

UTILITIES SECTOR


Maintain NEUTRAL

A Reasonably Sweet Deal?

DEVELOPMENT

- YTL Power (YTLP) has entered into an unconditional share purchase agreement with Ranhill Utilities' (Ranhill) largest shareholder, Tan Sri Hamdan (TSH) to buyout TSH's 31.4% stake in Ranhill for a total cash consideration of RM405.2m.
- Upon completion of the transaction, YTLP's stake in Ranhill will ultimately increase from 21.8% to 53.2%, triggering the obligation for YTLP to extend a Mandatory Takeover Offer (MTO) to acquire the remaining shares in Ranhill for the same cash offer price of RM0.995.

OUR VIEW

- The acquisition consideration for TSH's 31.4% block at RM0.995 by YTLP is at a steep -37% discount to Ranhill's last closing price of RM1.57, though we note that market price has gained significantly in the past few months ahead of the deal.
- We believe that the deal is struck at a much fairer valuation of 21x FY25F PER (a slight premium to mean PER of 20x), compared to current inflated market price which values Ranhill at some 35x FY25F PER.
- Nevertheless, our SOP-derived valuation for Ranhill stays at RM1.07, a +7.5% premium to the prospective MTO price and as such, we believe minorities should hold out for a better offer from YTLP.
- On the flip side, we believe the acquisition of the controlling stake in Ranhill by YTLP is a reasonably good deal. We estimate YTLP's total entry cost for the entire 53.2% stake at RM580m (via the three transactions comprising the first 18.9% at RM0.58, the second 2.9% at RM0.89 and the latest 31.4% at RM0.995), valuing Ranhill at circa 18x FY25F PER, a 10% discount to mean PER of 20x.
- We reiterate our view that Ranhill is a strategic fit for YTLP considering that it is also involved in both the water and power businesses, albeit at a much larger scale. More importantly, we believe the entry of a strong shareholder will pave the way for improved efficiency for Johor water and also allow YTLP to capitalise on prospects from the Johor-Singapore Special Economic Zone as well as potential demand from data centre hubs in the state.
- We reiterate our **BUY call on YTLP at unchanged TP of RM6.35** for now, while our **NEUTRAL call on Ranhill (TP: RM1.07)** is under review with downward bias considering the inflated valuation it is currently trading at. 

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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