

15 November 2023

Utilities | Utilities

Ranhill Utilities (RAHH MK)

Buy (Maintained)

Exhibiting Steady Growth; Keep BUY

Target Price (Return): MYR1.09 (+20%)
 Price (Market Cap): MYR0.91 (USD249m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (MYR/USD) 6.64m/1.41m

- **Maintain BUY and SOP-based MYR1.09 TP, 20% upside with c.3% yield.** Ranhill Utilities' 9M23 core profit of MYR33.4m (+25% YoY) met our and Street estimates – at 73% and 72% of full-year projections. Much of the growth came from higher profit recognition from the engineering services arm. We like the stock, as it is trading at an undemanding -1SD below the 5-year EV/EBITDA mean, with growth prospects underpinned by its defensive nature (water segment) and higher recognition from engineering services jobs as this division moves along the S-curve.
- **For 9M23, the environment segment** saw a 10% YoY expansion in revenue due to the hike in non-domestic water tariffs in January for its subsidiary, Ranhill SAJ. Nevertheless the adjusted PAT for 9M23 of the segment declined by 6% YoY due to the increase in the new imbalance cost pass-through or ICPT rate, higher maintenance cost for non-revenue water mitigation, and higher chemicals usage amid higher production volume. Meanwhile, the services segment saw a 66% YoY adjusted PAT growth to MYR43.5m in 9M23 (9M22: MYR26.2m), mainly due to higher progress billings from its newly secured projects under Ranhill Worley. Likewise, the energy segment's adjusted PAT expanded >100% YoY in 9M23 due to profit recognition from the Ranhill Solar I solar farm in Bidor, Perak.
- **No changes to estimates, as results are in line.** Therefore, our SOP-derived TP of MYR1.09 remains unchanged. Our TP also has an ESG premium of 4% imputed. We believe that RAHH's domestic growth prospects lie in the National Energy Transition Roadmap or NETR, which focuses on carbon capture and storage (CCS) and solar power – this could benefit RAHH as the group targets to achieve 1,000MW of energy-generating capacity by 2027. RAHH's engineering services arm is already involved in the Kasawari CCS project, in addition to its 50MW LSS4 solar farm in Bidor, Perak. We also view RAHH to be a Johor thematic play in light of the anticipated growth in data centres and property projects which may further spur the demand for water.
- **A cross-border opportunity would be** RAHH's potential participation in the Indonesian Djuanda source-to-tap water project (estimated treatment capacity of 605m litres per day, whereby the RAHH-led consortium may participate in a public tender via an initiator status once feasibility studies are approved). Moreover, the recent memorandum of understanding signed by RAHH with China Energy International Group to jointly pursue the Djuanda source-to-tap drinking water supply project in Indonesia (Djuanda project) and other projects in South-East Asia may provide a cushion from its balance sheet being over-stretched – as the project has an estimated capex of c.USD700m-900m.
- **Downside risks to our call:** Lower-than-expected water consumption and developer contributions, and failure to secure new contracts under the services arm.

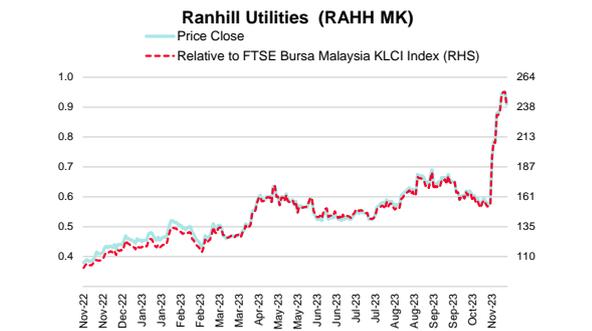
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	100.0	48.0	58.3	54.2	139.5
Relative	102.9	47.5	58.7	52.2	140.3
52-wk Price low/high (MYR)				0.39	– 0.95



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

Ranhill is the most efficient water operator in Malaysia: Johor has the lowest NRW per km of 17.2m3/km/day. Ranhill actively incorporates the circular economy model into its business operations. There are good disclosures within the sustainability reports on matters such as energy and water usage (within each segment), amongst others. Ranhill has been a constituent in the FTSE4GoodBursa Malaysia Index since 2019.

S: GOOD

Apart from up-to-date safety and health policies, Ranhill continues to invest in the development of its talent pool with talent development and management strategies centred on the 4Rs of strategic recruitment, retention, reward and rejuvenation. In 2019, training hours exceeded 19 hours per employee despite being lower YoY.

G: GOOD

Other than the departure from Practice 7.2 which encourages the Board to disclose remuneration components in bands of MYR50,000 on a named basis for the top five senior management members, Ranhill adheres to most of the best practices listed in Malaysian Code on Corporate Governance.

Note:

Small cap stocks are defined as companies with a market capitalization of less than USD0.5bn.

Forecasts and Valuation	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Total turnover (MYRm)	1,531	1,726	1,836	1,933	1,998
Recurring net profit (MYRm)	31	24	46	48	54
Recurring net profit growth (%)	(18.9)	(21.6)	90.6	5.1	12.7
Recurring P/E (x)	33.33	46.57	25.63	24.38	21.64
P/B (x)	1.6	1.5	1.5	1.4	1.4
P/CF (x)	4.42	8.60	3.23	4.41	6.91
Dividend Yield (%)	1.2	2.7	2.7	2.7	2.7
EV/EBITDA (x)	3.51	3.03	3.12	2.32	2.80
Return on average equity (%)	5.3	13.4	5.8	5.9	6.4
Net debt to equity (%)	81.9	78.1	42.8	15.5	28.9

Source: Company data, RHB

See important disclosures at the end of this report

Market Dateline / PP 19489/05/2019 (035080)

Financial Exhibits

Asia	Financial summary (MYR)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Malaysia	Recurring EPS	0.03	0.02	0.04	0.04	0.04
Utilities	DPS	0.01	0.03	0.03	0.03	0.03
Ranhill Utilities	BVPS	0.58	0.60	0.62	0.65	0.67
RAHH MK	Return on average equity (%)	5.3	13.4	5.8	5.9	6.4
Buy						
	Valuation metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Valuation basis	Recurring P/E (x)	33.33	46.57	25.63	24.38	21.64
SOP	P/B (x)	1.6	1.5	1.5	1.4	1.4
	FCF Yield (%)	19.0	7.2	25.8	17.5	9.4
Key drivers	Dividend Yield (%)	1.2	2.7	2.7	2.7	2.7
i. Stable operations;	EV/EBITDA (x)	3.51	3.03	3.12	2.32	2.80
ii. Favourable outcome on the water tariff hike.	EV/EBIT (x)	17.53	8.97	13.92	8.95	10.69
	Income statement (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
Key risks	Total turnover	1,531	1,726	1,836	1,933	1,998
i. Lower-than-expected water consumption and developer contributions;	Gross profit	339	331	420	472	497
ii. Failure to secure new contracts under the services arm.	EBITDA	474	585	507	566	571
	Depreciation and amortisation	(379)	(387)	(393)	(419)	(422)
	Operating profit	95	198	113	146	150
Company Profile	Net interest	(18)	(14)	(11)	(45)	(20)
Ranhill Utilities is an established and sustainable environment and power entity with over five decades of expertise. Since 1999, through its subsidiary Ranhill SAJ, it manages and operates potable water supply as the exclusive provider of source-to-tap water in Johor, the third most populous state in Malaysia.	Pre-tax profit	93	200	117	117	145
	Taxation	(27)	(56)	(47)	(47)	(58)
	Reported net profit	31	97	46	48	54
	Recurring net profit	31	24	46	48	54
	Cash flow (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Change in working capital	10	(97)	208	(7)	(3)
	Cash flow from operations	231	130	363	266	170
	Capex	(37)	(49)	(60)	(60)	(60)
	Cash flow from investing activities	3	(90)	(49)	(49)	(49)
	Dividends paid	(25)	(20)	(25)	(40)	(44)
	Cash flow from financing activities	(156)	3	(146)	(157)	(161)
	Cash at beginning of period	258	340	389	552	612
	Net change in cash	78	43	169	60	(39)
	Ending balance cash	336	383	558	612	572
	Balance sheet (MYRm)	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Total cash and equivalents	340	389	552	612	572
	Tangible fixed assets	244	251	222	217	210
	Total investments	209	252	229	245	261
	Total assets	3,281	3,284	2,719	3,154	3,224
	Short-term debt	150	206	150	150	206
	Total long-term debt	894	932	832	624	714
	Total liabilities	2,421	2,327	1,714	2,102	2,020
	Total equity	860	958	1,005	1,052	1,204
	Total liabilities & equity	3,281	3,284	2,719	3,154	3,224
	Key metrics	Dec-21	Dec-22	Dec-23F	Dec-24F	Dec-25F
	Revenue growth (%)	4.3	12.8	6.3	5.3	3.4
	Recurrent EPS growth (%)	(22.3)	(28.4)	81.7	5.1	12.7
	Gross margin (%)	22.2	19.2	22.9	24.4	24.9
	Operating EBITDA margin (%)	31.0	33.9	27.6	29.3	28.6
	Net profit margin (%)	2.0	5.6	2.5	2.5	2.7
	Dividend payout ratio (%)	41.5	33.3	70.4	67.0	59.4
	Capex/sales (%)	2.4	2.9	3.3	3.1	3.0
	Interest cover (x)	1.10	2.63	1.71	1.57	2.19

Source: Company data, RHB

Emissions And ESG

Trend analysis

The company's total emissions declined by 9% YoY in FY21, before increasing by 16% YoY in FY22.

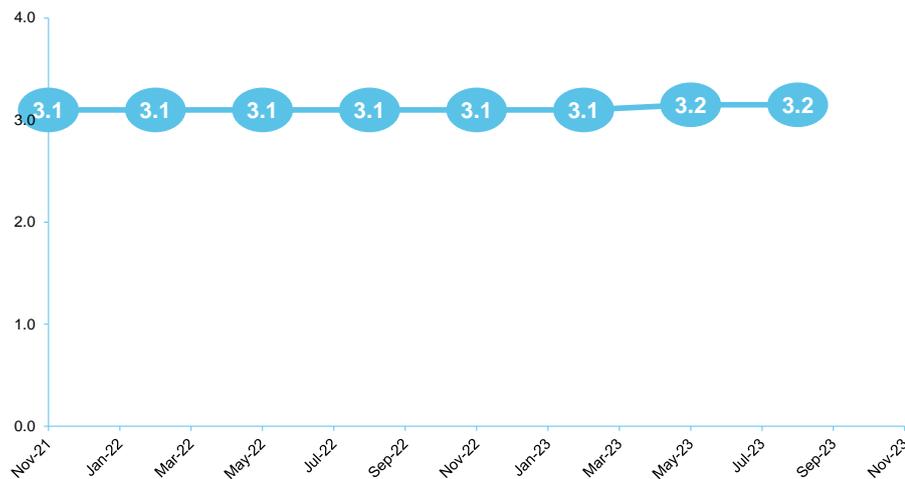
Emissions (tCO2e)	Dec-20	Dec-21	Dec-22
Scope 1	4,352	3,492	2,765
Scope 2	205,526	187,844	218,961
Scope 3	16,919	15,942	18,080
Total emissions	226,797	207,278	239,807

Source: Company data, RHB

Latest ESG-Related Developments

- In monitoring its carbon footprint, Ranhill SAJ has developed a comprehensive carbon footprint data analysis methodology system that provides extensive carbon scope coverage across all three scopes. Data and analysis is undertaken by its in-house Carbon Footprint Team.

ESG Rating History



Source: RHB

Results At A Glance

Figure 1: Ranhill's results

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue	434.0	593.7	609.4	3%	40%	1,285.8	1,723.1	34%	Better contribution from the engineering services segment.
EBITDA	128.9	141.6	136.8	-3%	6%	376.8	412.8	10%	
<i>EBITDA margin (%)</i>	30%	24%	22%			29%	24%		
Finance cost	(18.1)	(17.5)	(17.1)	-2%	-5%	(56.6)	(53.2)	-6%	
Share of Associate	3.4	5.2	4.2	-19%	22%	8.8	13.1	49%	
Pretax profit	29.7	39.8	30.3	-24%	2%	76.9	101.2	32%	
<i>Pretax margin (%)</i>	7%	7%	5%			6%	6%		
Tax	(11.4)	(16.5)	(10.7)	-35%	-6%	(33.3)	(37.4)	12%	
Effective tax rate (%)	38%	41%	35%			43%	37%		
Minority interest	(9.0)	(11.3)	(9.4)	-17%	4%	(19.9)	(30.4)	53%	
PATAMI	9.3	12.1	10.2	-15%	10%	23.7	33.4	41%	
Core PATAMI	9.3	12.1	10.2	-16%	10%	26.8	33.4	25%	Within expectations.
<i>Core net margin (%)</i>	2.1%	2.0%	1.7%			2.1%	1.9%		

Source: Company data, RHB

Figure 2: Ranhill's segmental results

FYE Dec (MYRm)	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	9M22	9M23	YoY (%)	Comments
Revenue									
Environment	301.8	328.1	326.4	0%	8%	881.0	966.7	10%	Higher water tariffs. Higher contributions from Ranhill Worley and Bersekutu.
Services	102.4	295.2	243.1	-18%	137%	287.3	656.9	129%	
Energy	62.1	120.4	131.7	9%	112%	201.8	341.5	69%	
Adjusted PAT									
Environment	35.8	26.2	15.9	-39%	-56%	64.4	60.5	-6%	
Services	6.4	16.3	15.0	-8%	133%	26.2	43.5	66%	
Energy	(0.2)	1.4	(3.2)	-322%	-1316%	-2.1	4.1	295%	
Adjusted PAT margins									
Environment	12%	8%	5%			7%	6%		
Services	6%	6%	6%			9%	7%		
Energy	0%	1%	-2%			-1%	1%		

Source: Company data, RHB

Figure 3: Ranhill's SOP valuation

Assets	Stake	FY24F FCFE	Per share	Remarks
Water Asset – Ranhill SAJ	80%	1,172.1	0.91	CoE: 8%
Ranhill Sabah Energy I	60%	2.0	0.00	CoE: 8%
Ranhill Sabah Energy II	80%	57.5	0.04	CoE: 8%
Ranhill Sabah Energy III (Sabah West Coast CCGT plant)	60%	120.8	0.08	CoE: 9%
Associates	various	128.0	0.10	8x FY24F Target P/E
LSS4	100%	78.9	0.06	WACC: 4%
Services (Worley & Bersekutu)	various	105.5	0.08	9x FY24F Target P/E
No. of shares		1,288.6		
Gross value		1,664.8	1.30	
Net debt		(163.2)	(0.13)	
SOP value			1.17	
10% SOP discount			(0.12)	
Intrinsic value			1.05	
4% ESG premium			0.04	
SOP-derived TP			1.09	

Source: Company data, RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2023-11-08	Buy	1.09	0.90
2023-08-15	Buy	0.72	0.61
2023-05-30	Buy	0.72	0.59
2023-04-04	Buy	0.75	0.50
2023-03-09	Buy	0.68	0.51
2023-02-27	Buy	0.63	0.47
2023-01-24	Buy	0.55	0.47
2022-12-01	Buy	0.55	0.43
2022-08-29	Buy	0.60	0.42
2022-08-11	Buy	0.67	0.40
2022-06-01	Buy	0.66	0.50
2022-03-16	Buy	0.76	0.50
2022-02-28	Buy	0.76	0.51
2021-11-30	Buy	0.76	0.60
2021-09-01	Buy	0.89	0.68

Source: RHB, Bloomberg

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
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