



## Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

### Anticipating Stronger Quarters Ahead

#### KEY INVESTMENT HIGHLIGHTS

- **1QFY24 result broadly within expectation**
- **Strong PAT growth partly dampened by higher overhead cost and MI**
- **Expecting stronger quarters ahead on full recognition of RSAJ's tariff hike and LSS4 plant**
- **Fair value maintained at RM1.07, NEUTRAL call Under Review pending material announcement**


**Broadly within expectation.** Ranhill reported a net profit of RM10m for its 1QFY24, making up 19%/21% of our/consensus full year estimates. The result was broadly within our expectation and consensus as we anticipate stronger quarters ahead on full recognition of the recent domestic water tariff hike and Ranhill's 50MW LSS4 plant.

**Key takeaways.** Group revenue was up +8%yoy mainly driven by higher revenue from the environment division (+9%yoy) and the engineering services division (+25%yoy). The former was mainly driven by RSAJ's domestic water tariff hike in February 2024 while the latter was driven by 51%-owned Ranhill Worley's strong orderbook. These, coupled with improvement in margins for both units, trickled down to a +16%yoy increase in group PAT. Net profit (-7%yoy) however, was impacted by higher MI recognition (as compared to 1QFY23) as earnings composition leaned significantly heavier towards 51%-owned Ranhill Worley this quarter, coupled with an increase in HQ overhead cost.

**Stronger quarters ahead.** We expect RSAJ's contribution to group PAT to increase in the coming quarters given full recognition of the domestic water tariff hike - 1QFY24 is estimated to have reflected just one month of the tariff hike impact as the hike in February was only reflected in RSAJ's March billing cycle. In addition, we expect full quarter contribution from Ranhill's 50MW LSS4 plant (commissioned in February 2024) next quarter.

**Updates on new power capacity.** The upcoming 100MW CCGT project in Kimanis under Ranhill Sabah Energy 3 (RSE3) is facing some hiccups due to fluctuation in forex and increase in raw material cost. RSE3 had since submitted a request for a tariff revision from the Energy Commission of Sabah and is currently awaiting their response. In a more positive development, Ranhill is looking to participate in the 2GW LSS5 auction after having successfully commissioned its LSS4 plant this year.

**Earnings revision.** No change to our earnings estimates.

**Recommendation.** Our SOP-derived **fair value** remains unchanged at **RM1.07**. However, our **NEUTRAL** recommendation is placed **Under Review** – trading in Ranhill (and YTL Power) are suspended this morning pending a material announcement. Ranhill's share price has risen strongly of late, and valuations are now pretty stretched at 33x FY25F PER (vs. historical mean of 20x) and 2.5x PBV, while dividend yield has compressed to just 2.2%. 

## NEUTRAL (Under Review)

**Unchanged Fair Value: RM1.07**

#### RETURN STATISTICS

Price @ 27 <sup>th</sup> May 2024 (RM)	1.57
Expected share price return (%)	-34.2
Expected dividend yield (%)	+2.2
Expected total return (%)	-32.1

#### 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)	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)	62.4	37.0	33.1
DPS (sen)	3.5	3.4	3.8
Dividend Yield (%)	2.2	2.2	2.4

#### KEY STATISTICS

FBM KLCI	1618.27
Issue shares (m)	1281.36
Estimated free float (%)	47.71
Market Capitalisation (RM'm)	2011.74
52-wk price range	RM0.51-RM1.61
3-mth average daily volume (m)	11.28
3-mth average daily value (RM'm)	9.47
Top Shareholders (%)	
YTL Power International	18.9
Hamdan (L) Foundation	16.6
Mohamad Hamdan	13.6

**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
RSE1	DCF; EV (WACC: 7%)	40.3	60.0%	1,295.9	0.02
RSE2	DCF; EV (WACC: 7%)	142.7	80.0%	1,295.9	0.09
RS1	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
<b>Gross value</b>		<b>2,039.1</b>			<b>1.64</b>
	<i>Group net cash/(debt)</i>	<i>(734.0)</i>		1,295.9	<i>-0.57</i>
<b>SOP value</b>		<b>1,305.1</b>			<b>1.07</b>

Source: Company, MIDFR

**Table 2: Summary of Johor Water Tariff Hike for Domestic Segment (effective February 2024)**

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: 1QFY24 RESULT SUMMARY**

<b>FYE Dec (RMm)</b>	<b>1QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>QoQ</b>	<b>YoY</b>
<b>Revenue</b>	<b>520.1</b>	<b>557.7</b>	<b>562.4</b>	<b>0.8%</b>	<b>8.1%</b>
EBITDA	134.4	157.7	154.4	-2.1%	14.9%
Depreciation & amortisation	(99.0)	(107.5)	(108.2)	0.6%	9.3%
<b>Operating profit</b>	<b>31.6</b>	<b>45.6</b>	<b>41.2</b>	<b>-9.7%</b>	<b>30.1%</b>
Net finance cost	(4.3)	(3.5)	(11.0)	212.4%	157.6%
Zakat	0.0	0.0	0.0	NA	NA
Associates	3.8	4.6	5.1	11.8%	36.0%
<b>Pretax</b>	<b>31.1</b>	<b>46.7</b>	<b>35.3</b>	<b>-24.4%</b>	<b>13.4%</b>
Tax	(10.2)	(6.5)	(11.1)	71.4%	8.8%
<b>PAT</b>	<b>20.9</b>	<b>40.2</b>	<b>24.2</b>	<b>-39.8%</b>	<b>15.6%</b>
MI	9.8	15.7	13.9	-11.8%	41.1%
Net profit	11.1	24.5	10.3	-57.7%	-7.0%
<b>Core net profit</b>	<b>11.1</b>	<b>(1.0)</b>	<b>10.3</b>	<b>&gt;100%</b>	<b>-7.0%</b>
Core EPS (sen)	0.86	-0.08	0.80	-1164.5%	-7.0%
DPS (sen)	1.50	0.00	0.00		
EBITDA margin	25.8%	28.3%	27.5%		
Operating profit margin	6.1%	8.2%	7.3%		
Pretax margin	6.0%	8.4%	6.3%		
Effective tax rate	32.7%	13.9%	31.4%		
Core net profit margin	2.1%	-0.2%	1.8%		

<b>Segmental Breakdown (RMm)</b>	<b>1QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>QoQ</b>	<b>YoY</b>
<b>Revenue</b>	<b>520.1</b>	<b>557.7</b>	<b>562.4</b>	<b>0.8%</b>	<b>8.1%</b>
Environment	312.2	325.7	340.8	4.7%	9.2%
Energy	89.4	72.9	72.9	-0.1%	-18.5%
Services	118.5	159.2	148.7	-6.6%	25.4%
<b>PAT</b>	<b>20.9</b>	<b>40.2</b>	<b>24.2</b>	<b>-39.8%</b>	<b>15.6%</b>
Environment	25.4	48.7	29.3	-40.0%	15.4%
Energy	6.5	(10.6)	4.1	-139.1%	-36.5%
Services	12.2	34.7	24.5	-29.2%	101.1%
Others	(23.1)	(32.6)	(33.7)	3.4%	45.8%
<b>PAT margin</b>				<b>ppts</b>	<b>ppts</b>
Environment	8.1%	15.0%	8.6%	-6.4	0.5
Energy	7.3%	-14.5%	5.7%	20.2	-1.6
Services	10.3%	21.8%	16.5%	-5.3	6.2

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
<b>Revenue</b>	<b>1,531.1</b>	<b>1,726.3</b>	<b>2,280.8</b>	<b>2,343.5</b>	<b>2,399.5</b>
Operating expenses	-1,367.2	-1,525.7	-2,138.3	-2,167.1	-2,223.2
<b>Operating profit</b>	<b>163.8</b>	<b>200.6</b>	<b>142.5</b>	<b>176.5</b>	<b>176.3</b>
Net interest expense	-86.2	-75.3	-72.2	-53.2	-38.0
Associates	16.1	15.7	17.7	19.1	20.6
<b>PBT</b>	<b>93.7</b>	<b>203.4</b>	<b>147.9</b>	<b>142.4</b>	<b>158.9</b>
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
<b>Core net profit</b>	<b>32.1</b>	<b>20.8</b>	<b>32.4</b>	<b>55.0</b>	<b>61.4</b>
<b>Balance Sheet</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24F</b>	<b>FY25F</b>
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
<b>Non-current assets</b>	<b>2,251.8</b>	<b>1,926.6</b>	<b>1,824.0</b>	<b>2,403.3</b>	<b>2,101.5</b>
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
<b>Current assets</b>	<b>1,055.4</b>	<b>1,357.8</b>	<b>1,155.6</b>	<b>1,208.5</b>	<b>1,189.2</b>
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
<b>Total Equity</b>	<b>868.0</b>	<b>957.1</b>	<b>1,011.0</b>	<b>1,071.6</b>	<b>1,134.1</b>
Long-term borrowings	893.4	931.6	843.2	900.4	804.0
Others	670.6	362.1	360.1	860.1	560.1
<b>Non-current liabilities</b>	<b>1,563.9</b>	<b>1,293.8</b>	<b>1,203.3</b>	<b>1,760.5</b>	<b>1,364.1</b>
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
<b>Current liabilities</b>	<b>875.3</b>	<b>1,033.5</b>	<b>765.4</b>	<b>779.8</b>	<b>792.4</b>

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
<b>Operating cash flow</b>	<b>234.0</b>	<b>130.0</b>	<b>228.8</b>	<b>242.5</b>	<b>137.0</b>
Capex	-38.7	-49.4	-38.7	-212.0	-30.0
Others	39.4	-40.4	-23.9	0.0	0.0
<b>Investing cash flow</b>	<b>0.6</b>	<b>-89.8</b>	<b>-62.6</b>	<b>-212.0</b>	<b>-30.0</b>
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
<b>Financing cash flow</b>	<b>-154.1</b>	<b>3.0</b>	<b>-292.4</b>	<b>13.2</b>	<b>-145.6</b>
Net changes in cash	80.5	43.2	-126.3	43.7	-38.6
<b>Beginning cash</b>	<b>118.9</b>	<b>201.9</b>	<b>245.4</b>	<b>116.2</b>	<b>159.9</b>
Overdrafts, Deposits & Forex	140.5	143.9	159.9	162.8	162.8
<b>Ending cash</b>	<b>339.8</b>	<b>388.9</b>	<b>279.0</b>	<b>322.7</b>	<b>284.1</b>

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)	2.7	2.7	2.6	2.6	2.5
PER (x)	52.2	91.3	62.4	37.0	33.1

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