



Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

A Watershed Year

KEY INVESTMENT HIGHLIGHTS

- **1HFY23 result within expectations**
- **2QFY23 earnings up +72%yoy driven by tariff hike, orderbook expansion and higher energy demand**
- **Near to mid-term prospects underpinned by LSS4 project completion and new 100MW CCGT plant**
- **Domestic water tariff review is next potential catalyst**
- **Re-affirm BUY at unchanged TP of RM0.73**

Within expectation. Ranhill's 1HFY23 result came in within expectations. The group reported a net profit of RM12m for its 2QFY23, which brought 1HFY23 earnings to RM23.2m, accounting for 50%/48% of our/consensus estimates respectively. Group earnings was up +72%yoy in 2QFY23 driven by strong double-digit growth across all divisions.

Boost from tariff hike. The environment division accounted for the bulk of Ranhill's 2QFY23 PAT growth, registering an increase of +97%yoy, mainly boosted by the 6%-11% non-domestic sector tariff hike since January 2023. Sequentially, environment earnings were up +30%qoq driven by higher non-domestic consumption and full quarter recognition of backdated tariff hike (vs. 2-month backdated tariff hike recognition in 1QFY23). The strong performance was despite higher electricity ICPT surcharge recognised during 1HFY23 (raised from 3.7sen/kwh in 2HFY22 to 20sen/kwh in 1HFY23).

Lower electricity cost in 2H23. Positively, in the latest 2HCY23 ICPT review, water utilities & sewerage operators were placed under a special tariff category, which resulted in an ICPT surcharge reverting back to the original 3.7sen/kwh for 2HFY23 (from 20sen/kwh in 1HFY23). We believe this will translate into improved margins for RSAJ in 2HFY23, albeit bottomline impact will be partly offset by exhaustion of backdated tariff hike recognition from July 2023 onwards (Aug'22-Dec'22 backdated tariff hike was recognized in the Feb'23-Jun'23 period). On a net basis, we expect slightly better earnings performance by RSAJ in 2HFY23.

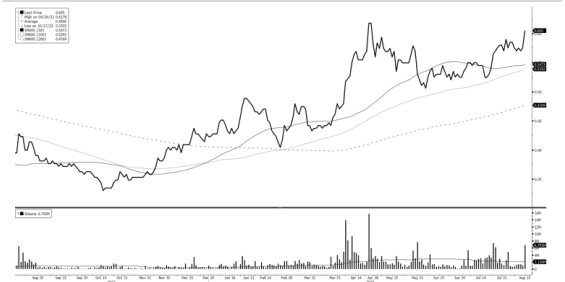
Solid orderbook at the services division. The services segment registered a +33.6%yoy increase in PAT to RM16m driven by recognition of on-going projects, particularly at Ranhill Worley Sdn Bhd (RWSB). Outstanding orderbook is estimated at RM808m equivalent to 2.8x the services divisions' FY22 revenue. The orderbook comprise mainly energy-related contracts under RWSB and civil structure-related contracts under Ranhill Bersekutu carrying average PAT margins of 10%-11%. Meanwhile, tenderbook stands at an estimated RM1.3b with 72% coming from RWSB.

Maintain BUY**Unchanged Target Price: RM0.73**

RETURN STATISTICS

Price @ 15 th August 2023 (RM)	0.605
Expected share price return (%)	+21.38
Expected dividend yield (%)	5.04
Expected total return (%)	+26.41

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	11.0	7.3
3 months	15.2	2.1
12 months	42.4	46.6

INVESTMENT STATISTICS

FYE Dec (RMm)	2022A	2023F	2024F
Revenue	1,726.4	1,873.4	1,921.5
Operating Profit	197.6	134.1	142.7
Profit Before Tax	199.6	130.9	129.4
Core PATAMI	22.3	46.5	45.9
Core EPS (sen)	1.7	3.6	3.5
DPS (sen)	2.5	3.0	3.0
Dividend Yield (%)	4.1	5.0	5.0

KEY STATISTICS

FBM KLCI	1,460.28
Issue shares (m)	1281.36
Estimated free float (%)	47.70
Market Capitalisation (RM'm)	779.63
52-wk price range	RM0.35 – 0.65
3-mth average daily volume (m)	2.06
3-mth average daily value (RM'm)	1.15
Top Shareholders (%)	
Cheval Infrastructure Fund	18.88
Hamdan (L) Foundation	16.64
Mohamad Hamdan	13.63

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Tariff step-down masked higher load factor. The energy segment benefitted from higher demand in Sabah with load factor rising by +4pp to 78.9% for RP1 and +7.8pp to 87.8% for RP2. However, this was masked by a step down in tariff for RP2 since 22nd April 2023, which resulted in lower margins for the segment sequentially. Still, on a year-on-year basis the segment has turned around from a LAT of -RM3.8m to a PAT of RM2.1m from higher energy demand and lower maintenance cost.

Earnings estimates. We make no changes to our earnings estimates as the 1HFY23 result was in-line with expectations. The latest set of result underpins our thesis of a strong earnings turnaround for Ranhill this year driven by: (1) Non-domestic water tariff hike for Ranhill's Johor water operations (2) Improvement in energy division earnings from higher power demand driven by the hot weather, increased dispatch to East Sabah and incremental demand from SK Nexilis' new manufacturing plant by year-end (3) Expansion in the services division's orderbook riding on recovery in the O&G sector. The cash boost from its RM142m NRW grant coupled with core operating earnings improvement are expected to reaccelerate dividends going forward. Meanwhile, the recent win of a 100MW CCGT for West Sabah (COD: March 2026) and completion of its LSS4 plant by year-end underpins near to mid-terms growth prospects.

Re-affirm BUY on Ranhill at unchanged SOP-derived **TP** of **RM0.73**. We like Ranhill for its earnings expansion potential: (1) Expansion into Indonesia source-to-tap water supply (432MLD capacity), (2) LSS4 project which is expected to reach COD (commercial operation date) by December 2023, (3) Completion of the Sabah West-East grid upgrade which should drive higher dispatch from RP1/RP2 to Sabah's East Coast, (4) Potential water tariff hike for the domestic sector, (5) Completion of its 100MW West Sabah CCGT plant by March 2026. Dividend yield is attractive at 5% and reversion to cash dividends is a positive. Valuations are undemanding at 17x FY24F PER, at 18% discount to historical mean.

Table 1: Ranhill Sum-of-Parts Valuation

Units/Concessions	Valuation method	Value (RMm)	Stake	Shares out.	RM/share
RP 1	DCF; EV (WACC: 7%)	45.5	60.0%	1,295.9	0.02
RP 2	DCF; EV (WACC: 7%)	154.1	80.0%	1,295.9	0.10
Water (SAJ)	DCF; EV (WACC: 8%)	1,196.5	80.0%	1,295.9	0.74
NRW	Construction Sector EV/EBITDA (9x)	75.2		1,295.9	0.06
Associates	PER (10x)	157.0		1,295.9	0.12
RBSB/RWSB	Construction Sector EV/EBITDA (9x)	168.8		1,295.9	0.13
Gross SOP value		1,628.2			1.16
	<i>Group net cash/(debt)</i>	<i>(557.1)</i>		1,295.9	<i>-0.43</i>
SOP value		1,071.1			0.73

Source: Company, MIDFR

Table 2: Ranhill 2QFY23 Result Summary

FYE Dec (RMm)	2Q22	1Q23	2Q23	QoQ	YoY	1H22	1H23	YTD
Revenue	458.4	520.1	593.7	14.1%	29.5%	851.8	1,113.7	30.8%
EBITDA	127.7	134.4	141.6	5.4%	10.8%	247.9	276.0	11.3%
Depreciation & amortisation	(96.5)	(99.0)	(99.1)	0.1%	2.7%	(192.7)	(198.1)	2.8%
Operating profit	28.9	31.6	37.3	17.9%	29.2%	49.9	68.9	38.2%
Net finance cost	(3.7)	(4.3)	(2.7)	-36.4%	-25.8%	(8.1)	(7.0)	-13.9%
Zakat	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
JV/Associates	2.4	3.8	5.2	37.9%	117.4%	5.4	8.9	66.2%
Pretax	27.6	31.1	39.8	27.8%	44.1%	47.2	70.9	50.4%
Tax	(14.7)	(10.2)	(16.5)	61.6%	11.9%	(21.9)	(26.7)	21.8%
PAT	12.9	20.9	23.3	11.3%	81.0%	25.3	44.3	75.1%
MI	5.9	9.8	11.3	14.5%	91.4%	10.9	21.1	93.6%
Net profit	7.0	11.1	12.1	8.4%	72.2%	14.4	23.2	61.2%
Core net profit	7.0	11.1	12.1	8.4%	72.2%	16.5	23.2	40.7%
Core EPS (sen)	0.54	0.86	0.93	8.4%	72.2%	1.27	1.79	40.7%
DPS (sen)	0.00	1.50	0.00			0.29	1.50	
EBITDA margin	27.9%	25.8%	23.9%			29.1%	24.8%	
Operating profit margin	6.3%	6.1%	6.3%			5.9%	6.2%	
Pretax margin	6.0%	6.0%	6.7%			5.5%	6.4%	
Effective tax rate	53.3%	32.7%	41.4%			46.4%	37.6%	
Core net profit margin	1.5%	2.1%	2.0%			1.9%	2.1%	
Dividend payout ratio	0.0%	174.8%	0.0%			22.8%	83.9%	

Segmental Breakdown (RMm)	2Q22	1Q23	2Q23	QoQ	YoY	1H22	1H23	YTD
Revenue	458.4	520.1	593.7	14.1%	29.5%	851.8	1,113.7	30.8%
Environment	291.7	312.2	328.1	5.1%	12.5%	579.1	640.2	10.6%
Energy	79.6	89.4	120.4	34.7%	51.3%	139.3	209.7	50.6%
Services	87.1	118.5	145.2	22.5%	66.7%	133.4	263.8	97.8%
PAT	12.9	20.9	23.3	11.3%	81.0%	25.3	44.3	75.1%
Environment	16.8	25.4	33.1	30.4%	97.0%	43.8	58.4	33.5%
Energy	(3.8)	6.5	2.1	-68.3%	154.7%	(0.5)	8.6	1833.1%
Services	12.2	12.2	16.3	33.2%	33.6%	19.8	28.4	43.9%
Others	(12.3)	(23.1)	(28.1)	-21.4%	-128.4%	(37.8)	(51.2)	-35.6%
PAT margin				ppts	ppts			ppts
Environment	5.8%	8.1%	10.1%	2.0	4.3	7.6%	9.1%	1.6
Energy	-4.7%	7.3%	1.7%	-5.6	6.5	-0.4%	4.1%	4.4
Services	14.0%	10.3%	11.2%	0.9	-2.8	14.8%	10.8%	-4.0

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement	FY20	FY21	FY22	FY23F	FY24F
Revenue	1,468.1	1,531.1	1,726.4	1,873.4	1,921.5
Operating expenses	-1,387.4	-1,437.5	-1,528.8	-1,739.2	-1,778.7
Operating profit	80.7	93.6	197.6	134.1	142.7
Net interest expense	3.8	-16.0	-13.6	-19.7	-31.2
Associates	11.1	16.1	15.7	16.5	17.8
PBT	95.5	93.7	199.6	130.9	129.4
Taxation	-31.3	-27.6	-55.8	-45.8	-45.3
Minority Interest	26.5	35.5	47.1	38.6	38.2
Net profit	37.7	30.6	96.7	46.5	45.9
Core net profit	51.5	32.1	22.3	46.5	45.9
Balance Sheet	FY20	FY21	FY22	FY23F	FY24F
PPE	243.9	246.4	250.6	233.2	219.8
Investments	180.4	208.6	205.7	222.2	240.0
Others	1,105.3	1,796.8	1,470.3	1,270.3	1,770.3
Non-current assets	1,529.6	2,251.8	1,926.6	1,725.7	2,230.1
Inventories	88.9	116.7	146.2	131.7	136.6
Receivables	309.0	341.5	552.0	374.7	384.3
Others	182.0	257.4	270.6	270.6	270.6
Cash & equivalent	258.2	339.8	388.9	510.2	476.5
Current assets	838.1	1,055.4	1,357.8	1,287.2	1,268.1
Share capital	1,282.9	1,439.0	1,439.0	1,439.0	1,439.0
Minority Interest	136.1	179.1	189.9	228.5	266.7
Reserves	-767.8	-750.1	-671.7	-664.8	-658.3
Total Equity	651.1	868.0	957.1	1,002.7	1,047.3
Long-term borrowings	981.5	893.4	931.6	861.6	791.6
Others	361.2	670.6	362.1	162.1	662.1
Non-current liabilities	1,342.7	1,563.9	1,293.8	1,023.7	1,453.7
Short-term borrowings	97.1	150.5	205.7	205.7	205.7
Payables	260.8	337.7	459.7	412.7	423.3
Others	16.0	387.0	368.1	368.1	368.1
Current liabilities	373.9	875.3	1,033.5	986.5	997.1

Cash Flow Statement	FY20	FY21	FY22	FY23F	FY24F
PBT	95.5	93.7	199.6	130.9	129.4
Depreciation & Amortization	377.2	380.0	387.1	388.6	384.9
Chgs in working capital	-140.0	16.6	-118.1	144.8	-3.9
Others	-211.4	-256.3	-338.7	-394.8	-395.8
Operating cash flow	121.3	234.0	130.0	269.5	114.6
Capex	-67.2	-38.7	-49.4	-38.7	-38.7
Others	15.5	39.4	-40.4	0.0	0.0
Investing cash flow	-51.7	0.6	-89.8	-38.7	-38.7
Dividends paid	-90.9	-25.3	-19.8	-39.5	-39.5
Net proceeds in borrowings	-122.5	-114.9	89.5	-70.0	-70.0
Others	95.1	-13.9	-66.7	0.0	0.0
Financing cash flow	-118.3	-154.1	3.0	-109.5	-109.5
Net changes in cash	-48.7	80.5	43.2	121.3	-33.7
Beginning cash	167.3	118.9	201.9	245.4	366.6
Overdrafts, Deposits & Forex	139.7	140.5	143.9	143.6	143.6
Ending cash	258.2	339.8	388.9	510.2	476.5

Ratios	FY20	FY21	FY22	FY23F	FY24F
Operating profit margin	5.5%	6.1%	11.4%	7.2%	7.4%
Core net profit margin	3.5%	2.1%	1.3%	2.5%	2.4%
ROE	10.0%	4.7%	2.9%	6.0%	5.9%
ROA	2.2%	1.0%	0.7%	1.5%	1.3%
Net gearing	126%	81%	78%	56%	50%
Book value/share (RM)	0.48	0.59	0.59	0.60	0.60
PBV (x)	1.3	1.0	1.0	1.0	1.0
PER (x)	12.5	20.1	35.2	16.9	17.1
EV/EBITDA (x)	3.2	3.0	2.6	2.6	2.5

Source: Company, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology