

15 October 2018 | Corporate Update

Ranhill Holdings

Watershed years

INVESTMENT HIGHLIGHTS

- **Tariff hike proposal being reviewed by SPAN**
- **Water-sewerage joint-billing targeted by month-end**
- **RM500m national NRW reduction program kickstarted in Kedah; Ranhill is one of few key beneficiaries**
- **Re-affirm BUY at unchanged TP of RM1.15, 7% yields attractive**

Ranhill SAJ visit. We recently took a trip to Johor to visit Ranhill Holdings' (Ranhill) 80%-owned Ranhill SAJ (SAJ). SAJ is Ranhill's key earnings generator accounting for 77% of PAT. Besides SAJ's management, Ranhill Water Services (RWS), a 100%-owned unit of Ranhill specialising in NRW (non-revenue water) management and solutions, also hosted the visit. We outline some the key takeaways from the visit in this report.

Tariff hike proposals. SAJ's 4th Operating Period financial forecasts and tariff hike proposals have been submitted to SPAN for review, before going to the Minister/Cabinet for approval. Key justifications are: (1) RM500m/annum spent on capex – partly for NRW management with a target of 20% in FY22 from 24.7% in FY17, infra expansion to meet organic 3%/annum water demand, and (2) Inflation impact on opex. Since migration to a licensing regime, SAJ had been granted two tariff hikes (the last one in 2015).

Joint-billing targeted to kick start soon. Ranhill is targeting joint-billing of water and sewerage to kick start by end of this month. Negotiations have been held with the State Government and water regulators – positive sentiment so far and estimates incremental RM1m/annum revenue. If joint-billing is successfully executed, operational integration is expected within 12 months. A switch to volumetric tariff could bring in incremental RM300m-RM400m revenue and boost earnings by 30%-40%.

Key beneficiary of NRW program. As part of the national NRW reduction program in 6 states (in critical condition), some RM500m NRW reduction grant will be disbursed in the next 12 months. Kedah was the 1st state to tender out contracts in recent weeks. Ranhill stands a solid chance of securing these contracts (both direct and indirectly) given limited local expertise; Ranhill is one of only 2 key NRW players in Malaysia.

Deeply undervalued. At just 8.7x FY19F PE, Ranhill is deeply undervalued. At current market cap, implied valuation for its water business is a mere 7.7x, well below Penang-based peer, PBA Holdings' 10x PE and the broader utilities sector's average PE of 11x. Balance sheet has been successfully de-gearred since its 2016 IPO, while attractive dividend yields cushions downside. Key catalysts: (1) Schedule rate hike for Johor water, (2) TGE progress into production well drilling, and (3) Johor water-sewerage integration

Maintain BUY

Unchanged Target Price TP: RM1.15

RETURN STATS

| | |
|------------------------------|---------------|
| Price (12 Oct 2018) | RM0.875 |
| Target Price | RM1.15 |
| Expected Share Price Return | +31.4% |
| Expected Dividend Yield | +6.8% |
| Expected Total Return | +38.2% |

STOCK INFO

| | |
|-------------------------|-----------------|
| KLCI | 1730.74 |
| Bursa / Bloomberg | 5272/RAHH MK |
| Board / Sector | Main / Power |
| Syariah Compliant | Yes |
| Issued shares (mil) | 888.3 |
| Market cap. (RM'm) | 777.28 |
| Price over NA | 1.34 |
| 52-wk price Range | RM0.65 – RM0.99 |
| Beta (against KLCI) | 0.68 |
| 3-mth Avg Daily Vol | 2.29m |
| 3-mth Avg Daily Value | RM1.97m |
| 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 | 1,710.8 | 1,726.5 |
| EBITDA (RM'm) | 418.6 | 463.9 | 489.4 | 534.4 | 539.1 |
| Pre-tax Profit (RM'm) | 168.5 | 198.1 | 203.9 | 240.9 | 235.5 |
| Net profit (RM'm) | 55.3 | 72.4 | 74.5 | 88.0 | 86.0 |
| FD EPS (sen) | 6.2 | 8.1 | 8.4 | 9.9 | 9.7 |
| EPS growth (%) | 133% | 31% | 3% | 18% | -2% |
| PER (x) | 14.0 | 10.7 | 10.4 | 8.8 | 9.0 |
| Net Dividend (sen) | 7.8 | 5.0 | 5.0 | 5.9 | 5.8 |
| Net Dividend Yield (%) | 8.9% | 5.7% | 5.7% | 6.8% | 6.6% |

Source: Company, MIDF

We recently took a trip to Johor to visit Ranhill Holdings' (Ranhill) 80%-owned Ranhill SAJ (SAJ). SAJ is Ranhill's key earnings generator accounting for 77% of PAT. Besides SAJ's management, Ranhill Water Services (RWS), a 100%-owned unit of Ranhill specialising in NRW (non-revenue water) management and solutions, also hosted the visit. We outline the key takeaways from the visit in this report.

To recap, SAJ has been the exclusive water operator in Johor since year 2000, initially via a 30-year concession, but later, in-line with the nationwide water industry restructuring, migrated to a licensing regime. SAJ's water operator license is renewed every 3 years since the migration in 2009, and it is now in its 4th operating period (OP4) with the last renewal in Dec17 for the OP4 running Jan18 till Dec22. SAJ is Ranhill's core cash generator with 95% of SAJ's earnings being paid out as dividends every year. SAJ currently has a total treatment capacity of 1986MLD, 3.9m customers and 392MLD of wastewater and reclaim water treatment plants outside Johor, i.e. in Thailand and China. The group maintains and operates 44 water treatment plants, 17 dams and 22,150km of water pipes in Johor. SAJ also has the right of use of Johor water assets for 45 years under a lease agreement with PAAB (National Water Asset Management).

Tariff hike proposals submitted. A tariff hike involves the submission and presentation of a business plan, forecast capex and opex (basically a 3-year financial model over SAJ's 3-year license operating period) as well as a tariff proposal. The process involves 3 major stages: (1) Initiation of a tariff request by the water operator, (2) Assessment & recommendation by SPAN (National Water Services Commission), also involves consultation with all stakeholders, and (3) Approval by the Minister/Cabinet and the gazetting of water rates. Currently, SAJ's business plan has already been presented to SPAN and is awaiting feedback and approval. The Johor water sector spends around RM500m capex annually (capex undertaken by PAAB), of which part of this goes towards NRW management, e.g. pipe replacements, other than for infrastructure expansion to meet growing demand – circa 3% organic water demand growth/annum. Opex is typically pegged to CPI and size of asset under management. For its OP4, among SAJ's key KPI is to bring down NRW from 25% to 20% by 2022. As of Aug18, NRW stood at 24.8%.

Delayed, but not cancelled. Since migrating to the licensing regime, SAJ has been granted two tariff hikes (See Exhibit 2 &3) by the regulators. The first was in 2010 – this was delayed by almost a year since 2009 was an election year, while the second hike was in August 2015 – also delayed from a schedule date of Jan 2013. The latest tariff hike was scheduled for January 2018 but had been delayed given the General Elections that were held in May 2018. Under the WSIA 2006 tariff setting, tariffs are to be determined every 3 years in consultation with the Water Forum and other stakeholders.

Subtle tariff hike structure. Judging by decisions on tariffs for electricity, the new Government has so far been accommodative with reasonable tariff hikes which reflect cost trends. In June, the Government agreed to raise electricity tariffs for the commercial and industrial sectors (given rising fuel price), with the Government subsidising tariff increases for the residential sector – Tenaga is not impacted by the Governments' decision to subsidise. Taking cue from this, we think tariff hike proposals by SAJ will likely focus on the non-residential segments, whilst the residential sector will likely see tariffs unchanged or even, slightly lowered. Secondly, the idea is to impose punitive rates for excessive water consumption, which means above a certain tier/threshold (typically >20/30 cubic metre for

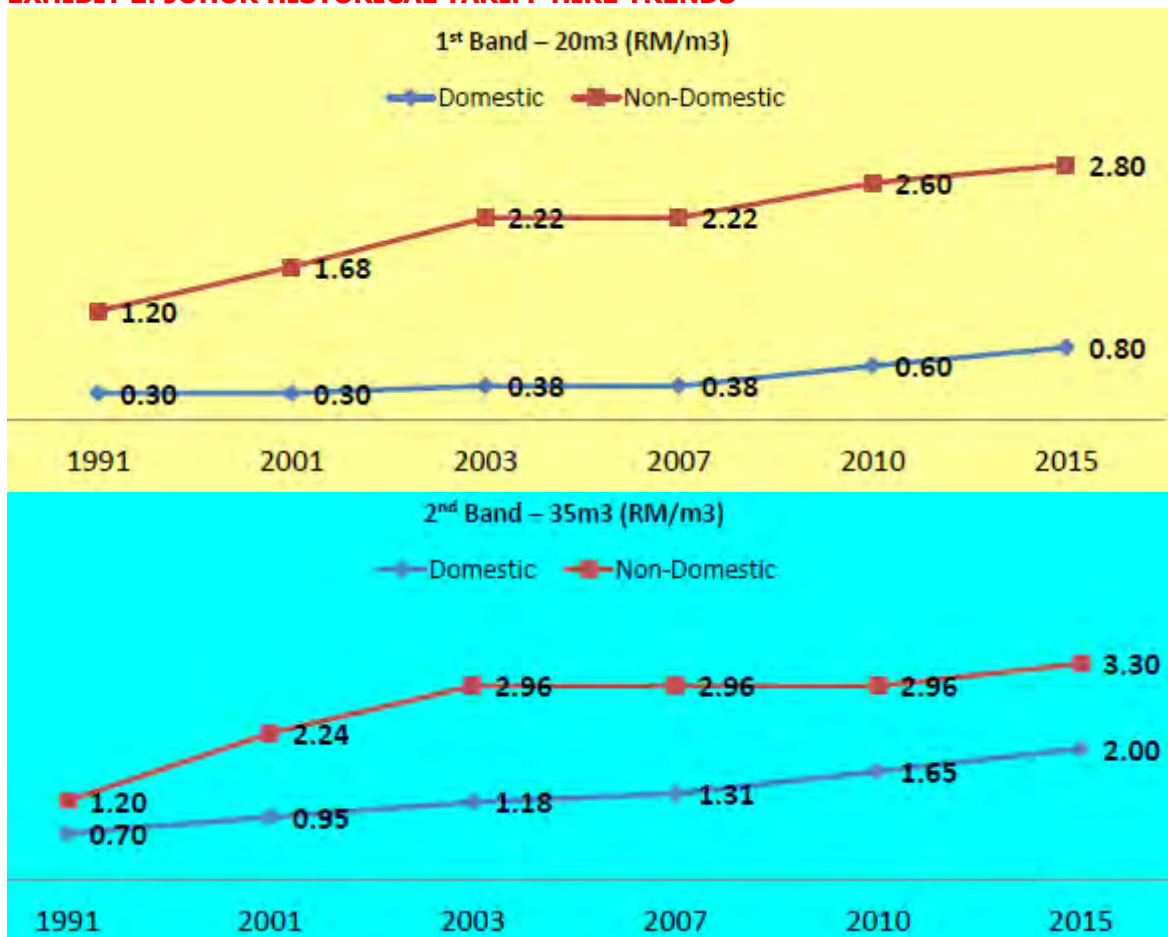
residential), tariffs are raised substantially. We think SAJ's proposals for tariff hike could revolve around these 2 factors. It is worth noting however, that tariffs for residential (for 1st-Tier usage of 30 cubic metre) is already essentially subsidised. SAJ's average cost of water production currently stands at 92sen/cubic metre vs. the current 80sen/cubic metre charged by SAJ. If SAJ's proposed tariff hike is approved, it estimates an incremental RM100m/annum revenue and RM9m/annum incremental earnings based on a 9% PAT margin. Other than revenue growth via tariff hikes, water consumption in Johor has grown organically by an average 3%/annum in the past 30 years. On top of this, future water demand is expected to be driven by key growth centres, i.e. Johor Bahru City Centre, Iskandar Development, Pasir Gudang & Tanjung Langsat Industrial Area and RAPID.

EXHIBIT 1: JOHOR WATER TARIFF STRUCTURE

| Type of Use | Utilization | Rate per cubic metre (RM) | Minimum Rate (RM) (monthly) |
|---|---------------|---------------------------|-----------------------------|
| Domestic | 0 m3 - 20 m3 | 0.8 | 7 |
| | 21 m3 - 35 m3 | 2 | |
| | > 35 m3 | 3 | |
| Religious Institutions / Welfare Approved | Average rate | 1.6 | 7 |
| Domestic Bulk | Average rate | 1.6 | 16 |
| Non-domestic | 0 m3 - 35 m3 | 2.8 | 30 |
| | >35 m3 | 3.3 | |
| Shipping | Average rate | 7 | 50 |
| Water Treatment Company (Kiosk) | Average rate | 7 | 50 |

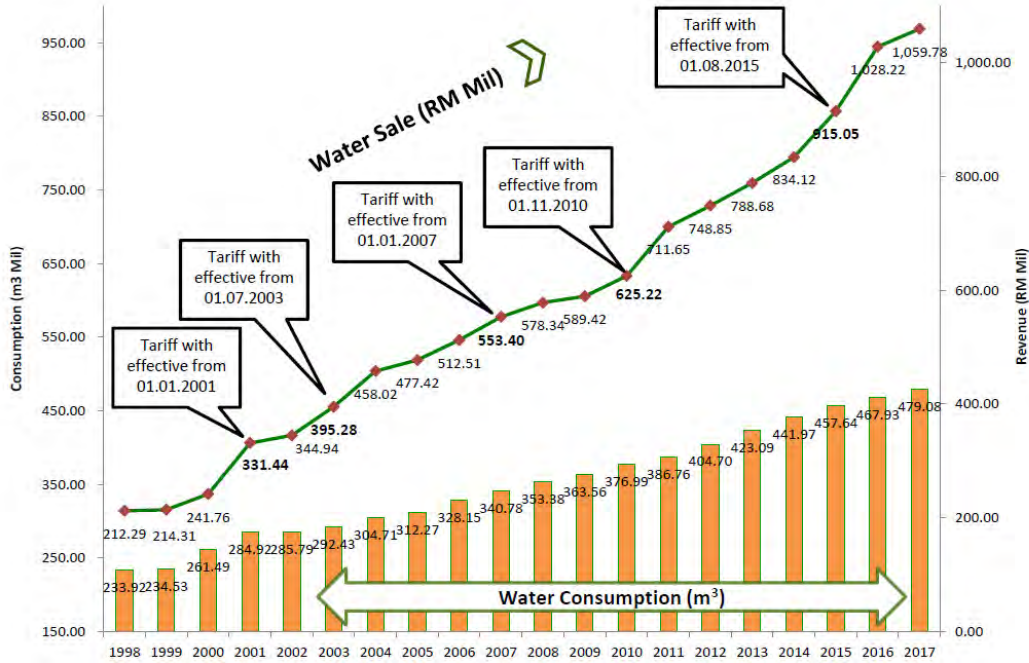
Source: Company, MIDF

EXHIBIT 2: JOHOR HISTORICAL TARIFF HIKE TRENDS



Source: Company, MIDF

EXHIBIT 3: SAJ HISTORICAL REVENUE, TARIFF HIKE & CONSUMPTION

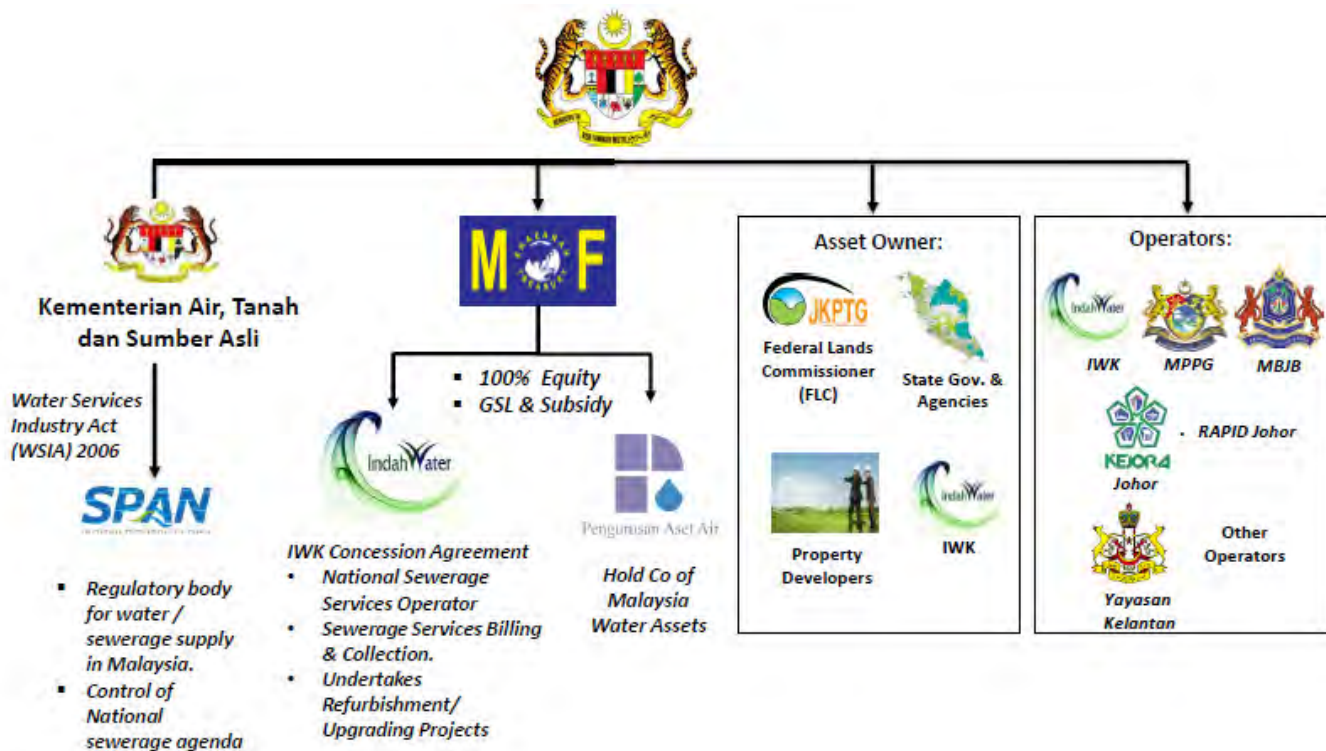


Source: Company, MIDF

Water-Sewerage Integration Underway

Joint-billing to kickstart month-end. The new Federal Government is aligned with WSIA 2006 goals to push into joint-billing and integrate water and sewerage operations. SAJ's proposal for joint-billing (water plus sewerage) for the Johor state is well underway with meetings having been held with the State Government on this. For the initial joint-billing phase, SAJ is only expected to generate minor incremental revenue of ~RM1m/annum; SAJ basically charges IWK circa 50sen/bill, which is issued together with the regular water bills. SAJ's own water bills entail an excellent collection rate of 99.4%. SAJ is targeting for the joint-billing to be rolled out by end-October. A key advantage derived from joint billing is the ability to penalise defaulting customers as sewerage operator on a standalone basis is not allowed to disconnect services (due to public health concerns) unlike the typical water supply services.

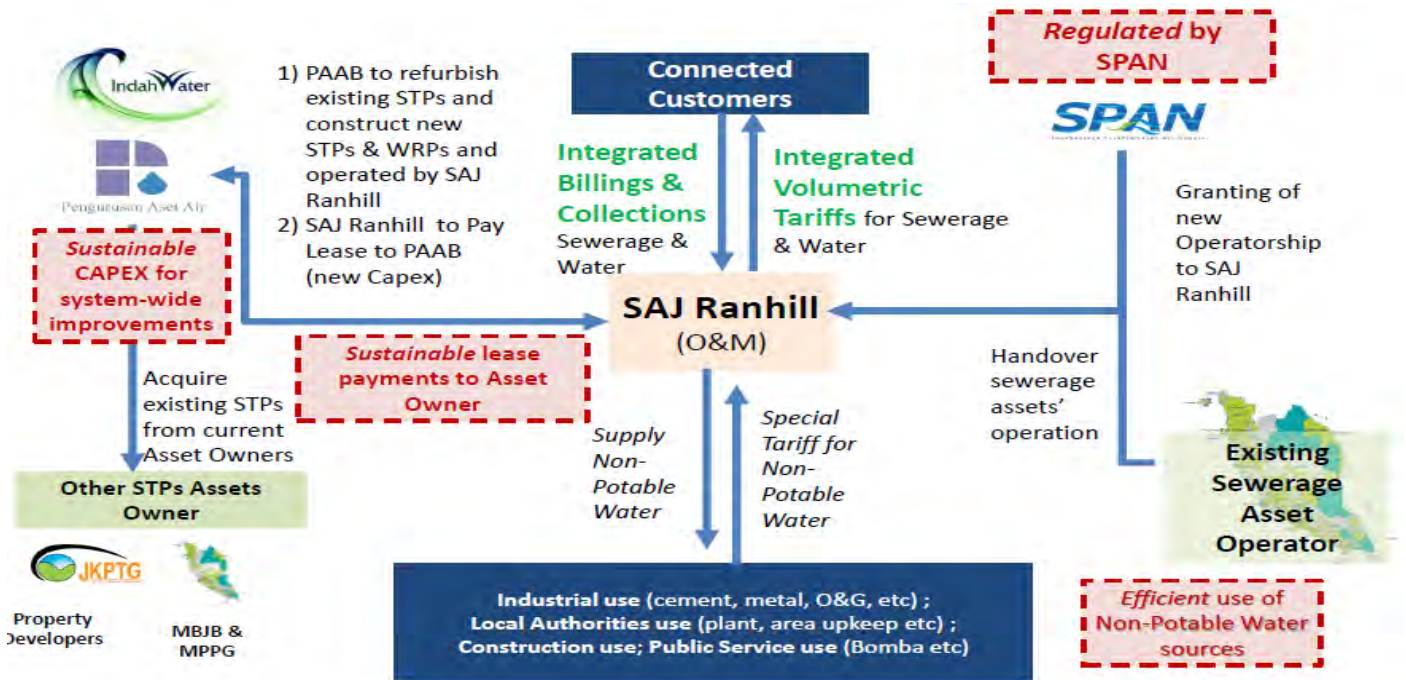
EXHIBIT 4: CURRENT SEWERAGE REGULATORY FRAMEWORK



Source: IWK, MIDF

Integration could follow soon after. SAJ expects that if a positive decision on joint billing is reached, the process of integrating water and sewerage operations should follow suit within 12 months. The integration and simultaneous conversion to a volumetric tariff regime for sewerage services will provide strong earnings catalyst for SAJ with an estimated RM300m-RM400m incremental annual revenue. The idea is to replicate the water services industry whereby PAAB takes over all assets while the operator in return will lease these assets and takes a 9% PAT margin from revenues collected (basically a cost-plus model for the operator). As it is, both Indah Water (owner/operator of national sewerage asset) and PAAB (owner of national water asset) are 100%-owned by the Ministry of Finance.

EXHIBIT 5: PROPOSED SEWERAGE INDUSTRY FRAMEWORK – REPLICATES WATER MODEL



Source: Company, MIDF

Sewerage treatment logically is more expensive. The typical water that goes into the sewerage and into sewerage treatment plants entail much higher turbidity levels than raw water. As such, the former would logically require more cost. However, current charges are quite the opposite with sewerage tariffs being very low and is a fixed amount compared to water tariffs. The former, does not even cover operating cost and has in the past 18 years, been subsidised by the Government. Malaysian are paying among the lowest domestic sewerage charges in the world at between RM24-RM96 a year with approximately 27% of domestic customers paying only RM24/year (See Exhibit 6).

EXHIBIT 6: MALAYSIANS PAY AMONG THE LOWEST SEWERAGE CHARGES IN THE WORLD

| Country | Basis | Annual Average | Annual Average (RM) |
|-------------|--|----------------|---------------------|
| Japan | Water Usage | Yen 30,774 | 1,107 |
| South Korea | Water Usage | USD 50 | 152 |
| Hong Kong | Water Usage | HK 260 | 101 |
| Netherlands | Water Usage | USD 297 | 900 |
| Singapore | Sanitary Appliances Fee + Water Born Fee | SD144 | 346 |
| Malaysia | Flat Rate | RM96 | 96 |

Source: IWK, MIDF

Sewerage is part of the water value chain. Additionally, sewerage is ultimately, an extension of the whole water value chain and should not be separated. Water output from households that go into the sewerage lines are treated to ensure it is safe to be released back into the rivers. Water from the rivers in turn, is one of the main source of raw water that are further treated to be distributed for consumption. Some 80% of Malaysia's raw water sources are from rivers with the rest from dams and ground sources.

Volumetric tariff not new. Volumetric tariffs for sewerage services is not new and is practised in developed economies such as Singapore, Hong Kong, Japan, Korea and the Netherlands. Even relatively less advanced economies in the region such as Indonesia and Philippines entail an element of volumetric tariff for sewerage charges. Additionally, in most countries, sewerage is integrated with water services given that it is part of the same value chain. For Malaysia, the direction to integrate water and sewerage has been set by WSIA 2006, and has been kickstarted with the water industry restructuring. A phased integration on water-sewerage operations is likely to be executed in accordance to the readiness of State water operators, of which SAJ is currently one of the most profitable and well managed.

EXHIBIT 7: COMPARISON OF SEWERAGE PRACTICES IN DIFFERENT COUNTRIES

| Country | Volumetric | Basic/Min Charge | Property Based | Fixed Rate | Environmental Tax | Billing | Integration with Water Management | Average Water and Wastewater Bill (\$/m ³) |
|------------------------|------------|------------------|----------------|------------|-------------------|--------------------|-----------------------------------|--|
| U.S. (Nashville) | ✓ | ✓ | | | | Integrate | Integrate | \$2.71 |
| Canada | | | ✓ | | | N/A | Integrate | \$2.75 |
| Belgium | ✓ | | | | | Separate | Separate | \$3.27* |
| Japan | ✓ | ✓ | | ✓ | ✓ | Integrate | Integrate | \$2.19 |
| Australia | ✓ | | ✓(64%) | ✓ | | Integrate | Integrate | \$4.18 |
| Singapore | ✓ | | | | | Integrate | Integrate | \$3.40 |
| Germany | ✓ | | | | | Integrate/Separate | Integrate/Separate | \$4.26 |
| France | ✓ | | | | | Separate | Separate | \$3.92 |
| U.K. | ✓ | ✓ | ✓ | ✓ | | Integrate/Separate | Integrate/Separate | \$3.76 |
| New Zealand (Auckland) | ✓ | | ✓ | | | Integrate | Integrate | \$1.69* |
| South Korea | ✓ | | | | | Integrate | Separate | \$0.69 |
| Czech Republic | ✓ | | | | | Integrate | Integrate | \$2.75 |
| Hungary | ✓ | | | | | Integrate | Integrate | \$2.93* |
| Chile | ✓ | ✓ | | | | Integrate | Integrate | \$1.20 |
| Poland | ✓ | | | ✓ | | Integrate | Integrate | \$2.21 |
| Brazil | ✓ | | | | | N/A | Integrate | \$1.90 |
| Malaysia | | | | ✓ | | Separate | Separate | \$0.20 |
| South Africa | | | | ✓ | | N/A | Integrate | \$1.00 |
| Indonesia | ✓ | | ✓ | ✓ | ✓ | N/A | Separate | \$0.80 |
| Philippines (Manila) | ✓ | | | | | Integrate/Separate | Integrate/Separate | \$0.70 |

Source: Company, MIDF

NRW Reduction Program

Major NRW management player. Ranhill's NRW management services is operated by 100%-owned Ranhill Water Services (RWS), incorporated in 2005. RWS has a staff strength of 450 staff, has completed several water related contracts in the region valued at RM800m and has saved >500MLD of treated water through NRW contracts. Its ventures include some overseas contracts in Riyadh, Kathmandu, Surabaya, Mysore and several water operator partnership programs in the region. RWS has worked in 7 states in Malaysia and is currently running NRW contracts in Johor (for SAJ) and Kelantan.

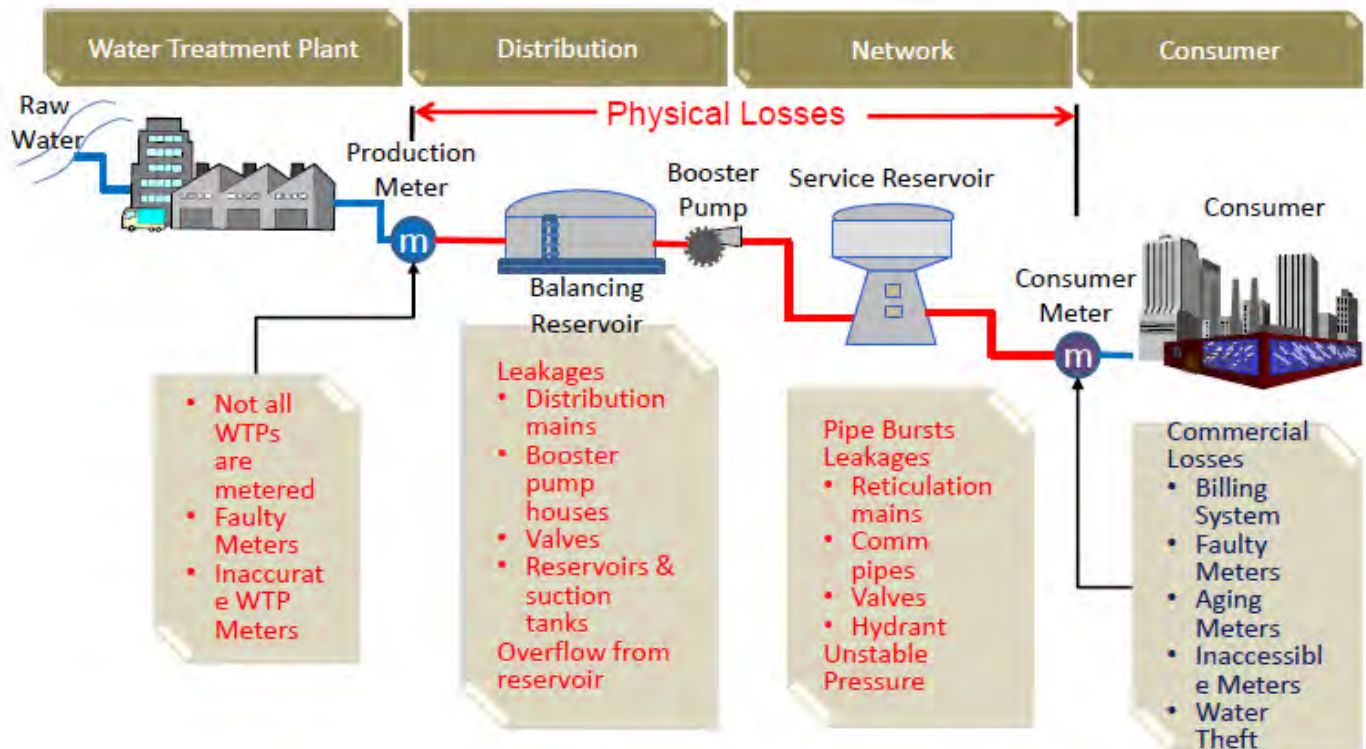
EXHIBIT 8: SOLID NRW REDUCTION IN JOHOR SINCE 2002



Source: Company, MIDF

Types of NRW. NRW is basically the difference between volume of water produced against billed consumption. There are 3 types of NRW, classified into: (1) Physical losses, (2) Commercial losses, (3) Unbilled authorised consumption losses. Of these, physical losses contribute the most to NRW; circa 80%. Physical losses is mainly caused by infrastructure e.g. leakages, pipelines and valves, balancing reservoirs and suction tanks, Commercial losses contribute to most of the remaining NRW; these are mainly driven by customer meter theft, tempering of meters and illegal connections. To quantify this, the 24.6% NRW rate equates to an estimated RM214m in lost revenue for SAJ. Though Johor is not part of the RM500m NRW program grant (which prioritises states with highest NRW levels), plans and capex to reduce NRW levels in Johor is factored into SAJ's tariff proposals and is an on-going process.

EXHIBIT 9: NRW SOURCES WITHIN THE VALUE CHAIN



Source: Company, MIDF

National NRW reduction program. The Government is embarking on an NRW reduction drive, with a nationwide target NRW level of 25% by 2030 (from 35% as of end 2016). As part of this drive, a grant of RM500m will be made available as part of an effort to reduce NRW in 6 key states with NRW levels of >40%, i.e. Kedah, Kelantan, Perlis, Pahang, Sabah and Sarawak. The RM500m grant is meant for NRW works such as partial reservoir repairs, production meters, GIS and partial customer meter replacement and is targeted to be tendered out in 11 packages by year end. Although it is not certain whether the amount will recur, a thorough and meaningful NRW reduction program in the six states would require a much larger amount, we think. Kedah was the first state to launch a tender (around 3 weeks ago) under the program.

EXHIBIT 10: STATES INVOLVED IN NRW PROGRAM

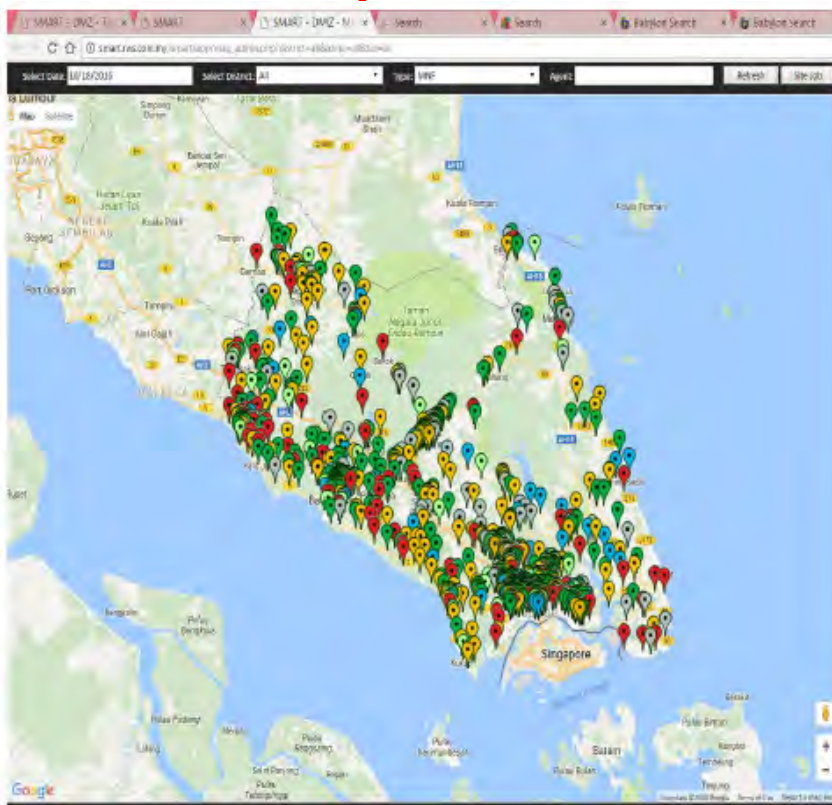
| Grant value | States Involved | NRW* |
|-------------|-----------------|-------|
| RM500m | Kedah | 50.9% |
| | Perlis | 62.4% |
| | Kelantan | 53.1% |
| | Pahang | 52.7% |
| | Sabah | 53.2% |
| | Sarawak | 37.9% |

*As of 2013-2015

Good chance of winning the NRW contracts. Kedah's recently opened tender is understood to be worth RM47m. There are basically only two key NRW players in the country: (1) RWS which is the largest with >400 staff, (2) Jalur Cahaya – a much smaller entity, owned by Tan Sri Rozali. Though the terms of the tender requires track record in NRW management and project implementation, we understand that the Government intends to spread out the awards (which will be via open tender) to a few different contractors. Chances are, we think, the contractors will directly bid for the project, but via partnership with the two key local NRW players.

Aquawater system. RWS has copyright to an in-house developed, web-based, Aquasmart NRW Monitoring System. For its NRW management, RWS divides the area it is managing/monitoring into smaller District Management Areas (DMAs) with each DMA (1081 DMAs for Johor) separated by individual equipment and isolating infra. The Aquasmart system can monitor and detect water leakages within the delivery system within 1-2 hours, improving efficiency in managing NRW. Aquasmart has been successfully implemented for Johor and Melaka and the group is looking to further commercialise the system pending a patent application approval from the authorities.

EXHIBIT 11: RANHILL'S AQUASMART SYSTEM



Source: Company, MIDF

- AQUASMART FEATURES:**
- DMA Monitoring
 - APMC Monitoring
 - Reservoir Monitoring
 - Online Pressure Monitoring
 - Production Band & Reservoir Outlet
 - Big Customer Meter
 - Commercial Loss
 - NRW Stock Tracking
 - Job Management System
 - Automatic Vehicle Locating System

Reaffirm BUY on Ranhill. Our current RM1.15/share TP 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 RM1.50/share (blue-sky scenario). In fact, even if we were to exclude the FY19F tariff hike from our projections, dividend yields are likely to remain at FY18F levels of 6%, which is already very attractive at current price levels. Risk-reward leans heavily on the upside. 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.

EXHIBIT 12: RANHILL SUM-OF-PARTS VALUATION

| Concessions | Valuation method | Value (RMm) | Stake | Shares out | RM/share |
|--------------------------------|---------------------|----------------|--------------|--------------|-------------|
| RP 1 Power Plant | DCF | 152.6 | 60.0% | 888.3 | 0.10 |
| RP 2 Power Plant | DCF | 318.5 | 80.0% | 888.3 | 0.29 |
| Water Operations – SAJ Ranhill | DCF | 2,093.0 | 80.0% | 888.3 | 1.88 |
| Associates | PE of 10x | 31.8 | | 888.3 | 0.04 |
| Gross value | | 2,595.9 | | | 2.31 |
| | Net cash/(debt) | (776.5) | | 888.3 | (0.87) |
| Net value | | 1,819.4 | | 888.3 | 1.44 |
| Target Price | 20% discount to SOP | | | | 1.15 |
| <i>add Sandakan CCGT</i> | <i>Equity NPV</i> | <i>159.5</i> | <i>30.0%</i> | <i>888.3</i> | <i>0.05</i> |
| <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> |
| Blue-sky Target Price | | | | | 1.50 |

Source: Company, MIDF

EXHIBIT 13: MARKET VALUING SAJ AT JUST 7.2X P/E

| | |
|---|----------------|
| Current market cap (RMm) | 764.0 |
| Value of Power Business & Associates (RMm) | 502.9 |
| Remaining value attributable (RMm) | 261.1 |
| (add back) Net Debt (RMm) | 776.5 |
| Value attributed to SAJ (RMm) | 1,037.5 |
| SAJ net profit (FY17A) (Pre-rate hike) (RMm) | 134.3 |
| Implied PE for SAJ at current market cap (x) | 7.7 |

Source: Company, Bloomberg, MIDF

SECTOR VALUATION SUMMARY

| Companies | Rating | Shr Price (RM) | PE (x) | | P/BV (x) | ROE (%) | Div Yield (%) | Target Price (RM) | Total Upside (%) |
|-----------|--------|----------------|--------|-------|----------|---------|---------------|-------------------|------------------|
| | | | FY18 | FY19 | | | | | |
| Tenaga | Buy | 14.60 | 130.7 | 116.0 | 11.2 | 12.6 | 1.5 | 10.6 | 4.4 |
| YTL Power | Buy | 1.01 | 9.0 | 9.1 | 11.2 | 11.1 | 0.6 | 5.0 | 4.5 |
| Ranhill | Buy | 0.88 | 8.4 | 9.9 | 10.4 | 8.8 | 0.7 | 13.6 | 6.8 |
| | | | | | 10.9 | 10.8 | 1.0 | 9.7 | 5.2 |

| Income Statement | FY16 | FY17 | FY18F | FY19F | FY20F |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenue | 1,455.1 | 1,478.7 | 1,515.1 | 1,710.8 | 1,726.5 |
| Operating expenses | (1,147.1) | (1,185.0) | (1,216.9) | (1,385.2) | (1,410.5) |
| EBIT | 307.9 | 293.8 | 298.2 | 325.6 | 316.1 |
| Net interest expense | (147.4) | (98.8) | (97.5) | (87.9) | (83.7) |
| Associates | 8.0 | 3.2 | 3.2 | 3.2 | 3.2 |
| PBT | 168.5 | 198.1 | 203.9 | 240.9 | 235.5 |
| Taxation | (71.3) | (77.5) | (79.8) | (94.3) | (92.2) |
| Minority Interest | 41.8 | 48.2 | 49.6 | 58.6 | 57.3 |
| Net profit | 55.3 | 72.4 | 74.5 | 88.0 | 86.0 |
| Core net profit | 55.3 | 72.4 | 74.5 | 88.0 | 86.0 |
| Consensus net profit | N/A | N/A | N/A | N/A | N/A |
| | | | | | |
| Balance Sheet | FY16 | FY17 | FY18F | FY19F | FY20F |
| Non-current assets | 2,227.4 | 1,866.7 | 1,900.4 | 1,931.6 | 1,960.4 |
| 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 | 1,105.0 | 1,105.0 | 1,105.0 |
| | | | | | |
| Current assets | 961.5 | 866.0 | 836.3 | 824.8 | 840.9 |
| Inventories | 75.6 | 81.5 | 102.6 | 117.6 | 118.7 |
| Receivables | 331.5 | 276.9 | 318.2 | 359.3 | 362.6 |
| Others | 94.2 | 96.4 | 96.4 | 96.4 | 96.4 |
| Cash & equivalent | 460.3 | 411.2 | 319.1 | 251.5 | 263.2 |
| TOTAL ASSETS | 3,188.9 | 2,732.7 | 2,736.7 | 2,756.4 | 2,801.3 |
| | | | | | |
| Share capital | 888.3 | 1,275.3 | 1,275.3 | 1,275.3 | 1,275.3 |
| Minority Interest | 183.2 | 196.0 | 245.6 | 304.3 | 361.6 |
| Reserves | (327.2) | (693.2) | (663.4) | (628.2) | (593.8) |
| TOTAL EQUITY | 744.3 | 778.1 | 857.6 | 951.4 | 1,043.2 |
| | | | | | |
| Non-current liabilities | 1,576.1 | 1,451.1 | 1,493.5 | 1,380.3 | 1,330.3 |
| Long-term borrowings | 1,155.9 | 1,040.2 | 1,082.6 | 969.3 | 919.3 |
| Others | 420.2 | 410.9 | 410.9 | 410.9 | 410.9 |
| | | | | | |
| Current liabilities | 868.4 | 503.4 | 385.6 | 424.7 | 427.9 |
| Short-term borrowings | 94.5 | 117.3 | 58.7 | 58.7 | 58.7 |
| Payables | 417.0 | 362.1 | 303.0 | 342.2 | 345.3 |
| Others | 357.0 | 23.9 | 23.9 | 23.9 | 23.9 |
| | | | | | |
| TOTAL LIABILITIES | 2,444.5 | 1,954.5 | 1,879.1 | 1,805.0 | 1,758.1 |

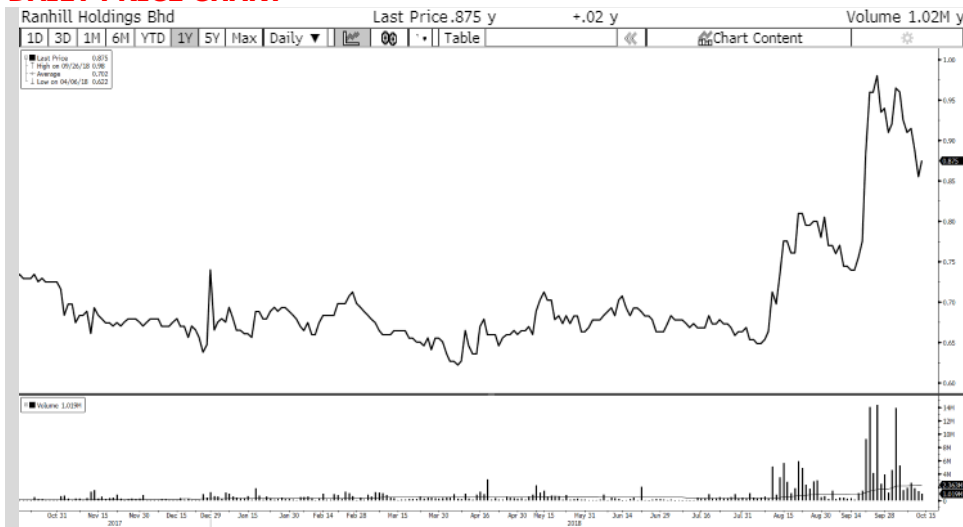
| Cash Flow Statement | FY16 | FY17 | FY18F | FY19F | FY20F |
|------------------------------|----------------|----------------|---------------|----------------|----------------|
| Operating activities | | | | | |
| PBT | 168.5 | 198.1 | 203.9 | 240.9 | 235.5 |
| Depreciation & Amortization | 47.9 | 48.2 | 49.4 | 52.0 | 54.4 |
| Chgs in working capital | (166.9) | 57.5 | (121.4) | (17.0) | (1.3) |
| Others | 100.7 | (9.2) | (83.0) | (97.5) | (95.4) |
| CF from Operations | 150.2 | 294.7 | 48.9 | 178.4 | 193.3 |
| Investing activities | | | | | |
| Capex | (44.5) | (61.7) | (80.0) | (80.0) | (80.0) |
| Others | 67.2 | (8.0) | - | - | - |
| CF from Investments | 22.7 | (69.7) | (80.0) | (80.0) | (80.0) |
| Financing activities | | | | | |
| Dividends paid | (84.2) | (96.0) | (44.7) | (52.8) | (51.6) |
| Net proceeds in borrowings | (417.4) | (95.9) | (16.3) | (113.3) | (50.0) |
| Others | 309.5 | (176.3) | - | - | - |
| CF from Financing | (192.2) | (368.2) | (61.0) | (166.1) | (101.6) |
| Net changes in cash | (19.2) | (143.3) | (92.0) | (67.6) | 11.7 |
| Beginning cash | 305.5 | 285.1 | 141.3 | 49.3 | (18.3) |
| Overdrafts, Deposits & Forex | 174.0 | 269.4 | 269.8 | 269.8 | 269.8 |
| Ending cash | 460.3 | 411.2 | 319.1 | 251.5 | 263.2 |
| | | | | | |
| | | | | | |
| Ratios | FY16 | FY17 | FY18F | FY19F | FY20F |
| Revenue growth | 10.6% | 1.6% | 2.5% | 12.9% | 0.9% |
| EBITDA growth | 20.3% | -3.9% | 1.6% | 8.6% | -1.9% |
| Net profit growth | 133.4% | 30.7% | 2.9% | 18.2% | -2.2% |
| EBITDA margin | 24.5% | 30.7% | 2.9% | 18.2% | -2.2% |
| PATAMI margin | 3.8% | 4.9% | 4.9% | 5.1% | 5.0% |
| ROE | 9.9% | 12.4% | 12.2% | 13.6% | 12.6% |
| ROA | 1.7% | 2.6% | 2.7% | 3.2% | 3.1% |
| Net gearing | 141% | 128% | 134% | 120% | 105% |
| Book value/share (RM) | 0.84 | 0.88 | 0.97 | 1.07 | 1.17 |
| PBV (x) | 0.9 | 0.9 | 0.8 | 0.7 | 0.6 |
| FCF yield (%) | 15.8 | 24.2 | -3.2 | 10.2 | 11.8 |

EXHIBIT 14: SUMMARY OF RANHILL'S ASSETS

| | WATER SECTOR ASSETS | Capacity (MLD) | Stake | Concession Expiry |
|--|---|-----------------------|--------------|--------------------------|
| | Syarikat Air Johor | 1,986.4 | 80% | 3-year renewal |
| | China: | | | |
| | 1 Xiaolan Wastewater Treatment Plant (Phase 1) | 30.0 | 40% | 2038 |
| | 2 Xiaolan Wastewater Treatment Plant (Phase 2) | 50.0 | 40% | 2042 |
| | 3 Xinxiang Wastewater | 50.0 | 40% | 2041 |
| | 4 Yichun Wastewater | 50.0 | 40% | 2035 |
| | 5 Hefei Wastewater | 30.0 | 40% | 2036 |
| | Total | 210.0 | | |
| | <i>Under construction:</i> | | | |
| | 6 Yingkou Wastewater Treatment & Reclamation Plant | | | |
| | 7 - Wastewater | 30.0 | | 2046 |
| | 8 - Reclaim Water | 30.0 | | 2046 |
| | 9 Changfeng Wastewater Treatment Plant | 20.0 | | 2043 |
| | 10 Yihuang Wastewater Treatment Plant | 5.0 | | 2045 |
| | 11 Wanzai Wastewater Treatment Plant | 5.0 | | 2044 |
| | 12 Chongren Wastewater Treatment Plant | 10.0 | | 2046 |
| | Total | 100.0 | | |
| | <i>Under MoU:</i> | | | |
| | 13 Yongxin County Liang Yi Park Wastewater Treatment Plant | 10.0 | | |
| | 14 Yongfeng County Wastewater Treatment Plant | 10.0 | | |
| | 15 Fuxin City Wastewater Treatment Plant | 20.0 | | |
| | Total | 40.0 | | |
| | Thailand: | | | |
| | Thailand (Anurak Water Treatment Facilities) | | | |
| | Amata Nakom concession (Industrial Estate) | | | |
| | 1 - Wastewater Treatment | 24.0 | 100% | 2028 |
| | 2 - Potable Water | 10.5 | 100% | 2028 |
| | 3 - Reclaim Water | 10.0 | 100% | 2033 |
| | Amata City Potable Water Treatment Plant - Potable Water | 15.0 | 100% | 2032 |
| | 4 Amata City Wastewater Treatment Plant - Wastewater | 10.0 | 100% | 2043 |
| | 5 Asian Institute of Technology - Wastewater | 1.5 | 100% | 2020 |
| | Amata Nakom concession (Industrial Estate) - Potable Water | 10.5 | 100% | 2018 |
| | Amata City Concession | | | |
| | 8 - Wastewater Treatment | 10.0 | 100% | 2017 |
| | 9 - Potable Water | 10.5 | 100% | 2017 |
| | Total | 102.0 | | |
| | <i>Under construction:</i> | | | |
| | Amata City Phase 4 Industrial Estate - Reclaim Water | 7.0 | | 2038 |
| | Amata City Wastewater Treatment Plant - Wastewater (Expansion) | 5.0 | | |

| | | | | |
|----------|-------------------------------------|--------------|----------------------|--------------------------------|
| | Total | 12.0 | | |
| | POWER SECTOR ASSETS | Stake | Capacity (MW) | Effective Capacity (MW) |
| 1 | Ranhill Powertron 1 | 60.0% | 190 | 114 |
| 2 | Ranhill Powertron 2 | 80.0% | 190 | 152 |
| | Total capacity | | 380 | 266 |
| 3 | Tawau Geothermal | 26.7% | 30 | 8 |
| 4 | Sandakan CCGT | 30.0% | 380 | 114 |
| | Total potential new capacity | | 410 | 122 |

DAILY PRICE CHART



Hafriz Hezry
 hafriz.hezry@midf.com.my
 03-2173 8392

Source: Bloomberg, MIDFR

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 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

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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. |