

17 March 2025

Utilities | Utilities

## Ranhill Utilities (RAHH MK)

**Buy** (from Sell)

Looks Ready To Run Up a Hill; Upgrade To BUY

Target Price (Return): MYR1.37 (18%)  
 Price (Market Cap): MYR1.16 (USD338m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (MYR/USD) 1.82m/0.41m

- **Upgrade to BUY from Sell with new MYR1.37 TP from MYR1.05, 18% upside, c.1% yield.** According to an article titled [Government May Raise Water Tariffs By 30% In Selangor, KL & Putrajaya Starting July This Year](#), water tariffs nationwide are in plans to be raised, starting with the three aforementioned areas (negotiations in progress). The National Water Services Commission (SPAN) has instructed water operators to obtain written approval from state governments by 31 March before implementing the new tariff-setting mechanism.
- **In Feb 2024**, Ranhill Utilities' subsidiary Ranhill SAJ's water tariffs in Johor for domestic users rose between 5% and 31% for residential bands 1-3. Tariff revisions for non-domestic users, meanwhile, came into effect in Jan 2023 to a tune ranging between 8% and 13%. Prior to these tariff changes, the last revision took place in 2015 and hence, possibility of subsequent hikes cannot be ruled out, including in Johor to ensure water infrastructure assets are well maintained.
- **Additionally, the article mentioned that data centres (DCs)** will likely be charged under a special category at MYR5.50 per cu m instead of the standard industrial water tariff subject to the Ministry of Energy Transition and Water Transformation's (PETRA) approval. For Ranhill SAJ's case, perhaps any specialised tariff for DCs should not exceed what is imposed in Singapore, in our view. On further scrutiny, we found that Singapore's non-domestic industrial water prices are set at SGD1.75 (including waterborne tax of SGD1.09) effective Apr 2025 which equates to c.MYR5.83 – higher than the aforementioned special water tariff category of MYR5.50 for DCs.
- **For the purpose of scenario analysis**, if we assume Johor goes ahead with the water tariff hike by July with an increase between 2.5% and 10% (our own projections) for domestic and non-domestic users combined with the special water tariff category of MYR5.50 per cu m (vs current MYR3.55 per cu m for DCs (expect c.627MW of DC capacity to be online by FY26F), FY26F and FY27F earnings could be higher by c.13% (Fig 1). Our analysis also considers periodic tariff hikes which may take place every three years (subject to SPAN) at the start of each operating period (the next one begins CY27).
- **No changes to our earnings estimates** pending the actual water tariff hike but we take the opportunity to lower our discount rate for RAHH's water segment to 6% from 7.5% to reflect the imminent favourable regulatory conditions via the potential of higher water tariffs, especially for DCs. We believe higher tariffs for DC operators will not be a hurdle to the country's DC prospects as other elements, ie land, remain attractive for DC investors. As such, we arrive at a new SOP-derived MYR1.37 TP (previously MYR1.05), which bakes in a 4% ESG premium. Valuation wise – the stock is trading at an FY26F EV/EBITDA of 3.8x, at a discount to its 10-year mean EV/EBITDA of 4.1x. Risks to our call: Lower-than-expected water consumption.

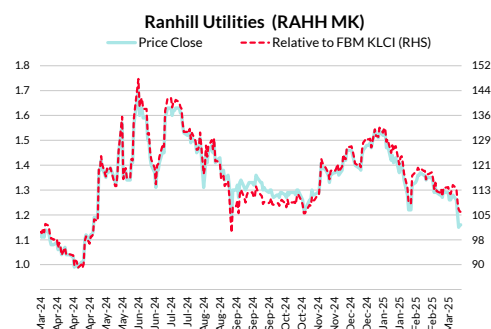
### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(23.7)	(14.1)	(17.2)	(12.8)	6.4
Relative	(15.8)	(9.1)	(11.2)	(4.3)	8.5
52-wk Price low/high (MYR)	0.99 – 1.70				



Source: Bloomberg

Forecasts and Valuation	Dec-23	Jun-25F	Jun-26F	Jun-27F
Total turnover (MYRm)	2,281	3,437	2,497	2,665
Recurring net profit (MYRm)	32	60	46	50
Recurring net profit growth (%)	42.5	85.8	(23.1)	8.3
Recurring P/E (x)	46.59	25.08	32.60	30.09
P/B (x)	1.9	1.9	1.8	1.8
P/CF (x)	6.53	4.14	7.76	11.44
Dividend Yield (%)	1.3	1.3	1.3	1.3
EV/EBITDA (x)	4.03	3.22	3.79	3.40
Return on average equity (%)	7.5	7.5	5.7	6.0
Net debt to equity (%)	71.3	48.7	47.6	43.3

Source: Company data, RHB

**Overall ESG Score: 3.2 (out of 4)**

**E Score: 3.3 (EXCELLENT)**

**S Score: 3.0 (GOOD)**

**G Score: 3.0 (GOOD)**

Please refer to the ESG analysis on the next page

### Note:

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

## Emissions And ESG

Trend analysis	Emissions (tCO2e)	Dec-22	Dec-23	Jun-25
The total emissions increased by 9% YoY in FY23 after recording >100% YoY increases in FY21 and FY22.	Scope 1	1,309,267	1,357,603	na
	Scope 2	291,556	292,907	na
	Scope 3	331,155	453,290	na
	Total emissions	1,931,978	2,103,800	na

Source: Company data, RHB

## Latest ESG-Related Developments

RAHH's goal is to reduce Scope 1 and Scope 2 emission levels as compared to its 2022 base year by 90% as early as 2050. The balance of residual emissions will be addressed through carbon removal or offset solutions.

## ESG Unbundled

**Overall ESG Score: 3.2 (out of 4)**

Last Updated: 17 February 2025

**E Score: 3.3 (EXCELLENT)**

Ranhill is the most efficient water operator in Malaysia as Johor has the lowest NRW per km of 20.2m3/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.

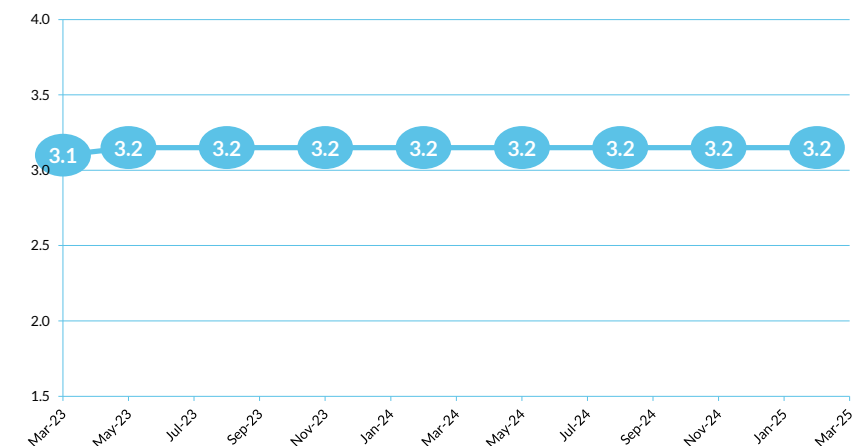
**S Score: 3.0 (GOOD)**

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.

**G Score: 3.0 (GOOD)**

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

## ESG Rating History



Source: RHB

17 March 2025

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## Financial Exhibits

Asia	Financial summary (MYR)	Dec-23	Jun-25F	Jun-26F	Jun-27F
Malaysia	Recurring EPS	0.02	0.05	0.04	0.04
Utilities	DPS	0.02	0.02	0.02	0.02
<b>Ranhill Utilities</b>	BVPS	0.61	0.62	0.64	0.65
RAHH MK	Return on average equity (%)	7.5	7.5	5.7	6.0
Buy					
	<b>Valuation metrics</b>	<b>Dec-23</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
<b>Valuation basis</b>	Recurring P/E (x)	46.59	25.08	32.60	30.09
SOP Valuation	P/B (x)	1.9	1.9	1.8	1.8
	FCF Yield (%)	7.5	20.2	8.9	4.7
<b>Key drivers</b>	Dividend Yield (%)	1.3	1.3	1.3	1.3
Strong water demand	EV/EBITDA (x)	4.03	3.22	3.79	3.40
	EV/EBIT (x)	15.47	9.64	17.63	11.99
<b>Key risks</b>					
Lower-than-expected water consumption.					
	<b>Income statement (MYRm)</b>	<b>Dec-23</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
<b>Company Profile</b>	Total turnover	2,281	3,437	2,497	2,665
Ranhill 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.	Gross profit	396	740	525	544
	EBITDA	547	630	537	594
	Depreciation and amortisation	(405)	(419)	(422)	(425)
	Operating profit	143	210	116	168
	Net interest	(12)	(46)	(20)	(30)
	Pre-tax profit	148	188	117	154
	Taxation	(44)	(64)	(37)	(66)
	Reported net profit	58	60	46	50
	Recurring net profit	32	60	46	50
	<b>Cash flow (MYRm)</b>	<b>Dec-23</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
	Change in working capital	68	86	15	1
	Cash flow from operations	229	361	193	131
	Capex	(116)	(60)	(60)	(60)
	Cash flow from investing activities	(63)	(49)	(49)	(49)
	Dividends paid	(77)	(42)	(31)	(33)
	Cash flow from financing activities	(292)	(198)	(153)	(173)
	Cash at beginning of period	389	279	371	362
	Net change in cash	(126)	115	(9)	(91)
	Ending balance cash	263	151	203	113
	<b>Balance sheet (MYRm)</b>	<b>Dec-23</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
	Total cash and equivalents	279	371	362	271
	Tangible fixed assets	315	217	210	200
	Total investments	240	259	281	297
	Total assets	2,980	3,894	3,201	2,735
	Short-term debt	156	150	167	156
	Total long-term debt	843	743	726	616
	Total liabilities	1,969	2,822	2,088	1,578
	Total equity	1,011	1,072	1,113	1,157
	Total liabilities & equity	2,980	3,894	3,201	2,735
	<b>Key metrics</b>	<b>Dec-23</b>	<b>Jun-25F</b>	<b>Jun-26F</b>	<b>Jun-27F</b>
	Revenue growth (%)	32.1	50.7	(27.3)	6.7
	Recurrent EPS growth (%)	35.9	85.8	(23.1)	8.3
	Gross margin (%)	17.4	21.5	21.0	20.4
	Operating EBITDA margin (%)	24.0	18.3	21.5	22.3
	Net profit margin (%)	2.5	1.7	1.8	1.9
	Dividend payout ratio (%)	33.4	32.4	42.1	38.9
	Capex/sales (%)	5.1	1.7	2.4	2.3
	Interest cover (x)	1.98	1.59	1.58	2.01

Source: Company data, RHB

Figure 1: Ranhill's scenario analysis – before and after potential hike in July 2025 and special tariff for DC


FYE Jun	FY26F	FY27F
<b>Before potential hike in July 2025 and special tariff for DC</b>		
Water consumption (cu m)	588.6	609.2
Water sales revenue (MYRm)	1,482.1	1,631.6
Average selling price of water (MYR)	2.52	2.68*
<b>After potential hike in July 2025 and special tariff for DC</b>		
Water consumption (cu m)	588.6	609.2
Water sales revenue (MYRm)	1,611.7	1,769.5
Average selling price of water (MYR)	2.74	2.91
<b>Increase in revenue (MYRm) After potential hike in July 2025 and special tariff for DC</b>		
Potential increase in earnings (assume PAT margin of 6%) (MYRm) and Ranhill's 80% share in RSAJ**	129.5	137.8
Potential increase in earnings (assume PAT margin of 6%) (%) and Ranhill's 80% share in RSAJ	c.6.2	c.6.6
	c.13.5%	c.13.2%

Source: Company data, RHB

\*FY27F assumed to have tariff hike as it marks the start of the new Operating Period.

\*\* Impute a conservative net margin to reflect possibility of RanhillSAJ incurring finance costs from already starting to fund five new water treatment plants in Johor.

Figure 2: Discussions on the mechanism for tariffs related to DCs started since Nov 2024

 Kementerian Peralihan Tenaga dan Transformasi Air  
20 November 2024 · 🌐


**Bengkel Berhubung Pembekalan Air dan Mekanisma Pengenaan Caj Bagi Pusat Data | 20 November 2024 | Kuala Lumpur**

YAB Dato' Sri Haji Fadillah Yusof, Timbalan Perdana Menteri merangkap Menteri PETRA, telah menghadiri Bengkel Berhubung Pembekalan Air dan Mekanisma Pengenaan Caj Bagi Pusat Data bersama Syarikat Air Johor (Ranhill) Bahagian Air, dengan penglibatan agensi seperti SPAN, PAAB, dan IWK.

Bengkel ini diadakan pada 20 November 2024 di Kuala Lumpur untuk mencari kaedah terbaik bagi menyelaraskan pembangunan infrastruktur bekalan air, terutamanya di negeri Johor, bagi menampung permintaan bekalan daripada pelabur pusat data (data centre) yang kini sedang pesat berkembang.

Turut hadir dalam bengkel ini ialah YBhg. Dato' Haji Mad Zaidi bin Mohd Kari, KSU PETRA; YB Tn. Ir. Ts. Mohamad Fazli bin Mohamad Salleh, Exco Kerja Raya, Pengangkutan, Infrastruktur dan Komunikasi Negeri Johor; YBhg. Dato' Hj. Ahmad Faizal bin Abdul Rahman, CEO SPAN; YBrs. En. Narendran Maniam, CEO IWK Sdn Bhd; YBrs. Tn. Hj. Anuar bin Abdul Ghani, CEO Ranhill SAJ Sdn Bhd; YBrs. En. Mohd Riduan bin Md Ali, CEO Syarikat Air Johor Sdn. Bhd.; serta pegawai-pegawai daripada pelbagai Jabatan dan Agensi.

#PETRA  
#EkonomiMADANI  
#MalaysiaMADANI



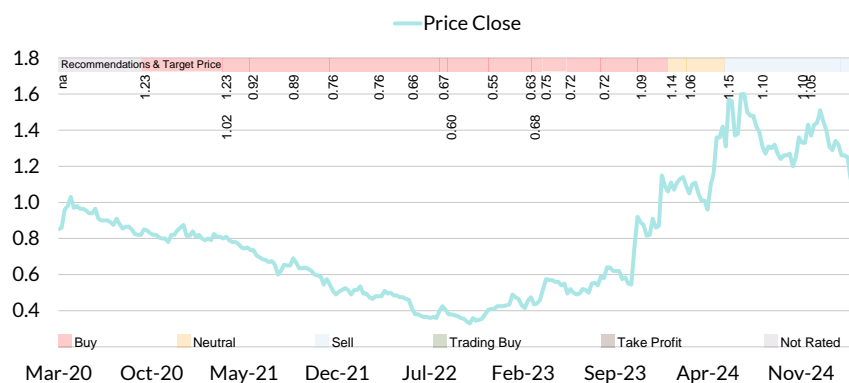
Source: PETRA

Figure 3: Ranhill's SOP valuation

Assets	Stake	CY25F FCFE	Per share	Remark
Water Asset – RanhillSAJ	80%	2,025.2	1.57	CoE 6%
Ranhill Sabah Energy I	60%	2.6	0.00	CoE 8%
Ranhill Sabah Energy II	80%	57.5	0.05	CoE 8%
Ranhill Sabah Energy III (Sabah West Coast CCGT plant)	60%	122.0	0.08	CoE 9%
Associates	various	105.0	0.08	8x FY25F Target P/E
LSS4	100%	100.3	0.08	WACC 4%
Services (Worley & Bersekutu)	various	19.3	0.01	9x FY25F Target P/E
No. of shares		1,292.7		
Gross value		2,432.6	1.89	
Net debt		(539.9)	(0.42)	
SOP value			1.47	
10% SOP discount			(0.15)	
Intrinsic value			1.32	
4% ESG premium			0.05	
<b>SOP-derived TP</b>			<b>1.37</b>	

Source: Company data, RHB

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2025-02-19	Sell	1.05	1.29
2024-11-15	Sell	1.10	1.39
2024-08-15	Sell	1.10	1.41
2024-05-29	Sell	1.15	1.37
2024-05-28	Sell	1.15	1.35
2024-03-01	Neutral	1.06	1.12
2024-01-18	Neutral	1.14	1.08
2023-11-14	Buy	1.09	0.91
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

Source: RHB, Bloomberg

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<b>Buy:</b>	Share price may exceed 10% over the next 12 months
<b>Trading Buy:</b>	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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