Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Scores Another Big Win

Maintain **BUY**

Unchanged **Target Price: RM0.70**

KEY INVESTMENT HIGHLIGHTS

- **Ranhill Worley scores another big win**
- **Latest contract award brings services division order book to >RM1b**
- **Estimated 11%-13% earnings accretion over FY23F/24F, leading to upside bias to projections**
- **Re-affirm BUY at TP of RM0.70**

RETURN STATISTICS	
Price @ 25th April 2023 (RM)	0.58
Expected share price return (%)	+20.05
Expected dividend yield (%)	4.28
Expected total return (%)	**+24.33**

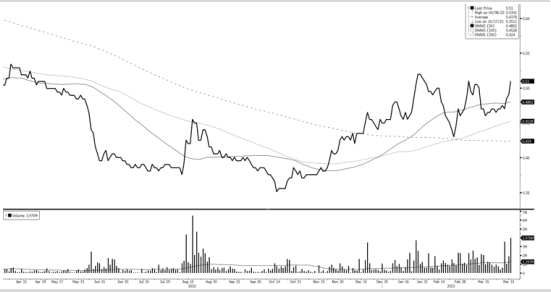
What's new? Via 51% owned Ranhill Worley (RW), Ranhill Utilities (Ranhill) was awarded a contract to perform detailed engineering design (DED) by Saipem S.p.A of Italy (Saipem), for two compression complexes associated with Qatar's North Field Production Sustainability (NFPS) Offshore Compression Complexes Project.

Contract details. The DED contract entails a value of USD50m (RM210m) and is expected to be completed by 3QCY24. To give context, the broader NFPS contract awarded to Saipem for Qatar North Field encompasses engineering, procurement, fabrication and installation of two offshore natural gas compression complexes aimed at sustaining production of the North Field, including two of the largest fixed steel jacket compression platforms ever built, flare platforms, interconnecting bridges, living quarters and interface modules.

Orderbook expansion. The latest contract almost doubles RW's current orderbook of RM265m and expands Ranhill's overall services division's orderbook by 24% to RM1.07b. Outstanding orderbook now is equivalent to 3.7 times the services division's annual revenue, while tender book stands at RM1.5b. We estimate contribution of the DED project to be almost equal for FY23 and FY24 – based on a conservative PAT margin of ~10% (and based on Ranhill's 51% stake in RW), we estimate around RM5m-6m annual earnings contribution from the project for the next 2 years, accounting for 11%/13% of our FY23F/24F. Pending further clarity from management, we see upside potential to our current earnings projections.

Stars are aligning. Ranhill has been delivering a slew of positive news since the start of the year involving: (1) Implementation of a long overdue water tariff hike of 6%-11% for the non-domestic sector, (2) Recent win of a new 100MW CCGT power plant in Sabah, (3) Cash boost from its RM142m NRW grant award, (4) A reacceleration in cash dividends with recent announcement of a 2sen/share dividend (FY22 total dividend: 2.5sen/share, 4.3% yield). These are positive catalysts which are expected to drive a significant turnaround in earnings and dividends going forward, in our opinion.

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

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	2.5	2.5	2.5
Dividend Yield (%)	4.3	4.3	4.3

KEY STATISTICS

FBM KLCI	1,425.19
Issue shares (m)	1278.02
Estimated free float (%)	46.49
Market Capitalisation (RM'm)	741.25
52-wk price range	RM0.35 – 0.60
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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Recommendation. Maintain **BUY** on Ranhill at unchanged **TP of RM0.70,** with upside bias**.** This latest development is a positive, reinforcing the services division's earnings prospects over the next 2 years. Broadly, we continue to like Ranhill for its earnings expansion potential: (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 grid 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 4.3% and reversion to cash dividends is a positive. Valuations are undemanding at 2.6x FY23F EV/EBITDA and 17.5x FY23F PER, circa 30% and 13% 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

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	465.3	427.7
Current assets	**838.1**	**1,055.4**	**1,357.8**	**1,271.4**	**1,246.5**
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	-661.0	-653.5
Total Equity	**651.1**	**868.0**	**957.1**	**1,003.5**	**1,044.1**
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	111.8
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	-389.7
Operating cash flow	**121.3**	**234.0**	**130.0**	**217.3**	**103.3**
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	-32.2	-32.1
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**	**-102.2**	**-102.1**
Net changes in cash	-48.7	80.5	43.2	76.4	-37.6
Beginning cash	**167.3**	**118.9**	**201.9**	**245.4**	**321.7**
Overdrafts, Deposits & Forex	139.7	140.5	143.9	143.6	143.6
Ending cash	**258.2**	**339.8**	**388.9**	**465.3**	**427.7**

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%	5.1%
ROA	2.2%	1.0%	0.7%	1.4%	1.1%
Net gearing	126%	81%	78%	60%	55%
Book value/share (RM)	0.48	0.59	0.59	0.60	0.61
PBV (x)	1.2	1.0	1.0	1.0	1.0
PER (x)	12.0	19.3	33.7	17.5	18.9
EV/EBITDA (x)	3.1	2.9	2.6	2.6	2.6

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