement) fell 16% on less favourable terms on contract renewal although its business volume rose.

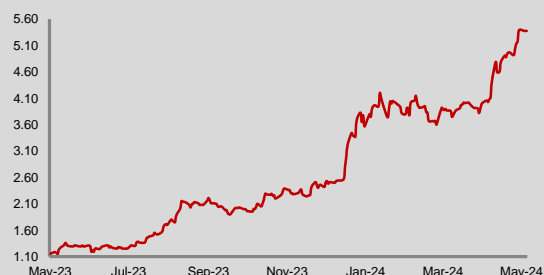
The key takeaways from its results briefing are as follows:

- Phase 1 data centre with capacity of 48MW has been completed with Sea Ltd having officially taken delivery of its first block of 8MW capacity on 10 May 2024. Thus, a small maiden contribution is expected in 4QFY24.
- The remaining 16MW under Phase 1 (other than the 32MW Sea Ltd already booked) can be developed into an AI data centre. YTLPOWER did not disclose the size of capex for the AI data centre. We understand that the cost of NVIDIA H100 is USD200k-USD350k per server.
- Currently, YTLPOWER is in talks with two parties for the potential provision of AI data centre service, of which one is at "an advanced stage". It shared that typically the contact period for AI data centre service is for four years (during the useful life of the server), although the server may remain functional beyond the 4-year periods.

MARKET PERFORM ↓

Price: RM5.38
Target Price: RM5.22 ↑

Share Price Performance



KLCI	1,629.18
YTD KLCI chg	12.0%
YTD stock price chg	111.8%

Stock Information

Shariah Compliant	No
Bloomberg Ticker	YTLP MK Equity
Market Cap (RM m)	43,804.9
Shares Outstanding	8,142.2
52-week range (H)	5.47
52-week range (L)	1.14
3-mth avg. daily vol.	30,791,750
Free Float	23%
Beta	1.1

Major Shareholders

YTL Corp Bhd	48.8%
Yeoh Tiong Lay & Son	9.9%
Cornerstone Crest Sdn Bhd	6.5%

Summary Earnings Table

FY June (RM m)	2023A	2024F	2025F
Turnover	21,893	21,719	24,003
EBIT	3,647	5,371	5,359
PBT	2,443	4,114	3,968
Net Profit (NP)	2,022	3,189	3,076
Core Net Profit	1,974	3,189	3,076
Consensus (NP)	-	3,072	2,995
Earnings Revision (%)	-	+10.7	+34.3
Core EPS (sen)	27.5	44.4	42.8
Core EPS Growth (%)	313.1	61.6	-3.5
NDPS (sen)	6.0	6.0	6.0
BV/Share (RM)	2.06	2.26	2.58
NTA/Share (RM)	1.04	1.11	1.32
Core PER (x)	5.4	13.8	14.3
PBV (x)	0.63	2.38	2.08
P/NTA (x)	1.24	4.83	4.09
Gearing (x)	1.34	1.19	1.02
Dividend Yield (%)	4.6	1.1	1.1

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4. The share of profits of investments (RM91.9m in 3QFY24) was mainly from PT Jawa and APCO. Share of profits from APCO was RM86m (interest of shareholder loan made up 65% of the profits shared while the technical fees made up the balance).

Forecasts. We raise our FY24-25F net profit forecasts by 11% and 34% as: (i) we increase PowerSeraya’s earnings (by 8%-29% at PBT level to RM4.0b-RM3.4b) given the persistent resilient earnings shown in 3QFY24, and (ii) we reflect earnings from the data centre (RM3.1m and RM160.0m), respectively.

We also raise PowerSeraya’s forecast earnings from FY26 onwards to RM2.7b-RMRM2.9b (from RM1.9b-RM2.0b) assuming strong ROI given the stronger electricity demand growth in Singapore. The Energy Market Authority (EMA) of Singapore projects the island state’s peak demand to grow at a CAGR of 3.4%-6.5% over the next five years while new generating capacity will only come in by 2028.

Valuations. We lift our SoP-based TP by 27% to RM5.22 (see Page 3) from RM4.10 as: (i) we upgrade PowerSeraya’s DCF valuation by 46%, and (ii) we raise valuation for its data centre by 21%, having accorded a higher valuation for 100MW earmarked for AI data centre (vs conventional data centre). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 5).

Investment case. We continue to like YTLPOWR for: (i) its earnings stability backed by various regulated assets globally, (ii) the strong near-term earnings prospects of PowerSeraya backed by gas inventory locked in at low prices, and (iii) its longer-term growth potential driven by its data centre and digital banking ventures. However, the stock is fairly valued after the strong run-up in its share price. Downgrade to **MARKET PERFORM** from **OUTPERFORM**.

Risks 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.

Income Statement								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FYE June (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Turnover	5,159.8	5,373.6	-4%	5,357.5	-4%	15,979.1	14,804.7	8%
EBITDA	1,481.3	1,711.3	-13%	1,249.4	19%	5,049.7	2,963.0	70%
Depreciation	-307.5	-294.8	4%	-244.1	26%	-954.4	-873.8	9%
EBIT	1,173.8	1,416.5	-17%	1,005.2	17%	4,095.3	2,089.2	96%
Interest expense	-439.1	-456.7	-4%	-432.9	1%	-1,382.7	-1,143.5	21%
Associates	91.9	50.4	83%	46.8	97%	217.4	209.2	4%
Exceptional items	-7.5	14.6	-151%	-8.8	-14%	-54.6	-63.7	-14%
Pretax profit	819.2	1,024.8	-20%	610.4	34%	2,875.5	1,091.2	164%
Taxation	-137.7	-164.7	-16%	-102.8	34%	-483.5	-225.3	115%
Profit after tax	681.5	860.2	-21%	507.6	34%	2,391.9	866.0	176%
Minority interest	17.2	-15.0	N/A	12.0	44%	-0.2	25.8	-101%
Net profit	698.7	845.1	-17%	519.6	34%	2,391.7	891.7	168%
Core profit	706.2	830.5	-15%	528.4	34%	2,446.3	955.4	156%
EPS (sen)	8.6	10.4	-17%	6.4	34%	29.3	10.9	168%
Core EPS (sen)	8.7	10.2	-15%	6.5	34%	30.0	11.7	156%
DPS (sen)	3.0	0.0	N/A	2.5	20%	3.0	2.5	20%
NTA/share (RM)	1.22	1.09	12%	0.71	73%	1.22	1.09	12%
EBITDA margin	29%	32%		23%		32%	20%	
EBIT margin	23%	26%		19%		26%	14%	
Pretax margin	16%	19%		11%		18%	7%	
Effective tax rate	17%	16%		17%		17%	21%	

Source: Company

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Segment Breakdown								
Segmental Breakdown (RM m)	3Q FY24	2Q FY24	Q-o-Q Chg	3Q FY23	Y-o-Y Chg	9M FY24	9M FY23	Y-o-Y Chg
Segment revenue:								
Singapore IPP	3,572.7	3,750.8	-5%	4,120.1	-13%	11,119.8	10,970.5	1%
Water & Sewerage	1,236.8	1,192.4	4%	995.5	24%	3,643.5	3,084.5	18%
Telco Business	96.8	180.8	-46%	109.3	-11%	461.9	360.9	28%
Investment Holding	253.6	249.6	2%	132.5	91%	753.9	388.8	94%
Group revenue	5,159.8	5,373.6	-4%	5,357.5	-4%	15,979.1	14,804.7	8%
Segment result:								
Singapore IPP	842.8	1,033.6	-18%	806.4	5%	2,901.5	1,397.8	108%
Water & Sewerage	-51.2	-69.5	-26%	-47.2	9%	-155.5	-37.8	311%
Mobile Broadband Network	-123.1	-66.1	86%	-103.2	19%	-260.6	-259.1	1%
Investment Holding	150.7	126.8	19%	-45.6	N/A	390.0	-9.6	N/A
Group PBT	819.2	1,024.8	-20%	610.4	34%	2,875.5	1,091.2	164%
PBT margin:								
Singapore IPP	24%	28%		20%		26%	13%	
Water & Sewerage	-4%	-6%		-5%		-4%	-1%	
Telco Business	-127%	-37%		-94%		-56%	-72%	
Investment Holding	59%	51%		-34%		52%	-2%	
Group PBT margin	16%	19%		11%		18%	7%	

Source: Company

YTLPOWR's Sum-of-Parts Valuation			
Unit	Valuation		Basis
	(RM m)	(RM/share)	
Singapore IPP	23,357	2.86	FCFF @ 5.9% discount rate
Wessex	10,633	1.30	FCFF @ 5.9% discount rate; TG: 1%
Yes	1,949	0.24	FY23A book value
Data Centre	8,508	1.04	RM50m/MW, 400MW non-AI capacity RM100m/MW, 100MW AI capacity
Other Investment	2,234	0.27	FY23A book value
Net Cash/(Debt)	-4,101	-0.50	Estimated FY24F
TP	42,579	RM5.22	

Source: Kenanga Research

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	3.58	3.33	-7.0%	4,596.7	Y	12/2024	25.7	24.4	-13.8%	-5.2%	13.9	14.7	3.2	23.4%	20.6	5.8%
MALAKOFF CORP BHD	MP	0.745	0.680	-8.7%	3,640.8	Y	12/2024	4.7	5.8	-71.9%	24.1%	15.9	12.8	0.8	5.2%	3.8	5.0%
PETRONAS GAS BHD	MP	18.32	17.87	-2.5%	36,250.4	Y	12/2024	98.4	100.7	5.2%	2.4%	18.6	18.2	2.6	14.2%	72.0	3.9%
SAMAIDEN GROUP BHD	MP	1.39	1.51	8.6%	581.0	Y	06/2024	3.5	5.3	26.4%	51.9%	40.0	26.3	5.6	14.9%	0.0	0.0%
SOLARVEST HOLDINGS BHD	OP	1.66	1.91	22.4%	1,148.9	Y	03/2024	3.9	6.8	52.8%	74.4%	42.3	24.2	5.3	13.8%	0.0	0.0%
TENAGA NASIONAL BHD	MP	13.10	11.50	-12.2%	75,814.0	Y	12/2024	73.7	79.5	37.4%	7.9%	17.8	16.5	1.2	7.0%	36.5	2.8%
YTL POWER INTERNATIONAL BHD	MP	5.38	5.22	-3.0%	43,804.9	N	06/2024	39.1	37.7	61.6%	-3.5%	13.8	14.3	2.4	18.1%	6.0	1.1%
Sector Aggregate					165,836.7					53.9%	3.4%	16.6	16.1	3.0	13.8%		2.7%

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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