

# Ranhill Holdings Berhad

(5272 | RAHH MK) Utilities | Water

**Maintain BUY**

## Rock Solid

### KEY INVESTMENT HIGHLIGHTS

- **FY19 within our expectation but ahead of consensus**
- **SAJ earnings benefitted from higher consumption and lower unwinding of interest**
- **Potential recalibration in lease rental payments**
- **Exploring opportunities in West Java**
- **Maintain BUY at unchanged TP of RM1.45/share**

**FY19 within our expectations.** Ranhill reported earnings of RM24m for its 4Q19, which brought FY19 earnings to RM82m. This was within our estimates but ahead of consensus, accounting for 98% and 130% of forecasts respectively. For FY19, total interim dividends of 5sen/share were declared, translating to a generous yield of 5.2%.

**Environment division.** The environment (water) division saw a 4%ytd revenue growth driven mainly by increased consumption volume at SAJ. Earnings were up 53% on the back of the higher consumption and lower unwinding interest as SAJ was in the 2<sup>nd</sup> year of its operating period in FY19. Additionally, earnings were driven by higher developer contribution, coming mainly from Country Garden Pacificview Sdn Bhd for a new development project earlier in FY19.

**Power division.** The power division reported a 7%ytd increase in revenue due to higher net electric output and higher diesel consumption (fuel is mainly a cost pass-through however). Earnings however, declined 62%ytd mainly due to a scheduled Hot Gas path inspection maintenance cost for GT1A and GT1B at RP2. Additionally, earnings were dragged by a reversal of deferred tax of RM15m due to lower load factor forecasted for the remaining years of RP2 concession, relative to the tax allowances granted.

**Slight recalibration in lease rental payments.** In 3Q19, Ranhill had obtained a waiver from PAAB on lease rental on RM247m water assets related to the Rural Water Supply project, which results in savings of RM15m/annum on payable lease rental (increases at 2%/annum) from Oct19 - ~RM3.8m/quarter lease rental savings. Additionally, Ranhill obtained a reimbursement on overpayment of approximately RM140m (for period Sep09-Sep19), which is expected to reflect in lower future lease rental. This has yet to be finalized however and we leave our earnings unchanged at this point.

**Unchanged Target Price: RM1.45**

### RETURN STATISTICS

Price @ 27 <sup>th</sup> Feb 2020 (RM)	0.96
Expected share price return (%)	+51.0
Expected dividend yield (%)	+5.9
<b>Expected total return (%)</b>	<b>+56.9</b>

### SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.2	0.9
3 months	4.2	-9.7
12 months	42.9	52.7

### KEY STATISTICS

FBM KLCI	1505.59
Syariah compliant	Yes
Issue shares (m)	1065.98
Estimated free float (%)	25
Market Capitalisation (RM'm)	1332.47
52-wk price range	0.85—1.44
Beta vs FBM KLCI (x)	1.03
Monthly velocity (%)	13.9
Monthly volatility (%)	Xx
3-mth average daily volume (m)	0.62
3-mth average daily value (RM'm)	0.79
Top Shareholders (%)	
Tan Sri Hamdan	35.5
Cheval Infrastructure	20.4
Permodalan Darul Takzim	10.6

**Analyst:**

**Hafriz** Hezry

hafriz.hezry@midf.com.my


03-2772 1679

## RANHILL: EARNINGS SUMMARY

FYE Dec	FY17	FY18	FY19	FY20F	FY21F
Revenue (RM'm)	1,478.7	1,559.9	1,629.9	1,906.3	1,886.6
EBIT (RM'm)	293.8	279.6	335.7	349.4	338.3
Pre-tax Profit (RM'm)	198.1	155.6	236.4	266.2	259.3
Net Profit (RM'm)	72.4	45.5	81.5	101.3	97.1
Core Net Profit (RM'm)	72.4	57.9	81.5	101.3	97.1
FD EPS (sen)	6.8	5.4	7.6	9.5	9.1
EPS growth (%)	30.7	(19.9)	40.7	24.3	(4.2)
PER (x)	14.1	17.7	12.6	10.1	10.5
Net Dividend (sen)	5.0	3.8	5.0	5.7	5.5
Net Dividend Yield (%)	5.2	4.0	5.2	5.9	5.7
Payout ratio	73.7%	70.0%	65.0%	60.0%	60.0%

**Exploring opportunities in West Java.** Ranhill had late last year entered into an MoU with Indonesia based PT Jasa Sarana to explore opportunities in West Java in three key areas: (1) A proposed development of a geothermal plant in the Cisolok-Cisukarame Geothermal Working Area (2) Mini hydro projects in West Java (3) Implementation of the infrastructure for Cirebon Raya Regional and Legok Nangka Regional Waste Management and Final Disposal Project. We understand that these projects may involve double-digit IRRs, though this has to be taken in context with the higher cost of capital in Indonesia.

**EPC contract award.** Additionally, Ranhill was awarded an RM5.5m EPC contract for a 28,000 PE sewerage treatment plant for phase 2 of the R&F Tanjung Puteri project in Johor Bahru. The contract was awarded on 20<sup>th</sup> February 2020 and is expected to be completed within a 9 months' timeframe. We estimate earnings contribution of <RM1m from the project.

**Recommendation.** Re-affirm BUY on Ranhill at unchanged TP of RM1.45. Key catalysts: (1) Progress in 1150MW Kedah CCGT power export to Thailand (2) Scheduled rate hike for Johor water (3) Johor water-sewerage integration (4) RM500m NRW-reduction contract wins. 

## RANHILL: 4QFY19 RESULTS SUMMARY

FYE Dec (RMm)	4Q18	3Q19	4Q19	QoQ	YoY	FY18	FY19	YTD
<b>Revenue</b>	<b>418.2</b>	<b>409.1</b>	<b>391.8</b>	<b>-4.2%</b>	<b>-6.3%</b>	<b>1,559.9</b>	<b>1,629.9</b>	<b>4.5%</b>
EBITDA	154.8	164.4	209.2	27.2%	35.1%	662.6	715.6	8.0%
Depreciation	(99.3)	(96.4)	(91.2)	-5.4%	-8.2%	(382.9)	(380.0)	-0.8%
<b>EBIT</b>	<b>55.5</b>	<b>68.0</b>	<b>118.0</b>	<b>73.6%</b>	<b>112.7%</b>	<b>279.6</b>	<b>335.7</b>	<b>20.0%</b>
Finance cost	(31.6)	(23.9)	(26.3)	10.4%	-16.6%	(125.6)	(102.4)	-18.5%
Zakat	(4.5)	(0.3)	(4.3)	1608.4%	-6.0%	(5.5)	(6.8)	23.0%
JV/Associates	(0.2)	4.0	1.3	-68.1%	NA	7.1	9.9	39.3%
<b>Pretax</b>	<b>19.2</b>	<b>47.9</b>	<b>88.7</b>	<b>85.2%</b>	<b>362.9%</b>	<b>155.6</b>	<b>236.4</b>	<b>51.9%</b>
Tax	(16.3)	(18.9)	(50.6)	167.9%	210.5%	(67.1)	(105.1)	56.7%
PAT	2.9	29.0	38.1	31.3%	1230.9%	88.5	131.3	48.2%
MI	7.4	11.4	14.2	25.3%	93.2%	43.0	49.8	15.7%
Net profit	(4.5)	17.6	23.8	35.2%	NA	45.5	81.5	78.9%
<b>Core net profit</b>	<b>18.0</b>	<b>19.7</b>	<b>23.8</b>	<b>21.0%</b>	<b>32.5%</b>	<b>68.0</b>	<b>81.5</b>	<b>19.8%</b>
EPS (sen)	2.03	1.85	2.24			7.66	7.65	
DPS (sen)	2.00	1.00	2.00			8.00	5.00	
EBITDA margin	37.0%	40.2%	53.4%			42.5%	43.9%	
EBIT margin	13.3%	16.6%	30.1%			17.9%	20.6%	
Pretax margin	4.6%	11.7%	22.6%			10.0%	14.5%	
Tax	85.1%	39.4%	57.1%			43.1%	44.5%	
Core net margin	4.3%	4.8%	6.1%			4.4%	5.0%	
Dividend payout ratio	98.8%	54.1%	89.4%			104.4%	65.4%	
<b>Segmental Breakdown (RMm)</b>	<b>4Q18</b>	<b>3Q19</b>	<b>4Q19</b>	<b>QoQ</b>	<b>YoY</b>	<b>FY18</b>	<b>FY19</b>	<b>YTD</b>
<b>Revenue</b>								
Environment	334.7	314.0	325.4	3.6%	-2.8%	1,250.5	1,299.0	3.9%
Power	83.5	95.1	66.4	-30.1%	-20.4%	309.4	330.9	7.0%
<b>PAT</b>								
Environment	27.9	47.3	73.4	55.3%	163.1%	137.6	211.3	53.5%
Power	11.4	9.4	(10.8)	NA	NA	60.7	22.9	-62.2%
<b>PAT margin</b>								
Environment	8.3%	15.1%	22.6%			11.0%	16.3%	
Power	13.6%	9.8%	-16.2%			19.6%	6.9%	

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)). It is for distribution only under such circumstances as may be permitted by applicable law.

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 we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD 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.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

<b>BUY</b>	Total return is expected to be >10% over the next 12 months.
<b>TRADING BUY</b>	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.
<b>NEUTRAL</b>	Total return is expected to be between -10% and +10% over the next 12 months.
<b>SELL</b>	Total return is expected to be <10% over the next 12 months.
<b>TRADING SELL</b>	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

<b>POSITIVE</b>	The sector is expected to outperform the overall market over the next 12 months.
<b>NEUTRAL</b>	The sector is to perform in line with the overall market over the next 12 months.
<b>NEGATIVE</b>	The sector is expected to underperform the overall market over the next 12 months.