



Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Priced to Perfection

KEY INVESTMENT HIGHLIGHTS


- **9MFY23 result in-line with expectations**
- **PAT growth driven mainly by strong contribution from services division**
- **Ranhill is now trading at stretched valuations following exceptionally strong share price rally**
- **Downgrade to NEUTRAL from BUY at unchanged TP of RM0.80**

No surprises in 9MFY23 results. Ranhill Utilities' (Ranhill) 9MFY23 result came in within expectations. The group reported a 3QFY23 net profit of RM10.2m (+9.7%yoy), which brought 9MFY23 net profit to RM33.4m (+40.9%yoy) accounting for 72% and 71% of our and consensus estimates respectively.

Key takeaways. Group PAT increased +46.5%yoy in 9MFY23 driven mainly by the services division which saw earnings increase by +65.8%yoy on the back of a strong order pipeline. Outstanding orderbook is estimated at RM600m-700m, which is 2.3x the services division's FY22 revenue. The environment division saw 9MFY23 revenue increase by +9.7%yoy driven by a non-domestic sector tariff hike since January 2023. However, margins contracted due to higher electricity ICPT during 1HFY23, higher maintenance NRW cost and higher chemicals consumption due to higher production volume. Meanwhile, the energy division saw improved bottom-line against a marginal loss last year mainly contributed by recognition of construction profit from the group's LSS4 plant.

Domestic tariff revision. A domestic sector water tariff review is in the works as Ranhill enters its OP6 next year. This could be a positive catalyst for Ranhill, but we believe the magnitude of revision could be smaller than the prior non-domestic tariff revision given the former entails much lower base tariff.

Earnings revision. No changes to our earnings projection. FY24F net profit implies a +6%yoy growth, mainly reflecting maiden contribution from Ranhill's LSS4 plant which is due for commercial operations in December 2023.

Recommendation. Broadly, we still like Ranhill for its: (1) Expansion into RE and growth prospects under NETR (2) As one of the few plays into domestic and regional water operators. However, given the exceptionally strong share price rally since the entry of YTL Power as a substantial shareholder, we **downgraded** Ranhill to **NEUTRAL** from BUY previously. Ranhill's share price has gained +140% in the past 1 year - the stock now trades at a stretched valuation of 24x FY24F PER which is 18% above historical mean, while dividend yield has compressed to just 3.5%. Nevertheless, a potential revision of domestic sector water tariff provides scope for upside depending on outcome of the regulatory review. 

Downgrade to NEUTRAL

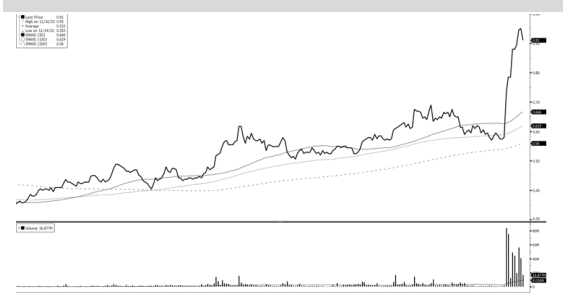
(Previously BUY)

Unchanged Target Price: RM0.80

RETURN STATISTICS

Price @ 14 th Nov. 2023 (RM)	0.91
Expected share price return (%)	-11.8
Expected dividend yield (%)	3.5
Expected total return (%)	-8.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	48.0	47.2
3 months	40.0	59.2
12 months	139.5	139.3

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
PER (x)	52.9	25.4	24.0
DPS (sen)	2.5	3.0	3.2
Dividend Yield (%)	2.7	3.3	3.5

KEY STATISTICS

FBM KLCI	1,451.72
Issue shares (m)	1281.36
Estimated free float (%)	47.71
Market Capitalisation (RM'm)	1,173.45
52-wk price range	RM0.38-RM0.98
3-mth average daily volume (m)	8.52
3-mth average daily value (RM'm)	6.62
Top Shareholders (%)	
YTL Power International	18.87
Hamdan (L) Foundation	16.63
Mohamad Hamdan	13.64

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Table 1: Ranhill 9MFY23 Result Summary

FYE Dec (RMm)	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YTD
Revenue	434.0	593.7	609.4	2.6%	40.4%	1,285.8	1,723.1	34.0%
EBITDA	128.9	141.6	136.9	-3.3%	6.2%	376.8	412.8	9.5%
Depreciation & amortisation	(96.4)	(99.1)	(104.7)	5.6%	8.6%	(289.0)	(302.8)	4.7%
Operating profit	29.1	37.3	28.0	-25.0%	-3.9%	79.0	96.9	22.7%
Net finance cost	(2.8)	(2.7)	(1.9)	-30.0%	-32.9%	(10.9)	(8.9)	-18.8%
Associates	3.4	5.2	4.2	-19.3%	22.3%	8.8	13.1	49.1%
Pretax	29.7	39.8	30.3	-23.9%	1.9%	76.9	101.2	31.7%
Tax	(11.4)	(16.5)	(10.7)			(33.3)	(37.4)	
PAT	18.3	23.3	19.6	-16.0%	6.9%	43.6	63.8	46.5%
MI	9.0	11.3	9.4	-16.9%	4.1%	19.9	30.4	53.1%
Net profit	9.3	12.1	10.2	-15.2%	9.7%	23.7	33.4	40.9%
Core net profit	9.3	12.1	10.2	-15.2%	9.7%	23.7	33.4	40.9%
Core EPS (sen)	0.72	0.93	0.79	-15.2%	9.7%	1.83	2.58	40.9%
DPS (sen)	0.00	0.00	0.00			0.29	1.50	
EBITDA margin	29.7%	23.9%	22.5%			29.3%	24.0%	
Operating profit margin	6.7%	6.3%	4.6%			6.1%	5.6%	
Pretax margin	6.8%	6.7%	5.0%			6.0%	5.9%	
Effective tax rate	38.4%	41.4%	35.4%			43.3%	36.9%	
Core net profit margin	2.1%	2.0%	1.7%			1.8%	1.9%	

Segmental Breakdown (RMm)	3Q22	2Q23	3Q23	QoQ	YoY	9M22	9M23	YTD
Revenue	434.0	593.7	609.4	2.6%	40.4%	1,285.8	1,723.1	34.0%
Environment	301.8	328.1	326.4	-0.5%	8.2%	881.0	966.7	9.7%
Energy	62.5	120.4	131.7	9.4%	110.7%	201.8	341.5	69.2%
Services	69.7	145.2	151.2	4.1%	117.1%	203.0	415.0	104.4%
PAT	18.3	23.3	19.6	-16.0%	6.9%	43.6	63.8	46.5%
Environment	43.5	33.1	22.8	-31.1%	-47.6%	87.2	81.2	-6.9%
Energy	0.5	2.1	(2.5)	>-100.0%	>-100.0%	(0.0)	6.0	>100.0%
Services	6.4	16.3	15.0	-7.6%	132.9%	26.2	43.5	65.8%
Others	(32.1)	(28.1)	(15.7)	44.1%	51.1%	(69.8)	(66.9)	4.2%
PAT margin				ppts	ppts			ppts
Environment	14.4%	10.1%	7.0%	-3.1	-7.4	9.9%	8.4%	-1.5
Energy	0.8%	1.7%	-1.9%	-3.6	-2.7	0.0%	1.8%	1.8
Services	9.3%	11.2%	9.9%	-1.3	0.7	12.9%	10.5%	-2.4

Source: Company, MIDFR

Table 2: 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)	1.9	1.5	1.5	1.5	1.5
PER (x)	18.8	30.2	52.9	25.4	24.0
EV/EBITDA (x)	3.9	3.7	3.3	3.3	3.4

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