

Ranhill Holdings Berhad

(5272 | RAHH MK) Utilities | Water

Maintain BUY

Navigating rough waters

Revised Target Price: RM1.40
(from RM1.45)

KEY INVESTMENT HIGHLIGHTS

- **Anticipate weaker than usual 1Q20 given one-off Covid19 CSR initiative.**
- **Resilient underlying demand despite Movement Control Order, but scheduled tariff hike might take a back seat amid challenging backdrop.**
- **Earnings conservatively revised lower, but current price levels already discount worst case scenario of a tariff hike absence. Aggressive share buybacks seen in recent months.**
- **TP trimmed to RM1.40 but BUY maintained, 5% yield is attractive.**

Covid19 CSR could impact 1Q20. We anticipate a weaker-than-usual 1Q20 earnings for Ranhill. The group had for March 2020, offered a 50% bill discount for Ranhill SAJ's B40 customers as part of its Covid19 CSR initiative following commencement of the Movement Control Order (MCO) on 18th March. Consumption for the B40 customers are typically within the 1st band of up to 20m³ a month (at a rate of 80sen/m³). The discount is estimated to amount to ~RM5m (5% of our previous FY20F), though this is a one-off occurrence specifically for the month of March.

Resilient underlying demand. Despite non-domestic consumers accounting for up to 40% of water consumption in Johor, checks with management suggests minimal impact to underlying water consumption throughout the MCO. We gather that SAJ volumes only reduced by around 75mld, or 4% of daily consumption. This is given that some of its 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. However, given the Covid19 outbreak, the challenging macro backdrop, and the recent change in the country's administration, we think negotiations on SAJ's scheduled tariff hike might take a back seat in the near-term. 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.

Forecast revision. We trim our FY20F/21F by 5%/18% to factor in: (1) The one-off 50% discount for B40 accounts in March 2020 (2) Reduction in consumption due to the MCO and underlying slower economic activity (3) Conservatively assume a delay in SAJ's scheduled tariff hike (which we previously modeled in for FY21F) - we now assume the tariff hike to be pushed out to FY22F instead. Any earlier than expected tariff revision is a positive earnings and valuation catalyst. The 18%yoy decline in our FY21F earnings is mainly due to unwinding of interest charge which is frontloaded in the group's 3-yearly licensing cycle – the fluctuation is merely an accounting effect i.e. reported earnings tend to be deflated in the 1st year and inflated in the 3rd year of SAJ's operating period.

RETURN STATISTICS

Price @ 8 th May 2020 (RM)	1.00
Expected share price return (%)	+40.0
Expected dividend yield (%)	+5.0
Expected total return (%)	+45.0

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.5	-3.3
3 months	10.6	12.2
12 months	-13.5	0.8

KEY STATISTICS

FBM KLCI	1382.31
Syariah compliant	Yes
Issue shares (m)	1065.98
Estimated free float (%)	42.92
Market Capitalisation (RM'm)	1,061.75
52-wk price range	RM0.82 - RM1.44
Beta vs FBM KLCI (x)	1.02
Monthly velocity (%)	0.01
Monthly volatility (%)	15.03
3-mth average daily volume (m)	0.46
3-mth average daily value (RM'm)	0.44
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)	14.7	18.4	13.1	11.1	13.5
Net Dividend (sen)	5.0	3.8	5.0	5.0	5.0
Net Dividend Yield (%)	5.0	3.8	5.0	5.0	5.0

Source: Company, MIDFR

NRW contract wins. Separately, Ranhill recently announced two NRW contract wins: (1) A RM2m National NRW Program Pendekatan 1 Negeri Perlis, involving replacement of customer meter Package 1, to be completed over the next 12 months (2) A RM4m National NRW Program Pendekatan 1 Negeri Perlis involving replacement of SIV (system input volume) meters and establishment of GIS (geographical information system), to be completed over the next 18 months. These contracts were awarded by Bina Darulaman Berhad and is entirely funded by the Federal Government. These form part of our orderbook replenishment assumptions and is estimated to contribute RM0.4m to Ranhill's PAT.


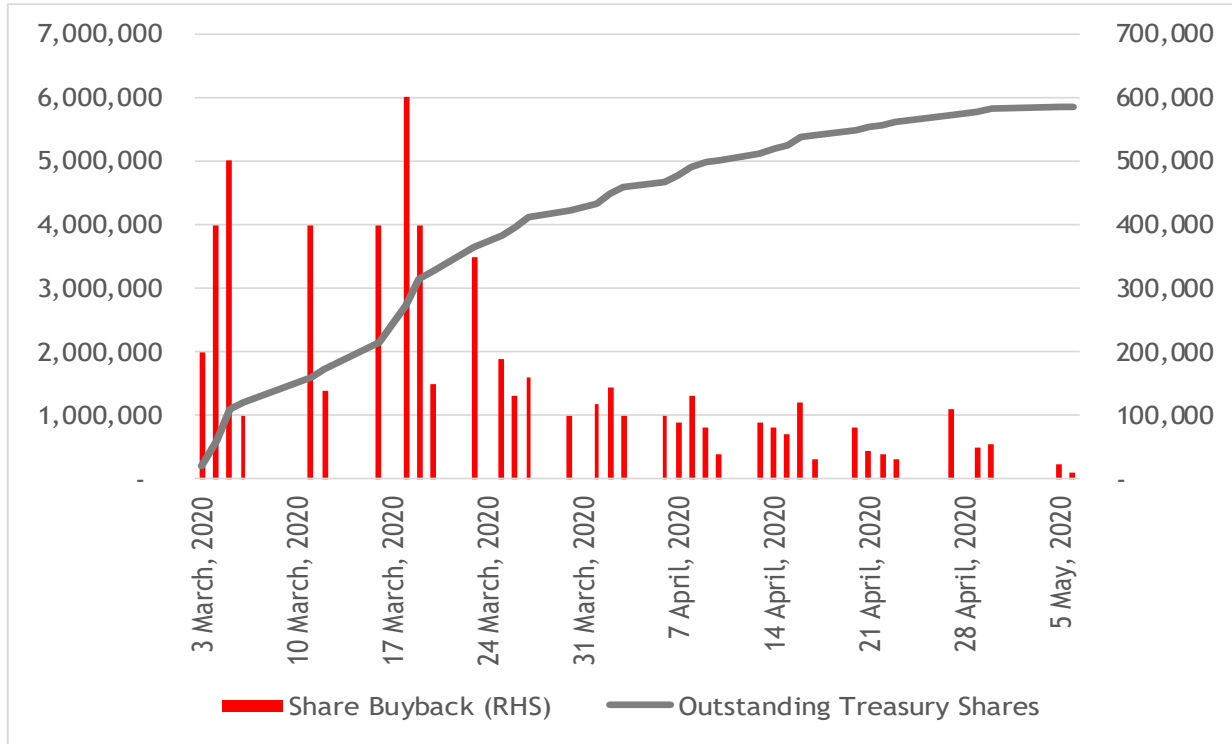
Recommendation. Our **TP** is trimmed to **RM1.40** (from RM1.45 previously) following the earnings revisions in this report, but our **BUY** call is maintained. In the worst case scenario of an absence of a scheduled tariff hike, our TP could be trimmed to RM1.25. The market seems to have already more than discounted this worst case scenario; current share price levels is at a 25% discount to our worst case scenario TP of RM1.25. Ranhill has been aggressively embarking on share buy backs in recent months – cumulative net outstanding treasury shares now stand at 5.9m, or 0.5% of total outstanding shares, compared to 200,000 outstanding treasury shares (0.02% of total outstanding shares) back in early March, acquired at a price range of RM0.83/share-RM1.00/share. Key catalysts: (1) Progress in 1150MW Kedah CCGT power export to South Thailand (2) Scheduled rate hike for Johor water operations (3) Johor water-sewerage integration (4) NRW-reduction 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	99.0		1,066.0	0.09
Gross value		2,689.0			2.03
	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 Share Buybacks



Source: Company, Bloomberg, 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.