Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Sabah Growth Catalyst Materialises

Maintain **BUY**

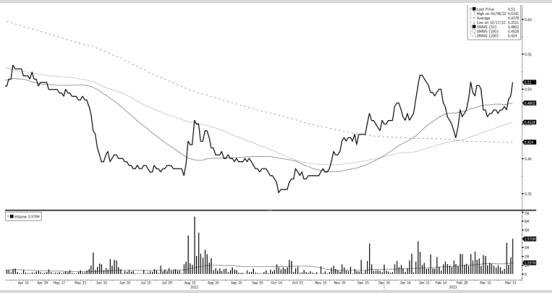
Unchanged **Target Price: RM0.70**

KEY INVESTMENT HIGHLIGHTS

- **Wins bid for new 100MW CCGT plant in Sabah**
- **Potential 16% enhancement to valuations**
- **More new power capacity in the pipeline for Sabah – Ranhill is well positioned to benefit**
- **Re-affirm BUY at unchanged TP of RM0.70**

RETURN STATISTICS	
Price @ 3rd April 2023 (RM)	0.51
Expected share price return (%)	+36.85
Expected dividend yield (%)	4.55
Expected total return (%)	**+41.39**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	5.2	6.6
3 months	4.1	14.9
12 months	0.0	11.5

What's new? Ranhill, via a consortium with Sabah Energy Corporation Sdn Bhd (SEC), has been selected as the successful bidder for a 100MW CCGT (combined cycle gas turbine) power plant by the Energy Commission under a 21-year PPA with SESB. The plant is to be located in the West Coast of Sabah (Kimanis) with final commercial operation date (COD) by March 2026. Gas supply is expected to be sourced from Sabah Oil & Gas Terminal (SOGT). Ranhill will hold a 60% interest in the project with SEC holding the remaining 40%. The new plant will expand Ranhill's power capacity in Sabah by 26% to 480MW, sealing its position as the largest IPP in the state with a 30% market share.

The new CCGT plant is part of the Sabah generation development plan. It was initially planned to be constructed in East Coast Sabah which faces frequent power shortages, but given challenges in securing gas supply, had been moved to West Coast Sabah riding instead, on the upgraded West-to-East power grid to improve East Sabah power supply (see Table 1). Given delays in awarding the project, it seems like the COD had been pushed back slightly from the original COD in 2024.

Incremental value. Our checks with management yesterday suggests a potential capex of RM600m for the new plant. At market (project) IRR of high-single digit (7%-8%), WACC of 5%-6% and based on the 21-year PPA, we estimate that the new plant could generate incremental equity value of 11sen/share (RM138m) based on Ranhill's 60% stake – this translates into a potential 16% increase to our current TP of 70sen/share. Equity funding of an estimated RM72m (Ranhill's share, at 80:20 debt-to-equity) should be more than manageable, accounting for 15% of FY24F gross cash which will be boosted by proceeds from the recent RM142m NRW matching grant award.

More to come? We gather that the next 100MW capacity (planned COD in 2025) will also be gas-based whereby Ranhill had indicated interest to participate in this new project as well. These are part of the plant-up program for Sabah which aims to add a total 552MW new capacity between 2024 till 2027 comprising a mix of CCGT and hydro power plants (see Table 2). Power demand is expected to increase in the next 2 years with commissioning of SK Nexilis' EV copper foil manufacturing plant in KKIP this year and Kibing Group's PB glass manufacturing plant in 2024. Both these plants are expected to increase demand by 14% (150MW) against current peak demand of 1046MW.

INVESTMENT STATISTICS

FYE Mar	2022A	2023F	2024F
Revenue	1,726.4	1,797.8	1,838.3
Operating Profit	197.6	124.1	131.9
Profit Before Tax	199.6	120.9	112.2
Core PATAMI	22.3	42.9	39.8
Core EPS	1.7	3.3	3.1
DPS	0.5	2.3	2.3
Dividend Yield (%)	1.0	4.5	4.5

KEY STATISTICS	
FBM KLCI	1,433.39
Issue shares (m)	1278.02
Estimated free float (%)	46.49
Market Capitalisation (RM'm)	657.21
52-wk price range	RM0.35 – 0.54
3-mth average daily volume (m)	1.28
3-mth average daily value (RM'm)	0.62
Top Shareholders (%)	
CHEVAL INFRASTRUCTURE	18.88
HAMDAN (L) FOUNDATION	16.64
Mohamad Hamdan	13.63

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Table 1: Sabah current power capacity status

	West Coast	East Coast	Total
Dependable Capacity (MW)	1048	219	1267
Peak demand (MW)	702	344	1046
Reserve Margin	49%	-38%	23%
West-East Capacity Transfer (MW)	216		Maximum transfer capacity
	216		Average transfer

Source: EC, Company, MIDFR

Table 2: Sabah generation development plan

Year	West Coast	East Coast	Retirement	Status
2021	Telekosang Hydro		Tawau (47MW), TSH (10MW)	*Plant 1: 24MW (COD: Dec 2022), Plant 2: 16MW (COD: Dec 2022)*
2022	Sarawak Interconnection (50MW)			
2023				
2024		New Capacity of 100MW	Diesel Genset (135MW)	*Move to West Coast where gas supply is available*
2025		New Capacity of 100MW		*Move to West Coast where gas supply is available*
2026	*Potentially: (1) Sg. Maligan hydro (31MW) (2) Ulu Padas hydro (129MW)*		Patau-Patau (103MW) - old plant operated since 1983 and frequently shut down for rectifications	
2027		Upper Padas Hydroelectric (192MW)		
2028				
2029			RP1 CCGT (190MW), Sepangar Bay CCGT (100MW)	*Ranhill has made a proposal to extend the PPA up to 2037*

Source: EC, Company, MIDFR

Recommendation. Maintain **BUY** on Ranhill **TP of RM0.70**. This latest development is a positive and underscores our thesis of Ranhill's Sabah power sector growth potential *(see report titled: Proxy to Sabah Power)*. We would look to factor in incremental value from the new CCGT plant upon meaningful progress of plant construction. Broadly, 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, (5) Potential participation in the Corporate Green Power Program. Dividend yield is attractive at 4.5% and reversion to cash dividends is a positive. Valuations are undemanding at 2.5x FY23F EV/EBITDA and 15x FY23F PER, circa 30% and 25% discount respectively to historical mean.

Table 3: 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

FINANCIAL SUMMARY

Income Statement	FY20	FY21	FY22	FY23F	FY24F
Revenue	**1,468.1**	**1,531.1**	**1,726.4**	**1,797.8**	**1,838.3**
Operating expenses	-1,387.4	-1,437.5	-1,528.8	-1,673.6	-1,706.4
Operating profit	**80.7**	**93.6**	**197.6**	**124.1**	**131.9**
Net interest expense	3.8	-16.0	-13.6	-19.7	-37.6
Associates	11.1	16.1	15.7	16.5	17.8
PBT	**95.5**	**93.7**	**199.6**	**120.9**	**112.2**
Taxation	-31.3	-27.6	-55.8	-42.3	-39.3
Minority Interest	26.5	35.5	47.1	35.7	33.1
Net profit	37.7	30.6	96.7	42.9	39.8
Core net profit	**51.5**	**32.1**	**22.3**	**42.9**	**39.8**
Balance Sheet	**FY20**	**FY21**	**FY22**	**FY23F**	**FY24F**
PPE	243.9	246.4	250.6	233.2	219.8
Investments	180.4	208.6	205.7	222.2	240.0
Others	1,105.3	1,796.8	1,470.3	1,270.3	1,770.3
Non-current assets	**1,529.6**	**2,251.8**	**1,926.6**	**1,725.7**	**2,230.1**
Inventories	88.9	116.7	146.2	135.0	138.7
Receivables	309.0	341.5	552.0	400.5	409.5
Others	182.0	257.4	270.6	270.6	270.6
Cash & equivalent	258.2	339.8	388.9	467.4	432.1
Current assets	**838.1**	**1,055.4**	**1,357.8**	**1,273.5**	**1,251.0**
Share capital	1,282.9	1,439.0	1,439.0	1,439.0	1,439.0
Minority Interest	136.1	179.1	189.9	225.5	258.6
Reserves	-767.8	-750.1	-671.7	-658.9	-649.1
Total Equity	**651.1**	**868.0**	**957.1**	**1,005.7**	**1,048.6**
Long-term borrowings	981.5	893.4	931.6	861.6	791.6
Others	361.2	670.6	362.1	162.1	662.1
Non-current liabilities	**1,342.7**	**1,563.9**	**1,293.8**	**1,023.7**	**1,453.7**
Short-term borrowings	97.1	150.5	205.7	205.7	205.7
Payables	260.8	337.7	459.7	396.0	405.0
Others	16.0	387.0	368.1	368.1	368.1
Current liabilities	**373.9**	**875.3**	**1,033.5**	**969.8**	**978.8**

Cash Flow Statement	FY20	FY21	FY22	FY23F	FY24F
PBT	95.5	93.7	199.6	120.9	112.2
Depreciation & Amortization	377.2	380.0	387.1	388.6	384.9
Chgs in working capital	-140.0	16.6	-118.1	99.1	-3.8
Others	-211.4	-256.3	-338.7	-391.3	-389.8
Operating cash flow	**121.3**	**234.0**	**130.0**	**217.3**	**103.5**
Capex	-67.2	-38.7	-49.4	-38.7	-38.7
Others	15.5	39.4	-40.4	0.0	0.0
Investing cash flow	**-51.7**	**0.6**	**-89.8**	**-38.7**	**-38.7**
Dividends paid	-90.9	-25.3	-19.8	-30.0	-30.0
Net proceeds in borrowings	-122.5	-114.9	89.5	-70.0	-70.0
Others	95.1	-13.9	-66.7	0.0	0.0
Financing cash flow	**-118.3**	**-154.1**	**3.0**	**-100.1**	**-100.0**
Net changes in cash	-48.7	80.5	43.2	78.5	-35.3
Beginning cash	**167.3**	**118.9**	**201.9**	**245.4**	**323.9**
Overdrafts, Deposits & Forex	139.7	140.5	143.9	143.6	143.6
Ending cash	**258.2**	**339.8**	**388.9**	**467.4**	**432.1**

Ratios	FY20	FY21	FY22	FY23F	FY24F
Operating profit margin	5.5%	6.1%	11.4%	6.9%	7.2%
Core net profit margin	3.5%	2.1%	1.3%	2.4%	2.2%
ROE	10.0%	4.7%	2.9%	5.5%	5.0%
ROA	2.2%	1.0%	0.7%	1.4%	1.1%
Net gearing	126%	81%	78%	60%	54%
Book value/share (RM)	0.48	0.59	0.59	0.60	0.61
PBV (x)	1.1	0.9	0.9	0.8	0.8
PER (x)	10.6	16.9	29.7	15.4	16.6
EV/EBITDA (x)	3.0	2.7	2.4	2.5	2.4

Source: EC, 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