

16 March 2022

Utilities | Utilities

## Ranhill Utilities (RAHH MK)

**Buy** (Maintained)

### Solidifying Presence In The East Coast; Keep BUY

Target Price (Return): MYR0.76 (+55%)  
 Price (Market Cap): MYR0.49 (USD150m)  
 ESG score: 3.10 (out of 4)  
 Avg Daily Turnover (MYR/USD) 0.24m/0.06m

- **Keep BUY and SOP-based MYR0.76 TP, 55% upside and 5% yield.** Ranhill Utilities via subsidiary, Ranhill Water Services (RWS), had accepted a letter of acceptance from Pengurusan Aset Air Berhad (PAAB). We believe the contract awarded worth MYR61.5m, with works to be undertaken from 29 Mar 2022 to 28 Mar 2024, will contribute positively to overall earnings. Its 11.5x FY22F P/E is trading below its 5-year historical mean of 20.8x, indicating undemanding valuation.
- **Scope of work.** The main scope of work, amongst others, includes: i) Replacement of existing distribution and communication pipes, ii) establishment of new District Metering Areas (DMAs), iii) installation of pressure reducing valves (PRV) system and flowmeters at reservoir outlet, and iv) testing and commissioning works. These works will take place in the district of Kota Bharu Timur, Machang, Tanah Merah and Kuala Krai covering a total length of 103km for pipe replacement works.
- **Our view.** We foresee minimal execution risks by RWS as it has previously secured two of PAAB's pipe replacement contracts through a competitive open tender exercise in 2019. Apart from that, RWS has been actively involved in Kelantan's water supply projects, and since 2012, it has secured three non-revenue water (NRW) management contracts from Air Kelantan SB (AKSB). As such, this latest win solidifies RWS' presence in Kelantan and strengthen RAHH's credentials as a holistic NRW management specialist in the country.
- **Earnings estimates and valuation.** We raise our FY22F-FY24F earnings by 7%, 13% and 2% after imputing contributions from the latest contract win. Despite the adjustment in earnings, our SOP-derived TP is maintained at MYR0.76 as the changes in the FCFE from its water business is minimal. Our SOP-derived TP was also arrived after imputing an ESG premium of 2% for its 3.10 ESG score, based on our in-house proprietary methodology. We expect a >50% FY22F net profit growth, driven by new revenue streams from the service segment (Ranhill Bersekutu and Ranhill Worley). Potential rerating catalysts: Higher-than-expected rate hikes for its Johor water operations, positive outcome from its ASEAN expansion plans, and 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 RAHH failing to meet the capacity and energy payment conditions for both its power plants.

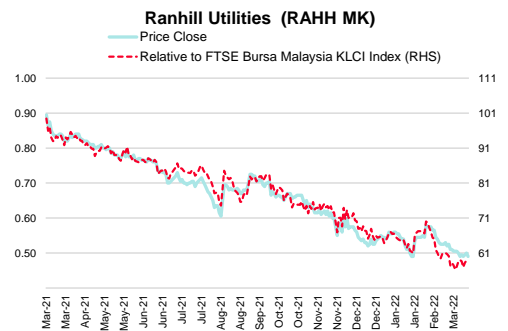
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(10.1)	(10.1)	(7.6)	(31.0)	(45.3)
Relative	(9.4)	(7.5)	(12.6)	(31.1)	(41.4)
52-wk Price low/high (MYR)	0.49 – 0.88				



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 2020, average training hours reached 33 hours per employee (2019: 19 hours).

##### 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	1,823	1,882	1,969
Recurring net profit (MYRm)	38	31	55	72	71
Recurring net profit growth (%)	(42.6)	(18.9)	80.1	30.5	(0.8)
Recurring P/E (x)	13.94	18.91	11.45	8.78	8.84
P/B (x)	1.1	0.9	0.9	0.8	0.8
P/CF (x)	4.28	2.47	2.36	3.16	2.04
Dividend Yield (%)	4.0	1.5	5.0	6.7	6.6
EV/EBITDA (x)	2.82	2.53	1.93	1.74	1.31
Return on average equity (%)	8.1	5.3	7.8	9.7	9.1
Net debt to equity (%)	138.4	81.1	51.0	39.5	18.9

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-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Malaysia	Recurring EPS	0.04	0.03	0.04	0.06	0.06
Utilities	DPS	0.02	0.01	0.02	0.03	0.03
<b>Ranhill Utilities</b>	BVPS	0.43	0.54	0.56	0.59	0.62
RAHH MK	Return on average equity (%)	8.1	5.3	7.8	9.7	9.1
Buy						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	13.94	18.91	11.45	8.78	8.84
SOP	P/B (x)	1.1	0.9	0.9	0.8	0.8
	FCF Yield (%)	10.3	33.8	32.9	22.1	39.5
<b>Key drivers</b>	Dividend Yield (%)	4.0	1.5	5.0	6.7	6.6
i. Stable operations;	EV/EBITDA (x)	2.82	2.53	1.93	1.74	1.31
ii. Favourable outcome on water tariff hike.	EV/EBIT (x)	16.04	12.78	6.38	5.44	3.97
	<b>Income statement (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Total turnover	1,468	1,531	1,823	1,882	1,969
i. Licencing risk	Gross profit	315	338	450	472	498
ii. Timeliness of tariff revisions	EBITDA	458	473	560	578	626
iii. Lower-than-expected water consumption and developer contribution	Depreciation and amortisation	(378)	(379)	(391)	(393)	(419)
iv. Escalating costs for its water business	Operating profit	81	94	169	185	206
v. Failing to meet the capacity and energy payment conditions for both its power plants.	Net interest	4	(16)	(36)	(21)	(51)
	Pre-tax profit	96	94	147	178	169
	Taxation	(31)	(28)	(59)	(71)	(68)
	Reported net profit	38	31	55	72	71
	Recurring net profit	38	31	55	72	71
<b>Company Profile</b>						
Ranhill Utilities is an established and sustainable environment and power entity with over 5 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.						
	<b>Cash flow (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	(85)	10	84	(2)	(3)
	Cash flow from operations	123	234	268	199	309
	Capex	(69)	(39)	(60)	(60)	(60)
	Cash flow from investing activities	(53)	1	(49)	(49)	(49)
	Dividends paid	(91)	(25)	(27)	(49)	(52)
	Cash flow from financing activities	(118)	(154)	(142)	(170)	(167)
	Cash at beginning of period	454	258	340	417	398
	Net change in cash	(49)	81	77	(19)	94
	Ending balance cash	405	339	417	396	486
	<b>Balance sheet (MYRm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	258	340	417	398	492
	Tangible fixed assets	222	246	225	222	217
	Total investments	180	209	222	236	250
	Total assets	2,309	3,307	2,927	2,538	3,301
	Short-term debt	97	151	84	84	86
	Total long-term debt	981	893	803	703	603
	Total liabilities	1,717	2,439	2,006	1,552	2,256
	Total equity	593	868	921	986	1,045
	Total liabilities & equity	2,309	3,307	2,927	2,538	3,301
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(5.4)	4.3	19.1	3.2	4.6
	Recurrent EPS growth (%)	(47.5)	(26.3)	65.1	30.5	(0.8)
	Gross margin (%)	21.5	22.1	24.7	25.1	25.3
	Operating EBITDA margin (%)	31.2	30.9	30.7	30.7	31.8
	Net profit margin (%)	2.6	2.0	3.0	3.8	3.6
	Dividend payout ratio (%)	55.5	30.7	57.0	58.5	58.5
	Capex/sales (%)	4.7	2.5	3.3	3.2	3.0
	Interest cover (x)	1.07	1.09	1.97	2.78	2.27

Source: Company data, RHB

Figure 1: SOP valuation

Assets	Stake	FY22F FCFE	Per share	Remark
Water Asset - SAJ	80%	993.3	0.77	CoE 8.5%
Ranhill Powertron I	60%	3.1	0.00	CoE 9.7%
Ranhill Powertron II	80%	45.1	0.04	CoE 9.7%
Associates		110.2	0.09	8x FY22F Target P/E
LSS4	100%	55.5	0.04	WACC 4.9%
Services (Worley & Bersekutu)	various	169.5	0.13	80% of Purchase Price (Share swap @ MYR 0.95)
No. of shares		1287.5		
Gross value		1372.3	1.07	
30% SOP discount			-0.32	
Intrinsic value			0.75	
2% ESG premium			0.01	
<b>SOP-derived TP</b>		<b>1,097.9</b>	<b>0.76</b>	

Source: Company data, RHB

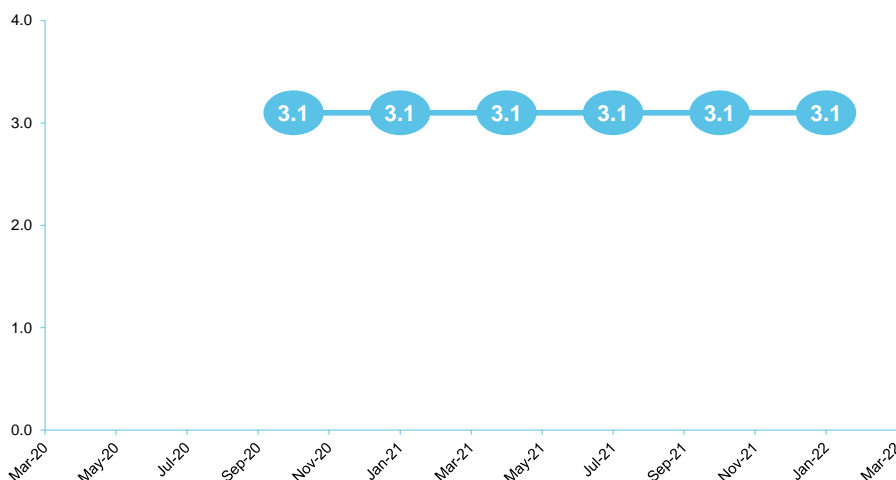
## Recommendation Chart



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

## ESG Rating History



Source: RHB

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<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
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