

Ranhill Utilities Berhad

(5272 | RAHH MK) Utilities | Water

Maintain BUY

Navigating Rough Waters

KEY INVESTMENT HIGHLIGHTS

- **Weak 1Q20 as anticipated, FY20F earnings to be backloaded**
- **Environment division impacted by lower water consumption and EPC revenues, power division impacted by scheduled step-down in capacity rate financial**
- **Exploring expansion of water operations notwithstanding potential tariff hike delays for SAJ, eyeing extension of RP1 concession**
- **BUY maintained at unchanged TP of RM1.40, 5% yield attractive**

Weak start. Ranhill reported 1Q20 net profit of RM18m. Though at 19% of our FY20F, it was in-line with our expectation of a backloaded earnings trend this year given impact of the Covid19 outbreak and lockdown directives in 1H20. Overall group 1Q20 core earnings fell -24%yoy on the back of a -9%yoy revenue contraction.

Lower water consumption. Environment division revenue fell by -6%yoy given lower EPC revenues and lower water consumption following enforcement of the Movement Control Order (MCO) from 18th March. We understand that SAJ's underlying volumes contracted by around 75mld, or ~4% of daily consumption during the MCO. This was fairly resilient (relative to a typical ~40% consumption by the non-domestic segment) given that some of SAJ's largest non-domestic consumers were producers of essential items and hence, were operating throughout the MCO e.g. Lotte Chemical Titan which supplies raw materials to the plastic packaging and healthcare industries.

Tariff hike likely to be pushed out. Given the Covid19 outbreak, the challenging macro backdrop and the recent change in the country's administration, negotiations on SAJ's scheduled tariff hike might take longer than expected to be concluded. We understand that selective planned capex for OP4 (2018-2020) had been deferred (perhaps to the next OP), which should allow SAJ to manage (lease) costs and maintain its allowable 9% PAT margin. Our recently revised forecast conservatively assumes that a tariff hike is pushed out to FY22F (from FY21F previously).

Eyeing expansion of water operations. Notwithstanding a potential delay in SAJ's tariff hike, Ranhill is actively exploring opportunities to expand its water supply operations in other states, riding on its 21 years' experience running a profitable water operation in Johor. Of particular focus in our opinion, are states with currently loss-making water operations (given logically stronger motivation for a change), some of which could entail much larger consumption than Johor. This is a potential wildcard to Ranhill's near-to-mid term growth prospect. SAJ currently accounts for some 78% of our gross sum-of-parts valuation.

Unchanged Target Price: RM1.40

RETURN STATISTICS

Price @ 20 th May 2020 (RM)	1.02
Expected share price return (%)	+37.3
Expected dividend yield (%)	+4.9
Expected total return (%)	+42.2

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.0	-1.5
3 months	13.3	10.8
12 months	-11.3	-0.8

KEY STATISTICS

FBM KLCI	1435.12
Syariah compliant	Yes
Issue shares (m)	1065.98
Estimated free float (%)	42.91
Market Capitalisation (RM'm)	1,088.25
52-wk price range	RM0.82 - RM1.44
Beta vs FBM KLCI (x)	1.03
Monthly velocity (%)	0.01
Monthly volatility (%)	15.03
3-mth average daily volume (m)	0.53
3-mth average daily value (RM'm)	0.51
Top Shareholders (%)	
Cheval Infrastructure Fund	17.89
Mohamad Hamdan	13.93
Lambang Optima Sdn Bhd	11.68

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RANHILL: EARNINGS SUMMARY

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1,478.7	1,559.9	1,629.9	1,732.2	1,743.6
EBIT (RM'm)	293.8	279.6	335.7	342.9	318.9
Pre-tax Profit (RM'm)	198.1	155.6	236.4	256.8	213.7
Net Profit (RM'm)	72.4	45.5	81.5	96.1	78.7
Core Net Profit (RM'm)	72.4	58.0	81.5	96.1	78.7
FD EPS (sen)	6.8	5.4	7.6	9.0	7.4
EPS growth (%)	30.7	(19.8)	40.4	18.0	(18.1)
PER (x)	15.0	18.7	13.3	11.3	13.8
Net Dividend (sen)	5.0	3.8	5.0	5.0	5.0
Net Dividend Yield (%)	4.9	3.7	4.9	4.9	4.9

Source: Company, MIDFR

Power segment. In the power segment, revenue contracted by -20%yoy in 1Q20, largely driven by a scheduled step-down in capacity rate financial payment for RP1 to RM22.24/kw/month from RM35.91/kw/month following full repayment of RP1's project loan in FY19. On a positive note, Ranhill is looking to commence negotiations with the Government for an extension of RP1's concession which is scheduled to expire in 2029. RP1, which is 60%-owned by Ranhill (the remaining is ultimately owned by the Sabah State Government via Sabah Energy Corporation Sdn Bhd), runs on a build-operate-own basis. Any positive outcome from the negotiations should provide a valuation catalyst for Ranhill; RP1 currently accounts for just 3% of our gross sum-of-parts value for Ranhill. Meanwhile, completion of Sabah's West-East transmission line in FY21F could provide a catalyst for increased power dispatch given the current undercapacity situation in East Sabah.


Recommendation. Maintain **BUY** at unchanged **TP of RM1.40**. Potential catalysts: (1) Expansion of water operations (2) Extension of RP1 concession (3) Progress in proposed 1150MW Kedah CCGT power export to South Thailand (4) Scheduled rate hike for Johor water operations (5) Johor water-sewerage integration (6) NRW contract wins. Dividend yield of 5% (which is funded by stable cashflows from SAJ) is attractive. 

Exhibit 1: Ranhill Sum-of-Parts Valuation

Concessions	Valuation method	Value (RMm)	Stake	Shares out	RM/share
RP 1	DCF	111.7	60.0%	1,066.0	0.06
RP 2	DCF	255.4	80.0%	1,066.0	0.19
Water (SAJ)	DCF	2,120.7	80.0%	1,066.0	1.59
- Indah Water joint-billing	PE of 10x	11.3	80.0%	1,066.0	0.01
- Johor NRW	PE of 10x	90.9	100.0%	1,066.0	0.09
Other associates	PE of 10x	104.0		1,066.0	0.10
Gross value		2,689.0			2.04
	Net cash/(debt)	(654.4)		1,066.0	-0.61
Net value		2,034.6		1,066.0	1.40

Source: Company, MIDFR

Exhibit 2: Ranhill 1Q20 Result Summary

FYE Dec (RMm)	1Q19	4Q19	1Q20	QoQ	YoY
Revenue	405.1	391.8	368.3	-6.0%	-9.1%
EBITDA	170.3	209.2	157.4	-24.7%	-7.6%
Depreciation	(95.2)	(91.2)	(97.8)	7.3%	2.7%
EBIT	75.1	118.0	59.6	-49.5%	-20.6%
Finance cost	(26.7)	(26.3)	(21.9)	-16.7%	-17.7%
Zakat	(1.4)	(4.3)	(0.3)	-94.1%	-81.7%
JV/Associates	2.5	1.3	3.8	199.4%	54.9%
Pretax	49.6	88.7	41.3	-53.4%	-16.8%
Tax	(16.7)	(50.6)	(13.9)	-72.5%	-16.5%
PAT	32.9	38.1	27.4	-28.1%	-16.9%
MI	11.6	14.2	9.2	-35.6%	-20.7%
Net profit	21.4	23.8	18.2	-23.7%	-14.9%
Core net profit	23.9	23.8	18.2	-23.7%	-23.8%
EPS (sen)	2.24	2.24	1.71		
DPS (sen)	2.00	2.00	2.00		
EBITDA margin	42.1%	53.4%	42.7%		
EBIT margin	18.5%	30.1%	16.2%		
Pretax margin	12.2%	22.6%	11.2%		
Tax	33.6%	57.1%	33.7%		
Core net margin	5.9%	6.1%	4.9%		
Dividend payout ratio	89.3%	89.4%	117.2%		
Segmental Breakdown (RMm)	1Q19	4Q19	1Q20	QoQ	YoY
Revenue					
Environment	324.5	325.4	303.9	-6.6%	-6.3%
Power	80.5	66.4	64.3	-3.1%	-20.1%
PAT					
Environment	43.2	73.4	42.6	-42.0%	-1.3%
Power	12.1	(10.8)	8.7	180.8%	-28.1%
PAT margin					
Environment	13.3%	22.6%	14.0%	-37.9%	5.4%
Power	15.0%	-16.2%	13.5%	-183.4%	-10.0%

Source: Company, MIDFR

Income Statement	FY17	FY18	FY19	FY20F	FY21F
Revenue	1,478.7	1,559.9	1,629.9	1,732.2	1,743.6
Operating expenses	-1,185.0	-1,280.2	-1,294.2	-1,389.4	-1,424.7
EBIT	293.8	279.6	335.7	342.9	318.9
Net interest expense	-98.8	-131.1	-109.2	-96.5	-116.1
Associates	3.2	7.1	9.9	10.4	10.9
PBT	198.1	155.6	236.4	256.8	213.7
Taxation	-77.5	-67.1	-105.1	-102.7	-85.5
Minority Interest	48.2	43.0	49.8	57.9	49.5
Net profit	72.4	45.5	81.5	96.1	78.7
Core net profit	72.4	58.0	81.5	96.1	78.7
<i>Consensus net profit</i>	<i>N/A</i>	<i>N/A</i>	<i>62.8</i>	<i>88.2</i>	<i>89.6</i>
<i>MIDF / Consensus</i>			<i>29.9%</i>	<i>9.0%</i>	<i>-12.1%</i>
Balance Sheet	FY17	FY18	FY19	FY20F	FY21F
Non-current assets	1,866.7	2,437.8	2,114.0	2,116.0	2,655.8
PPE	589.5	573.8	577.6	609.2	638.1
Investments	172.2	155.2	160.6	171.0	181.9
Others	1,105.0	1,708.8	1,375.8	1,335.8	1,835.8
Current assets	866.0	901.0	926.7	903.2	890.2
Inventories	81.5	89.4	89.1	98.3	100.2
Receivables	276.9	255.9	210.2	223.4	224.9
Others	96.4	199.9	173.5	173.5	173.5
Cash & equivalent	411.2	355.9	453.9	408.0	391.5
TOTAL ASSETS	2,732.7	3,338.8	3,040.7	3,019.1	3,545.9
Share capital	1,275.3	1,275.3	1,275.3	1,275.3	1,275.3
Minority Interest	196.0	207.2	217.9	275.9	325.3
Reserves	-693.2	-722.7	-692.7	-649.5	-624.3
TOTAL EQUITY	778.1	759.8	800.5	901.7	976.4
Non-current liabilities	1,451.1	1,869.2	1,439.7	1,298.0	1,748.0
Long-term borrowings	1,040.2	1,113.4	1,033.1	931.3	881.3
Others	410.9	755.8	406.7	366.7	866.7
Current liabilities	503.4	709.8	800.5	819.5	821.6
Short-term borrowings	117.3	89.9	131.0	131.0	131.0
Payables	362.1	260.6	302.3	321.2	323.3
Others	23.9	359.3	367.2	367.2	367.2
TOTAL LIABILITIES	1,954.5	2,579.0	2,240.2	2,117.4	2,569.6

Cash Flow Statement	FY17	FY18	FY19	FY20F	FY21F
Operating activities					
PBT	198.1	151.7	236.4	256.8	213.7
Depreciation & Amortization	48.2	49.4	55.9	48.4	51.1
Chgs in working capital	57.5	-88.3	87.5	-3.4	-1.3
Others	-9.2	82.2	-25.0	-113.1	-96.4
CF from Operations	294.7	195.0	354.9	188.7	167.1
Investing activities					
Capex	-61.7	-36.3	-57.4	-80.0	-80.0
Others	-8.0	-17.9	6.0	0.0	0.0
CF from Investments	-69.7	-54.2	-51.4	-80.0	-80.0
Financing activities					
Dividends paid	-96.0	-86.4	-89.6	-52.9	-53.5
Net proceeds in borrowings	-95.9	58.7	-53.7	-101.7	-50.0
Others	-176.3	-26.5	-144.3	0.0	0.0
CF from Financing	-368.2	-54.2	-287.6	-154.6	-103.5
Net changes in cash	-143.3	86.6	15.9	-45.9	-16.4
Beginning cash	285.1	141.3	200.8	225.3	179.4
Overdrafts, Deposits & Forex	269.4	156.8	237.2	228.6	228.6
Ending cash	411.2	384.7	453.9	408.0	391.5
Ratios	FY17	FY18	FY19	FY20F	FY21F
Revenue growth	1.6%	5.5%	4.5%	6.3%	0.7%
EBITDA growth	-3.9%	-2.9%	18.0%	-0.1%	-5.4%
Net profit growth	30.7%	-19.8%	40.4%	18.0%	-18.1%
EBITDA margin	23.1%	21.1%	24.0%	22.6%	21.2%
PATAMI margin	4.9%	3.7%	5.0%	5.5%	4.5%
ROE	12.4%	10.5%	14.0%	15.4%	12.1%
ROA	2.6%	1.7%	2.7%	3.2%	2.2%
Net gearing	128%	153%	122%	105%	95%
Book value/share (RM)	0.73	0.71	0.75	0.85	0.92
PBV (x)	1.4	1.4	1.3	1.2	1.1
FCF yield (%)	21.9	14.9	27.9	10.2	8.2
EV/EBITDA (x)	5.3	5.8	4.5	4.4	4.6

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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.