Ranhill Utilities Berhad

(5272 | RAHH MK) Main | Utilities

Power Demand 'Heating Up'

***Maintain* BUY**

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

KEY INVESTMENT HIGHLIGHTS

- **High demand forcing power rationing in Sabah**
- **SESB in talks to expand Sabah's power capacity**
- **Ranhill well positioned to benefit from higher load factor and potential capacity build-up in Sabah power sector**
- **Re-affirm BUY at TP of RM0.70**

RETURN STATISTICS	
Price @ 2nd May 2023 (RM)	0.58
Expected share price return (%)	+20.05
Expected dividend yield (%)	4.28
Expected total return (%)	**+24.33**

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? The high demand due to hot weather has forced Sabah Electricity Sdn Bhd (SESB) to implement power rationing to stabilise the state's electricity grid. The rationing is also partly due to unscheduled outage of 100MW capacity at SESB-owned power plants and IPPs. In addition, SESB highlighted the issue of Sabah's limited reserve margin and indicated that it is in talks with the Energy Commission (EC) to add new power plants in Sabah and Labuan.

Ranhill could benefit from exceptionally high demand. We believe the exceptionally high power demand currently could drive higher load factor at the existing Sabah IPPs, of which Ranhill controls the largest share of ~30% via RP1 (190MW) and RP2 (190MW). RP2 has exceptionally higher sensitivity to changes in load factor given its PPA is structure which has higher weighting on variable operating rate (which is paid only on dispatch of power to the grid). Every 10% change in RP2 load factor is estimated to impact earnings by RM2.5m and for RP1, RM1m.

SESB in discussions to expand Sabah power capacity. A more structural solution to Sabah's power woes is to expand the existing power capacity. Sabah currently entails a reserve margin of 23% based on estimated peak demand of 1046MW and dependable capacity of 1267MW. The potential addition of 70MW to peak demand from SK Nexilis's new copper foil manufacturing plant in Kota Kinabalu could reduce Sabah's reserve margin further to the low-to-mid teens, on our estimates. The state has plans to build two new 100MW CCGT plants up till 2025 and another 192MW capacity is expected to come from the Upper Padas Hydroelectric project by 2027. We believe Ranhill is well positioned to compete for the new CCGT capacity given its entrenched position and track record operating in the Sabah power sector. It recently won the tender for the first of the two planned 100MW CGCT capacity with expected COD in 2026 (slightly delayed from the original COD given dealys in awarding the tender). We estimate a project IRR of 7%-8% and value accretion of 11sen/share (based on Ranhill's 60% stake) from the project. Given current power capacity shortages, we think there is strong reason to expedite the tender for the other 100MW CCGT capacity, in which Ranhill had indicated interest to participate in.

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	1,426.11
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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On track for an earnings turnaround. 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.

Recommendation. Maintain **BUY** on Ranhill at unchanged **TP of RM0.70.** This latest development is am incremental positive for Ranhill we believe, reinforcing the group's power division's earnings prospects over the near-to-midterm. 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: Sabah Power Capacity Status

	West Cost	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: 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			Patau-Patau (103MW) - old plant operated since 1983 and frequently shut down for rectifications	
2027		Upper Padas HEP (192MW)		
2028				
2029			RP1 CCGT (190MW), Sepangar Bay CCGT (100MW)	Ranhill has made a proposal to extend the PPA up to 2037

Source: Company, MIDFR

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	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