

Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Earnings Within Expectations

KEY INVESTMENT HIGHLIGHTS

- **9MFY24 result within expectations, grew +17.0%yoy to RM39.1m**
- **Bottom line improved on the back of higher electricity demand and lower maintenance cost**
- **Strong water demand to drive earnings in coming quarters, but share price has run far ahead of fundamentals**
- **Maintain SELL with an unchanged TP of RM1.07**


Within expectations. Ranhill Utilities reported a net profit of RM23.6m in 3QFY24, which brought its 9MFY24 bottom line to RM39.1m, an improvement of +17.0%yoy, attributable to higher demand for electricity and lower maintenance cost from the group's power division. The core earnings were within estimates, making up 71.1% of our full-year estimate but missed consensus at 65.5%.

Key takeaways. Group revenue rose +1.7%yoy to RM1.75b in 9MFY24, attributable to stronger recognition of water revenue by Ranhill SAJ on the back of the domestic water tariff hike in Feb-24. Despite that, the water segment PAT declined -17.8%yoy during the period due to higher amortisation on services concession assets, being the first year of operating period 6 (OP6). Meanwhile, the group's power segment grew +11.1%yoy to RM91.0m during the quarter, mainly from higher demand for energy from Sabah Electricity and higher energy payment fuel of gas and diesel due to a 10-day gas curtailment compared to 8 days in the same quarter last year in Ranhill Sabah Energy II Sdn Bhd.

Continued growth in water demand. Ranhill SAJ will continue to contribute strongly to the group's earnings in the coming quarters due to the domestic water tariff hike, on top of stronger demand from the non-domestic consumers mainly due to the growth of data centres in Johor and the upcoming economic growth prospects from the Johor-Singapore SEZ and Special Financial Zone. The group also indicated its interest in participating in the recently announced Corporate Renewable Energy Supply Scheme (CRESS) that will allow RE power producers such as Ranhill to sell electricity through the grid via a third-party access (TPA).

Change in FYE. The group's financial year end to be changed from 31st December to 30th June, in order for it to be coterminous with the holding company YTL Power International. The next set of financial statements will be made over a period of 18 months from Jan-24 to Jun-25.

Earnings revision. We maintain our earnings estimates as the results were within expectations.

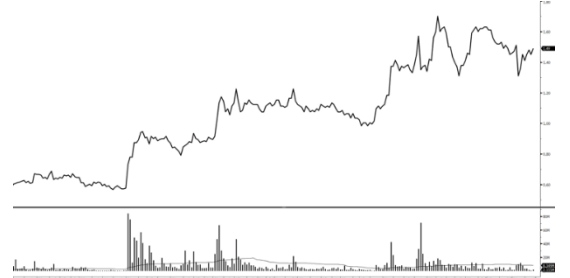
Recommendation. We maintain our **SELL** call and our SOP-derived **TP** of **RM1.07**. While the entry of a strong controlling shareholder in YTL Power is one that could yield synergistic benefits due to its expertise in the water sector, we view that the strong run-up in Ranhill's share price since Apr-24 values it at a stretched 29.8x FY25F PER as compared to a historical mean of 20x and a compressed dividend yield of only 2.4%. We believe this presents an opportunity for investors to take profit. 

Maintain SELL**Unchanged Target Price: RM1.07**

RETURN STATISTICS

Price @ 14 th Nov 2024 (RM)	1.41
Expected share price return (%)	-24.1
Expected dividend yield (%)	+2.4
Expected total return (%)	-21.7

SHARE PRICE CHART



Price performance	Absolute	Relative
1 month	10.2	12.6
3 months	9.3	-4.7
12 months	55.7	41.2

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)	56.1	33.2	29.8
DPS (sen)	3.5	3.4	3.8
Dividend Yield (%)	2.5	2.4	2.7

KEY STATISTICS

FBM KLCI	1,600.68
Issue shares (m)	1288.64
Estimated free float (%)	22.38
Market Capitalisation (RM'm)	1,827.29
52-wk price range	RM0.77-RM1.75
3-mth average daily volume (m)	1.48
3-mth average daily value (RM'm)	1.95
Top Shareholders (%)	
SIPP Power Sdn Bhd	34.32
YTL Power International	18.87
United Overseas Bank Ltd	9.09

Analyst

Royce Tan Seng Hooi
royce.tan@midf.com.my
03-2173 8461

Table 1: Ranhill Sum-of-Parts Valuation

Units/Concessions	Valuation method	Value (RMm)	Stake	Shares out	RM/share
RP1	DCF; EV (WACC: 7%)	40.3	60.0%	1,295.9	0.02
RP2	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

RANHILL: 3QFY24 RESULT SUMMARY

FYE Dec (RMm)	3QFY23	2QFY24	3QFY24	QoQ	YoY	9MFY23	9MFY24	YTD
Revenue	609.4	561.4	628.2	11.9%	3.1%	1,723.1	1,752.0	1.7%
EBITDA	136.9	172.3	168.2	-2.4%	22.9%	412.8	494.9	19.9%
Depreciation & amortisation	(104.7)	(130.9)	(127.0)	-3.0%	21.3%	(302.7)	(366.0)	20.9%
Operating profit	28.0	35.9	35.4	-1.5%	26.5%	96.9	112.5	16.1%
Net finance cost	(1.9)	(15.4)	(11.1)	-28.2%	483.0%	(8.9)	(37.4)	322.2%
Associates	4.2	5.4	5.8	6.3%	37.9%	13.1	16.3	24.2%
Pretax	30.3	26.0	30.1	16.0%	-0.5%	101.2	91.4	-9.7%
Tax	(10.7)	(16.1)	(1.6)	-89.8%	-84.6%	(37.4)	(28.8)	-22.9%
PAT	19.6	9.9	28.5	187.6%	45.5%	63.8	62.6	-1.9%
MI	9.4	3.4	12.2	261.2%	30.4%	30.4	29.4	-3.3%
Net profit	10.2	6.5	16.3	149.5%	59.4%	33.4	33.2	-0.7%
Core net profit	10.2	6.5	23.6	261.2%	130.7%	33.4	39.1	17.0%
Core EPS (sen)	0.79	0.50	1.82	261.2%	130.7%	2.58	3.02	17.0%
DPS (sen)	0.00	0.00	0.00			3.50	0.25	
EBITDA margin	22.5%	30.7%	26.8%			24.0%	28.2%	
Operating profit margin	4.6%	6.4%	5.6%			5.6%	6.4%	
Pretax margin	5.0%	4.6%	4.8%			5.9%	5.2%	
Effective tax rate	35.4%	61.9%	5.5%			36.9%	31.5%	
Core net profit margin	1.7%	1.2%	3.8%			1.9%	2.2%	
Dividend payout ratio	0.0%	0.0%	0.0%			135.8%	8.3%	
MI rate	47.8%	34.1%	42.8%			47.7%	47.0%	

Segmental Breakdown (RMm)	3QFY23	3QFY24	YoY	9MFY23	9MFY24	YTD
Revenue	609.4	628.2	3.1%	1,723.1	1,752.0	1.7%
Water	300.3	349.5	16.4%	891.6	1,014.4	13.8%
Power	81.9	91.0	11.1%	214.5	217.3	1.3%
Consultancy and services	227.2	187.7	-17.4%	617.0	520.3	-15.7%
PAT	19.6	24.2	23.7%	63.8	62.6	-1.9%
Water	(21.1)	29.3	238.5%	48.6	39.9	-17.8%
Power	(29.1)	4.1	114.2%	1.6	3.2	104.5%
Consultancy and services	(9.1)	24.5	370.1%	13.2	20.3	54.0%
Investment holding and management	78.9	(33.7)	-142.8%	0.5	(0.8)	-259.2%
PAT margin			ppts			ppts
Water	-7.0%	8.4%	15.4	5.4%	3.9%	-1.5
Power	-35.5%	4.5%	40.0	0.7%	1.5%	0.7
Consultancy and services	-4.0%	13.1%	17.1	2.1%	3.9%	1.8

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)	2.4	2.4	2.3	2.3	2.3
PER (x)	46.9	17.5	56.1	33.2	29.8

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