Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Rapid Flow

***Maintain* BUY**

***Revised* Target Price: RM0.73**

(previously RM0.70)

KEY INVESTMENT HIGHLIGHTS

- **1QFY23 result ahead of expectation**
- **Earnings up +58%yoy driven by tariff hike, orderbook expansion and higher power demand**
- **Near to mid-term prospects underpinned by LSS4 project completion and new 100MW CCGT plant**
- **Domestic water tariff review is next potential catalyst**
- **Re-affirm BUY at higher TP of RM0.73**

Ahead of expectation. Ranhill Utilities Bhd (Ranhill) registered a strong set of results for 1QFY23. The group reported a 1QFY23 net profit of RM11m, accounting for 26%/21% of our and consensus estimates. We deem the result above our estimates as we expect a gradual strengthening in earnings throughout the year. Ranhill's 1QFY23 net profit grew +58%yoy on the back of a +32%yoy topline growth. The improvement was driven by significant growth across all segments.

Dividend surprise. A first interim cash dividend of 1.5sen/share (ex-date: 13 June 2023) was declared, significantly higher than the 0.29sen/share dividend in-specie declared in 1QFY22.

Boost from tariff hike. The environment division registered +68%yoy PAT growth driven mainly by a 6%-11% tariff hike for Johor's non-domestic sector effective 1st January 2023. While topline growth in 1QFY23 was just +9%yoy, impact on PAT was significant given high operating leverage of the water business, notwithstanding higher electricity ICPT surcharge in 1HFY23. We believe there is potential upside to earnings in 2HFY23 should the ICPT surcharge be revised lower in the upcoming 2H23 review given a more than halving in global thermal coal prices to the current USD141/MT. The current review of domestic water tariffs is a potential catalyst for FY24 should there be a favourable outcome.

Rapid orderbook expansion. The services division reported a +60%yoy PAT growth driven by progress recognition of on-going contracts, mainly under 51%-owned Ranhill Worley Sdn Bhd (RWSB). The services division order book recently ballooned to over RM1b following RWSB's latest RM210m contract award in the Qatar North Field. We estimate 44% of the division's orderbook now comprise of RWSB's projects, with another 34% and 18% under Ranhill Bersekutu and Ranhill Water Services respectively. Tender book stands at RM1.3b with 72% coming from RWSB. As an established player in the O&G engineering sector, RWSB is well positioned to ride on the O&G capex upcycle riding on stable oil prices. It is also strategically positioning itself at the centre of decarbonisation of the hydrocarbon industry leveraging its expertise in Carbon Capture & Storage (CCS), with involvement in the Kasawari CCS project for Petronas Carigali.

RETURN STATISTICS	
Price @ 29th May 2023 (RM)	0.595
Expected share price return (%)	+23.42
Expected dividend yield (%)	5.12
Expected total return (%)	**+28.54**

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 Dec (RMm)	2022A	2023F	2024F
Revenue	1,726.4	1,873.4	1,921.5
Operating Profit	197.6	134.1	142.7
Profit Before Tax	199.6	130.9	129.4
Core PATAMI	22.3	46.5	45.9
Core EPS (sen)	1.7	3.6	3.5
DPS (sen)	2.5	3.0	3.0
Dividend Yield (%)	4.2	5.1	5.1

KEY STATISTICS	
FBM KLCI	1,404.93
Issue shares (m)	1278.02
Estimated free float (%)	46.49
Market Capitalisation (RM'm)	760.42
52-wk price range	RM0.35 – 0.62
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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Energy segment benefiting from higher demand. The energy segment registered almost a doubling in PAT (+99%yoy). The growth was mainly contributed by RP2 power plant which benefitted from higher electricity demand. RP2 has exceptionally higher sensitivity to capacity factor changes given its PPA structure which has heavier weighting on variable operating rate. On sequential basis, energy division earnings improved significantly versus a loss in 4QFY22 given lower maintenance cost and absence of major inspections. The strong demand trend is expected to sustain given: (1) Hot weather driving further increase in power demand in 2QFY23, (2) Commissioning of SK Nexilis' copper foil manufacturing plant at Kota Kinabalu Industrial Park with potential 70MW additional demand by year-end.

Earnings estimates. We raise our FY23F/24F net profit expectations by 8%/15% to reflect higher earnings for the services division from its orderbook expansion and higher capacity factor at RP2. We also raise FY23F/24F dividends to 3sen/share (from 2.5sen/share previously) to reflect higher DPR (85%).

Recommendation. The latest set of result underpins our thesis of a strong earnings turnaround for Ranhill this year driven by: (1) Non-domestic water tariff hike for Ranhill's Johor water operations (2) Improvement in energy division earnings from higher power demand driven by the hot weather, increased dispatch to East Sabah and incremental demand from SK Nexilis' new manufacturing plant by year-end (3) Expansion in the services division's orderbook riding on recovery in the O&G sector. The cash boost from its RM142m NRW grant coupled with core operating earnings improvement are expected to reaccelerate dividends going forward. Meanwhile, the recent win of a 100MW CCGT for West Sabah (COD: March 2026) and completion of its LSS4 plant by year-end underpins near to mid-terms growth prospects.

Re-affirm BUY on Ranhill and raise our SOP-derived **TP** by 4% to **RM0.73** (from RM0.70 previously)**.** We like Ranhill for its earnings expansion potential: (1) Expansion into Indonesia source-to-tap water supply (432MLD 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) Completion of its 100MW West Sabah CCGT plant by March 2026 (6) Potential participation in the Corporate Green Power Program. Dividend yield is attractive at 5.1% and reversion to cash dividends is a positive. Valuations are undemanding at 16.8x FY24F PER, at 18% 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%)	45.5	60.0%	1,295.9	0.02
RP 2	DCF; EV (WACC: 7%)	154.1	80.0%	1,295.9	0.10
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		**1,628.2**			**1.16**
	Group net cash/(debt)	(557.1)		1,295.9	-0.43
SOP value		**1,071.1**			**0.73**

Source: Company, MIDFR

Table 2: Ranhill 1QFY23 Result Summary

FYE Dec (RMm)	1Q22	4Q22	1Q23	QoQ	YoY
Revenue	**393.4**	**440.6**	**520.1**	**18.0%**	**32.2%**
EBITDA	120.2	223.5	134.4	-39.9%	11.8%
Depreciation & amortisation	(96.2)	(98.1)	(99.0)	0.9%	2.9%
Operating profit	**21.0**	**118.6**	**31.6**	**-73.3%**	**50.6%**
Net finance cost	(4.4)	(2.7)	(4.3)	58.4%	-4.2%
Zakat	0.0	0.0	0.0	NA	NA
JV/Associates	3.0	6.9	3.8	-45.2%	25.4%
Pretax	**19.6**	**122.7**	**31.1**	**-74.6%**	**59.2%**
Tax	(7.2)	(22.5)	(10.2)	-54.6%	42.0%
PAT	**12.4**	**100.3**	**20.9**	**-79.1%**	**69.1%**
MI	5.0	27.2	9.8	-63.9%	96.2%
Net profit	7.4	73.0	11.1	-84.8%	50.7%
Core net profit	**7.0**	**(1.4)**	**11.1**	**-878.3%**	**58.3%**
Core EPS (sen)	0.54	-0.11	0.86	-878.3%	58.3%
DPS (sen)	0.29	0.50	1.50	200.0%	417.2%
EBITDA margin	30.6%	50.7%	25.8%		
Operating profit margin	5.3%	26.9%	6.1%		
Pretax margin	5.0%	27.9%	6.0%		
Effective tax rate	36.7%	18.3%	32.7%		
Core net profit margin	1.8%	-0.3%	2.1%		
Dividend payout ratio	53.5%	-453.5%	174.8%		

Segmental Breakdown (RMm)	1Q22	4Q22	1Q23	QoQ	YoY
Revenue	**393.4**	**440.6**	**520.1**	**18.0%**	**32.2%**
Environment	287.4	292.8	312.2	6.6%	8.6%
Energy	59.7	62.1	89.4	43.8%	49.6%
Services	46.3	85.6	118.5	38.4%	156.2%
PAT	**12.4**	**100.3**	**20.9**	**-79.1%**	**69.1%**
Environment	15.1	140.7	25.4	-82.0%	68.0%
Energy	3.3	(8.2)	6.5	179.3%	98.6%
Services	7.6	1.7	12.2	635.2%	60.3%
Others	(13.6)	(33.9)	(23.1)	-31.7%	70.1%
PAT margin				**ppts**	**ppts**
Environment	5.3%	48.1%	8.1%	-39.9	2.9
Energy	5.5%	-13.2%	7.3%	20.5	1.8
Services	16.4%	1.9%	10.3%	8.4	-6.2

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement	FY20	FY21	FY22	FY23F	FY24F
Revenue	**1,468.1**	**1,531.1**	**1,726.4**	**1,873.4**	**1,921.5**
Operating expenses	-1,387.4	-1,437.5	-1,528.8	-1,739.2	-1,778.7
Operating profit	**80.7**	**93.6**	**197.6**	**134.1**	**142.7**
Net interest expense	3.8	-16.0	-13.6	-19.7	-31.2
Associates	11.1	16.1	15.7	16.5	17.8
PBT	**95.5**	**93.7**	**199.6**	**130.9**	**129.4**
Taxation	-31.3	-27.6	-55.8	-45.8	-45.3
Minority Interest	26.5	35.5	47.1	38.6	38.2
Net profit	37.7	30.6	96.7	46.5	45.9
Core net profit	**51.5**	**32.1**	**22.3**	**46.5**	**45.9**
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	131.7	136.6
Receivables	309.0	341.5	552.0	374.7	384.3
Others	182.0	257.4	270.6	270.6	270.6
Cash & equivalent	258.2	339.8	388.9	510.2	476.5
Current assets	**838.1**	**1,055.4**	**1,357.8**	**1,287.2**	**1,268.1**
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	228.5	266.7
Reserves	-767.8	-750.1	-671.7	-664.8	-658.3
Total Equity	**651.1**	**868.0**	**957.1**	**1,002.7**	**1,047.3**
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	412.7	423.3
Others	16.0	387.0	368.1	368.1	368.1
Current liabilities	**373.9**	**875.3**	**1,033.5**	**986.5**	**997.1**

Cash Flow Statement	FY20	FY21	FY22	FY23F	FY24F
PBT	95.5	93.7	199.6	130.9	129.4
Depreciation & Amortization	377.2	380.0	387.1	388.6	384.9
Chgs in working capital	-140.0	16.6	-118.1	144.8	-3.9
Others	-211.4	-256.3	-338.7	-394.8	-395.8
Operating cash flow	**121.3**	**234.0**	**130.0**	**269.5**	**114.6**
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	-39.5	-39.5
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**	**-109.5**	**-109.5**
Net changes in cash	-48.7	80.5	43.2	121.3	-33.7
Beginning cash	**167.3**	**118.9**	**201.9**	**245.4**	**366.6**
Overdrafts, Deposits & Forex	139.7	140.5	143.9	143.6	143.6
Ending cash	**258.2**	**339.8**	**388.9**	**510.2**	**476.5**

Ratios	FY20	FY21	FY22	FY23F	FY24F
Operating profit margin	5.5%	6.1%	11.4%	7.2%	7.4%
Core net profit margin	3.5%	2.1%	1.3%	2.5%	2.4%
ROE	10.0%	4.7%	2.9%	6.0%	5.9%
ROA	2.2%	1.0%	0.7%	1.5%	1.3%
Net gearing	126%	81%	78%	56%	50%
Book value/share (RM)	0.48	0.59	0.59	0.60	0.60
PBV (x)	1.2	1.0	1.0	1.0	1.0
PER (x)	12.3	19.8	34.6	16.6	16.8
EV/EBITDA (x)	3.2	3.0	2.6	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