

14 November 2018 | 3QFY18 Result Review

## Ranhill Holdings

*Core operating performance in-line*

### INVESTMENT HIGHLIGHTS

- **9M18 revenue and EBIT spot-on but net profit fell short given higher unwinding of interest charge**
- **Core operating earnings improved 10%/yoy**
- **FY18F/19F net profit tweaked to adjust unwinding of interest assumptions, but operating earnings intact**
- **Re-affirm BUY at unchanged TP of RM1.30**

**Operational earnings in-line, reported earnings fall short.** Ranhill's 9M18 Revenue/EBITDA/EBIT of RM402m/RM87m/RM74m were spot-on accounting for 75%/75%/75% of our FY18F respectively. However, reported net profit was impacted by an increase in concession unwinding interest charges (non-cash accounting treatment). As a result, 9M18 earnings accounted for 67% of our full year forecast, technically, falling short of expectations. A higher 2sen/share interim dividend was declared.

**Non-cash hit.** The unwinding of interest charge (the process of reversing the difference between the present value of service concession assets and fully accrued service concession obligations) relates to Ranhill SAJ's service concession obligation, and tends to be front-loaded and tapers off over the concession period – in this case, Ranhill SAJ's 3-yearly water operator license (OP4: Operating Period-4) which was renewed effective Jan18. Since the licensing regime is short compared to a typical concession, the impact of unwinding of interest can be quite pronounced.

**Core operating earnings expanded.** Given the imbalance in recognition of unwinding of interest charges i.e. FY17 reflected the final year of Ranhill's OP3 hence is the lowest in that licensing cycle whereas FY18F reflects the 1<sup>st</sup> year of its OP4 hence is significantly higher, reported earnings showed a sharp 35%/yoy fall. Revenue and EBITDA actually grew some 5%/yoy and 10%/yoy reflecting Ranhill's improved core operating performance driven by lower O&M cost for its power unit and an increase in consumption for SAJ (typically 2%-3% growth/annum).

**Net profit tweaked but valuations intact.** Our net profit is tweaked lower by 13%/10% over FY18F/19F for adjustments of unwinding of interest assumptions but this does not impact our SOP-based valuation (mainly comprising DCF values of Ranhill's water and power assets). Our revenue/EBIT forecasts remain unchanged over the period. More importantly, our BUY thesis premised on: (1) A potential rate hike which accounts for the bulk of our FY19F growth, (2) Takeover of Johor sewerage operation which could drive a 30%-40% earnings gap-up (3) Entry into RE via its geothermal development, remains intact.

**Reaffirm BUY on Ranhill.** Our TP is unchanged at RM1.30/share. Our TP still conservatively excludes potential earnings contribution from: (1) Water-sewerage operation integration (2) The RM500m national NRW program (3) Tawau Geothermal energy project, which could drive our valuations higher to RM1.60/share (blue-sky scenario). Key catalysts: (1) Schedule rate hike for Johor water (2) Johor water-sewerage integration (3) RM500m NRW-reduction contract wins (4) TGE progress into production well drilling.

**Maintain BUY**

**Unchanged Target Price TP: RM1.30**

#### RETURN STATS

Price (13 Nov 2018)	RM1.16
Target Price	RM1.30
Expected Share Price Return	+12.1%
Expected Dividend Yield	+5.1%
<b>Expected Total Return</b>	<b>+17.2%</b>

#### STOCK INFO

KLCI	1687.57
Bursa / Bloomberg	5272/RAHH MK
Board / Sector	Main / Power
Syariah Compliant	Yes
Issued shares (mil)	888.3
Market cap. (RM'm)	1030.45
Price over NA	1.78
52-wk price Range	RM0.65 – RM1.19
Beta (against KLCI)	0.85
3-mth Avg Daily Vol	3.77m
3-mth Avg Daily Value	RM3.56m
Major Shareholders (%)	
Tan Sri Hamdan	35.5%
Cheval Infrastructure	20.4%
Permodalan Darul Takzim	10.6%

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## INVESTMENT STATISTICS

FYE Dec	FY16	FY17	FY18F	FY19F	FY20F
Revenue (RM'm)	1,455.1	1,478.7	1,515.1	1,712.6	1,728.3
EBITDA (RM'm)	355.8	342.0	347.6	379.4	372.2
Pre-tax Profit (RM'm)	168.5	198.1	177.0	218.5	237.3
Net profit (RM'm)	55.3	72.4	64.6	80.2	87.2
FD EPS (sen)	6.2	8.1	7.3	9.0	9.8
EPS growth (%)	133%	31%	-11%	24%	9%
PER (x)	18.6	14.2	15.9	12.8	11.8
Net Dividend (sen)	7.8	5.0	5.1	5.9	5.9
Net Dividend Yield (%)	6.7%	4.3%	4.4%	5.1%	5.1%

Source: Company, MIDF

## EXHIBIT 1: RANHILL SUM-OF-PARTS VALUATION

Concessions	Valuation method	Value (RMm)	Stake	Shares out	RM/share
RP 1	DCF	152.6	60.0%	888.3	0.10
RP 2	DCF	318.5	80.0%	888.3	0.29
Water	DCF	2,093.0	80.0%	888.3	1.88
- Indah Water joint-billing	PE of 10x	11.3	80.0%	888.3	0.01
Other associates	PE of 10x	31.8		888.3	0.04
<b>Gross value</b>		<b>2,607.1</b>			<b>2.32</b>
	Net cash/(debt)	(775.8)		888.3	(0.87)
Net value		1,831.4		888.3	1.45
<b>Target Price</b>	10% discount to SOP				<b>1.30</b>
<i>add Tawau Geothermal</i>	<i>Equity NPV</i>	<i>165.1</i>	<i>26.7%</i>	<i>888.3</i>	<i>0.05</i>
<i>add Johor Sewerage</i>	<i>PE of 10x</i>	<i>270.0</i>	<i>80.0%</i>	<i>888.3</i>	<i>0.24</i>
<b>Blue-sky Target Price</b>					<b>1.60</b>

Source: Company, MIDF

## EXHIBIT 2: RANHILL 3Q18 RESULT SUMMARY

FYE Dec	3Q17	2Q18	3Q18	QoQ	YoY	9M17	9M18	YTD
<b>Revenue</b>	<b>383.5</b>	<b>379.5</b>	<b>401.9</b>	<b>5.9%</b>	<b>4.8%</b>	<b>1,103.5</b>	<b>1,141.7</b>	<b>3.5%</b>
EBITDA	78.9	82.2	86.7	5.5%	9.9%	248.0	260.7	5.1%
Depreciation	(12.4)	(12.3)	(12.4)	1.1%	0.4%	(35.9)	(36.6)	2.0%
<b>EBIT</b>	<b>66.6</b>	<b>69.9</b>	<b>74.3</b>	<b>6.3%</b>	<b>11.6%</b>	<b>212.1</b>	<b>224.1</b>	<b>5.7%</b>
Finance cost	(23.6)	(29.7)	(31.6)	6.5%	34.2%	(75.9)	(94.0)	23.8%
Zakat	(1.2)	(0.3)	(0.5)	89.2%	-59.6%	(2.7)	(1.0)	-63.3%
JV/Associates	5.5	3.4	2.6	-23.9%	-52.6%	8.6	7.3	-15.3%
<b>Pretax</b>	<b>47.3</b>	<b>43.4</b>	<b>44.8</b>	<b>3.3%</b>	<b>-5.3%</b>	<b>142.2</b>	<b>136.5</b>	<b>-4.0%</b>
Tax	(13.1)	(17.1)	(16.4)	-4.0%	24.7%	(52.4)	(50.8)	-3.1%
PAT	34.2	26.3	28.4	8.1%	-16.8%	89.8	85.7	-4.5%
MI	9.0	10.9	11.9	9.8%	32.9%	34.4	35.6	3.7%
Net profit	25.2	15.4	16.5	6.8%	-34.6%	55.4	50.1	-9.7%
<b>Core net profit</b>	<b>25.2</b>	<b>15.4</b>	<b>16.5</b>	<b>6.8%</b>	<b>-34.6%</b>	<b>55.4</b>	<b>50.1</b>	<b>-9.7%</b>
EPS (sen)	2.84	1.74	1.86			6.24	5.64	
DPS (sen)	1.0	0.0	2.0			1.0	2.0	
EBITDA margin	20.6%	21.7%	21.6%			22.5%	22.8%	
EBIT margin	17.4%	18.4%	18.5%			19.2%	19.6%	
Pretax margin	12.3%	11.4%	11.1%			12.9%	12.0%	
Tax	27.8%	39.3%	36.6%			36.9%	37.2%	
Core net margin	6.6%	4.1%	4.1%			5.0%	4.4%	
Dividend payout	35.3%	0.0%	107.8%			16.0%	35.5%	

Source: Company, MIDF

<b>Income Statement</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Revenue</b>	<b>1,455.1</b>	<b>1,478.7</b>	<b>1,515.1</b>	<b>1,712.6</b>	<b>1,728.3</b>
Operating expenses	(1,147.1)	(1,185.0)	(1,216.9)	(1,385.2)	(1,410.5)
<b>EBIT</b>	<b>307.9</b>	<b>293.8</b>	<b>298.2</b>	<b>327.4</b>	<b>317.9</b>
Net interest expense	(147.4)	(98.8)	(124.4)	(112.2)	(83.7)
Associates	8.0	3.2	3.2	3.2	3.2
<b>PBT</b>	<b>168.5</b>	<b>198.1</b>	<b>177.0</b>	<b>218.5</b>	<b>237.3</b>
Taxation	(71.3)	(77.5)	(69.3)	(85.2)	(92.6)
Minority Interest	41.8	48.2	43.1	53.0	57.6
Net profit	55.3	72.4	64.6	80.2	87.2
<b>Core net profit</b>	<b>55.3</b>	<b>72.4</b>	<b>64.6</b>	<b>80.2</b>	<b>87.2</b>
Consensus net profit	N/A	N/A	N/A	N/A	N/A
<b>Balance Sheet</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Non-current assets</b>	<b>2,227.4</b>	<b>1,866.7</b>	<b>2,581.4</b>	<b>2,558.1</b>	<b>1,960.4</b>
PPE	575.3	589.5	620.0	648.0	673.7
Investments	152.1	172.2	175.4	178.5	181.7
Others	1,500.1	1,105.0	1,786.0	1,731.5	1,105.0
<b>Current assets</b>	<b>961.5</b>	<b>866.0</b>	<b>819.3</b>	<b>795.5</b>	<b>812.3</b>
Inventories	75.6	81.5	102.6	117.4	118.4
Receivables	331.5	276.9	318.2	359.7	362.9
Others	94.2	96.4	96.4	96.4	96.4
Cash & equivalent	460.3	411.2	302.2	222.0	234.6
<b>TOTAL ASSETS</b>	<b>3,188.9</b>	<b>2,732.7</b>	<b>3,400.7</b>	<b>3,353.6</b>	<b>2,772.7</b>
Share capital	888.3	1,275.3	1,275.3	1,275.3	1,275.3
Minority Interest	183.2	196.0	239.1	292.1	349.7
Reserves	(327.2)	(693.2)	(673.8)	(645.7)	(610.8)
<b>TOTAL EQUITY</b>	<b>744.3</b>	<b>778.1</b>	<b>840.6</b>	<b>921.7</b>	<b>1,014.2</b>
<b>Non-current liabilities</b>	<b>1,576.1</b>	<b>1,451.1</b>	<b>1,848.5</b>	<b>1,680.8</b>	<b>1,330.3</b>
Long-term borrowings	1,155.9	1,040.2	1,082.6	969.3	919.3
Others	420.2	410.9	765.9	711.4	410.9
<b>Current liabilities</b>	<b>868.4</b>	<b>503.4</b>	<b>711.6</b>	<b>751.1</b>	<b>428.2</b>
Short-term borrowings	94.5	117.3	58.7	58.7	58.7
Payables	417.0	362.1	303.0	342.5	345.7
Others	357.0	23.9	349.9	349.9	23.9
<b>TOTAL LIABILITIES</b>	<b>2,444.5</b>	<b>1,954.5</b>	<b>2,560.1</b>	<b>2,431.8</b>	<b>1,758.5</b>

<b>Cash Flow Statement</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
<b>Operating activities</b>					
PBT	168.5	198.1	177.0	218.5	237.3
Depreciation	47.9	48.2	49.4	52.0	54.4
Chgs in working capital	(166.9)	57.5	(121.4)	(16.8)	(1.1)
Others	100.7	(9.2)	(72.4)	(88.4)	(95.7)
<b>CF from Operations</b>	<b>150.2</b>	<b>294.7</b>	<b>32.6</b>	<b>165.3</b>	<b>194.9</b>
<b>Investing activities</b>					
Capex	(44.5)	(61.7)	(80.0)	(80.0)	(80.0)
Others	67.2	(8.0)	-	-	-
<b>CF from Investments</b>	<b>22.7</b>	<b>(69.7)</b>	<b>(80.0)</b>	<b>(80.0)</b>	<b>(80.0)</b>
<b>Financing activities</b>					
Dividends paid	(84.2)	(96.0)	(45.2)	(52.1)	(52.3)
Net proceeds in borrowings	(417.4)	(95.9)	(16.3)	(113.3)	(50.0)
Others	309.5	(176.3)	-	-	-
<b>CF from Financing</b>	<b>(192.2)</b>	<b>(368.2)</b>	<b>(61.5)</b>	<b>(165.4)</b>	<b>(102.3)</b>
Net changes in cash	(19.2)	(143.3)	(109.0)	(80.2)	12.6
<b>Beginning cash</b>	<b>305.5</b>	<b>285.1</b>	<b>141.3</b>	<b>32.4</b>	<b>(47.8)</b>
Overdrafts, Deposits & Forex	174.0	269.4	269.8	269.8	269.8
<b>Ending cash</b>	<b>460.3</b>	<b>411.2</b>	<b>302.2</b>	<b>222.0</b>	<b>234.6</b>
<b>Ratios</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18F</b>	<b>FY19F</b>	<b>FY20F</b>
Revenue growth	10.6%	1.6%	2.5%	13.0%	0.9%
EBITDA growth	2.3%	-3.9%	1.6%	9.2%	-1.9%
Net profit growth	133.4%	30.7%	-10.7%	24.1%	8.6%
EBITDA margin	24.5%	30.7%	-10.7%	24.1%	8.6%
PATAMI margin	3.8%	4.9%	4.3%	4.7%	5.0%
ROE	9.9%	12.4%	10.7%	12.7%	13.1%
ROA	1.7%	2.6%	1.9%	2.4%	3.1%
Net gearing	141%	128%	139%	128%	112%
Book value/share (RM)	0.84	0.88	0.95	1.04	1.14
PBV (x)	0.9	0.9	0.8	0.7	0.7
FCF yield (%)	15.8	24.2	-4.9	8.9	11.9

## DAILY PRICE CHART



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### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.