Corporate Update | Wednesday, 18 January 2023

# Ranhill Utilities Berhad

(5272 | RAHH MK) Utilities | Water

***Maintain* BUY**

## Boost from water tariff hike

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

### KEY INVESTMENT HIGHLIGHTS

- **Potential boost from Johor water tariff hike for non-domestic sector**
- **Tariff for domestic users maintained, in line with Government decision**
- **Circa 3% impact to revenue – seemingly small, but a meaningful amount expected to flow down to bottomline**
- **Re-affirm BUY at TP of RM0.67 – we see potential upside pending further checks**

**Proceeds with a tariff hike.** 80%-owned Ranhill SAJ (RSAJ), the exclusive water operator for Johor, has proceeded with a tariff hike for the non-domestic sector effective January 2023. Water tariff for non-domestic users will see an increase of 6%-11% (20-30sen per cubic metre). Additionally, minimum monthly charges for no-domestic, shipping and religious institution consumers were raised by 3%, 40% and 129% respectively (See Table 2). The non-domestic sector historically contributed ~60% to RSAJ's revenue.

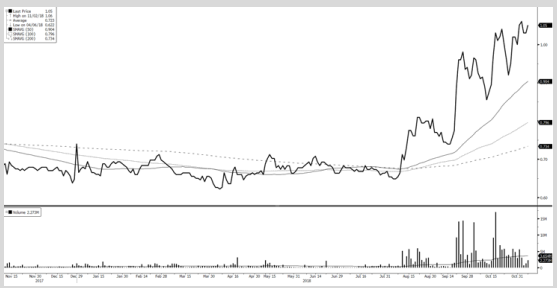
**In line with Federal Government decision.** The tariff hike is in line with the Federal Government gazette and the Cabinet's decision back in June 2022 for a nationwide water tariff revision (Peninsular Malaysia & Labuan) based on the Tariff Setting Mechanism. While in past practice, the State Government tends to have the final say, it is understood that this time around, the State had decided that it would not interfere with tariff decisions as it is technically, the Federal Government's prerogative.

**A potential boost to earnings.** Our back of the envelope calculation suggests a 3% impact to Ranhill group revenue – small, but we expect a meaningful amount to flow down directly to bottomline, pending further checks with management. At this juncture, we estimate circa 40%-50% impact to bottomline (against FY22F base). As the tariff hike is effective January 2023, we expect the impact to be reflected fully from FY23F onwards.

**Reaching an inflection point?** As we had alluded to, we think Ranhill's share price is reaching an inflection point with the contraction in RSAJ's earnings from the previous 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, (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.

| RETURN STATISTICS | |
|---|---|
| Price @ 17th January 2023 (RM) | 0.465 |
| Expected share price return (%) | +43.4 |
| Expected dividend yield (%) | +4.0 |
| **Expected total return (%)** | **+47.3** |

**SHARE PRICE CHART**



| Share price performance (%) | Absolute | Relative |
|---|---|---|
| 1 month | 5.7 | 4.2 |
| 3 months | 2.2 | 22.3 |
| 12 months | -13.5 | -10.9 |

| KEY STATISTICS | |
|---|---|
| FBM KLCI | 1499.38 |
| 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) | 599.22 |
| 52-wk price range | RM0.35 - RM0.57 |
| Beta vs FBM KLCI (x) | 0.75 |
| Monthly velocity (%) | 0.00 |
| Monthly volatility (%) | 15.03 |
| 3-mth average daily volume (m) | 0.59 |
| 3-mth average daily value (RM'm) | 0.25 |
| Top Shareholders (%) | |
| CHEVAL INFRASTRUCTURE FUND | 18.88 |
| HAMDAN (L) FOUNDATION | 16.64 |
| Mohamad Hamdan | 13.63 |

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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) | 6.1 | 9.7 | 17.9 | 17.7 | 14.1 |
| EV/EBITDA (x) | 1.8 | 2.9 | 2.6 | 2.7 | 2.6 |
| Net Dividend (sen) | 5.0 | 4.0 | 2.2 | 1.8 | 2.3 |
| Net Dividend Yield (%) | 10.8 | 8.5 | 4.8 | 4.0 | 5.0 |

*Source: Company, MIDFR*

**Recommendation.** We re-affirm our **BUY** call and keep our SOP-derived **TP** at **RM0.67** for now. 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 West-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 4%/5% over FY22F/23F, while valuations are undemanding at 2.6x 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*

## Table 2: New Johor water tariff schedule (highlighted in red) vs. old tariffs

| | | Previous Rate | New Rates | | Previous Rate | New Rates | |
|---|---|---|---|---|---|---|---|
| **Type of Use** | **Utilisation** | **Rate per cubic metre (RM)** | **Rate per cubic metre (RM)** | ***change (%)*** | **Minimum Rate (RM) (monthly)** | **Minimum Rate (RM) (monthly)** | ***change (%)*** |
| Domestic | 0 m3 - 20 m3 | 0.80 | 0.80 | *0.0%* | 7 | 7 | *0%* |
| | 21 m3 - 35 m3 | 2.00 | 2.00 | *0.0%* | | | |
| | > 35 m3 | 3.00 | 3.00 | *0.0%* | | | |
| Religious Institutions / Welfare Approved | Average rate | 1.60 | 1.60 | *0.0%* | 7 | **16** | ***129%*** |
| Domestic Bulk | Average rate | 1.60 | 1.60 | *0.0%* | 16 | 16 | *0%* |
| Non-domestic | 0 m3 - 35 m3 | 2.80 | **3.10** | ***10.7%*** | 30 | **31** | ***3.3%*** |
| | >35 m3 | 3.30 | **3.50** | ***6.1%*** | | | |
| Shipping | Average rate | 7.00 | 7.00 | *0.0%* | 50 | **70** | ***40.0%*** |
| Water Treatment Company (Water Kiosk) | Average rate | 7.00 | 7.00 | *0.0%* | 50 | 50 | *0.0%* |

*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