Corporate Update | Tuesday, 15 November 2022

Ranhill Utilities Berhad

(5272 | RAHH MK) | Utilities | Water

Maintain BUY

Sizeable win for Ranhill Worley

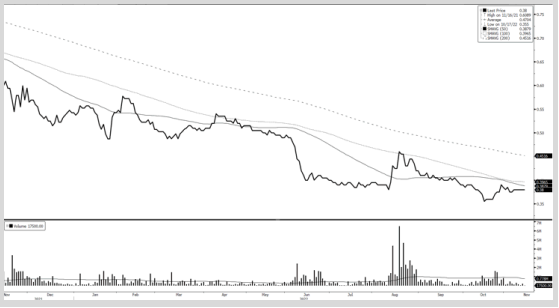
***Unchanged* Target Price: RM0.67**

KEY INVESTMENT HIGHLIGHTS

- **Announces sizeable contract win from Sembcorp Marine**
- **Bulk of contribution expected to be recognized in FY23, estimated 11% impact to bottomline**
- **Potential RSAJ tariff hike to be a key near-term re-rating catalyst**
- **Maintain BUY at unchanged TP of RM0.67**

RETURN STATISTICS	
Price @ 14th Nov 2022 (RM)	0.38
Expected share price return (%)	+76.3
Expected dividend yield (%)	+5.1
Expected total return (%)	**+81.4**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	2.7	-3.0
3 months	-2.6	-8.1
12 months	-36.6	-34.0

KEY STATISTICS	
FBM KLCI	1464.00
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)	489.68
52-wk price range	RM0.35 - RM0.61
Beta vs FBM KLCI (x)	0.65
Monthly volatility (%)	15.03
3-mth average daily volume (m)	0.79
3-mth average daily value (RM'm)	0.33
Top Shareholders (%)	
Hamdan (L) Foundation	18.88
Cheval Infrastructure Fund	16.64
Mohamad Hamdan	13.63

Sizeable contract win. Via 51%-owned Ranhill Worley Sdn Bhd (RWSB), Ranhill announced a sizeable contract win from Sembcorp Marine Integrated Yard Pte Ltd. The contract is for the engineering detailed design of a new P-82 floating production, storage and offloading vessel (FPSO) for Petrobras, for a contract sum of USD27m (RM124m) over a 14-month period. We estimate RWSB's order book to expand to RM278m (slightly more than a year's worth of RWSB's annual revenue), of which the bulk of it comprises this latest project.

Details of the FPSO project. The newbuild FPSO will be one of the largest vessels to be deployed in the Buzios field, an ultra-deepwater oil and gas field covering an area of 853 km² in the pre-salt Santos Basin, about 180-km off the coast of Rio de Janeiro, Brazil. P-82 is part of Petrobras' new generation of production facilities, characterised by their high production capacity and the technologies utilized to reduce cardon dioxide ("CO2") emissions. The unit will also be equipped with water injection capacity of 250,000 barrels per day and a storage capacity of two (2) million barrels of oil.

Bulk of contribution in FY23. The bulk of the project is expected to be captured in FY23F. We estimate around RM106m revenue contribution in FY23F and another RM17m contribution in FY24F. At estimated project margin of around 9%-10% and based on Ranhill's 51% stake in RWSB, we estimate the project to contribute RM4.9m to Ranhill's net profit, or 11% of FY23F earnings. As this forms part of our order book replenishment assumption for RWSB, we keep our projections unchanged at this juncture. Nonetheless, this is a positive development in sustaining RWSB's contribution to the group.

Reaching an inflection point? Having seen significant retracement in the past year, we think Ranhill's share price is reaching an inflection point with the contraction in RSAJ's earnings from a delay in tariff hike well priced in and reflected in consensus earnings revisions. In contrast, we anticipate several key catalysts to materialize in FY23F: (1) A tariff hike for RSAJ in which the Federal Government had already approved an average 25sen/m3 tariff hike for the non-domestic sector and is currently pending implementation by the Johor State, (2) Commissioning of Ranhill's LSS4 project by September 2023, (3) Completion of the Sabah grid upgrade in FY23 and commencement of SK Nexilis' copper foil manufacturing plant in KKIP, which will increase load and improve dispatch for RP1 and RP2.

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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)	5.0	7.9	14.6	13.8	11.5
EV/EBITDA (x)	1.7	2.7	2.4	2.5	2.3
Net Dividend (sen)	5.0	4.0	2.2	1.9	2.3
Net Dividend Yield (%)	13.2	10.4	5.9	5.1	6.1

Source: Company, MIDFR

A potential post-GE play. To recap, the Federal Government had already approved an average 25sen/m3 tariff hike for the non-domestic sector nationwide. From our recent visit, Ranhill expects a 4.6% impact to revenue from the hike (which is within our earlier estimated 3%-5% range). However, the impact to bottomline could be much larger than our earlier expectation as most of the increase will likely flow down to bottomline. This is given that RSAJ is currently operating at well below its regulated 9% PAT margin. In a base case scenario, we expect Ranhill's annual earnings to return to the RM50m-RM60m level once the tariff hike is implemented. It is currently pending the final approval and implementation by the Johor State Government, whereby we expect further clarity on this post-General Elections.

Recommendation. We maintain our **BUY** call and keep our SOP-derived **TP** at **RM0.67**. We like Ranhill for its earnings 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 (commercial operation date) by September 2023, (3) Completion of the Sabah Wast-East transmission line upgrade in 2023 which should drive higher dispatch from RP1/RP2 to Sabah's East Coast, (4) An imminent tariff hike for RSAJ. Dividend yield remains decent at 5.1%/6.1% over FY22F/23F, while valuations are undemanding at 2.5x FY22F EV/EBITDA, circa 30% discount to historical mean.

Table 6: 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

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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