



Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Maintain BUY

New Equity Partner in Djuanda?

Unchanged Target Price: RM0.80


KEY INVESTMENT HIGHLIGHTS

- **Ropes in China Energy International Group for the Djuanda water supply project**
- **Potential new equity partner could remove balance sheet overhang given huge capex involved**
- **Pending further concrete development, we are mildly positive on this news**
- **Maintain BUY at unchanged TP of RM0.80**

What's new? Ranhill Utilities (Ranhill) announced that it is roping in China Energy International Group Co Ltd (CEIG) as a partner for the proposed development of a source-to-tap drinking water supply project in Indonesia (Djuanda project). The detailed scope of work, rights and responsibilities of each party shall be subsequently negotiated, discussed, finalised and mutually agreed by both parties. CEIG is a subsidiary of China Energy Engineering Corporation Ltd which is listed on the Hong Kong and Shanghai stock exchange, involved in solutions development to industries such as energy, power and infrastructure worldwide. Ranhill also intends to collaborate with CEIG for other potential projects in Southeast Asia.

A recap of the Djuanda project. The Djuanda project is Indonesia's first source-to-tap water supply project with a capacity of 605MLD, supplying clean water from the Jatiluhur dam to four regions namely DKI Jakarta, Bekasi City, Bekasi Regency and Bogor Regency on a BOT basis (build-operate-transfer). Ranhill has a 74% stake in the project while other members of the consortium are PT Varsha (10%), PT PP Persero & PT PP Infrastruktur (15%) and Maynilad (0.16%). The project's feasibility study is currently being evaluated by the Indonesian regulators, in which if approved, will proceed to a tender process.

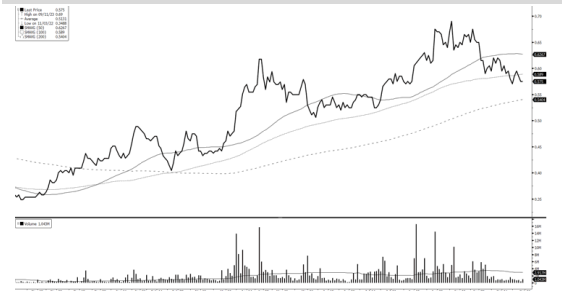
Removal of balance sheet overhang? While the Djuanda project looks attractive with a 30-year concession and an expected project IRR in the low to mid-teens, the large potential capex of USD800-900m (RM3.8-4.3b) could be a constraint on Ranhill's balance sheet. In contrast to Malaysia's asset-light water industry model, the Djuanda project involves heavy asset ownership. We understand that Ranhill had been exploring diluting its stake in the project down to an associate share. While still early days to conclude, the potential entry of CEIG as an equity partner could finally remove this balance sheet overhang.

Recommendation. Given it is still at an early stage, we view this development as a mild positive. We keep our **BUY** call on Ranhill at an unchanged **TP** of **RM0.80**. We continue to like Ranhill for its: (1) Expansion into RE and growth prospects under NETR (2) As one of the few plays in the domestic and regional water sector. Potential near-term catalysts are: (1) Completion of its 50MW LSS4 project in December 2023, (2) 100MW CCGT power plant in Sabah due for completion in 2026, (3) Potential water tariff review for the domestic sector, which is long overdue. Dividend yield is attractive at 5.3% while valuations are undemanding at 15x FY24F PER, at 25% discount to historical mean. 

RETURN STATISTICS

Price @ 30 th Oct. 2023 (RM)	0.58
Expected share price return (%)	+38.4
Expected dividend yield (%)	5.3
Expected total return (%)	+43.7

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-11.5	-12.5
3 months	-11.5	0.5
12 months	49.4	51.5

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 (%)	4.3	5.3	5.6

KEY STATISTICS

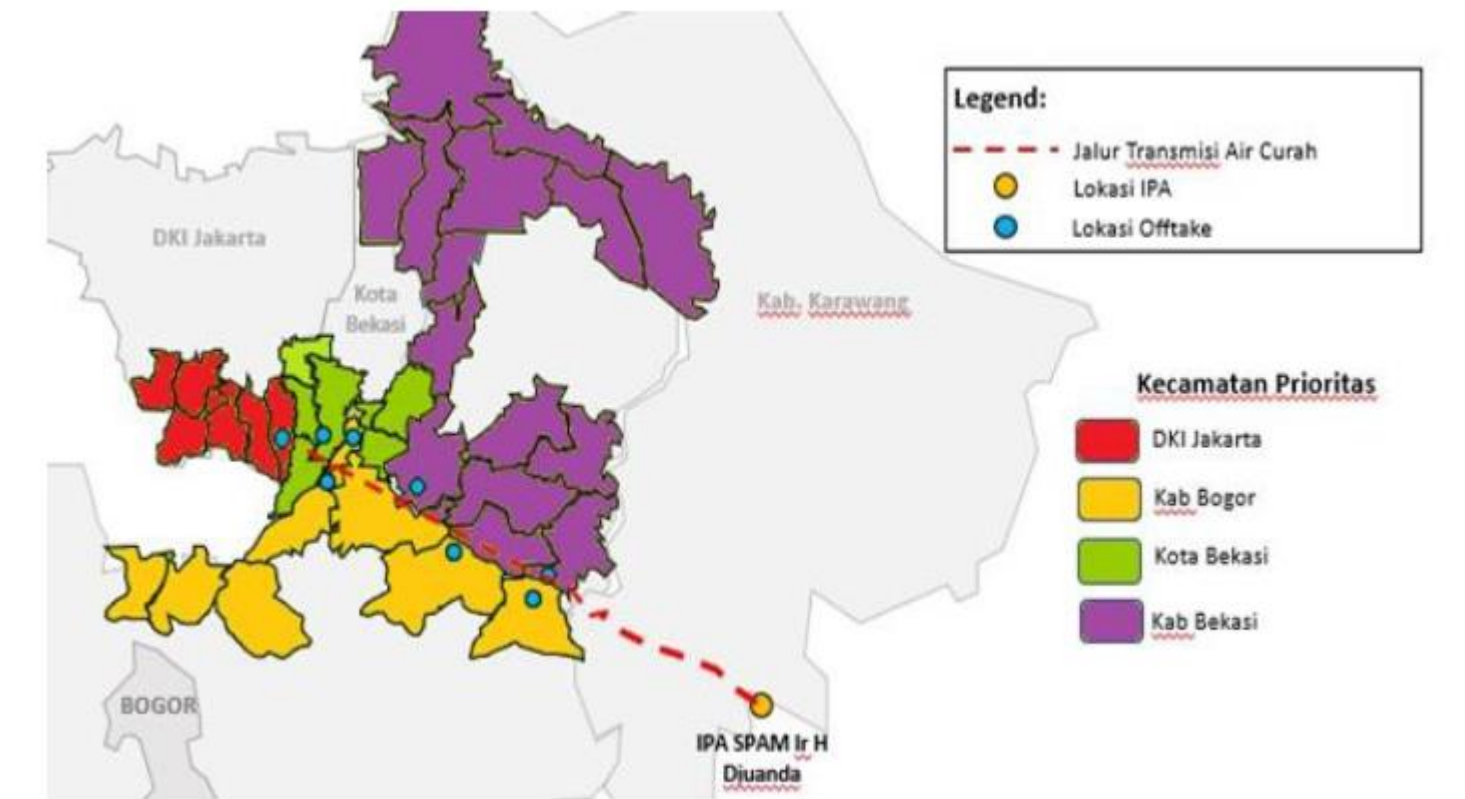
FBM KLCI	1,439.20
Issue shares (m)	1281.36
Estimated free float (%)	47.70
Market Capitalisation (RM'm)	741.47
52-wk price range	RM0.37 – 0.69
3-mth average daily volume (m)	2.89
3-mth average daily value (RM'm)	1.82
Top Shareholders (%)	
Cheval Infrastructure Fund	18.87
Hamdan (L) Foundation	16.63
Mohamad Hamdan	13.64

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Exhibit 1: Project Djuanda Service Area

Source: Company, MIDFR

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
Gross value		1,858.8			1.34
	<i>Group net cash/(debt)</i>	<i>(699.1)</i>		1,295.9	<i>-0.54</i>
SOP value		1,159.7			0.80

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	1,942.9
Operating expenses	-1,387.4	-1,437.5	-1,528.8	-1,739.2	-1,783.0
Operating profit	80.7	93.6	197.6	134.1	159.8
Net interest expense	3.8	-16.0	-13.6	-19.7	-38.9
Associates	11.1	16.1	15.7	16.5	17.8
PBT	95.5	93.7	199.6	130.9	138.7
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
Core net profit	51.5	32.1	22.3	46.5	49.2
Balance Sheet	FY20	FY21	FY22	FY23F	FY24F
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
Non-current assets	1,529.6	2,251.8	1,926.6	1,725.7	2,412.1
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
Current assets	838.1	1,055.4	1,357.8	1,287.2	1,240.1
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	269.4
Reserves	-767.8	-750.1	-671.7	-664.8	-657.4
Total Equity	651.1	868.0	957.1	1,002.7	1,051.1
Long-term borrowings	981.5	893.4	931.6	861.6	937.2
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	1,599.3
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
Current liabilities	373.9	875.3	1,033.5	986.5	1,001.8

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
Operating cash flow	121.3	234.0	130.0	269.5	120.6
Capex	-67.2	-38.7	-49.4	-38.7	-220.7
Others	15.5	39.4	-40.4	0.0	0.0
Investing cash flow	-51.7	0.6	-89.8	-38.7	-220.7
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
Financing cash flow	-118.3	-154.1	3.0	-109.5	33.7
Net changes in cash	-48.7	80.5	43.2	121.3	-66.4
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	443.8

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)	1.2	1.0	1.0	1.0	1.0
PER (x)	12.0	19.3	33.7	16.2	15.3
EV/EBITDA (x)	3.1	2.9	2.6	2.5	2.7

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