

1 June 2022

Utilities | Utilities

Ranhill Utilities (RAHH MK)

Buy (Maintained)

Still Upbeat Despite a Slow Start; Keep BUY

Target Price (Return): MYR0.66 (34.7%)
 Price (Market Cap): MYR0.49 (USD145m)
 ESG score: 3.10 (out of 4)
 Avg Daily Turnover (MYR/USD) 0.14m/0.03m

- **BUY, new SOP TP of MYR0.66 from MYR0.76, 35% upside, c.4% yield.** 1Q22 core earnings of MYR7.4m (+1% YoY) were below our and Street's estimates at only 14% and 15% of full-year projections. The negative deviation was mainly on higher-than-expected opex and administrative expenses, which were 28% YoY higher in the quarter. We continue to advocate investors accumulate on share price weakness, as Ranhill Utilities is trading below -1.25SD from its 5-year mean EV/EBITDA while its c.32% FY22F earnings growth will be partly underpinned by the services segment.

- **Results review.** For 1Q22, the environment segment saw revenue and PAT declines of 2% and 22% YoY on lower contributions from developers to Ranhill SAJ – this was due to less new developments in Johor. The services segment saw a >100% YoY revenue growth to MYR78m in 1Q22, driven by revenue contributions from acquired subsidiaries Ranhill Worley and Ranhill Bersekutu, which were not present in 1Q21. Similarly, the energy segment's topline expanded 15% YoY on higher energy payment fuel revenues in Ranhill Powertron I and Ranhill Powertron II to compensate for elevated diesel consumption (pass-through costs) during Petronas Gas' (PTG MK, NEUTRAL, TP: MYR17.37) curtailment in this period.

- **FY22F-24F earnings** are cut by 15%, 14%, and 6% after factoring in lower earnings contributions from the water segment. While the 1Q22 core profit of MYR7.4m only makes up 16% our latest FY22F earnings, we think there will be a gradual increase in non-domestic commercial consumption in Johor for the subsequent quarters – in light of Malaysia's transition into endemicity. Post earnings revisions and rolling forward our valuation base year to FY23, we arrive at a new SOP-derived MYR0.66 TP after imputing an ESG premium of 2% for Ranhill's 3.10 ESG score – based on our in-house proprietary methodology. We expect a stronger FY22F earnings growth of 32%, partly driven by the revenue streams from the services segment, ie Ranhill Bersekutu and Ranhill Worley. We gathered that Ranhill Worley – together with Malaysia Marine & Heavy Engineering (MMHE MK, NEUTRAL, TP: MYR0.42) – was successful in a bid for Petronas' parallel front-end engineering and design works for the Kasawari Phase 2 project, which should further support earnings. Potential rerating catalysts: i) Higher than-expected rate hikes for Ranhill's Johor water operations, ii) positive outcome for its ASEAN expansion plans (ie source-to-tap water project in Indonesia), and iii) project wins related to water and renewable energy.

- **Risks** to our call: Licensing risks, timeliness of tariff revisions, lower-than-expected water consumption and developer contributions, escalating costs for its water business, and Ranhill failing to meet the capacity and energy payment conditions for both its power plants.

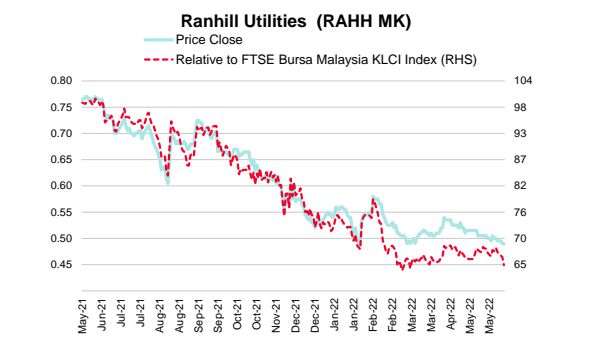
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.1)	(4.9)	(3.9)	(18.3)	(36.0)
Relative	(10.3)	(3.0)	(1.5)	(22.0)	(35.1)
52-wk Price low/high (MYR)	0.49 – 0.77				



Source: Bloomberg

Overall ESG Score: 3.10 (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 centered 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 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.

Note:

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

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (MYRm)	1,468	1,531	1,799	1,832	1,913
Recurring net profit (MYRm)	38	31	47	62	68
Recurring net profit growth (%)	(42.6)	(18.9)	54.3	30.7	10.1
Recurring P/E (x)	13.94	18.91	13.37	10.23	9.29
P/B (x)	1.1	0.9	0.9	0.8	0.8
P/CF (x)	4.28	2.47	2.46	3.52	2.14
Dividend Yield (%)	4.0	1.5	4.3	5.7	6.3
EV/EBITDA (x)	2.82	2.53	2.03	1.86	1.36
Return on average equity (%)	8.1	5.3	6.7	8.4	8.8
Net debt to equity (%)	138.4	81.1	52.3	42.2	22.0

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary (MYR)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.04	0.03	0.04	0.05	0.05
Utilities	DPS	0.02	0.01	0.02	0.03	0.03
Ranhill Utilities	BVPS	0.43	0.54	0.56	0.58	0.61
RAHH MK	Return on average equity (%)	8.1	5.3	6.7	8.4	8.8
Buy						
	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Valuation basis	Recurring P/E (x)	13.94	18.91	13.37	10.23	9.29
SOP Valuation	P/B (x)	1.1	0.9	0.9	0.8	0.8
	FCF Yield (%)	10.3	33.8	31.1	18.9	37.2
	Dividend Yield (%)	4.0	1.5	4.3	5.7	6.3
Key drivers	EV/EBITDA (x)	2.82	2.53	2.03	1.86	1.36
i. Stable operations;	EV/EBIT (x)	16.04	12.78	7.64	6.72	4.41
ii. Favourable outcome on water tariff hike.						
	Income statement (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Key risks	Total turnover	1,468	1,531	1,799	1,832	1,913
Risk to our calls include licensing risk, timeliness of tariff revisions, lower-than-expected water consumption and developer contribution, escalating costs for its water business, and failing to meet the capacity and energy payment conditions for both its power plants.	Gross profit	315	338	423	438	480
	EBITDA	458	473	532	544	607
	Depreciation and amortisation	(378)	(379)	(391)	(393)	(419)
	Operating profit	81	94	141	151	187
	Net interest	4	(16)	(36)	(21)	(51)
	Pre-tax profit	96	94	119	144	151
	Taxation	(31)	(28)	(48)	(58)	(60)
	Reported net profit	38	31	47	62	68
	Recurring net profit	38	31	47	62	68
Company Profile						
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.	Cash flow (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(85)	10	89	(2)	(6)
	Cash flow from operations	123	234	256	179	295
	Capex	(69)	(39)	(60)	(60)	(60)
	Cash flow from investing activities	(53)	1	(49)	(49)	(49)
	Dividends paid	(91)	(25)	(22)	(40)	(46)
	Cash flow from financing activities	(118)	(154)	(137)	(161)	(161)
	Cash at beginning of period	454	258	340	410	380
	Net change in cash	(49)	81	71	(30)	86
	Ending balance cash	405	339	410	380	466
	Balance sheet (MYRm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	258	340	410	380	466
	Tangible fixed assets	222	246	225	222	217
	Total investments	180	209	222	237	252
	Total assets	2,309	3,307	2,917	2,511	3,264
	Short-term debt	97	151	84	84	86
	Total long-term debt	981	893	803	703	603
	Total liabilities	1,717	2,439	2,005	1,548	2,248
	Total equity	593	868	911	963	1,016
	Total liabilities & equity	2,309	3,307	2,917	2,511	3,264
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	(5.4)	4.3	17.5	1.8	4.4
	Recurrent EPS growth (%)	(47.5)	(26.3)	41.4	30.7	10.1
	Gross margin (%)	21.5	22.1	23.5	23.9	25.1
	Operating EBITDA margin (%)	31.2	30.9	29.6	29.7	31.7
	Net profit margin (%)	2.6	2.0	2.6	3.4	3.5
	Dividend payout ratio (%)	55.5	30.7	57.0	58.5	58.5
	Capex/sales (%)	4.7	2.5	3.3	3.3	3.1
	Interest cover (x)	1.07	1.09	1.65	2.26	2.06

Source: Company data, RHB

Figure 1: Ranhill's results

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue	363.8	421.1	393.4	-7%	8%	Contributions by newly acquired subsidiaries and higher energy payments.
EBITDA	131.6	112.6	119.7	6%	-9%	
<i>EBITDA margin (%)</i>	36%	27%	30%			
Finance cost	(23.2)	(21.3)	(19.4)	9%	17%	
Share of Associate	4.2	4.3	3.0	-31%	-28%	
Pretax profit	22.6	18.0	19.6	9%	-13%	
<i>Pretax margin (%)</i>	6%	4%	5%			
Tax	(9.5)	4.0	(7.2)	-278%	24%	
Effective tax rate (%)	42%	-22%	37%			
Minority interest	(5.8)	(16.3)	(5.0)	69%	13%	
PATAMI	7.3	5.7	7.4	29%	1%	
Core PATAMI	7.3	5.7	7.4	29%	1%	Below expectations.
<i>Core net margin (%)</i>	2.0%	1.4%	1.9%			

Source: Company data, RHB

Figure 2: Ranhill's segmental results

FYE Dec (MYRm)	1Q21	4Q21	1Q22	QoQ (%)	YoY (%)	Comments
Revenue						
Environment	293.9	287.8	287.4	0%	-2%	Lower contribution from developers to Ranhill SAJ arising from lesser new development in Johor.
Services	17.8	186.2	78.3	-58%	340%	Higher contributions from Ranhill Worley and Bersekutu.
Energy	52.1	63.3	59.7	-6%	15%	Higher energy payment fuel revenue.
Adjusted PAT						
Environment	24.7	4.9	19.3	291%	-22%	
Services	2.9	32.2	7.6	-76%	163%	
Energy	1.2	7.5	2.6	-65%	110%	
PAT Margins						
Environment	8%	2%	7%			
Services	16%	17%	10%			
Energy	2%	12%	4%			

Source: Company data, RHB

Figure 3: Ranhill's SOP valuation

Assets	Stake	FY23F FCFE	Per share	Remark
Water asset – Ranhill SAJ	80%	817.1	0.77	CoE 9.2%.
Ranhill Powertron I	60%	3.1	0.00	CoE 9.7%.
Ranhill Powertron II	80%	45.3	0.04	CoE 9.7%.
Associates		110.2	0.09	8x FY22F Target P/E.
LSS4	100%	47.3	0.04	WACC 4.9%.
Services (Ranhill Worley and Ranhill Bersekutu)	various	169.5	0.13	80% of purchase price (share swap @ MYR0.95).
Number of shares		1,287.5		
Gross value		1,192.5	0.93	
30% SOP discount			-0.28	
Intrinsic value			0.65	
2% ESG premium			0.01	
SOP-derived TP		954.0	0.66	

Source: Company data, RHB

Recommendation Chart

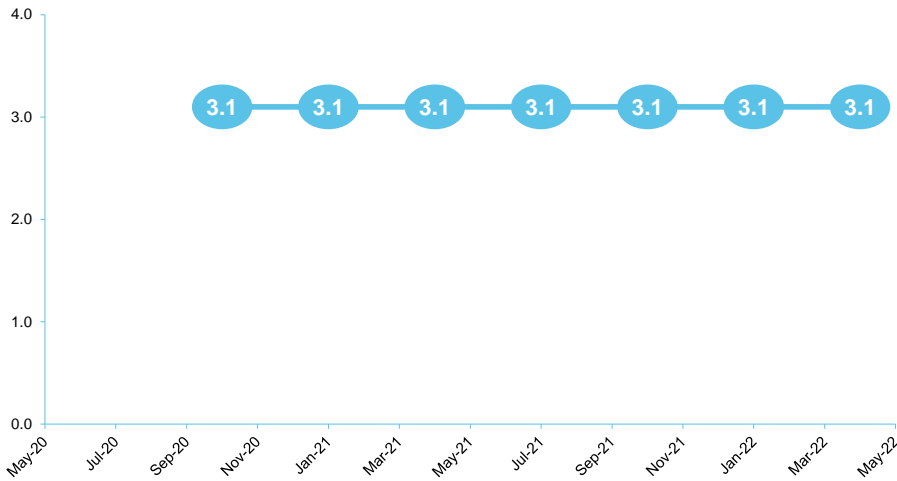


Date	Recommendation	Target Price	Price
2021-11-30	Buy	0.76	0.60
2021-09-01	Buy	0.89	0.68
2021-05-31	Buy	0.92	0.77
2021-03-31	Buy	1.02	0.82
2020-09-25	Buy	1.23	0.85

Source: RHB, Bloomberg

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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