Ranhill Utilities Berhad

(5272 | RAHH MK) Utilities | Water

***Maintain* BUY**

On the path to recovery

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

KEY INVESTMENT HIGHLIGHTS

- **9M22 slightly weaker than expected but quarterly earnings trending up**
- **Environment division benefitting from recovering commercial water consumption**
- **Net gearing continues to ease**
- **FY22F earnings revised lower by -4.7%, FY23F maintained**
- **Maintain BUY at unchanged TP of RM0.67**

RETURN STATISTICS	
Price @ 30th Nov. 2022 (RM)	0.42
Expected share price return (%)	+58.7
Expected dividend yield (%)	+4.4
Expected total return (%)	**+63.1**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	7.8	5.7
3 months	6.4	0.4
12 months	-30.1	-29.0

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)	534.78
52-wk price range	RM0.35 - RM0.59
Beta vs FBM KLCI (x)	0.67
Monthly velocity (%)	0.00
Monthly volatility (%)	15.03
3-mth average daily volume (m)	0.45
3-mth average daily value (RM'm)	0.18
Top Shareholders (%)	
CHEVAL INFRASTRUCTURE FUND	18.88
HAMDAN (L) FOUNDATION	16.64
Mohamad Hamdan	13.63

Weaker than expected but improvements seen. Ranhill's 9MFY22 earnings were slightly weaker than expected due to higher than forecasted effective tax rate but nonetheless, quarterly net profit is trending up sequentially. The group reported 3QFY22 net profit of RM9.3m, which brought 9MFY22 earnings to RM23.7m, accounting for 66% and 68% of our and consensus forecast respectively. Net gearing continues to ease to 70.6% in 3QFY22 after hitting a peak of 139% back in 1QFY21.

Key takeaways. Group 3QFY22 net profit improved +33%qoq to RM9.3m despite a -5%qoq contraction in revenue. Group revenue was mainly dragged by lower energy segment revenue (-21%qoq to RM63m) given an inflated base last quarter - 2QFY22 saw higher diesel consumption given Petronas' gas curtailment that resulted in exceptionally higher energy payment fuel revenue. However, this is a cost pass-through with minimal impact on PAT. The lower energy segment revenue was partly offset by higher revenue from the environment division (+3.5%qoq to RM302m) from improved water consumption. Despite the lower revenue, group PAT improved +42%qoq driven mainly by: (1) Higher commercial water consumption which drove improved margins at the environment division, (2) A turnaround to profit for the energy segment after a loss in 2Q22 which was impacted by exceptionally higher maintenance cost following RP1 and RP2 ST1C planned outage, DOSH inspection and steam turbine maintenance.

Earnings revision. We make a minor revision to FY22F projection to reflect the higher-than-expected effective tax rate - our FY22F net profit is trimmed by -4.7%, but FY23F is maintained.

Recommendation. Maintain **BUY** at unchanged **TP** of **RM0.67**. Despite the slightly weaker than expected 9MFY22, earnings at 80%-owned RSAJ have been showing consistent improvement on the back of recovering water consumption. A key near-term catalyst is a scheduled tariff hike for the non-domestic sector which is expected to improve group earnings by 30%-40% against our current FY23F. We also like Ranhill for its expansion prospects: (1) Expansion into Indonesia source-to-tap water supply (432MLD capacity) – in the midst of finalizing Memorandum of Agreement and Memorandum of Understanding as well as tender launch by the

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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	164.7
Pretax Profit (RM'm)	209.9	95.5	93.7	118.6	142.4
Net Profit (RM'm)	65.7	37.7	30.6	34.0	42.9
Core Net Profit (RM'm)	65.7	51.5	32.1	34.0	42.9
FD EPS (sen)	7.6	4.8	2.6	2.6	3.3
EPS growth (%)	40.4	(37.2)	(46.0)	1.2	25.9
PER (x)	5.5	8.7	16.2	16.0	12.7
EV/EBITDA (x)	1.8	2.8	2.5	2.6	2.4
Net Dividend (sen)	5.0	4.0	2.2	1.8	2.3
Net Dividend Yield (%)	11.9	9.4	5.3	4.4	5.5

Source: Company, MIDFR

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%/5.5% over FY22F/23F, while valuations are undemanding at 2.4x FY22F EV/EBITDA, circa 30% discount to historical mean.

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

Chart 1: Net gearing continues to ease

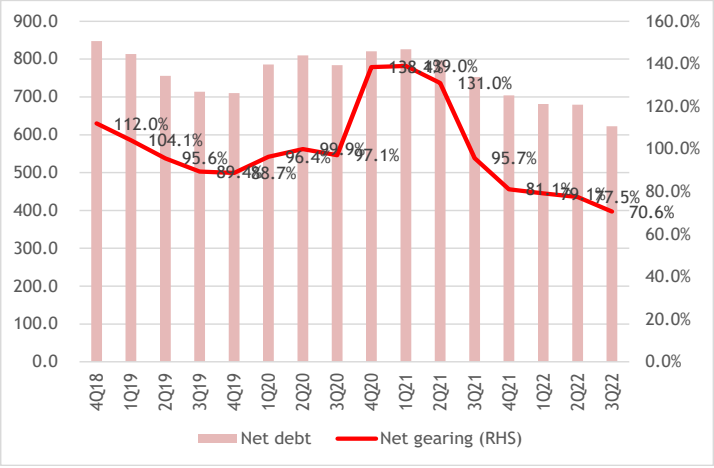
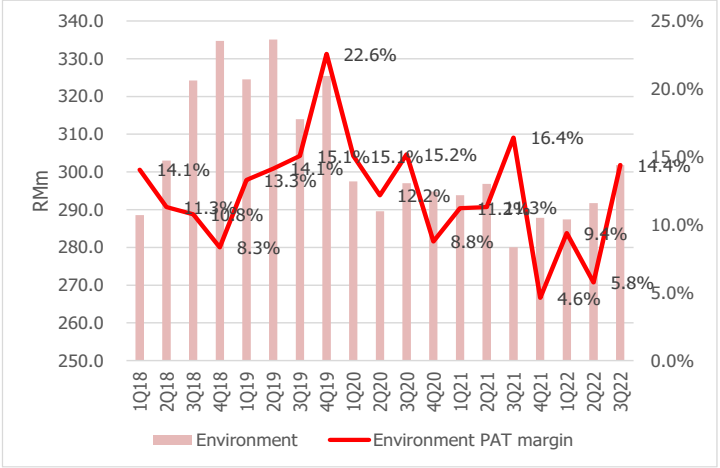


Chart 2: Environment revenue & margin trend



Source: Company, MIDFR

RANHILL: 3QFY22 RESULT SUMMARY

FYE Dec (RMm)	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YTD
Revenue	**380.6**	**458.4**	**434.0**	**-5.3%**	**14.0%**	**1,110.0**	**1,285.8**	**15.8%**
EBITDA	103.5	125.4	125.5	0.1%	21.2%	364.6	368.0	0.9%
Depreciation & amortisation	(74.2)	(96.5)	(96.4)	-0.1%	29.9%	(276.1)	(289.0)	4.7%
Operating profit	**29.3**	**28.9**	**29.1**	**0.9%**	**-0.7%**	**88.6**	**79.0**	**-10.8%**
Net finance cost	(6.0)	(3.7)	(2.8)	-22.6%	-53.0%	(24.6)	(10.9)	-55.6%
JV/Associates	4.9	2.4	3.4	43.5%	-29.5%	11.7	8.8	-25.0%
Pretax	**28.2**	**27.6**	**29.7**	**7.6%**	**5.5%**	**75.7**	**76.9**	**1.5%**
Tax	(10.2)	(14.7)	(11.4)	-22.5%	11.6%	(31.6)	(33.3)	5.3%
PAT	**17.9**	**12.9**	**18.3**	**42.1%**	**2.0%**	**44.1**	**43.6**	**-1.2%**
MI	9.4	5.9	9.0	52.8%	-4.6%	19.2	19.9	3.3%
Net profit	8.5	7.0	9.3	33.2%	9.4%	24.9	23.7	-4.7%
Core net profit	**8.5**	**7.0**	**9.3**	**33.2%**	**9.4%**	**24.9**	**23.7**	**-4.7%**
Core EPS (sen)	0.66	0.54	0.72	33.2%	9.4%	1.92	1.83	-4.7%
DPS (sen)	0.37	0.00	0.00			1.21	0.29	
EBITDA margin	27.2%	27.3%	28.9%			32.9%	28.6%	
Operating profit margin	7.7%	6.3%	6.7%			8.0%	6.1%	
Pretax margin	7.4%	6.0%	6.8%			6.8%	6.0%	
Effective tax rate	36.3%	53.3%	38.4%			41.8%	43.3%	
Core net profit margin	2.2%	1.5%	2.1%			2.2%	1.8%	

Source: Company, MIDFR

RANHILL: 3QFY22 RESULT SUMMARY (Segmental Breakdown)

Segmental Breakdown (RMm)	3Q21	2Q22	3Q22	QoQ	YoY	9M21	9M22	YTD
Revenue	**380.6**	**458.4**	**434.0**	**-5.3%**	**14.0%**	**1,110.0**	**1,285.8**	**15.8%**
Environment	280.0	291.7	301.8	3.5%	7.8%	870.7	881.0	1.2%
Energy	52.5	79.6	62.5	-21.4%	19.1%	157.4	201.8	28.2%
Services	48.1	87.1	69.7	-20.0%	44.9%	81.8	203.0	148.1%
PAT	**17.9**	**12.9**	**18.3**	**42.1%**	**2.0%**	**44.1**	**43.6**	**-1.2%**
Environment	46.0	16.8	43.5	158.8%	-5.5%	112.5	87.2	-22.5%
Energy	1.5	(3.8)	0.5	112.7%	-67.9%	1.3	(0.0)	-101.3%
Services	2.9	12.2	6.4	-47.0%	124.3%	10.6	26.2	147.2%
Others	(32.4)	(12.3)	(32.1)	160.9%	-1.0%	(80.2)	(69.8)	-13.0%
PAT margin				ppts	ppts			ppts
Environment	16.4%	5.8%	14.4%	8.6	-2.0	12.9%	9.9%	-3.0
Energy	2.8%	-4.7%	0.8%	5.5	-2.1	0.8%	0.0%	-0.8
Services	6.0%	14.0%	9.3%	-4.7	3.3	13.0%	12.9%	-0.1

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