Ranhill Utilities Berhad

(5272 | RAHH MK) Utilities | Water

Maintain BUY

Receives an exceptional cash boost

***Revised* Target Price: RM0.70**

(from RM0.67)

KEY INVESTMENT HIGHLIGHTS

- **4QFY22 earnings boosted by NRW grant recognition**
- **Temporary underlying weakness due to RP2 maintenance shutdown and rehab project loss**
- **FY23 to be boosted by RSAJ's tariff hike**
- **Potential dividend hike from NRW grant cash proceeds**
- **Maintain BUY at higher TP of RM0.70**

RETURN STATISTICS	
Price @ 24th Feb 2023 (RM)	0.44
Expected share price return (%)	+58.6
Expected dividend yield (%)	+5.3
Expected total return (%)	**+63.9**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-11.9	-9.4
3 months	-2.2	10.8
12 months	-14.8	-6.9

KEY STATISTICS	
FBM KLCI	1456.80
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)	573.44
52-wk price range	RM0.35 - RM0.54
Beta vs FBM KLCI (x)	0.75
Monthly velocity (%)	0.00
Monthly volatility (%)	15.03
3-mth average daily volume (m)	0.92
3-mth average daily value (RM'm)	0.43
Top Shareholders (%)	
CHEVAL INFRASTRUCTURE FUND	18.88
HAMDAN (L) FOUNDATION	16.64
Mohamad Hamdan	13.63

Significant boost in 4QFY22. Ranhill reported an exceptionally strong net profit of RM73m for its 4QFY22, which brought FY22 net profit to RM97m. However, 4QFY22 was boosted by recognition of an NRW matching grant by RSAJ of RM142m (pre-tax and MI), partly offset by a one-off -RM7.5m loss on a rehab project by Ranhill Water Services (RWS). Normalised for these, core FY22 earnings of RM22m fell short of our and consensus expectations (65% and 71% of full year estimates) due to weaker than expected energy division earnings.

Temporary weakness. Two divisions dragged Ranhill's core 4QFY22 performance: (1) The energy division slipped into an LAT of -RM8.2m due to maintenance shutdown for RP2, (2) Services division saw margin contraction due to a loss of RM7.5m on a rehab project undertaken by RWS despite a +24%yoy revenue increase. Nevertheless, both factors are not expected to recur in the coming quarters - RP2 plant maintenance has been completed while the rehab project by RWS is a one-off.

Cash boost from NRW matching grant. Positively, the NRW matching grant received by 80%-owned RSAJ will provide a significant cash boost to Ranhill. Post-tax and MI, we estimate net proceeds of RM82m, which will expand Ranhill's cash position by 21% and reduce net gearing to 70% (from 78% as at 4QFY22) once the cash inflow is recognized by mid-FY23. We see possibilities of higher cash dividend payout in FY23 partly utilizing the cash proceeds.

FY23 earnings to recover from water tariff hike. Despite the weakness in 4QFY22, we expect Ranhill to turn the corner in FY23 driven mainly by a tariff hike by RSAJ. To recap, RSAJ 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.

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RANHILL: EARNINGS SUMMARY

FYE Dec	FY20	FY21	FY22	FY23F	FY24F
Revenue (RM'm)	1,468.1	1,530.9	1,726.4	1,797.8	1,838.3
Operating profit (RM'm)	80.7	95.1	197.6	124.1	131.9
Pretax Profit (RM'm)	95.5	93.3	199.6	120.9	112.2
Net Profit (RM'm)	37.7	30.6	96.7	42.9	39.8
Core Net Profit (RM'm)	51.5	32.1	22.3*	42.9	39.8
FD EPS (sen)	4.8	3.0	1.7	3.3	3.1
EPS growth (%)	(36.8)	(37.7)	(42.9)	92.6	(7.2)
PER (x)	9.1	14.6	25.6	13.3	14.3
EV/EBITDA (x)	2.8	2.6	2.3	2.3	2.2
Net Dividend (sen)	4.0	0.7	0.5	2.3	2.3
Net Dividend Yield (%)	9.0	1.6	1.2	5.3	5.3

Source: Company, MIDFR **Normalized for RM82m net NRW matching grant and one-off -RM7.5m loss for RWS' rehab project*

Backdated tariff hike recognition to boost FY23 further. Government gazette for the tariff hike was issued in August 2022. As such, although RSAJ only commenced implementation from January 2023, backdated tariff hike (from August 2022-December 2022) will be charged to customers in their February 2023-June 2023 bills - this will provide a further boost to Ranhill's FY23F earnings. The underlying tariff hike is estimated to increase Ranhill's annual revenue by RM48m (+2.8% against FY22), but given the backdated tariff recognition, incremental revenue for FY23 is estimated to be larger at RM68m (+3.9% against FY22). The higher revenue will be partly offset by exceptionally higher electricity tariff from the recent 1H23 ICPT surcharge hike to 20sen/kwh (from 3.7sen/kwh previously) – we estimate the net impact of RSAJ's tariff hike to group bottomline in FY23 at RM15m-17m, (+72% vs. FY22 core earnings of RM22m).

Earnings revision. We keep our FY23F net profit, which implies a +93%yoy growth reflecting mainly RSAJ's water tariff hike. This is partly offset by higher electricity ICPT surcharge (which we conservatively assume to remain the same throughout the year at this juncture). There is upside if electricity ICPT surcharge is revised down in the upcoming June 2023 ICPT review following a steep drop in coal prices since December 2022. We introduce FY24F net profit at RM39.8m, which implies a -7%yoy contraction reflecting higher unwinding of interest impact on PAAB leases as RSAJ enters into the first year of a new operating period i.e., Operating Period 6 from FY24 onwards (unwinding of interest recognition is typically highest in the first year and gradually reduces throughout the 3-year licensing period, albeit this is merely accounting treatment).

Maintain BUY on Ranhill. Our **TP** is tweaked higher to **RM0.70** (from RM0.67) as we factor in cash proceeds from the NRW matching grant into our valuation. We continue to like Ranhill for its earnings expansion prospects: (1) Expansion into Indonesia source-to-tap water supply (605MLD capacity), (2) LSS4 project which is expected to reach COD (commercial operation date) by December 2023, (3) Completion of the Sabah West-East transmission line upgrade which should drive higher dispatch from RP1/RP2 to Sabah's East Coast, (4) Potential water tariff hike for the domestic sector. Dividend yield is attractive at 5.3% and reversion to cash dividends is a positive. Valuations are undemanding at 2.3x FY23F EV/EBITDA and 13x FY23F PER, circa 30% and 35% discount respectively 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%)	45.5	60.0%	1,295.9	0.02
RP 2	DCF; EV (WACC: 7%)	148.5	80.0%	1,295.9	0.09
Water (SAJ)	DCF; EV (WACC: 8%)	1,196.5	80.0%	1,295.9	0.74
NRW	Construction Sector EV/EBITDA (9x)	75.2		1,295.9	0.06
Associates	PER (10x)	157.0		1,295.9	0.12
RBSB/RWSB	Construction Sector EV/EBITDA (9x)	168.8		1,295.9	0.13
Gross SOP value		**1,622.7**			**1.16**
	Group net cash/(debt)	(599.9)		1,295.9	-0.46
SOP value					**0.70**

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

RANHILL: FY22 RESULT SUMMARY

FYE Dec (RMm)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Revenue	**420.9**	**434.0**	**440.6**	**1.5%**	**4.7%**	**1,530.9**	**1,726.4**	**12.8%**
EBITDA	114.2	128.9	223.5	73.4%	95.8%	490.6	600.4	22.4%
Depreciation & amortisation	(102.9)	(96.4)	(98.1)	1.8%	-4.7%	(379.0)	(387.1)	2.2%
Operating profit	**6.5**	**29.1**	**118.6**	**307.2%**	**1715.7%**	**95.1**	**197.6**	**107.7%**
Net finance cost	6.3	(2.8)	(2.7)	-4.8%	-143.0%	(18.3)	(13.6)	-25.7%
Zakat	0.0	0.0	0.0	NA	NA	0.0	0.0	NA
JV/Associates	4.7	3.4	6.9	100.7%	45.3%	16.5	15.7	-4.8%
Pretax	**17.5**	**29.7**	**122.7**	**313.1%**	**600.7%**	**93.3**	**199.6**	**114.1%**
Tax	4.5	(11.4)	(22.5)	97.0%	-598.6%	(27.1)	(55.8)	105.5%
PAT	**22.0**	**18.3**	**100.3**	**447.7%**	**355.3%**	**66.1**	**143.9**	**117.6%**
MI	16.3	9.0	27.2	203.2%	67.2%	35.5	47.1	32.6%
Net profit	5.7	9.3	73.0	683.3%	1175.5%	30.6	96.7	216.2%
Core net profit	**7.2**	**9.3**	**(1.4)**	**-115.3%**	**-119.8%**	**32.1**	**22.3**	**-30.6%**
Core EPS (sen)	0.56	0.72	-0.11	-115.3%	-119.8%	2.75	1.72	-37.6%
DPS (sen)	0.34	0.00	0.50			1.55	0.79	
EBITDA margin	27.1%	29.7%	50.7%			32.0%	34.8%	
Operating profit margin	1.6%	6.7%	26.9%			6.2%	11.4%	
Pretax margin	4.2%	6.8%	27.9%			6.1%	11.6%	
Effective tax rate	-25.7%	38.4%	18.3%			29.1%	27.9%	
Core net profit margin	1.7%	2.1%	-0.3%			2.1%	1.3%	

Source: Company, MIDFR

RANHILL: FY22 RESULT SUMMARY (Segmental Breakdown)

Segmental Breakdown (RMm)	4Q21	3Q22	4Q22	QoQ	YoY	FY21	FY22	YTD
Revenue	**420.9**	**434.0**	**440.6**	**1.5%**	**4.7%**	**1,530.9**	**1,726.4**	**12.8%**
Environment	288.3	301.8	292.8	-3.0%	1.6%	1,159.0	1,173.8	1.3%
Energy	63.5	62.5	62.1	-0.6%	-2.1%	220.9	263.9	19.5%
Services	69.2	69.7	85.6	22.9%	23.8%	151.0	288.7	91.2%
PAT	**22.0**	**18.3**	**100.3**	**447.7%**	**355.3%**	**66.1**	**143.9**	**117.6%**
Environment	0.4	43.5	140.7	223.8%	37827.5%	112.9	227.9	102.0%
Energy	8.1	0.5	(8.2)	-1818.2%	-201.8%	9.3	(8.2)	-188.2%
Services	32.6	6.4	1.7	-74.3%	-94.9%	43.2	27.9	-35.5%
Others	(19.0)	(32.1)	(33.9)	5.6%	78.3%	(99.2)	(103.7)	4.5%
PAT margin				***ppts***	***ppts***			***ppts***
Environment	0.1%	14.4%	48.1%	*33.7*	*47.9*	9.7%	19.4%	*9.7*
Energy	12.7%	0.8%	-13.2%	*-14.0*	*-25.9*	4.2%	-3.1%	*-7.3*
Services	47.1%	9.3%	1.9%	*-7.3*	*-45.2*	28.6%	9.7%	*-18.9*

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