



Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

No Contemplation

Downgrade to SELL

(Previously NEUTRAL)

Unchanged Target Price: RM1.07


KEY INVESTMENT HIGHLIGHTS

- **YTL Power acquires controlling stake in Ranhill**
- **Triggers Mandatory Takeover Offer for remaining shareholders in Ranhill**
- **Minorities unlikely to be attracted to take up offer**
- **TP maintained at RM1.07 but downgrade to SELL given stretched valuations**

What's new? Yesterday, YTL Power (YTLP) through 70%-owned subsidiary SIPP Power entered into an unconditional share purchase agreement with Ranhill Utilities' (Ranhill) largest shareholder, Tan Sri Hamdan (TSH) to acquire his 31.4% stake in Ranhill for a total cash consideration of RM405m, or effectively at RM0.995/share. Upon completion of the acquisition, SIPP Power's stake in Ranhill will increase from 2.9% to 34.3%, while YTLP's stake in Ranhill will ultimately increase from 21.8% to 53.2%. The acquisition by SIPP Power will trigger a Mandatory Takeover Offer (MTO) for the rest of Ranhill shares that it and YTLP does not already own, at the same cash offer price of RM0.995/share. SIPP Power's acquisition of TSH's 31.4% stake is expected to be completed in June, while the MTO is expected to be completed by 3QCY24. In addition, YTLP intends to maintain the listing status of Ranhill.

Steep discount to market price. The acquisition consideration for TSH's 31.4% stake at RM0.995/share is at a steep -37% discount to Ranhill's closing price the day prior of RM1.57 though we note that Ranhill's share price has been gaining significantly in the past month, ahead of the deal. From a valuation standpoint the deal values Ranhill at 21x FY25F PER, at a marginal premium to historical mean of 20x, which we believe is less than attractive for a transaction that gives YTLP control of Ranhill.

Minorities unlikely to be attracted. Broadly, the entry of a strong controlling shareholder in YTLP which operates in similar business segments as Ranhill is a positive and allows Ranhill to tap on YTLP's expertise in the water sector given the latter's strong track record in operating Wessex Water in the UK. However, the MTO price of RM0.995 is at a -7% discount to our SOP-derived fair value of RM1.07. We believe Ranhill's minorities are unlikely to be attracted to take the offer, while the inflated market price currently provides a more attractive avenue for minority investors looking to exit, subject to liquidity limitations.

Recommendation. Our SOP-derived **TP** remains unchanged at **RM1.07**. However, we **downgrade** our call from NEUTRAL to **SELL** given inflated share price levels currently. Valuations are stretched at 29x FY25F PER, a steep 45% premium to historical mean of 20x, while dividend yield has compressed to an unattractive 2.5%. 

RETURN STATISTICS

Price @ 28 th May 2024 (RM)	1.35
Expected share price return (%)	-20.7
Expected dividend yield (%)	+2.5
Expected total return (%)	-18.2

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)	53.7	31.8	28.5
DPS (sen)	3.5	3.4	3.8
Dividend Yield (%)	2.6	2.5	2.8

KEY STATISTICS

FBM KLCI	1615.82
Issue shares (m)	1281.36
Estimated free float (%)	47.71
Market Capitalisation (RM'm)	1729.8
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
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: Sector Valuation Summary

Companies	FYE	Rating	Shr Price	EPS (sen)		PE (x)		ROE	Div Yield	Market Cap	TP
			(RM)	FY24	FY25	FY24	FY25	(%)	(%)	(RM'm)	(RM)
Ranhill Utilities	Dec	SELL	1.35	4.2	4.2	31.8	32.5	6.9	2.5	1,729.8	1.07
Tenaga Nasional	Dec	NEUTRAL	13.26	75.3	82.7	17.6	16.0	6.8	3.5	75,814.3	11.00
YTL Power	Jun	BUY	5.00	38.3	38.4	13.1	13.0	16.5	2.3	40,510.8	6.35
Samaiden	Jun	BUY	1.36	5.9	7.0	23.1	19.4	19.5	0.0	535.8	1.57
Sunview	Mar	BUY	0.67	2.3	3.5	28.9	19.0	17.5	0.0	311.2	0.88
Pekat	Dec	BUY	0.76	2.7	3.3	28.1	23.0	9.5	0.0	490.2	0.88

Source: Company, Bloomberg, 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)	2.3	2.3	2.2	2.2	2.2
PER (x)	44.9	78.5	53.7	31.8	28.5

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