Ranhill Utilities Berhad

(5272 | RAHH MK) Utilities | Water

***Maintain* BUY**

Dragged by weaker energy segment

***Unchanged* Target Price: RM0.67**

KEY INVESTMENT HIGHLIGHTS

- **1HFY22 result within our expectation but slightly below consensus**
- **Higher maintenance cost at the energy division**
- **Services division continues to register strong growth**
- **Maintain BUY at unchanged TP of RM0.67**

RETURN STATISTICS	
Price @ 26th August 2022 (RM)	0.44
Expected share price return (%)	+51.9
Expected dividend yield (%)	+4.4
Expected total return (%)	**+56.3**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	16.7	14.7
3 months	13.8	-5.5
12 months	-32.1	-28.6

KEY STATISTICS	
FBM KLCI	1,500.29
Syariah compliant	Yes
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆☆
Issue shares (m)	1289.68
Estimated free float (%)	46.49
Market Capitalisation (RM'm)	586.33
52-wk price range	RM0.38 - RM0.71
Beta vs FBM KLCI (x)	0.61
Monthly velocity (%)	0.00
Monthly volatility (%)	15.03
3-mth average daily volume (m)	0.87
3-mth average daily value (RM'm)	0.37
Top Shareholders (%)	
Hamdan (L) Foundation	20.05
Cheval Infrastructure Fund	18.88
Mohamad Hamdan	10.22

Within our expectation. Ranhill's 1HFY22 result came in within our estimate but slightly below consensus. The group reported a core net profit of RM9.4m for its 2QFY22, which brought 1HFY22 core net profit to RM16.5m (adjusted for a lumpy RM2.8m unrealised forex loss). The 1HFY22 result accounts for 46% of our and 44% of consensus' FY22 estimates respectively. Group 2QFY22 core net profit was up +4.4%yoy albeit trailing the +25%yoy increase in revenue.

Drag from energy division. The energy segment reported a +51%yoy increase in revenue due to higher energy payment fuel revenue for RP1 and RP2 to compensate higher diesel consumption arising from Petronas' gas curtailment in the period. However, this is a pass-through cost hence has minimal impact on PAT. The energy segment in fact reported a dip into losses of RM3.8m due to recognition of higher maintenance cost following RP1 and RP2 ST1C planned outage-DOSH inspection and steam turbine maintenance. Meanwhile, the environment division saw lower revenue (-1.7%yoy) and PAT (-40%yoy) due to lower developer contribution.

Strong growth from services division. The services division registered strong revenue growth of +446%yoy driven mainly by acquisition of RBSB and RWSB in 3QFY21. PAT expanded +151%yoy in tandem. Sequentially, the services division recorded a +60%qoq PAT growth driven by higher project recognition and 20MLD upgrading works recognized by Ranhill Water Technologies.

Closing in on Indonesian expansion. Review of the feasibility studies (FS) for the group's Indonesian source-to-tap water supply proposal is currently on-going with PUPR (Ministry of Public Works and Public Housing) and off-takers of the project. Public consultation for Kota Bekasi has been completed with the rest in active negotiations. Once the FS review is completed, a final FS will be submitted to the Indonesian Government and if accepted, an 'initiator status' will be granted to the Ranhill-led consortium which essentially gives it the first right of refusal to match the winning bid in the project's public tender process.

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RANHILL: EARNINGS SUMMARY

FYE Dec	FY19	FY20	FY21	FY22F	FY23F
Revenue (RM'm)	1,551.8	1,468.1	1,531.1	1,784.6	1,813.9
EBIT (RM'm)	298.0	80.7	93.6	150.0	164.4
Pretax Profit (RM'm)	209.9	95.5	93.7	118.6	142.4
Net Profit (RM'm)	65.7	37.7	30.6	35.7	42.9
Core Net Profit (RM'm)	65.7	51.5	32.1	35.7	42.9
FD EPS (sen)	7.6	4.8	2.6	2.8	3.3
EPS growth (%)	40.4	(37.2)	(46.0)	6.1	20.1
PER (x)	5.8	9.2	17.0	16.0	13.3
EV/EBITDA (x)	1.8	2.8	2.6	2.6	2.5
Net Dividend (sen)	5.0	4.0	2.2	1.9	2.3
Net Dividend Yield (%)	11.4	9.0	5.1	4.4	5.3

Source: Company, MIDFR

PPA extension for RS1. Ranhill's wholly owned LSS4 vehicle, Ranhill Solar 1 (RS1) has received a 4-year extension for its LSS4 PPA. However, we expect this to be largely NPV neutral as it is meant to compensate for higher cost relative to the original bid submission in August 2020. Nevertheless, this should remove a hurdle in progressing on with the LSS4 project. Deadline for financial close of the LSS4 project has also been extended to 30th September 2022 (from 30th June 2022), while commercial operation date is extended to 31st December 2023.

Recommendation. We make no changes to our earnings projection, maintain our **BUY** call, and keep our **TP at RM0.67**. We like Ranhill for its expansion prospects: (1) Expansion into Indonesia source-to-tap water supply (605MLD capacity) – in the midst of finalizing Memorandum of Agreement and Memorandum of Understanding as well as tender launch by the Indonesian authorities, (2) LSS4 project which is expected to reach COD in December 2023, (3) Completion of the Sabah East-West transmission line upgrade in 2023 which should drive higher dispatch from RP1/RP2 to Sabah's East Coast. Dividend yield remains decent at 4.4%/5.3% over FY22F/23F, while valuations are undemanding at 2.6x FY22F EV/EBITDA, a 30% discount to historical mean. Prospects for Ranhill SAJ's tariff hike could become clearer post-GE15, we believe.

Table 1: Ranhill Sum-of-Parts Valuation

Units/Concessions	Valuation method	Value (RMm)	Stake	Shares out.	RM/share
RP 1	DCF; EV (WACC: 7%)	63.5	60.0%	1,295.9	0.03
RP 2	DCF; EV (WACC: 7%)	179.0	80.0%	1,295.9	0.11
Water (SAJ)	DCF; EV (WACC: 9%)	1,196.4	80.0%	1,295.9	0.74
NRW	Construction Sector EV/EBITDA (9x)	77.6	100.0%	1,295.9	0.06
Associates	PER (10x)	165.8		1,295.9	0.13
RBSB/RWSB	Construction Sector EV/EBITDA (9x)	168.8		1,295.9	0.13
Gross SOP value		**1,682.4**			**1.20**
	Group net cash/(debt)	*(684.4)*		*1,295.9*	*-0.53*
SOP value		**998.0**		**1,295.9**	**0.67**

Source: Company, MIDFR

RANHILL: 2QFY22 RESULT SUMMARY

FYE Dec (RMm)	2Q21	1Q22	2Q22	QoQ	YoY	1H21	1H22	YTD
Revenue	**365.6**	**393.4**	**458.4**	**16.5%**	**25.4%**	**729.4**	**851.8**	**16.8%**
EBITDA	133.6	117.2	125.4	7.0%	-6.2%	241.5	242.6	0.4%
Depreciation & amortisation	(102.3)	(96.2)	(96.5)	0.3%	-5.7%	(182.3)	(192.7)	5.7%
Operating profit	**31.3**	**21.0**	**28.9**	**37.4%**	**-7.8%**	**59.3**	**49.9**	**-15.8%**
Net finance cost	(9.0)	(4.4)	(3.7)	-17.9%	-59.4%	(18.6)	(8.1)	-56.4%
Zakat	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
JV/Associates	2.7	3.0	2.4	-20.4%	-11.8%	6.9	5.4	-21.8%
Pretax	**25.0**	**19.6**	**27.6**	**41.1%**	**10.3%**	**47.6**	**47.2**	**-0.9%**
Tax	(11.9)	(7.2)	(14.7)	105.0%	23.4%	(21.4)	(21.9)	2.2%
PAT	**13.1**	**12.4**	**12.9**	**4.0%**	**-1.6%**	**26.2**	**25.3**	**-3.4%**
MI	4.0	5.0	5.9	17.4%	45.5%	9.8	10.9	11.0%
Net profit	9.1	7.4	7.0	-5.1%	-22.6%	16.3	14.4	-12.0%
Core net profit	**9.1**	**7.0**	**9.4**	**34.4%**	**4.4%**	**16.2**	**16.5**	**1.5%**
Core EPS (sen)	0.85	0.54	0.73	34.4%	-14.2%	1.52	1.27	-16.5%
DPS (sen)	0.00	0.29	0.00			0.84	0.29	
EBITDA margin	36.6%	29.8%	27.3%			33.1%	28.5%	
Operating profit margin	8.6%	5.3%	6.3%			8.1%	5.9%	
Pretax margin	6.8%	5.0%	6.0%			6.5%	5.5%	
Effective tax rate	47.7%	36.7%	53.3%			45.0%	46.4%	
Core net profit margin	2.5%	1.8%	2.1%			2.2%	1.9%	

Source: Company, MIDFR

RANHILL: 2QFY22 RESULT SUMMARY (Segmental Breakdown)

Segmental Breakdown (RMm)	2Q21	1Q22	2Q22	QoQ	YoY	1H21	1H22	YTD
Revenue	**365.6**	**393.4**	**458.4**	**16.5%**	**25.4%**	**729.4**	**851.8**	**16.8%**
Environment	296.8	287.4	291.7	1.5%	-1.7%	590.7	579.1	-2.0%
Energy	52.8	59.7	79.6	33.2%	50.6%	104.9	139.3	32.7%
Services	16.0	46.3	87.1	88.3%	445.9%	33.7	133.4	
PAT	**13.1**	**12.4**	**12.9**	**4.0%**	**-1.6%**	**26.2**	**25.3**	**-3.4%**
Environment	33.5	27.0	16.8	-37.8%	-50.0%	66.5	43.8	-34.2%
Energy	(2.2)	3.3	(3.8)	-215.1%	-70.7%	(0.2)	(0.5)	-120.0%
Services	4.8	7.6	12.2	59.9%	151.0%	7.7	19.8	155.7%
Others	(23.1)	(25.5)	(12.3)	51.7%	46.8%	(47.8)	(37.8)	21.1%
PAT margin								
Environment	11.3%	9.4%	5.8%			11.3%	7.6%	
Energy	-4.2%	5.5%	-4.7%			-0.2%	-0.4%	
Services	30.4%	16.4%	14.0%			22.9%	14.8%	

Source: Company, MIDFR

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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 *rise* 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 *fall* 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