Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Dividends Re-accelerating

***Maintain* BUY**

***Unchanged* Target Price: RM0.70**

KEY INVESTMENT HIGHLIGHTS

- **Generous second interim dividend announced**
- **FY23F payout to be well supported by NRW grant and tariff hike-driven earnings**
- **FY23F/24F dividends raised**
- **Re-affirm BUY at unchanged TP of RM0.70**

Surprise dividends. Ranhill announced a second interim dividend of 2sen/share for FY22 (ex-date: 25th April 2023), which brings total FY22 dividends to 2.5sen/share (RM32.4m), representing an attractive 4.9% yield. There are 2 positives from this development: (1) This marks a solid reversion to cash dividends from share dividends previously, (2) The increased payout signals optimism on cashflows on the back of the recent NRW grant award and earnings acceleration from RSAJ's recent tariff hike.

FY23F payout to be well supported. In the same light, we think FY23F dividends will be supported by the above factors (proceeds from NRW grant & RSAJ earnings re-acceleration). Proceeds from the RM142m NRW grant is expected to be realized by mid-year, while the 20-30sen/cubic meter non-domestic sector tariff hike for RSAJ (6%-11% effective increase) commenced since January 2023 with backdated billing for the tariff hike between August 2022-December 2022 to be reflected in 1HFY23. The latter is the main factor driving a +93%yoy increase in FY23F earnings.

More optimistic dividend forecast. In line with the increased optimism, we raise our FY23F/24F dividends to 2.5sen/share (from 2.3sen/share previously), representing 75%-81% payout and implying attractive 4.9% yield.

Recommendation. Maintain **BUY** on Ranhill at unchanged **TP of RM0.70.** This latest development is a positive, reflecting a reacceleration in dividend payout and a reversion to cash dividends. 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 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 4.9% 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.

RETURN STATISTICS	
Price @ 6th April 2023 (RM)	0.51
Expected share price return (%)	+36.52
Expected dividend yield (%)	4.87
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

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 (%)	4.9	4.9	4.9

KEY STATISTICS	
FBM KLCI	1,424.89
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

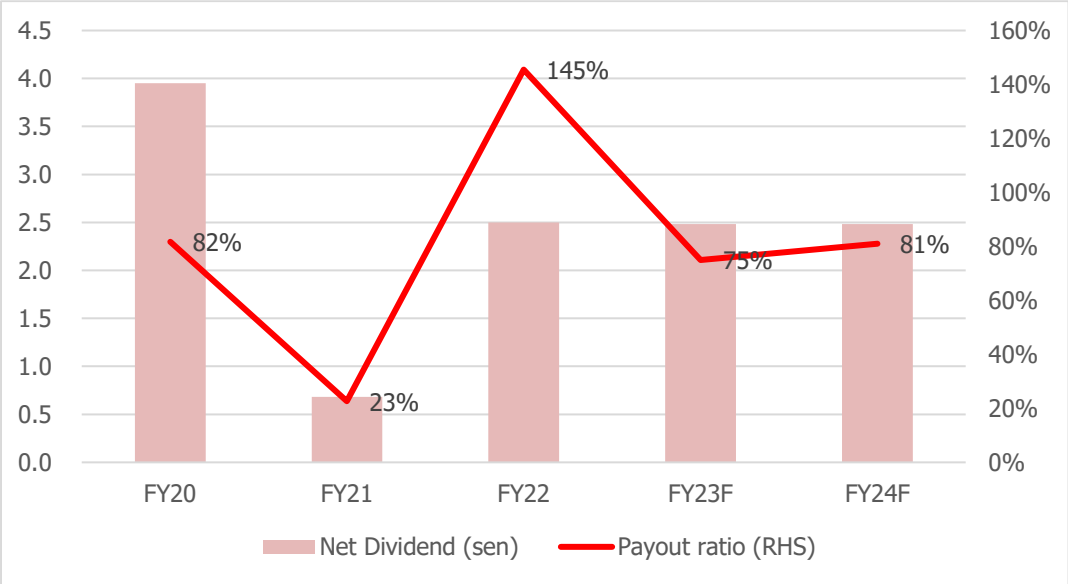
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Table 1: Ranhill Sum-of-Parts Valuation

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

Chart 1: Ranhill Historical Dividend Payout



Source: Company, MIDFR **FY21: Share Dividends* ***FY22 payout calculated against core earnings*

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)	1.1	0.9	0.9	0.8	0.8
PER (x)	10.6	16.9	29.7	15.4	16.7
EV/EBITDA (x)	3.0	2.7	2.4	2.5	2.4

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