



## Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

### Maintain BUY

### Getting Sunny!

**Revised Target Price: RM0.80**  
(Previously RM0.73)

#### KEY INVESTMENT HIGHLIGHTS

- **RS1 solar plant on track for completion by year-end**
- **Relatively attractive project returns given low capex and comparatively higher tariff**
- **FY24F net profit raised by 7% to reflect maiden contribution from solar plant**
- **Re-affirm BUY at higher TP of RM0.80**

We came away from a recent site visit of Ranhill's LSS4 project feeling affirmed of the group's prospects. We highlight below key takeaways from the visit:

**Background of the solar project.** To recap, Ranhill via 100%-owned Ranhill Solar 1 Sdn Bhd (RS1) was awarded a 50MWac (79.61MWp) utility scale solar project under the LSS4 bidding cycle back in 2021. A 21-year PPA was originally signed with Tenaga but was later extended to 25 years in line with the Energy Commission's decision, following cost escalation across the industry during the construction period. The LSS4 plant located in Bidor, Perak, sits on 181 acres of leased land from Sime Darby Plantation, which is automatically renewed every 3 years for a total period of 27 years. The land is located at elevated levels with little risk of floods. The RS1 plant is connected to Tenaga's transmission substation via a 132kV line.

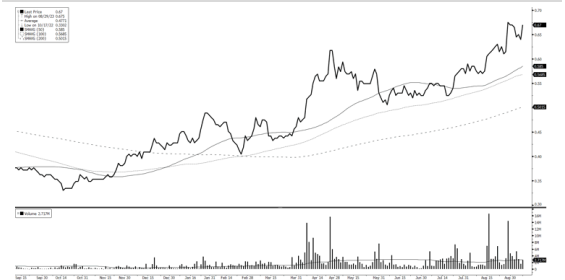
**A key advantage** is the plant's proximity of only 100m to Tenaga's substation (the injection point), which reduces connection and right-of-way cost as well as minimises power loss – power output is typically measured at the injection point for determination of the PPA's energy payment - every km of interconnection could lead to an estimated 0.02% power loss. Additionally, every km of connection is estimated to cost >RM1m in capex. The plant adopts string inverter technology (instead of central), which is more efficient in managing output consistency in the case of cloud covers or panel malfunctions given smaller concentration of panels per inverter.

**Relatively attractive returns.** We believe project returns could be quite attractive given relatively low capex and a comparatively higher tariff for RS1. A total capex of approximately RM180m was spent on the plant, with RM158m of the amount going towards EPCC translating into RM3.2m/MWac - this is relatively lower versus comparable LSS4 plants costing north of RM3.5m/MWac. Meanwhile RS1's tariff sits at the higher end of the LSS4 winning bids at ~19sen/kwh. At 3.8-4.0 hours/day peak sun, we estimate PIRR at 8%-9% with EIRR in the low teens. Levelised PAT is estimated at RM5-7m/annum through the 25-year PPA, although in the initial years we expect PAT to be lower at ~RM2-3m/annum due to frontloaded sukuk profit payments. This will bump up Ranhill's FY24F earnings by an estimated 4%-7%.

#### RETURN STATISTICS

Price @ 8 <sup>th</sup> Sept. 2023 (RM)	0.67
Expected share price return (%)	+19.8
Expected dividend yield (%)	4.5
<b>Expected total return (%)</b>	<b>+24.3</b>

#### 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	1,942.9
Operating Profit	197.6	134.1	159.8
Profit Before Tax	199.6	130.9	138.7
Core PATAMI	22.3	46.5	49.2
Core EPS (sen)	1.7	3.6	3.8
DPS (sen)	2.5	3.0	3.2
Dividend Yield (%)	3.7	4.5	4.8

#### KEY STATISTICS

FBM KLCI	1,454.95
Issue shares (m)	1281.36
Estimated free float (%)	47.70
Market Capitalisation (RM'm)	858.51
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

**Analyst:**

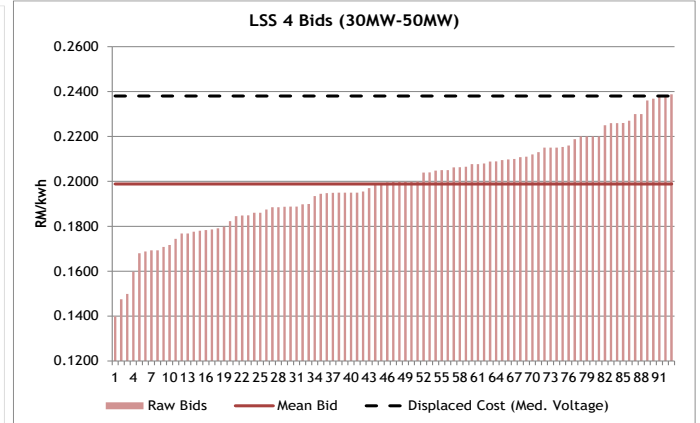
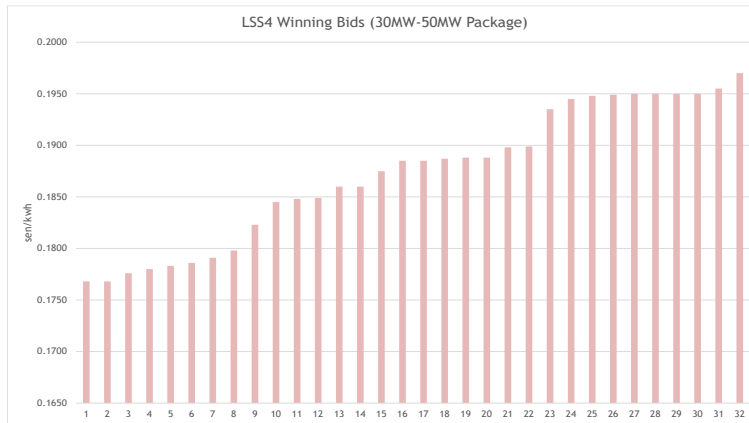
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**Chart 1: RS1 tariff is at high-end of LSS4 winning bids**

**Chart 2: LSS4 tariff bids**



Source: Energy Commission, MIDFR

**Exhibit 1: Plant is located close to TNB’s substation**

**Exhibit 2: Aerial view of the RS1 LSS4 Plant**



Source: Company, MIDFR


**Potential early completion.** The main EPCC contractor for the RS1 project is 100%-owned Ranhill Bersekutu Sdn Bhd (RBSB) while the EPCC subcontractor is Fabulous Sunview Sdn Bhd (a unit of Sunview Group Bhd). The plant received its Notice to Proceed back in June 2022 and achieved financial close in November 2022, after which, construction began in earnest. As of 31<sup>st</sup> August, the plant is at 95.2% completion, slightly ahead of planned progress of 94.5%. All equipment has been delivered to the site and the installation process is expected to be finished by 15<sup>th</sup> September 2023. Testing and commissioning activities at the RS1 plant and Tenaga substations are currently underway and are anticipated to be completed by the same date. Based on the planned schedule, initial operation date is expected to be achieved on 31<sup>st</sup> October 2023 while the PPA scheduled commercial operation date (COD) is on 31<sup>st</sup> December 2023. However, given faster than expected progress, management is looking at the possibility of early COD by 30<sup>th</sup> November 2023.

**Exhibit 3: Project timeline and construction summary**

Source: Company, MIDFR

**Further description of RS1 plant.** The RS1 plant employs a fixed tilt, ground mounted solar panel installation. Some 120,990 units of bi-facial solar panels with capacity of 655Wp-660Wp capacity per panel are utilised. These panels are connected to 184 units of string inverters. The panels entail a warranty of 30 years (covering glass and appearance aspects) and performance warranty of 15 years (covering energy output consistency). Energy output in Year 1 of operations is expected at 115,415MWh, which is equivalent to ~4 hours of daily generation, on our estimates.

**Earnings estimates.** We raise FY24F earnings by 7% to factor in maiden contribution from the RS1 plant from FY24F onwards. Any earlier than expected COD will be a slight positive for FY23F earnings.

**Recommendation.** We re-affirm our **BUY** call on Ranhill at a higher **TP** of **RM0.80** (from RM0.73 previously) as we now factor in valuation of the group's RS1 solar plant which is due for COD by year-end. Ranhill has made inroads into the RE space via its 50MW solar plant. We believe prospects for further expansion in RE capacity are abundant backed by an aggressive 70% RE mix target under the National Energy Transition Roadmap (NETR). In the mid-term, Ranhill is targeting to expand its total generation capacity and RE capacity to 1000MW and 300MW respectively from 430MW and 50MW currently. We also like Ranhill for its earnings expansion potential: (1) Expansion into Indonesia source-to-tap water supply (432MLD capacity), (2) Completion of the Sabah West-East grid upgrade which should drive higher dispatch from RP1/RP2 to Sabah's East Coast, (3) Potential water tariff hike for the domestic sector, (4) Completion of its 100MW West Sabah CCGT plant by March 2026. Dividend yield is attractive at 4.8% and reversion to cash dividends is a positive. Valuations are undemanding at 17.6x FY24F PER, at ~15% 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
RS 1	DCF; EV (WACC: 5.4%)	230.6	100.0%	1,295.9	0.18
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
<b>Gross value</b>		<b>1,858.8</b>			<b>1.34</b>
	Group net cash/(debt)	(699.1)		1,295.9	-0.54
<b>SOP value</b>		<b>1,159.7</b>			<b>0.80</b>

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>
<b>Revenue</b>	<b>1,468.1</b>	<b>1,531.1</b>	<b>1,726.4</b>	<b>1,873.4</b>	<b>1,942.9</b>
Operating expenses	-1,387.4	-1,437.5	-1,528.8	-1,739.2	-1,783.0
<b>Operating profit</b>	<b>80.7</b>	<b>93.6</b>	<b>197.6</b>	<b>134.1</b>	<b>159.8</b>
Net interest expense	3.8	-16.0	-13.6	-19.7	-38.9
Associates	11.1	16.1	15.7	16.5	17.8
<b>PBT</b>	<b>95.5</b>	<b>93.7</b>	<b>199.6</b>	<b>130.9</b>	<b>138.7</b>
Taxation	-31.3	-27.6	-55.8	-45.8	-48.6
Minority Interest	26.5	35.5	47.1	38.6	40.9
Net profit	37.7	30.6	96.7	46.5	49.2
<b>Core net profit</b>	<b>51.5</b>	<b>32.1</b>	<b>22.3</b>	<b>46.5</b>	<b>49.2</b>
<b>Balance Sheet</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23F</b>	<b>FY24F</b>
PPE	243.9	246.4	250.6	233.2	401.8
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
<b>Non-current assets</b>	<b>1,529.6</b>	<b>2,251.8</b>	<b>1,926.6</b>	<b>1,725.7</b>	<b>2,412.1</b>
Inventories	88.9	116.7	146.2	131.7	137.1
Receivables	309.0	341.5	552.0	374.7	388.6
Others	182.0	257.4	270.6	270.6	270.6
Cash & equivalent	258.2	339.8	388.9	510.2	443.8
<b>Current assets</b>	<b>838.1</b>	<b>1,055.4</b>	<b>1,357.8</b>	<b>1,287.2</b>	<b>1,240.1</b>
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	269.4
Reserves	-767.8	-750.1	-671.7	-664.8	-657.4
<b>Total Equity</b>	<b>651.1</b>	<b>868.0</b>	<b>957.1</b>	<b>1,002.7</b>	<b>1,051.1</b>
Long-term borrowings	981.5	893.4	931.6	861.6	937.2
Others	361.2	670.6	362.1	162.1	662.1
<b>Non-current liabilities</b>	<b>1,342.7</b>	<b>1,563.9</b>	<b>1,293.8</b>	<b>1,023.7</b>	<b>1,599.3</b>
Short-term borrowings	97.1	150.5	205.7	205.7	205.7
Payables	260.8	337.7	459.7	412.7	428.0
Others	16.0	387.0	368.1	368.1	368.1
<b>Current liabilities</b>	<b>373.9</b>	<b>875.3</b>	<b>1,033.5</b>	<b>986.5</b>	<b>1,001.8</b>

Cash Flow Statement	FY20	FY21	FY22	FY23F	FY24F
PBT	95.5	93.7	199.6	130.9	138.7
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	-399.1
<b>Operating cash flow</b>	<b>121.3</b>	<b>234.0</b>	<b>130.0</b>	<b>269.5</b>	<b>120.6</b>
Capex	-67.2	-38.7	-49.4	-38.7	-220.7
Others	15.5	39.4	-40.4	0.0	0.0
<b>Investing cash flow</b>	<b>-51.7</b>	<b>0.6</b>	<b>-89.8</b>	<b>-38.7</b>	<b>-220.7</b>
Dividends paid	-90.9	-25.3	-19.8	-39.5	-41.9
Net proceeds in borrowings	-122.5	-114.9	89.5	-70.0	75.6
Others	95.1	-13.9	-66.7	0.0	0.0
<b>Financing cash flow</b>	<b>-118.3</b>	<b>-154.1</b>	<b>3.0</b>	<b>-109.5</b>	<b>33.7</b>
Net changes in cash	-48.7	80.5	43.2	121.3	-66.4
<b>Beginning cash</b>	<b>167.3</b>	<b>118.9</b>	<b>201.9</b>	<b>245.4</b>	<b>366.6</b>
Overdrafts, Deposits & Forex	139.7	140.5	143.9	143.6	143.6
<b>Ending cash</b>	<b>258.2</b>	<b>339.8</b>	<b>388.9</b>	<b>510.2</b>	<b>443.8</b>

Ratios	FY20	FY21	FY22	FY23F	FY24F
Operating profit margin	5.5%	6.1%	11.4%	7.2%	8.2%
Core net profit margin	3.5%	2.1%	1.3%	2.5%	2.5%
ROE	10.0%	4.7%	2.9%	6.0%	6.3%
ROA	2.2%	1.0%	0.7%	1.5%	1.3%
Net gearing	126%	81%	78%	56%	67%
Book value/share (RM)	0.48	0.59	0.59	0.60	0.60
PBV (x)	1.4	1.1	1.1	1.1	1.1
PER (x)	13.9	22.3	39.0	18.7	17.6
EV/EBITDA (x)	3.4	3.1	2.8	2.7	2.9

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