



AmInvestment Bank

Company report

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YTL POWER

(YTLP MK, YTLP.KL)

POWER

9 Sep 2021

Hit by higher deferred tax charges in UK

BUY

(Upgraded)

Rationale for report: Company results

Price **RM0.71**
Fair Value **RM0.85**
52-week High/Low RM0.79/RM0.607

Key Changes

Fair value
EPS

| YE to Jun | FY21 | FY22F | FY23F | FY24F |
|-------------------------------|----------|---------|---------|---------|
| Revenue (RM mil) | 10,782.8 | 9,620.7 | 9,187.7 | 9,000.6 |
| Net Profit (RM mil) | (143.1) | 415.2 | 413.6 | 376.0 |
| EPS (sen) | (1.9) | 5.4 | 5.4 | 4.9 |
| EPS growth (%) | (313.7) | 390.2 | (0.4) | (9.1) |
| Consensus net profit (RM mil) | 438.0 | 464.0 | 500.3 | - |
| DPS (sen) | 4.5 | 5.0 | 5.5 | 6.0 |
| PE (x) | (38.1) | 13.1 | 13.2 | 14.5 |
| EV/EBITDA (x) | 10.9 | 10.7 | 11.1 | 11.5 |
| Div yield (%) | 6.3 | 7.0 | 7.7 | 8.5 |
| ROE (%) | (1.1) | 3.2 | 3.2 | 2.9 |
| Net gearing (%) | 173.7 | 177.2 | 185.1 | 189.9 |

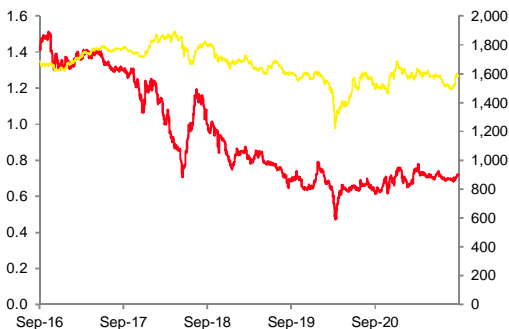
Stock and Financial Data

Shares Outstanding (million) 7,675.3
Market Cap (RM mil) 5,449.5
Book value (RM/share) 1.70
P/BV (x) 0.4
ROE (%) -1.1
Net Gearing (%) 173.7

Major Shareholders YTL Corp (55.2%)
ASB (5.1%)

Free Float (%) 44.8
Avg Daily Value (RM mil) 0.6

| Price performance | 3mth | 6mth | 12mth |
|-------------------|------|------|-------|
| Absolute (%) | -0.0 | -4.0 | +15.0 |
| Relative (%) | -1.8 | -2.3 | +10.4 |



— YTLP MK — FBMKLCI Index

Investment Highlights

- We upgrade YTL Power (YTLP) to BUY from HOLD due to its decent dividend yield of 7.0%. Our RNAV-based fair value for YTLP is now higher at RM0.85/share vs. RM0.80/share previously. YTLP is currently trading at FY22F PE of 13.1x and FY23F PE of 13.2x.
- We have raised YTLP's FY22F net profit by 5.9% to account for smaller losses in the mobile broadband unit and higher earnings from the multi-utilities division (mainly YTL Seraya in Singapore).
- YTLP's net profit growth in FY22F is expected to be underpinned by sustained earnings in Singapore and a higher number of subscribers in YES. Currently, YES has 2.7mil subscribers. The group has partnered with Shopee to boost its subscribers. YES sold 700,000 SIM cards online.
- YTLP has declared a **second interim** cash DPS of 2.5 sen for 4QFY21. This brings total cash DPS to 4.5 sen for FY21 vs. a share dividend of 4.3 sen in FY20. YTLP did not pay a cash dividend in FY20. We have forecast a cash gross DPS of 5.0 sen for YTLP in FY22F, which implies a yield of 7.0%.
- YTLP's FY21 net profit was below our forecast and consensus estimates as it sank into a net loss of RM486.7mil in 4QFY21. The net loss in 4QFY21 was due to a high effective tax rate of 403.2%. The corporate tax rate in the UK has been raised to 25% from 19% with effect from 1 April 2023. This resulted in the re-measurement of deferred tax charges of RM540.5mil. As such, YTLP's tax expense rose to RM614.7mil in 4QFY21 from RM192.4mil in 4QFY20.
- Operationally, YTL performed well in FY21 as the multi-utilities division in Singapore swung into profitability. The multi-utilities division recorded a pre-tax profit of RM275.3mil in FY21 vs. a pre-tax loss of RM172.4mil in FY20. The earnings turnaround in Singapore in FY21 was partly driven by an increase in its market share as some of the vesting contracts of the competitors had expired at the end of last year. Also, we believe that the division benefited from timely purchases of gas when prices plunged in 3Q2020.
- The water and sewerage division (mainly Wessex Water in the UK) recorded a smaller pre-tax profit of RM493.8mil in FY21 compared to RM610.1mil in FY20 due to lower water tariffs and higher interest expenses. Pre-tax profit margin of the unit shrank to 13.1% in FY21 from 17.5% in FY20.
- Pre-tax losses of the telecommunications division (YES network) declined to RM190.5mil in FY21 from RM264.8mil in FY20 on the back of a higher number of subscribers.

EXHIBIT 1: EARNINGS SUMMARY (RM MIL)

| FYE 30 June | 3QFY21 | 4QFY21 | % QoQ | FY20 | FY21 | % YoY |
|-------------------------|--------------|--------------|---------|---------------|---------------|---------|
| Revenue | 2,636 | 3,027 | 14.8 | 10,637 | 10,783 | 1.4 |
| Operating cost | (2,051) | (2,427) | 18.3 | (8,481) | (8,538) | 0.7 |
| EBITDA | 586 | 600 | 2.4 | 2,156 | 2,245 | 4.1 |
| Depreciation | (275) | (307) | 11.7 | (1,115) | (1,090) | (2.2) |
| OP. profit | 311 | 293 | (5.8) | 1,041 | 1,155 | 10.9 |
| Interest income | 10 | 1 | (91.3) | 10 | 14 | 32.1 |
| Finance cost | (240) | (242) | 1.0 | (1,084) | (952) | (12.1) |
| Associates | 88 | 101 | 14.6 | 454 | 366 | (19.4) |
| Exceptional items | 0 | 0 | | 0 | 54 | |
| Pre-tax profit | 169 | 152 | (9.6) | 425 | 636 | 49.7 |
| Taxation | (39) | (615) | 1,480.3 | (297) | (735) | 147.1 |
| Profit after tax | 130 | (462) | (456.4) | 126 | (99) | (178.5) |
| Minority interests | (17) | (24) | 40.0 | (60) | (44) | (26.1) |
| Net profit | 112 | (487) | (533.8) | 68 | (143) | (311.5) |
| Core net profit | 112 | (487) | (533.8) | 68 | (197) | (391.5) |
| Diluted EPS (sen) | 1.4 | (6.0) | | 0.9 | (1.8) | |
| DPS (sen) | 2.0 | 2.5 | | 0.0 | 4.5 | |
| EBITDA margin | 22.2% | 19.8% | | 20.3% | 20.8% | |
| OP. profit margin | 11.8% | 9.7% | | 9.8% | 10.7% | |
| Pretax margin | 6.4% | 5.0% | | 4.0% | 5.9% | |
| Core net margin | 4.3% | -16.1% | | 0.6% | -1.8% | |
| Effective tax rate | 23.1% | 403.2% | | 70.0% | 115.5% | |

Source: Bursa Announcement

EXHIBIT 2 : ESG RATING

| | | | | | |
|---------------------------------|---|---|---|---|--|
| Overall | ★ | ★ | ★ | | |
| Carbon emissions | ★ | ★ | ★ | | |
| Exposure to renewables | ★ | | | | |
| Waste management | ★ | ★ | ★ | | |
| Migrant workers welfare | ★ | ★ | ★ | | |
| Work site safety | ★ | ★ | ★ | | |
| Corporate social responsibility | ★ | ★ | ★ | ★ | |
| Corruption free pledge | ★ | ★ | ★ | ★ | |
| Accessibility and transparency | ★ | ★ | ★ | | |

We accord a discount/premium of -6%, -3%, 0%, +3% and +6% on fundamental fair value based on the overall ESG rating as appraised by us, from 1-star to 5-star

EXHIBIT 3 : FINANCIAL DATA

| Income Statement (RMmil, YE 30 Jun) | 2020 | 2021 | 2022F | 2023F | 2024F |
|---|------------------|------------------|------------------|------------------|------------------|
| Revenue | 10,637.2 | 10,782.8 | 9,620.7 | 9,187.7 | 9,000.6 |
| EBITDA | 2,270.7 | 2,501.9 | 2,668.4 | 2,648.9 | 2,596.0 |
| Depreciation | (1,229.0) | (1,292.6) | (1,285.1) | (1,300.5) | (1,335.0) |
| Operating income (EBIT) | 1,041.7 | 1,209.2 | 1,383.3 | 1,348.4 | 1,261.0 |
| Other income & associates | 454.2 | 366.0 | 369.7 | 373.4 | 377.1 |
| Net interest | (1,070.7) | (938.8) | (1,150.0) | (1,121.0) | (1,092.0) |
| Exceptional items | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax profit | 425.2 | 636.5 | 603.0 | 600.7 | 546.1 |
| Taxation | (298.2) | (735.1) | (114.6) | (114.1) | (103.8) |
| Minorities/pref dividends | (60.1) | (44.4) | (73.3) | (73.0) | (66.4) |
| Profit from discount ops | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 67.0 | (143.1) | 415.2 | 413.6 | 376.0 |
| Balance Sheet (RMmil, YE 30 Jun) | 2020 | 2021 | 2022F | 2023F | 2024F |
| Fixed assets | 21,880.5 | 24,207.3 | 23,774.3 | 23,923.9 | 24,049.0 |
| Intangible assets | 8,641.7 | 8,674.5 | 8,594.9 | 8,515.2 | 8,435.6 |
| Other long-term assets | 5,163.8 | 5,366.0 | 7,366.8 | 7,444.5 | 7,652.9 |
| Total non-current assets | 35,686.0 | 38,247.8 | 39,736.1 | 39,883.6 | 40,137.5 |
| Cash & equivalent | 7,484.7 | 8,604.8 | 6,783.0 | 4,661.7 | 3,057.5 |
| Stock | 311.9 | 349.8 | 330.0 | 331.0 | 332.0 |
| Debtors | 2,157.7 | 2,884.7 | 2,913.5 | 2,942.7 | 2,972.1 |
| Other current assets | 1,498.0 | 2,016.2 | 1,570.0 | 1,702.0 | 1,703.0 |
| Total current assets | 11,452.3 | 13,855.5 | 11,596.5 | 9,637.4 | 8,064.6 |
| Creditors | 1,943.3 | 2,737.3 | 2,372.2 | 1,762.0 | 1,726.1 |
| Short-term borrowings | 7,311.7 | 4,487.1 | 4,487.1 | 4,487.1 | 4,487.1 |
| Other current liabilities | 421.9 | 114.5 | 205.6 | 206.6 | 207.6 |
| Total current liabilities | 9,676.9 | 7,338.9 | 7,064.9 | 6,455.6 | 6,420.8 |
| Long-term borrowings | 20,153.2 | 25,868.9 | 25,337.4 | 24,138.3 | 22,940.1 |
| Other long-term liabilities | 5,265.4 | 5,981.8 | 5,981.8 | 5,981.8 | 5,981.8 |
| Total long-term liabilities | 25,418.5 | 31,850.7 | 31,319.2 | 30,120.1 | 28,921.9 |
| Shareholders' funds | 12,019.0 | 13,022.9 | 12,984.9 | 12,907.9 | 12,755.9 |
| Minority interests | 23.8 | -109.2 | -35.9 | 37.1 | 103.4 |
| BV/share (RM) | 1.57 | 1.70 | 1.69 | 1.68 | 1.66 |
| Cash Flow (RMmil, YE 30 Jun) | 2020 | 2021 | 2022F | 2023F | 2024F |
| Pretax profit | 425.2 | 636.5 | 603.0 | 600.7 | 546.1 |
| Depreciation | 1,229.0 | 1,292.6 | 1,285.1 | 1,300.5 | 1,335.0 |
| Net change in working capital | 34.3 | (272.6) | (374.1) | (640.3) | (66.3) |
| Others | (566.5) | (382.5) | (499.1) | (503.9) | (498.9) |
| Cash flow from operations | 1,122.0 | 1,274.1 | 1,014.8 | 757.0 | 1,315.9 |
| Capital expenditure | (1,331.0) | (1,693.1) | (1,360.7) | (1,370.3) | (1,380.5) |
| Net investments & sale of fixed assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | (187.0) | 632.1 | 310.6 | 315.1 | 319.7 |
| Cash flow from investing | (1,518.0) | (1,061.1) | (1,050.1) | (1,055.3) | (1,060.8) |
| Debt raised/(repaid) | 496.3 | 1,587.8 | (1,333.3) | (1,332.3) | (1,331.3) |
| Equity raised/(repaid) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends paid | (650.0) | (315.5) | (453.3) | (490.6) | (528.0) |
| Others | (174.0) | (197.0) | 0.0 | 0.0 | 0.0 |
| Cash flow from financing | (327.7) | 1,075.3 | (1,786.6) | (1,822.9) | (1,859.3) |
| Net cash flow | (723.7) | 1,288.3 | (1,821.9) | (2,121.2) | (1,604.2) |
| Net cash/(debt) b/f | 7,540.3 | 6,923.6 | 8,578.7 | 6,756.8 | 4,635.5 |
| Forex | 107.0 | 366.8 | 0.0 | 0.0 | 0.0 |
| Net cash/(debt) c/f | 6,923.6 | 8,578.7 | 6,756.8 | 4,635.5 | 3,031.4 |
| Key Ratios (YE 30 Jun) | 2020 | 2021 | 2022F | 2023F | 2024F |
| Revenue growth (%) | -9.3 | 1.4 | -10.8 | -4.5 | -2.0 |
| EBITDA growth (%) | -20.4 | 10.2 | 6.7 | -0.7 | -2.0 |
| Pretax margins (%) | 4.0 | 5.9 | 6.3 | 6.5 | 6.1 |
| Net profit margins (%) | 0.6 | -1.3 | 4.3 | 4.5 | 4.2 |
| Interest cover (x) | 2.1 | 2.7 | 2.3 | 2.4 | 2.4 |
| Effective tax rate (%) | 70.1 | 115.5 | 19.0 | 19.0 | 19.0 |
| Net dividend payout (%) | 0.0 | -229.3 | 87.8 | 97.0 | 116.4 |
| Debtors turnover (days) | 74 | 98 | 111 | 117 | 121 |
| Stock turnover (days) | 11 | 12 | 13 | 13 | 13 |

Source: Company, AmInvestment Bank estimates

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