



Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Earnings Miss but FY24F Recovery in Sight

Maintain NEUTRAL**Revised Target Price: RM1.07**
(Previously RM0.80)

KEY INVESTMENT HIGHLIGHTS

- **FY23 earnings miss**
- **Reported earnings boosted by matching grants, but core earnings dragged by higher overheads**
- **LSS4 and domestic tariff hike to kick in this year**
- **FY24F net profit raised 12%**
- **TP raised to RM1.07 but NEUTRAL call maintained**

Earnings miss. Ranhill reported a marginal core net loss of -RM1m for its 4QFY23 after normalising for a net RM26m (after-tax and MI) impact of a one-off NRW matching grant. This brought FY23 core net profit to RM32m (+56%yoy), which accounted for 70%/69% of our/consensus estimates.

Key takeaways. For the 4QFY23, group core net loss narrowed to -RM1m vs. -RM2.9m in 4QFY22 mainly given improved earnings contribution from Ranhill Worley (RWSB). Sequentially, the 4QFY23 bottomline deteriorated against a net profit of RM10m in 3QFY23, mainly due to higher overheads and reversal of deferred tax, though we do not expect the exceptionally higher costs to recur in subsequent quarters. On full year basis, FY23 core net profit was up +56%yoy to RM32m due to significantly improved contribution by the engineering services division which saw PAT rise by +193%yoy to RM78m on the back of strong orderbook, especially at RWSB. Additionally, RSAJ benefitted from the non-domestic water tariff hike implemented since January 2023.

LSS4 plant achieves commercial operations. Ranhill has achieved COD for its 50MWac (79.61MWp) LSS4 plant in Bidor, Perak since February. The plant will operate under a 25-year PPA with Tenaga. Based on input from our previous visit, PIRR could be relatively attractive at 8%-9% with EIRR in the low teens. This is given relatively lower capex (RM3.2m/MW vs. comparable LSS4 plants costing north of RM3.5m/MW) while Ranhill's tariff sat at the higher end of the LSS4 winning bids at ~19sen/kwh. Nevertheless, this has been reflected in our projections with an estimated RM5-7m/annum levelized earnings through the 25-year PPA, albeit lower in the initial years at ~RM2-3m/annum due to frontloaded Sukuk profit payments.

Tariff hike. A water tariff hike for the domestic segment was approved by the Government and will be implemented in Johor from February 2024 onwards. In summary, Johor's domestic tariffs will see increases in the range of 5%-31% depending on consumption band (see Table 2), which should be an incremental positive for 80%-owned RSAJ going forward.

Earnings revision. Despite the result underperformance, we raise FY24F net profit by 12% to reflect the domestic water tariff hike. We also introduce FY25 net profit at RM61m (+12%yoy).

RETURN STATISTICS

Price @ 29 th Feb. 2024 (RM)	1.13
Expected share price return (%)	-5.3
Expected dividend yield (%)	3.0
Expected total return (%)	-2.3

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)	2023A	2024F	2025F
Revenue	2,280.8	2,343.5	2,399.5
Operating Profit	142.5	176.5	176.3
Profit Before Tax	147.9	142.4	158.9
Core PATAMI	32.4	55.0	61.4
Core EPS (sen)	2.5	4.2	4.7
PER (x)	44.9	26.6	23.8
DPS (sen)	3.5	3.4	3.8
Dividend Yield (%)	3.1	3.0	3.4

KEY STATISTICS

FBM KLCI	1551.44
Issue shares (m)	1281.36
Estimated free float (%)	47.71
Market Capitalisation (RM'm)	1447.94
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

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Recommendation. In line with the earnings revision, we raise our SOP-derived **TP** to **RM1.07** (from RM0.80). Despite the upward revision, we maintain our **NEUTRAL** call on Ranhill as upside from the recent domestic water tariff hike has been more than priced in at current share price levels, in our opinion. Broadly, Ranhill's share price has gained +100% in the past 12 months - the stock now trades at a stretched valuation of 27x FY24F PER which is 31% above historical mean, while dividend yield has compressed to just 3%.

Table 1: Ranhill Sum-of-Parts Valuation

Units/Concessions	Valuation method	Value (RMm)	Stake	Shares out	RM/share
RP 1	DCF; EV (WACC: 7%)	40.3	60.0%	1,295.9	0.02
RP 2	DCF; EV (WACC: 7%)	142.7	80.0%	1,295.9	0.09
RS 1	DCF; EV (WACC: 5.4%)	230.6	100.0%	1,295.9	0.18
Water (SAJ)	DCF; EV (WACC: 8%)	1,355.4	80.0%	1,295.9	0.84
NRW	Construction Sector EV/EBITDA (9x)	79.0		1,295.9	0.06
Associates	PER (10x)	191.2		1,295.9	0.15
RBSB/RWSB	Construction Sector EV/EBITDA (9x)	397.7		1,295.9	0.31
Gross value		2,039.1			1.64
	<i>Group net cash/(debt)</i>	<i>(734.0)</i>		1,295.9	<i>-0.57</i>
SOP value		1,305.1			1.07

Source: Company, MIDFR

Table 2: Summary of Johor Water Tariff Hike for Domestic Segment

Type of Use	Utilisation	Previous Rate	New Rate	change (%)
		Rate per cubic metre (RM)	Rate per cubic metre (RM)	
Domestic	0 m3 - 20 m3	0.80	1.05	31.3%
	21 m3 - 35 m3	2.00	2.35	17.5%
	> 35 m3	3.00	3.15	5.0%
Domestic (Min. charge)		7.00	10.50	50.0%
Domestic Bulk	per m3	1.60	2.55	59.4%
Domestic Bulk (Min. charge)		16.00	25.50	59.4%

Source: Company, MIDFR

RANHILL: 4QFY23 RESULT SUMMARY

FYE Dec (RMm)	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YTD
Revenue	440.6	609.4	557.7	-8.5%	26.6%	1,726.3	2,280.8	32.1%
EBITDA	225.4	136.9	157.7	15.2%	-30.0%	602.2	570.5	-5.3%
Depreciation & amortisation	(96.9)	(104.7)	(107.5)	2.7%	11.0%	(385.9)	(410.3)	6.3%
Operating profit	121.6	28.0	45.6	62.9%	-62.5%	200.6	142.5	-28.9%
Net finance cost	(1.9)	(1.9)	(3.5)	85.2%	82.4%	(12.8)	(12.4)	-3.6%
Zakat	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
Associates	6.9	4.2	4.6	9.2%	-33.4%	15.7	17.7	13.0%
Pretax	126.6	30.3	46.7	54.1%	-63.1%	203.4	147.9	-27.3%
Tax	(27.9)	(10.7)	(6.5)	-39.5%	-76.8%	(61.2)	(43.9)	-28.4%
PAT	98.6	19.6	40.2	105.3%	-59.3%	142.2	104.0	-26.9%
MI	27.1	9.4	15.7	68.0%	-42.0%	47.0	46.1	-1.8%
Net profit	71.5	10.2	24.5	139.5%	-65.8%	95.3	57.9	-39.2%
Core net profit	(2.9)	10.2	(1.0)	-109.5%	-66.7%	20.8	32.4	56.0%
Core EPS (sen)	-0.23	0.79	-0.08	-109.5%	-66.7%	1.60	2.50	56.0%
DPS (sen)	0.50	0.00	0.00			0.79	3.50	
EBITDA margin	51.2%	22.5%	28.3%			34.9%	25.0%	
Operating profit margin	27.6%	4.6%	8.2%			11.6%	6.2%	
Pretax margin	28.7%	5.0%	8.4%			11.8%	6.5%	
Effective tax rate	22.1%	35.4%	13.9%			30.1%	29.7%	
Core net profit margin	-0.7%	1.7%	-0.2%			1.2%	1.4%	

Segmental Breakdown (RMm)	4Q22	3Q23	4Q23	QoQ	YoY	FY22	FY23	YTD
Revenue	440.6	609.4	557.7	-8.5%	26.6%	1,726.3	2,280.8	32.1%
Environment	292.8	326.4	325.7	-0.2%	11.2%	1,173.7	1,292.3	10.1%
Energy	62.1	131.7	72.9	-44.6%	17.3%	263.9	414.4	57.0%
Services	85.6	151.2	159.2	5.2%	85.8%	288.7	574.2	98.9%
PAT	98.6	19.6	40.2	105.3%	-59.3%	142.2	104.0	-26.9%
Environment	130.7	22.8	48.7	113.9%	-62.7%	217.9	130.0	-40.4%
Energy	(8.2)	(2.5)	(10.6)	317.7%	28.8%	(8.2)	(4.5)	-44.9%
Services	0.5	15.0	34.7	130.8%	7195.2%	26.7	78.1	192.7%
Others	(24.3)	(15.7)	(32.6)	107.8%	34.2%	(94.1)	(99.5)	5.7%
PAT margin				ppts	ppts			ppts
Environment	44.6%	7.0%	15.0%	8.0	-29.7	18.6%	10.1%	-8.5
Energy	-13.2%	-1.9%	-14.5%	-12.6	-1.3	-3.1%	-1.1%	2.0
Services	0.6%	9.9%	21.8%	11.8	21.2	9.2%	13.6%	4.4

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement	FY21	FY22	FY23	FY24F	FY25F
Revenue	1,531.1	1,726.3	2,280.8	2,343.5	2,399.5
Operating expenses	-1,367.2	-1,525.7	-2,138.3	-2,167.1	-2,223.2
Operating profit	163.8	200.6	142.5	176.5	176.3
Net interest expense	-86.2	-75.3	-72.2	-53.2	-38.0
Associates	16.1	15.7	17.7	19.1	20.6
PBT	93.7	203.4	147.9	142.4	158.9
Taxation	-27.6	-61.2	-43.9	-42.3	-47.2
Minority Interest	35.5	47.0	46.1	45.0	50.3
Net profit	30.6	95.3	57.9	55.0	61.4
Core net profit	32.1	20.8	32.4	55.0	61.4
Balance Sheet	FY21	FY22	FY23	FY24F	FY25F
PPE	246.4	250.6	314.6	374.8	352.3
Investments	208.6	205.7	236.4	255.6	276.2
Others	1,796.8	1,470.3	1,273.0	1,773.0	1,473.0
Non-current assets	2,251.8	1,926.6	1,824.0	2,403.3	2,101.5
Inventories	116.7	146.2	143.5	138.7	145.5
Receivables	341.5	552.0	506.8	520.9	533.3
Others	257.4	270.6	226.3	226.3	226.3
Cash & equivalent	339.8	388.9	279.1	322.7	284.1
Current assets	1,055.4	1,357.8	1,155.6	1,208.5	1,189.2
Share capital	1,439.0	1,439.0	1,439.6	1,439.6	1,439.6
Minority Interest	179.1	189.9	229.9	274.9	325.2
Reserves	-750.1	-671.7	-658.5	-643.0	-630.7
Total Equity	868.0	957.1	1,011.0	1,071.6	1,134.1
Long-term borrowings	893.4	931.6	843.2	900.4	804.0
Others	670.6	362.1	360.1	860.1	560.1
Non-current liabilities	1,563.9	1,293.8	1,203.3	1,760.5	1,364.1
Short-term borrowings	150.5	205.7	156.3	156.3	156.3
Payables	337.7	459.7	516.4	530.8	543.5
Others	387.0	368.1	92.6	92.6	92.6
Current liabilities	875.3	1,033.5	765.4	779.8	792.4

Cash Flow Statement	FY21	FY22	FY23	FY24F	FY25F
PBT	93.7	203.4	83.8	142.4	158.9
Depreciation & Amortization	380.0	387.1	410.6	425.1	407.4
Chgs in working capital	16.6	-118.1	104.8	5.1	-6.6
Others	-256.3	-342.5	-370.4	-330.1	-422.7
Operating cash flow	234.0	130.0	228.8	242.5	137.0
Capex	-38.7	-49.4	-38.7	-212.0	-30.0
Others	39.4	-40.4	-23.9	0.0	0.0
Investing cash flow	0.6	-89.8	-62.6	-212.0	-30.0
Dividends paid	-25.3	-19.8	-27.7	-44.0	-49.2
Net proceeds in borrowings	-114.9	89.5	-137.9	57.2	-96.4
Others	-13.9	-66.7	-126.9	0.0	0.0
Financing cash flow	-154.1	3.0	-292.4	13.2	-145.6
Net changes in cash	80.5	43.2	-126.3	43.7	-38.6
Beginning cash	118.9	201.9	245.4	116.2	159.9
Overdrafts, Deposits & Forex	140.5	143.9	159.9	162.8	162.8
Ending cash	339.8	388.9	279.0	322.7	284.1

Ratios	FY21	FY22	FY23	FY24F	FY25F
Operating profit margin	10.7%	11.6%	6.2%	7.5%	7.3%
Core net profit margin	2.1%	1.2%	1.4%	2.3%	2.6%
ROE	4.7%	2.7%	4.2%	6.9%	7.6%
ROA	1.0%	0.6%	1.1%	1.5%	1.9%
Net gearing	81%	78%	71%	69%	60%
Book value/share (RM)	0.59	0.59	0.60	0.61	0.62
PBV (x)	1.9	1.9	1.9	1.8	1.8
PER (x)	37.5	65.7	44.9	26.6	23.8
EV/EBITDA (x)	4.3	3.8	4.3	3.7	3.7

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