

YTL Power (YTLP MK)

Secures digital bank license

BUY

Share Price MYR 0.78
 12m Price Target MYR 0.90 (+24%)
 Previous Price Target MYR 0.90

Exposure through YTLP

The SEA-YTL consortium was expectedly awarded the digital bank license, having been among the frontrunners during the bidding process in our view. The announcement confirms that the YTL group's exposure to the digital bank would be via YTLP. Reiterate BUY with an unchanged MYR0.90 TP (SOP-based). We believe YTLP can comfortably sustain a 5sen annual DPS in the coming years.

Digital bank license in the bag

The consortium between SEA Ltd (SE US, BUY, CP: USD87.59, TP: USD160, parent company of Shopee) and YTL Digital Capital (100% subsidiary of YTL Power) has been awarded a digital bank license from Bank Negara. Initial capital requirement for the digital bank is MYR100m, rising to MYR300m after 3 years. Bank Negara expects these new digital banks to begin operations in mid-2023.

Awaiting more clarity

Given previous uncertainty, the announcement confirms that the YTL group's exposure to the digital bank would be via YTLP. The shareholding split of the consortium remains unknown at the time of writing, with press reports alluding to YTLP having majority control. Given SEA's digital expertise (including digital banking in Singapore), we would expect YTLP to play a support role in the digital bank operations.

Earnings immaterial initially

We believe the digital bank is unlikely to contribute materially to YTLP's earnings in the initial years. Our earnings forecasts and MYR0.90 TP (based on a sum-of-parts, with the operating entities each valued by DCF) are unchanged. The digital bank license further solidifies the relationship between SEA and the YTL group (YTL Comm already runs a reward program with Shopee). We do not rule out more of such collaborations in future.

Company Description

YTL Power owns a portfolio of utility concessions (both operational and developmental) in six countries.

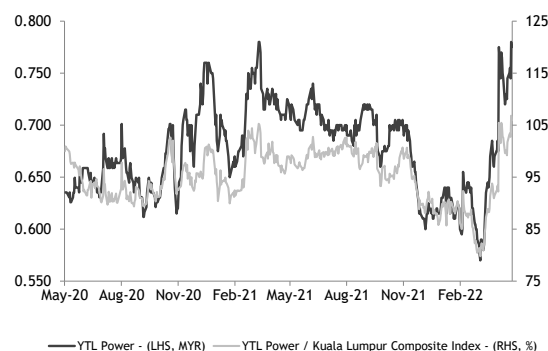
Statistics

52w high/low (MYR)	0.78/0.57
3m avg turnover (USDm)	1.2
Free float (%)	25.2
Issued shares (m)	8,102
Market capitalisation	MYR6.3B
	USD1.4B

Major shareholders:

YTL Corp Bhd.	57.4%
Permodalan Nasional Bhd.	8.3%
Employees Provident Fund	5.8%

Price Performance



	-1M	-3M	-12M
Absolute (%)	15	29	8
Relative to index (%)	15	23	8

Source: FactSet

FYE Jun (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	10,670	10,783	14,851	15,685	16,571
EBITDA	2,201	2,392	2,453	2,560	2,670
Core net profit	216	312	199	460	527
Core EPS (sen)	2.8	3.9	2.5	5.7	6.5
Core EPS growth (%)	(41.1)	39.7	(37.5)	131.6	14.6
Net DPS (sen)	0.0	4.5	5.0	5.0	5.0
Core P/E (x)	22.4	17.7	31.6	13.6	11.9
P/BV (x)	0.4	0.4	0.4	0.4	0.4
Net dividend yield (%)	0.0	6.5	6.5	6.5	6.5
ROAE (%)	0.5	(1.1)	1.4	3.1	3.5
ROAA (%)	0.5	0.6	0.4	0.8	0.9
EV/EBITDA (x)	10.9	10.9	10.0	9.8	9.6
Net gearing (%) (incl perps)	160.7	157.1	120.9	124.3	126.6
Consensus net profit	-	-	232	390	432
MKE vs. Consensus (%)	-	-	(14.5)	18.0	22.0

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Risk Rating & Score ¹	52.6 (Severe)
Score Momentum ²	+4.2
Last Updated	24Jan2022
Controversy Score ³ (Updated: 25Nov2021)	2 - OSH (employee) Incidents

Business Model & Industry Issues

- YTL Power has considerable coal exposure through its 20% effective stake in Jawa Power, a coal-fired power plant in Indonesia with a PPA expiring only in 2030. Despite being only an associate, Jawa Power is YTL Power's second biggest net profit contributor. In addition, YTL Power is working towards achieving financial close for TjJati A, another greenfield coal-fired power plant in Indonesia. Thus, the "coal stigma" will continue to accompany YTL Power for the foreseeable future.
- The group's current willingness to participate in greenfield coal-fired and shale oil-fired power plants suggests that ESG concern on its own do not preclude management's investment decisions. We thus expect the group to maintain its current strategy of investing in regulated assets with long-term concessions and attractive returns for the foreseeable future. Aggressive renewable diversification appears unlikely in our view given lean project returns in the space due to increasing crowdedness.
- Despite being family-controlled, there has not been any questionable related-party transaction of note at YTL Power. YTL Power does not have a set dividend policy, but has been proactive with capital management, having paid out relatively generous cash or stock dividends every year. It is also active in share buybacks.

Material E issues

- YTL Power has a considerable degree of coal exposure through its 20% effective stake in Jawa Power, a coal-fired power plant in Indonesia. YTL Power is also working towards achieving financial close for TjJati A, another greenfield coal-fired power plant in Indonesia.
- YTL Power also has a 45% stake in Attarat Power, a greenfield shale oil-fired power plant currently under construction in Jordan.
- YTL Power's environmental mitigation efforts include Wessex developing waste-to-energy initiatives, Jawa Power investing in renewable-powered mini grids for local communities, and PowerSeraya installing PV systems at its site to provide green energy options to customers.
- YTL Power has also been active with conservation and biodiversity initiatives around its prevailing sites in UK and Indonesia.

Material S issues

- There was a material health and safety incident at Wessex Water in Dec 2020, where an explosion of a silo led to four fatalities, three of which were Wessex Water employees. The cause of the incident is presently under investigation.
- YTL Power does not specifically disclose the gender breakdown of its workforce. It is part of the YTL Group, whose male-female workforce split stood at 71%-29% as at FY21. Female representation in leadership roles at YTL Group stood at 31% in FY21.
- YTL Power's Malaysia telecom arm is used by the YTL Group to facilitate education-related CSR initiatives. During the current COVID-19 pandemic, free mobile data and SIM cards were provided to students in government schools, while free mobile devices were given to students from B40 families.

Key G metrics and issues

- YTL Power is majority-controlled by the Yeoh Family through parent YTL Corp and the family's vehicle Yeoh Tiong Lay & Sons Holdings Sdn Bhd.
- The Board currently has 12 Directors, comprising 8 Executive Directors and 4 Independent Non-Executive Directors. 7 of the 8 Executive Directors (including the chairman and MD) are siblings.
- There are 3 women on the Board, representing 25% representation. The Board, while recognising the importance of developing female talent, has not set any specific targets on female representation.
- YTL Power does not disclose remuneration details of the senior management team due to confidentiality. Remuneration of individual directors is disclosed, with the MD enjoying a total remuneration of MYR1.69m in FY21.
- YTL Power has been audited by PricewaterhouseCoopers for at least the past decade.
- YTL Power does not have a set dividend policy, but has been proactive with capital management, having paid out relatively generous cash or stock dividends every year. It is also active in share buybacks.
- There has not been any questionable related-party transaction of note. Previous privatisation newsflow (by parent YTL Corp) has thus far been merely speculative.
- YTL Power's last major acquisition was that of Singapore's PowerSeraya in 2009. PowerSeraya was profitable and significantly accretive in the initial years post-acquisition but turned loss-making in FY19-20 given the industry's supply glut.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

YTL Power: Core net profit split

(MYR m)	Net profit		Net profit		Net profit	
	FY21	%	FY22E	%	FY23E	%
Malaysia IPP	22	7%	0	0%	0	0%
Power Seraya	228	73%	196	98%	250	54%
Wessex Water	418	134%	359	181%	364	79%
Mobile	-124	-40%	-111	-56%	-106	-23%
Associate - Java Power	165	53%	174	88%	173	38%
Associate - Electranet	52	17%	19	10%	0	0%
Associate - Attarat Power	0	0%	0	0%	214	47%
Others	-448	-144%	-438	-221%	-435	-95%
Total	312		199		460	

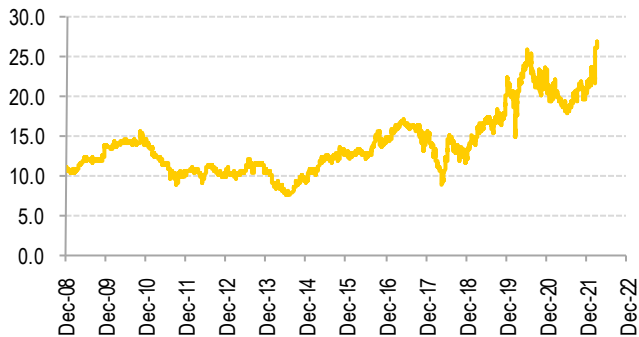
Source: Maybank IBG Research

Target price derivation

(MYR m)	Equity Value	Stake	Attri. value	per share	%
Power Seraya	0	100%	0	0.00	0%
Wessex	3,587	100%	3,587	0.44	49%
Mobile	189	60%	113	0.01	2%
Jawa Power	6,100	20%	1,220	0.15	17%
Attarat Power	1,142	45%	514	0.06	7%
Residual net cash			1,870	0.23	26%
Total equity value			7,305	0.90	100%

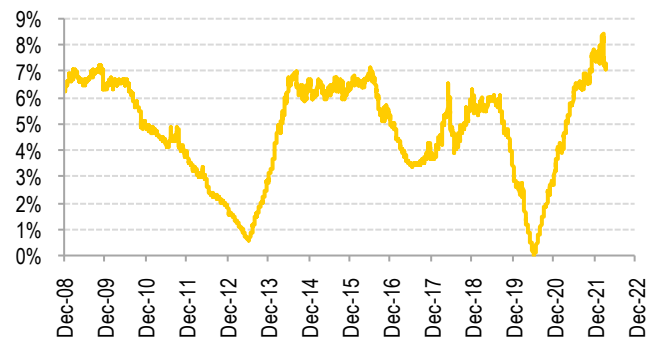
Source: Maybank IBG research

Trailing PER



Source: Bloomberg, Maybank IBG research

Trailing net yield



Source: Bloomberg, Maybank IBG research

Risk statement

There are several risk factors for our earnings estimates, target price, and rating for YTL Power. Changes to regulatory parameters, such as the rate of return, have direct impact on profitability, while plant outages could also pose a risk to earnings. With most of the plants being situated outside Malaysia, YTL Power is also exposed to currency risk.

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	79.8	nm	31.6	13.6	11.9
Core P/E (x)	22.4	17.7	31.6	13.6	11.9
P/BV (x)	0.4	0.4	0.4	0.4	0.4
P/NTA (x)	1.5	1.3	1.0	1.0	1.0
Net dividend yield (%)	0.0	6.5	6.5	6.5	6.5
FCF yield (%)	16.1	5.3	9.2	11.0	12.1
EV/EBITDA (x)	10.9	10.9	10.0	9.8	9.6
EV/EBIT (x)	23.3	23.1	21.1	20.2	19.2
INCOME STATEMENT (MYR m)					
Revenue	10,670.3	10,782.8	14,851.4	15,685.0	16,570.9
EBITDA	2,201.3	2,392.0	2,452.7	2,559.9	2,670.1
Depreciation	(1,171.4)	(1,268.2)	(1,294.9)	(1,320.0)	(1,339.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	1,029.9	1,123.7	1,157.7	1,239.9	1,330.7
Net interest income / (exp)	(1,071.7)	(938.8)	(1,038.7)	(1,037.8)	(1,032.6)
Associates & JV	454.2	366.0	324.4	517.6	528.9
Exceptionals	11.4	85.5	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	423.8	636.5	443.4	719.7	827.0
Income tax	(298.2)	(735.1)	(178.0)	(190.0)	(225.9)
Minorities	(61.0)	(44.4)	(66.7)	(69.5)	(73.9)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	64.6	(143.1)	198.7	460.2	527.2
Core net profit	215.6	312.0	198.7	460.2	527.2
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	8,873.9	10,357.3	12,668.5	12,089.1	11,586.5
Accounts receivable	3,548.8	4,402.0	6,062.6	6,402.9	6,764.6
Inventory	311.9	349.8	464.0	489.3	516.1
Property, Plant & Equip (net)	22,962.1	25,345.9	25,806.0	26,241.0	26,656.6
Intangible assets	8,640.2	8,674.5	8,674.5	8,674.5	8,674.5
Investment in Associates & JVs	2,215.5	2,212.2	1,431.5	1,645.5	1,872.3
Other assets	548.8	761.6	761.6	761.6	761.6
Total assets	47,101.2	52,103.3	55,868.8	56,304.0	56,832.2
ST interest bearing debt	7,968.6	4,510.6	4,510.6	4,510.6	4,510.6
Accounts payable	3,378.7	4,183.6	5,889.1	6,210.6	6,550.7
LT interest bearing debt	20,083.2	26,311.2	26,311.2	26,311.2	26,311.2
Other liabilities	3,735.0	4,075.0	4,141.0	4,200.0	4,266.0
Total Liabilities	35,165.4	39,080.4	40,852.3	41,232.4	41,638.4
Shareholders Equity	11,935.8	13,022.9	15,016.5	15,071.6	15,193.7
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	11,935.8	13,022.9	15,016.5	15,071.6	15,193.7
Total liabilities and equity	47,101.2	52,103.3	55,868.8	56,304.0	56,832.2
CASH FLOW (MYR m)					
Pretax profit	423.8	636.5	443.4	719.7	827.0
Depreciation & amortisation	1,171.4	1,268.2	1,294.9	1,320.0	1,339.4
Adj net interest (income)/exp	1,071.7	938.8	1,038.7	1,037.8	1,032.6
Change in working capital	187.5	(272.6)	(69.3)	(44.1)	(48.3)
Cash taxes paid	(162.4)	(65.8)	(47.6)	(70.7)	(104.3)
Other operating cash flow	(419.3)	(511.4)	(324.4)	(517.6)	(528.9)
Cash flow from operations	2,272.6	1,993.7	2,335.7	2,445.0	2,517.4
Capex	(1,491.8)	(1,701.2)	(1,755.0)	(1,755.0)	(1,755.0)
Free cash flow	780.9	292.5	580.7	690.0	762.4
Dividends paid	(383.8)	(162.0)	(405.1)	(405.1)	(405.1)
Equity raised / (purchased)	(0.0)	(38.0)	0.0	0.0	0.0
Change in Debt	323.3	1,428.8	0.0	0.0	0.0
Other invest/financing cash flow	(1,009.4)	(475.1)	2,135.6	(864.3)	(860.0)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(289.0)	1,046.1	2,311.2	(579.4)	(502.6)

FYE 30 Jun	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(8.6)	1.1	37.7	5.6	5.6
EBITDA growth	(10.0)	8.7	2.5	4.4	4.3
EBIT growth	(25.3)	9.1	3.0	7.1	7.3
Pretax growth	(42.2)	50.2	(30.3)	62.3	14.9
Reported net profit growth	(85.9)	nm	nm	131.6	14.6
Core net profit growth	(41.1)	44.7	(36.3)	131.6	14.6
Profitability ratios (%)					
EBITDA margin	20.6	22.2	16.5	16.3	16.1
EBIT margin	9.7	10.4	7.8	7.9	8.0
Pretax profit margin	4.0	5.9	3.0	4.6	5.0
Payout ratio	0.0	nm	203.9	88.0	76.8
DuPont analysis					
Net profit margin (%)	0.6	nm	1.3	2.9	3.2
Revenue/Assets (x)	0.2	0.2	0.3	0.3	0.3
Assets/Equity (x)	3.9	4.0	3.7	3.7	3.7
ROAE (%)	0.5	(1.1)	1.4	3.1	3.5
ROAA (%)	0.5	0.6	0.4	0.8	0.9
Liquidity & Efficiency					
Cash conversion cycle	2.8	(0.2)	(1.1)	(3.0)	(3.0)
Days receivable outstanding	118.4	132.7	126.8	143.1	143.0
Days inventory outstanding	13.8	12.7	11.2	12.5	12.5
Days payables outstanding	129.4	145.7	139.2	158.5	158.5
Dividend cover (x)	nm	(0.4)	0.5	1.1	1.3
Current ratio (x)	1.1	1.7	1.9	1.8	1.7
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.3	1.4	1.4	1.4
Net gearing (%) (incl perps)	160.7	157.1	120.9	124.3	126.6
Net gearing (%) (excl. perps)	160.7	157.1	120.9	124.3	126.6
Net interest cover (x)	1.0	1.2	1.1	1.2	1.3
Debt/EBITDA (x)	12.7	12.9	12.6	12.0	11.5
Capex/revenue (%)	14.0	15.8	11.8	11.2	10.6
Net debt/ (net cash)	19,177.9	20,464.4	18,153.2	18,732.6	19,235.3

Source: Company; Maybank IBG Research

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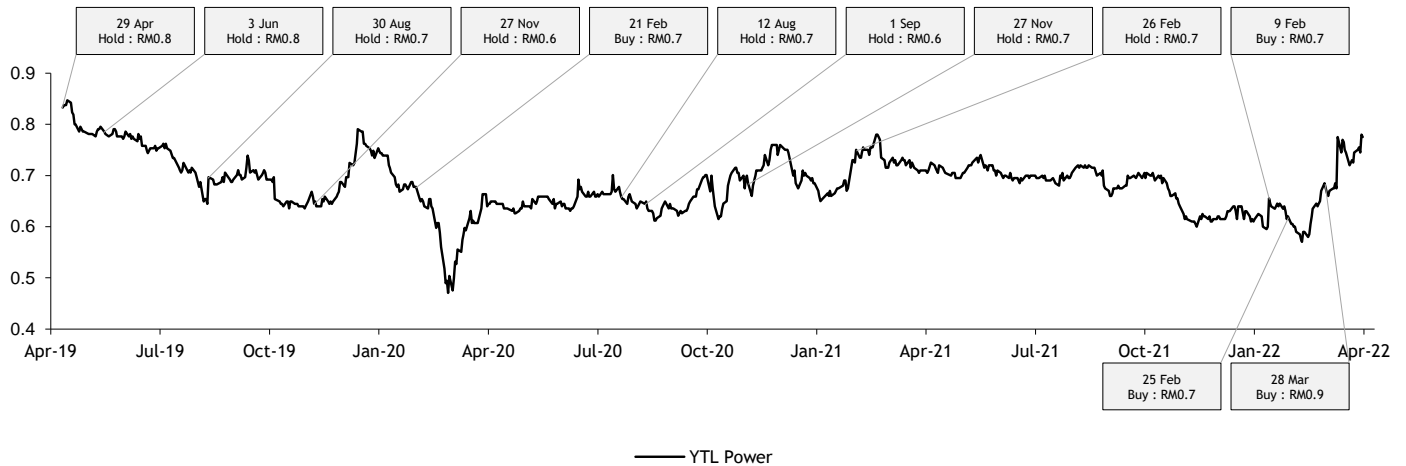
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