



Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities


Christmas Comes Early

KEY INVESTMENT HIGHLIGHTS

- **Sizeable NRW contract win**
- **Solid orderbook and earnings visibility for services division**
- **However, Ranhill is now trading at stretched valuations following exceptionally strong share price rally**
- **Maintain NEUTRAL at unchanged TP of RM0.80**

What's new? Ranhill Utilities Bhd's (Ranhill) indirect subsidiary, Ranhill Technologies Sdn Bhd (RTSB) was awarded a Non-Revenue Water (NRW) reduction contract for the state of Johor. The contract is valued at RM283.9m for a period of 3 years and is expected to run from 1st January 2024 until 31 December 2026. This is RTSB's 7th successive NRW project in Johor. The NRW contract involves holistic NRW reduction and management covering: (1) The establishment of new DMAs and re-establishment of existing DMAs, (2) NRW meter and data logger troubleshooting & maintenance, (3) Pressure management, (4) Reservoir monitoring and maintenance, (5) Water supply system monitoring, (6) meter, valve and PRV installation, (7) Maintenance of RSAJ AquaSMART system, (8) Repair works, (9) NRW volume and leakage reduction.

Our thoughts. The latest NRW contract is sizeable and expands the services division's orderbook by 43% to RM940m. This is much welcomed following slower contract wins this year. The latest outstanding orderbook should provide strong earnings visibility over the next 3 years. As the contract win forms parts of our orderbook replenishment assumptions, we leave our forecasts unchanged for now. For clarity, while there is expected to be intercompany elimination as the contract was awarded by 80%-owned Ranhill SAJ (RSAJ), we understand Ranhill will be able to recognise the profit portion of the contract (10%-15% GP margin). Separately, RSAJ has a KPI to reduce Johor's NRW to 21.3%/20.9% in 2024/2025 from 25.1% in 2023 whereby if exceeded, will qualify it to claim matching grants of up to 75% of the NRW capex spent from the Government, which could give an exceptional boost to cash flows and dividends.

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 utilities. However, given the exceptionally strong share price rally since the entry of YTL Power as a substantial shareholder, we maintain our **NEUTRAL** call on Ranhill. Ranhill's share price has gained +100% in the past 12 months - the stock now trades at a stretched valuation of 23x FY24F PER which is 14% above historical mean, while dividend yield has compressed to just 3.7%. Nevertheless, a potential revision of domestic sector water tariff provides scope for upside depending on outcome of the regulatory review. 

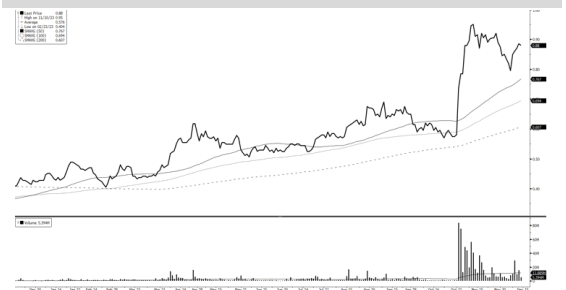
Maintain NEUTRAL

Unchanged Target Price: RM0.80

RETURN STATISTICS

Price @ 14 th Dec. 2023 (RM)	0.88
Expected share price return (%)	-8.8
Expected dividend yield (%)	3.7
Expected total return (%)	-5.1

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-3.8	-3.1
3 months	35.4	35.6
12 months	100.0	101.5

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
PER (x)	51.2	24.5	23.2
DPS (sen)	2.5	3.0	3.2
Dividend Yield (%)	2.8	3.5	3.7

KEY STATISTICS

FBM KLCI	1,456.26
Issue shares (m)	1281.36
Estimated free float (%)	47.71
Market Capitalisation (RM'm)	1,134.77
52-wk price range	RM0.42-RM0.98
3-mth average daily volume (m)	11.28
3-mth average daily value (RM'm)	9.47
Top Shareholders (%)	
YTL Power International	18.87
Hamdan (L) Foundation	16.63
Mohamad Hamdan	13.64

Analyst:

Hafriz Hezry

hafriz.hezry@midf.com.my

03-2173 8392

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)	1.8	1.5	1.5	1.5	1.5
PER (x)	18.2	29.2	51.2	24.5	23.2
EV/EBITDA (x)	3.8	3.7	3.2	3.2	3.4

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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