August 17, 2022

Ranhill Utilities (RAHH MK)

An asymmetrical tariff play

BUY

Share Price	MYR 0.46
12m Price Target	MYR 0.60 (+36%)

Initiate with BUY and MYR0.60 TP

We initiate coverage of Ranhill with a BUY rating and MYR0.60 TP (based on a sum-of-parts [SOP]). We view risk-reward as being favourable with RSAJ's long overdue water tariff hike a step closer to fruition following recent Cabinet approval, but not yet priced-in. A potential reversion to cash dividend (c.5% yield) could further enhance the stock's appeal.

A water tariff hike is closer

RSAJ, being the exclusive water source-to-tap operator in the state of Johor, is the main earnings contributor to Ranhill. The lack of a tariff hike in recent operating periods has resulted in significant earnings pressure at RSAJ and thus the group. The Federal Government had, in June 2022, approved an average MYR0.25/m^3 tariff hike for non-domestic users effective 1 Aug 2022. We assume an average hike of MYR0.15/m^3 (+4.6%) for Johor non-domestic users from Jan 2023, culminating in a 2.5% increase in overall tariff. Along with volume recovery, we forecast a more than doubling of FY23 net profit.

Pursuing new projects

Ranhill has historically been active with pursuing new opportunities, with a notable recent success being the 50MW LSS4 solar plant (under construction, not yet included in our SOP). Ranhill is pursuing a water source-to-tap project in 3 areas of Jawa, Indonesia. It has submitted a tender for the development of a new 100MW gas-fired plant in Sabah (targeted 2025 commissioning). Talks are also underway with the EC for a 75MW solar farm in Kluang, Johor to partially power RSAJ's operations.

A return to cash dividend?

Ranhill gravitated towards stock dividends in FY20 and FY21. We believe stock dividends are generally less appealing to investors, and expect Ranhill to revert back to cash dividends going forward. We assume a 2sen annual DPS beginning FY22 (implying c.5% yield), with potential upside risk from FY23 post RSAJ's tariff hike.

FYE Dec (MYR m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	1,468	1,531	1,550	1,620	1,663
EBITDA	458	474	491	534	549
Core net profit	38	31	29	61	40
Core EPS (sen)	3.5	2.6	2.3	4.8	3.1
Core EPS growth (%)	(42.9)	(25.6)	(13.7)	111.0	(34.2)
Net DPS (sen)	1.0	0.0	2.0	2.0	2.0
Core P/E (x)	25.1	20.7	20.4	9.6	14.7
P/BV (x)	1.9	1.0	0.9	0.8	0.8
Net dividend yield (%)	1.1	0.0	4.3	4.3	4.3
ROAE (%)	7.7	5.2	4.2	8.7	5.5
ROAA (%)	1.5	1.1	0.9	2.2	1.3
EV/EBITDA (x)	3.7	2.7	2.5	2.1	1.9
Net gearing (%) (incl perps)	150.9	95.4	92.9	75.6	63.6
Consensus net profit	-	-	41	52	68
MKE vs. Consensus (%)	-	-	(29.9)	16.6	(40.8)

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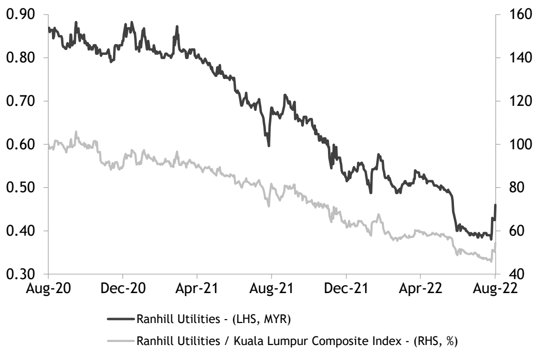
Company Description

Ranhill Utilities is involved in water supply, electricity generation and infrastructure EPC.

Statistics

52w high/low (MYR)	0.71/0.38
3m avg turnover (USDm)	0.1
Free float (%)	21.5
Issued shares (m)	1,296
Market capitalisation	MYR596.1M
	USD133M
Major shareholders:	
Hamdan L Foundation	24.1%
TAEL Partners Ltd.	18.8%
MOHAMAD HAMDAN	10.2%

Price Performance



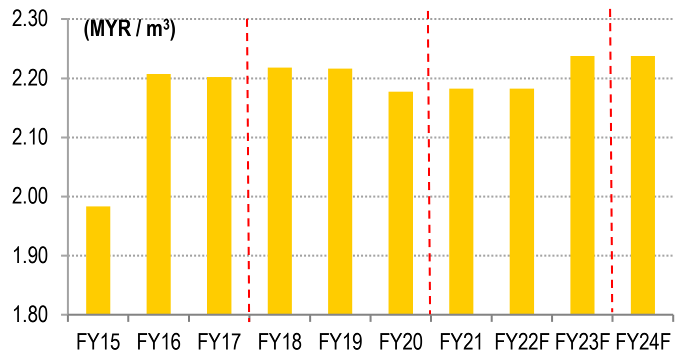
	-1M	-3M	-12M
Absolute (%)	16	(8)	(33)
Relative to index (%)	9	(6)	(33)

Source: FactSet

Value Proposition

- Primarily a water utility with RSAJ being the source-to-tap license holder in the state of Johor.
- The water industry remains fragmented, with the government still in the processing of consolidating infrastructure to address chronic under-investment.
- The tariff framework for the water industry is not yet robust, with scheduled tariff reviews not materialising.
- We view Ranhill as a proxy to the eventual regulatory evolution of the water industry.
- RSAJ's cashflow funds Ranhill's dividend, debt repayment and new growth projects.

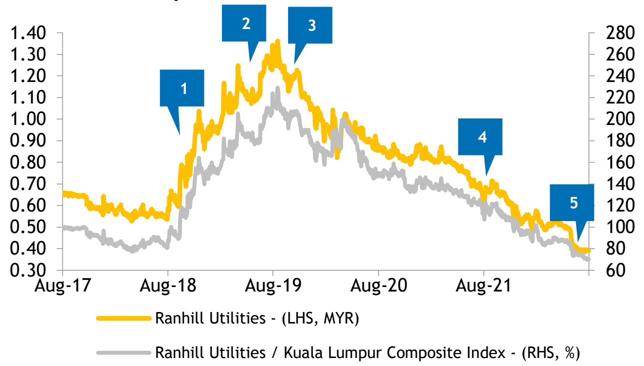
RSAJ average realised selling price



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



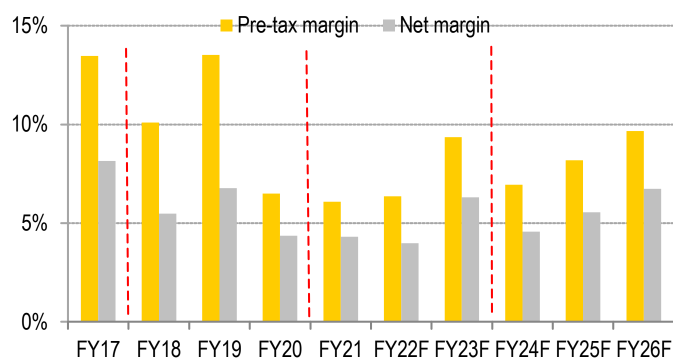
Source: Company, Maybank IBG Research

1. RSAJ signs a joint billing agreement in Johor with national sewerage company Indah Water, raising hopes for an eventual service integration.
2. Ranhill announces a 1-for-5 bonus issue.
3. Initiates a dividend reinvestment plan, and seeks shareholders' approval for share buybacks.
4. Ranhill acquires Ranhill Bersekutu and Ranhill Worley from Tan Sri Hamdan via issuance of new shares.
5. Cabinet announces the approval of an average MYR0.25/m3 tariff hike for non-domestic users in Peninsular Malaysia effective 1 Aug 2022.

Financial Metrics

- The water and electricity businesses are of fixed tenures and theoretically generate predictable cashflows.
- However, water tariff reviews (RSAJ runs on a 3-year operating period) have not been forthcoming in recent years - the last tariff hike was back in 2015.
- Ranhill's P&L is heavily distorted by the lease-type accounting treatment arising from IC12 (applicable to RSAJ, and both RP1 and RP2 power plants).
- Net profit is weakest in Year 1 of RSAJ's operating period, and strongest in Year 3, all else equal.

Pre-tax and net margin



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Tariff hike at RSAJ materialises in the coming months.
- The tariff framework for the water industry evolves into a more robust and less discretionary form, with tariff reviews being followed through.
- A reversion to cash dividends.

Downside

- Further earnings deterioration from an inability to pass on higher costs at RSAJ.
- Missed capacity payments from extended unscheduled outages at the generation plants.
- Continued suppression of cash dividends.

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1. Investment thesis

1.1 Tariff hike is barely priced-in

The lack of a tariff hike in recent operating periods has resulted in significant earnings pressure at RSAJ and thus the group. The Federal Government had in Jun 2022, approved an average MYR0.25/m^3 tariff hike for non-domestic users effective 1 Aug 2022. The market nevertheless remains sceptical (as evident by the lack of share price reaction), given a possible pushback by the State Government due to an impending general election. We assume an average hike of MYR0.15/m^3 (+4.6%) for Johor non-domestic users from Jan 2023, culminating in a 2.5% increase in overall tariff. Every MYR0.05/m^3 tariff increase for non-domestic users would raise our RSAJ's FY23E net profit by c.MYR7m, and overall group net profit by c.MYR6m respectively.

1.2 Possible accretion from new projects

Ranhill has historically been active with pursuing new opportunities, with a notable recent success being the 50MW LSS4 solar plant (under construction, not yet included in our SOP). Ranhill is currently pursuing a water source-to-tap project covering 3 areas of Jawa, Indonesia. It has submitted a tender for the development of a new 100MW gas-fired plant in Sabah (targeted 2025 commissioning). Talks are also underway with the Energy Commission for a 75MW solar farm in Kluang, Johor to partially power RSAJ's operations. Ranhill's balance sheet is not overly stretched (net gearing of 93% as at end-FY22), and the overseas water treatment facilities (in China and Thailand) are potentially suitable monetisation candidates to recycle capital.

1.3 Potential for decent cash dividends

Ranhill gravitated towards stock dividends in the past 2 years, with cash DPS a paltry 1sen in FY20, and none in FY21. We believe stock dividends are generally less appealing to investors, and expect Ranhill to revert back to cash dividends going forward. We assume a 2sen annual DPS beginning FY22 (implying c.5% yield), with potential upside risk from FY23 post RSAJ's tariff hike. Dividend policy remains unchanged at 50-70% payout ratio.

1.4 Initiate with BUY and MYR0.60 TP

We initiate coverage of Ranhill with a BUY rating and MYR0.60 TP (based on a sum-of-parts). We value both the Environment (RSAJ) and Energy (RP1 and RP2) segments on DCF over their respective facility agreement and concession tenures (no terminal value). Our WACC assumptions are 9.7% for RSAJ and 8.4% for both RP1 and RP2 respectively. We value the Services segment at a conservative 10x target PER, given the wide range of businesses the segment encompasses. Our MYR0.60 TP implies 26.6x PER and 3.3% net dividend yield in FY22E, and 12.6x PER and 3.3% net dividend yield in FY23E.

2. Corporate information

2.1 Brief history

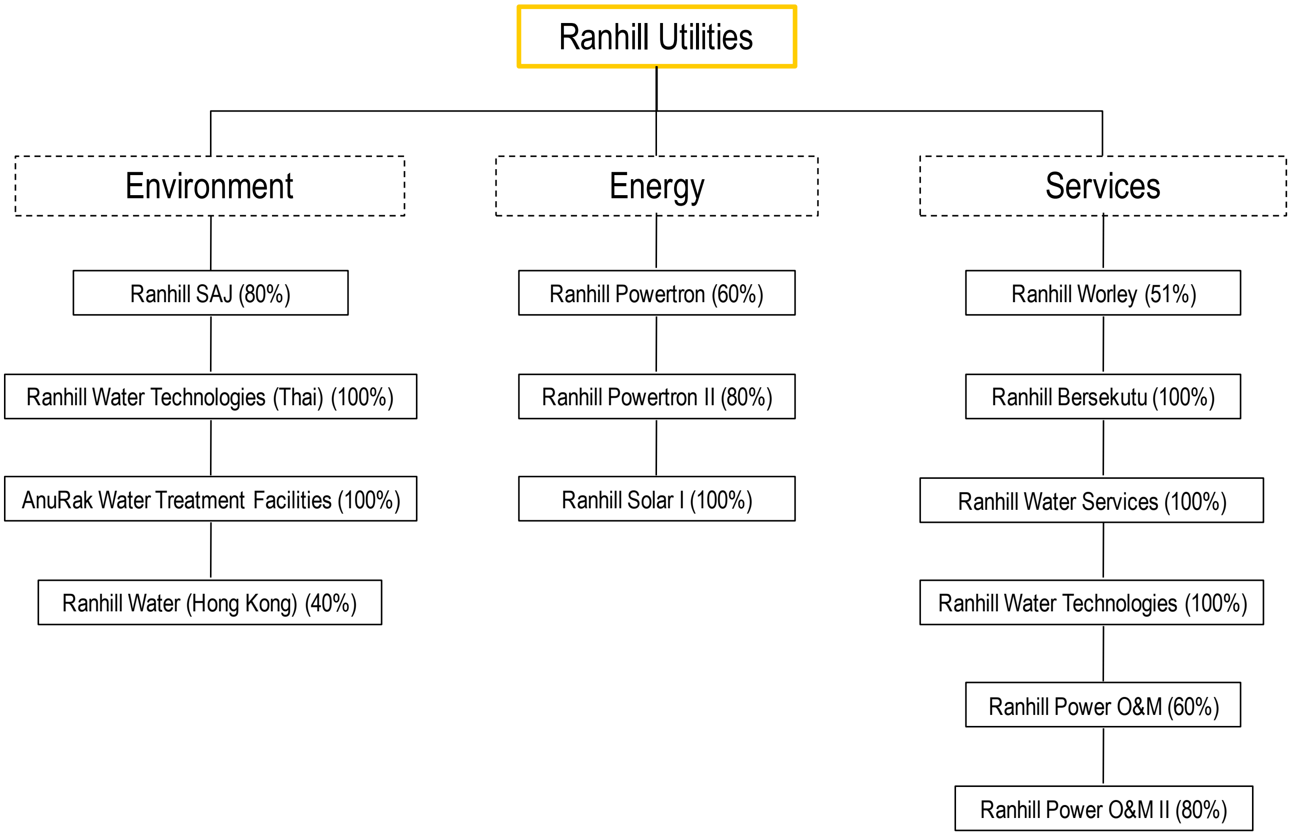
The Group originated from the Ranhill Bersekutu Partnership established by Rankine & Hill, which was subsequently incorporated as Ranhill Bersekutu in 1981. Tan Sri Hamdan Mohamad (the current Chairman/Chief Executive and major shareholder) began his career in Ranhill Bersekutu as a structural engineer, before becoming its President and CEO in 1995. He led the group's expansion into the power and water space.

Ranhill was previously listed in 2001, with its power and water entities also listed separately. Both operating entities were subsequently delisted back in 2007 and 2008 respectively. Ranhill itself was privatised with the aid of Cheval, a private infrastructure fund and delisted in 2011.

The Group attempted to relist, unsuccessfully at first in 2013 in the form of Ranhill Energy and Resources (which excluded the construction and highway concession entities), and successfully via Ranhill Holdings (containing only the water and power entities) in 2016 which was subsequently renamed to Ranhill Utilities. In Jul 2021, Ranhill acquired Ranhill Bersekutu and Ranhill Worley from Tan Sri Hamdan via issuance of new shares, thus creating a new "Services' segment.

2.2 Operating segments

Fig 1: Ranhill's corporate structure



Source: Company

Following the acquisition of Ranhill Bersekutu and Ranhill Worley in 2021, Ranhill has reorganised its operating entities into 3 segments, namely Environment, Energy and Services.

Environment

As the crown jewel of the group, Ranhill SAJ (RSAJ) is involved in raw water extraction, treatment, distribution and sale in the state of Johor. RSAJ operates 46 water treatment plants state-wide with a total treatment capacity of 2,133MLD (million litres per day).

The environment segment also houses Ranhill Water Technologies (Thai) and AnuRAK Water Treatment Facilities, which cumulatively operate 9 water, wastewater and reclaimed water treatment facilities in Thailand (mainly in industrial parks) with a total capacity of 112MLD. Ranhill also owns a 40% stake in Ranhill Water Technologies (Hong Kong) that operates 12 wastewater treatment plants in China (again in industrial parks) with a total capacity of 227MLD.

Energy

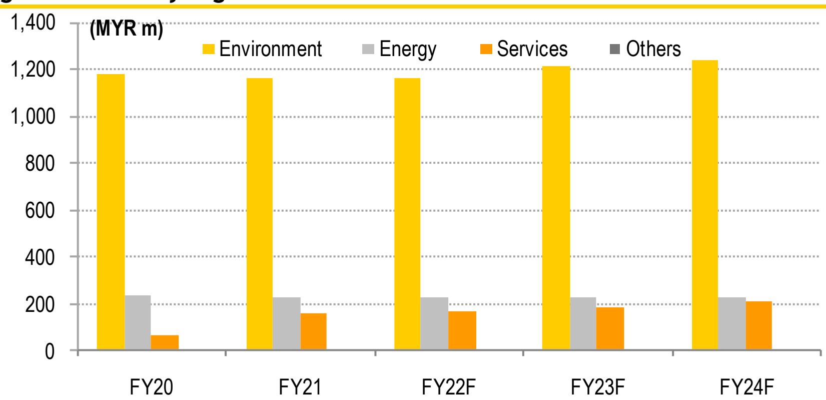
Ranhill Powertron (RPI) and Ranhill Powertron II (RP2) own and operate two gas-fired power plants located in the Kota Kinabalu Industrial Park, Sabah. Both plants are on 21 years power purchase agreements (PPA) expiring in 2028 and 2032 respectively.

Separately, Ranhill Solar I was among the successful bidders in the LSS4 tender. Its 50MW solar farm is located in Bidor, Perak. The initial 21 years PPA was recently extended to 25 years. The plant is currently in the construction phase, with targeted commissioning in end-2023.

Services

Ranhill's Services segment comprises of a number of entities. Recently-acquired Ranhill Bersekutu (100% owned) and Ranhill Worley (51% owned) are the civil works and energy infrastructure consultancy arms respectively. Ranhill Water Technologies and Ranhill Water Services specialise in solutions for wastewater treatment and non-revenue water reduction respectively. Ranhill Power O&M and Ranhill Power II O&M are the operations and maintenance arms of the respective power plants.

Fig 2: Revenue by segments



Source: Company, Maybank IBG Research

3. Investment Focus

3.1 Tariff hike is closer to materialising

With the Federal and State Governments under pressure to keep tariffs of basic utilities low, scheduled tariff hikes have not been approved in recent years. RSAJ's last tariff hike was back in 2015. The lack of a tariff hike in recent operating periods has meant an inability to pass through higher lease payments and running costs, resulting in significant earnings pressure at RSAJ and thus the group.

On a broader perspective, the industry's current plight is unsustainable longer term. NRW (non-revenue water) levels in Peninsular Malaysia averaged c.34% in 2020, with the worst performing states registering >50%. An inability to recover capital cost would inevitably result in further under-investment, paving the way for a potential water crisis in future.

The Federal Government announced in Jul 2022 that an average MYR0.25/m^3 tariff hike for non-domestic users has been approved in Peninsular Malaysia and Labuan effective 1 Aug 2022. The timing of the announcement is not ideal, in our view, given current elevated energy prices and an impending general election. The Cabinet approval (for tariff hike) used to be the highest hurdle for operators. This round, we believe individual States are likely to also attempt to resist any tariff hikes in the near term.

Selangor has since announced an average hike of MYR0.20/m^3 for non-domestic users effective 1 Aug 2022, while the remaining states (including Johor) have yet to move. Given that Johor's water tariffs are already on the high side, we believe the quantum of RSAJ's hike would likely be below Peninsular Malaysia's average. We assume an average hike of MYR0.15/m3 (+4.6%) for non-domestic users from Jan 2023, culminating in a 2.5% increase in overall tariff.

For sensitivity purposes, we estimate every MYR0.05/m^3 tariff increase for non-domestic users above our base case would raise our RSAJ's FY23E net profit by c.MYR7m, and overall group net profit by c.MYR6m respectively.

3.2 Water demand recovers

RSAJ's revenue split between domestic and non-domestic users has shifted from 40-60 pre-pandemic to 45-55 in the past 2 years. Johor's domestic consumption has grown consistently in the past 5 years. Non-domestic consumption meanwhile has declined in the past 2 years due to the effects of the pandemic and movement restrictions. Johor 2020's decline was the steepest among all Peninsular states, possibly due to the added impact of the closed Singapore border.

With the reopening of the economy and the Singapore border, we believe Johor's non-domestic volume would revert back to growth in 2022. We assume a 2% total volume CAGR going forward. For sensitivity purposes, we estimate every 1% increase in volume above our base case would raise our RSAJ's net profit by c.MYR8m, and overall group net profit by c.MYR7m respectively.

3.3 Monetisation opportunities

Ranhill owns water treatment facilities in China (via 40%-owned Ranhill Water Hong Kong) and Thailand (via wholly-owned Ranhill Water Technologies Thai and AnuRak Water Treatment Facilities). We believe these overseas assets are potentially suitable monetisation candidates, given limited management control for the China operations, and the lack of scale for the Thailand operations.

Back in 2017, Ranhill divested 60% of the China operations to SIIC Environment Holdings for MYR167m. With the China operations having grown further since divestment (associate income has grown from MYR7m in FY18 to MYR16m in FY21), the remaining 40% stake could potentially be worth more.

Given the lack of detailed financial disclosures, we have not included the overseas water treatment facilities in our sum-of-parts. Thus any monetisation would represent potential upside to our target price (TP). A hypothetical cash inflow of c.MYR150m would reduce net gearing by a quarter and allow capital to be recycled into new growth projects.

3.4 Exploring potential new projects

Ranhill has historically been active with pursuing new opportunities (such as integrating sewerage services in Johor, Kedah power plant for supply to Thailand, to name a few). These prospects do not necessarily materialise as originally intended. A notable recent success was the successful award for a 50MW solar plant (located in Bidor, Perak) in the LSS4 tender (given the low tariff and thus returns for LSS4, the potential accretion to our sum-of-parts is likely not significant).

An ongoing prospect involves the source-to-tap water supply project in Jawa, Indonesia, specifically covering DKI Jakarta, Kota and Kabupaten Bekasi and Kabupaten Bogor. Ranhill (75% stake) and its consortium partners have initiated the project, which entails the construction of a water treatment plant and 99km of pipelines, with water to be extracted from the Jatiluhur Dam (605MLD). The project has since been upgraded to a National Strategic Project by the Indonesia government, with feasibility studies by the relevant ministry currently underway.

Separately, Ranhill had, in Apr 2022, submitted a tender for the development of a new 100MW gas-fired plant at the West Coast of Sabah (targeted for commissioning in 2025). Talks are also underway with the Energy Commission for the establishment of a 75MW solar farm in Kluang Johor, which would partially power RSAJ’s operations.

4. Competitive landscape and positioning

4.1 Malaysia's water model

The water supply industry in Malaysia was originally decentralised, with each state appointing its own concessionaire to provide treated water and build/own related infrastructure. Efficiency and quality levels of the industry were generally sub-optimal. In an attempt to improve industry efficiency, the National Water Services Industry Act was enacted in 2006, thus changing the industry landscape. Pengurusan Aset Air Berhad (PAAB), wholly-owned by Minister of Finance Inc, was incorporated with the objective of being the holding company for Malaysia's water assets.

Concessionaires could opt to migrate to an asset-light (sale and leaseback) model by transferring their water infrastructure assets (and corresponding liabilities) to PAAB (government-owned and is thus able to raise funding at a much lower cost) and subsequently obtaining an operating license (exclusive for the state, renewable every 3 years) from the regulator (SPAN) to continue.

4.2 Well-performing water operator

Having been a concessionaire since 1999, RSAJ migrated to the licensing regime in 2009. This also involves the signing of a facility agreement with PAAB (30 years initially, subsequently extended to 45 years) to lease Johor's water infrastructure exclusively. RSAJ is currently into its 5th operating period (2021-2023).

RSAJ's track record has been solid, and having consistently met targets relating to water quality and coverage and NRW reduction. Johor's NRW levels are among the lowest in Peninsular Malaysia, in part due to Ranhill's NRW reduction expertise (through Ranhill Water Services housed under the Services segment). Ranhill has targeted further reduction of Johor's NRW levels to 7.5% in the long-term, vs. a range of 25-27% over the last few years to 2020. Overall, we do not view license non-renewal (every 3 years) as a material risk. Ranhill has also been exploring the possibility of expanding water supply operations to other states.

Fig 3: NRW levels by state

State	2016	2017	2018	2019	2020
Johor	25.9	24.7	24.8	24.9	26.7
Kedah	46.7	47.6	48.5	48.5	48.4
Kelantan	49.4	49.3	49.3	50.8	51.7
Labuan	30.5	32.0	31.6	29.8	33.6
Melaka	19.0	19.6	21.2	21.2	30.0
N.Sembilan	32.7	32.6	31.9	31.9	31.8
Pinang	21.5	21.9	21.7	22.9	23.5
Pahang	47.9	47.5	49.1	47.4	50.3
Perak	30.5	30.9	30.4	29.5	30.1
Perlis	60.7	63.1	63.8	63.3	64.9
Selangor	32.0	31.5	31.7	29.6	28.5
Terengganu	30.0	30.4	34.6	34.7	35.2
Pen. Malaysia + Labuan	**33.6**	**33.4**	**33.9**	**33.2**	**33.8**

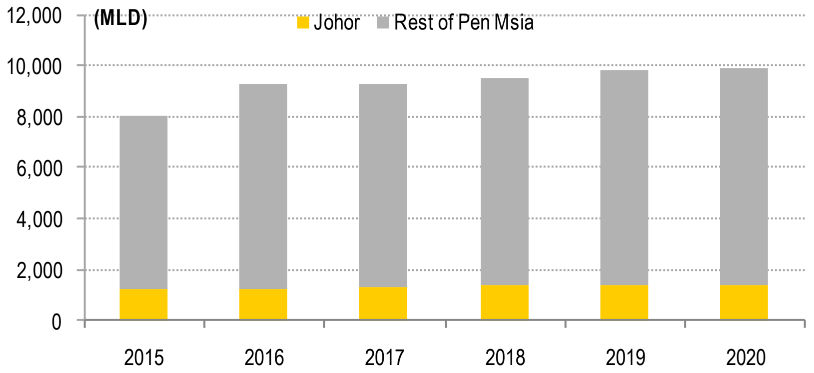
Source: SPAN

4.3 Water consumption trends

With Selangor being the most affluent state, Selangor is unsurprisingly the largest consumer of water in Peninsular Malaysia, accounting for c.35% of total consumption. Johor is next, accounting for c.14%, followed by Perak and Penang.

2021 nationwide data has not yet been published at the time of writing. Peninsular Malaysia water consumption has grown at 1.9% CAGR during 2015-2020. Total consumption of water did not decline during the pandemic year of 2020, with continued growth in the domestic segment more than offsetting a decline in the non-domestic segment for most states.

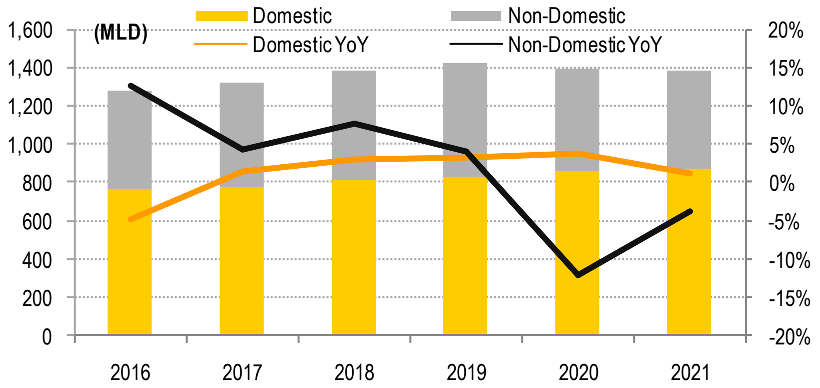
Fig 4: Peninsular Malaysia water consumption



Source: SPAN

Specifically for Johor, domestic consumption has grown in the past 5 years, even during the pandemic. Non-domestic consumption meanwhile has unsurprisingly declined in 2020 and 2021. Johor 2020's decline was the steepest among all the Peninsular Malaysia states, possibly due to the added impact of the closed Singapore border. With the reopening of the economy and the Singapore border, we believe Johor's non-domestic consumption would revert back to growth in 2022.

Fig 5: Johor water consumption



Source: SPAN, Company

4.4 The case for tariff hikes

Under the licensing regime, operators submit a business plan to regulator SPAN every three years, detailing the proposed tariff increase on the back of projected costs (including lease payments) and margins, along with the accompanying operating targets. SPAN will review the plan before passing it onto the Ministry of Environment and Water. The Cabinet eventually makes the final approval for tariff hikes.

Unlike electricity, the water industry is still not completely consolidated, and there are also individual state interests at play. With the Federal and State Governments under pressure to keep tariffs of basic utilities low, scheduled tariff hikes have not been approved in recent years. The last water tariff hike for Peninsular Malaysia was back in 2015, over two operating periods ago, and did not cover all states. PAAB in response has allowed operators to partially defer incremental lease payments from new infrastructure.

Fig 6: Johor water tariff (monthly) since Aug 2015

State	Rate (MYR/m^3)
Domestic	
Band 1 (0 – 20m^3)	0.80
Band 2 (20 – 35m^3)	2.00
Band 3 (>35m^3)	3.00
Non-domestic	
Band 1 (0 – 35m^3)	2.80
Band 2 (>35m^3)	3.30
Special	
Religious institutions	1.60
Shipping and water reprocessing	7.00

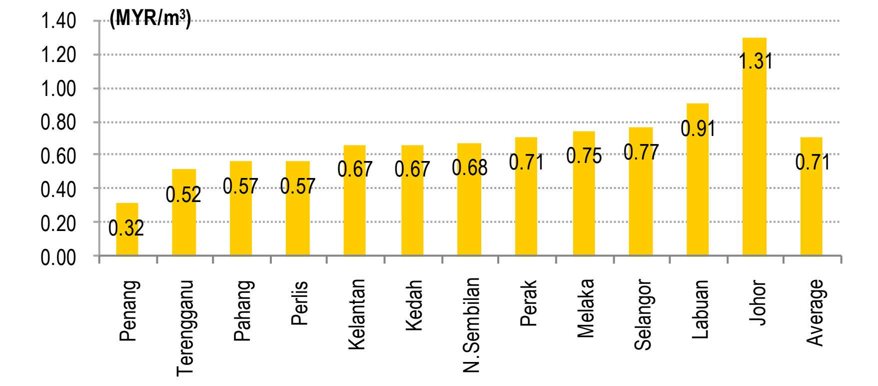
Source: RSAJ, SPAN

An inability by operators to secure tariff hikes would inevitably affect PAAB's infrastructure spending, which is primarily recovered through lease payments from operators over time. NRW levels are already very high in some states, a result of chronic under-investment pre-transition, and this would only deteriorate if not addressed. A water crisis could very well develop in future during drought conditions if such under-investment continues longer term, in our view.

We believe the government is likely cognizant of this, which is probably why a tariff hike for non-domestic users was finally approved in Jun 2022, and announced in Jul 2022. Essentially, tariffs for non-domestic users and special categories in Peninsular Malaysia and Labuan would be increased by an average of MYR0.25/m^3 effective 1 Aug 2022. Tariffs for domestic users remain unchanged.

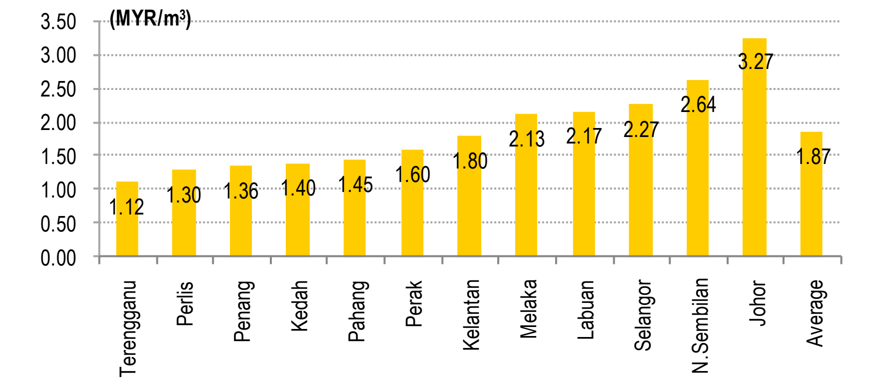
At the time of writing, RSAJ has not yet announced its quantum of tariff increase. But given that Johor's water tariffs are already on the high side (due to higher infrastructure investment relative to other states), we believe the quantum of RSAJ's hike would likely be below Peninsular Malaysia's average. Selangor meanwhile has announced an average hike of MYR0.20/m^3 for non-domestic users effective 1 Aug 2022.

Fig 7: Domestic tariff (first 35m³ per month) by states



Source: SPAN, Maybank IBG Research

Fig 8: Non-domestic tariff (first 500m³ per month) by states



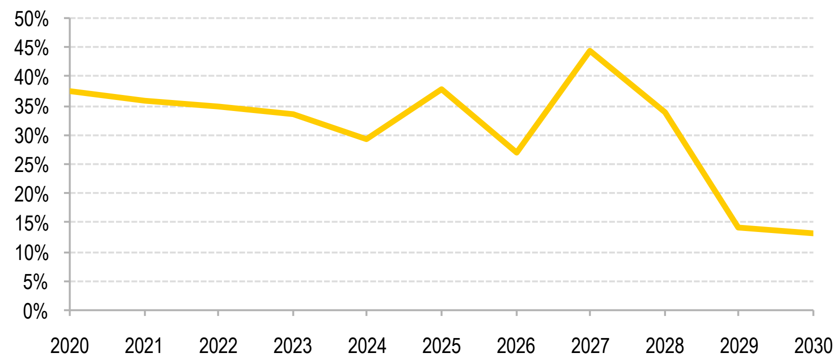
Source: SPAN, Maybank IBG Research

4.5 Entrenched generation position in Sabah

Sabah operates under a PPA structure for electricity generation, similar to Peninsular Malaysia. IPPs receive two forms of payments from the offtaker: 1) capacity payments comprising of capacity rate financial (CRF) and fixed operating rate (FOR), which are intended to address capital and fixed costs and returns on investments, and are paid based on the plants meeting availability targets, 2) energy payments comprising of fuel, variable operating rate (VOR) and startup costs, which are meant to cover variable costs. This means IPPs enjoy a full pass-through of fuel costs if heat rates fall within the stipulated limits of the PPA.

We estimate total generation capacity in Sabah at 1,298MW in 2021, of which Ranhill (cumulatively via RP1 and RP2) commands c.29% share, making it the largest IPP by capacity in the state. With reserve margin potentially dropping to below 20% after 2028 (a number of gas plant PPAs would expire) by our estimate, Sabah would require further plant-ups in the coming years. Ranhill, with its entrenched and dominant position in Sabah, should stand a good chance of securing new generation concessions, in our view. Ranhill had, in Apr 2022, submitted a tender for the development of a new 100MW gas-fired plant on the West Coast of Sabah (targeted for commissioning in 2025).

Fig 9: Sabah reserve margin



Source: Energy Commission, Maybank IBG Research

4.6 International backing

The acquisition of 51%-owned Ranhill Worley in 2021 had strengthened Ranhill's capabilities, putting it in a better position to bid for contracts. Ranhill Worley becomes the biggest earnings contributor to Ranhill's Services segment. Ranhill Worley operates in the highly competitive oil and gas industry. Its competitive advantage is its operational partnership with its 49% parent Worley group (previously WorleyParson), an engineering major in the energy, chemical and resources space with a 50,000 strong global workforce. Ranhill Worley is thus able to access Worley's global expertise and resources, while also supporting other Worley offices outside Malaysia.

4.7 ESG snapshot

Ranhill has been proactive towards sustainability, and has made comprehensive ESG disclosures. On the environmental front, Ranhill has established a net zero target by 2050. The recent 50MW LSS4 win has raised its renewable energy portfolio. RSAJ has also started the installation of rooftop solar panels and mini-hydro at selected sites to power its water treatment plants, and has plans for a 75MW solar farm in Kluang, Johor to partially power its operations. Reduction of water wastage is already an ongoing operational target. On gender split, female representation of workforce was 20% in FY21 while that of the board was 33%.

5. Financial analysis

5.1 Accounting distortions - RSAJ

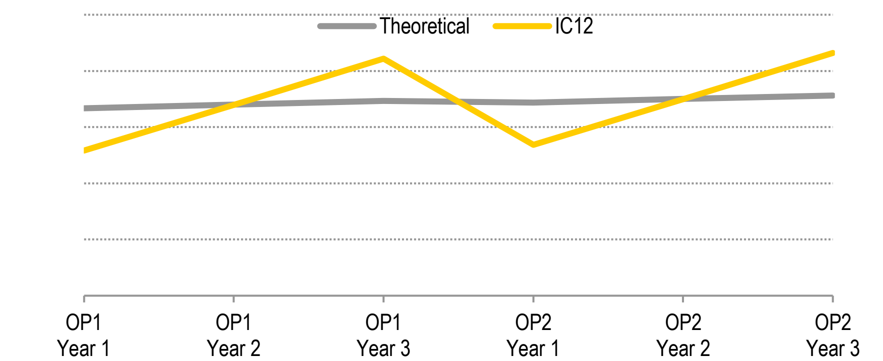
Ranhill's P&L is heavily distorted by the lease-type accounting treatment arising from IC12 (IC Interpretation 12: Service concession arrangements). This applies to RSAJ, and both power plants (RP1 and RP2). Note that these P&L distortions have no bearing on actual cashflows.

For RSAJ, recall the entity runs on a 3 year operating period. The lease payments to PAAB over the operating period are capitalised upfront (by the entity's borrowing cost) at the start of an operating period, and recognised on the balance sheet as "service concession assets" on the asset side, and "service concession liabilities" on the liability side. Both items zerorise at the end of each operating period.

On the P&L, the service concession assets are amortised over the 3 years on a straight line basis. Meanwhile, a finance cost is charged on the service concession liabilities on a reducing balance basis. Due to this fluctuation of finance cost, assuming a stable lease payment schedule, costs on the P&L become front-loaded, and earnings thus back-loaded over the operating period.

Thus RSAJ's net profit is weakest in Year 1 of the operating period, and strongest in Year 3, all else equal. With service concession liabilities trending at c.MYR1b per operating period, we estimate the YoY change in finance cost at c.MYR10m. RSAJ's EBITDA is also significantly inflated with the lease payment essentially below the line.

Fig 10: RSAJ's pre-tax profit trajectory



Note: Horizontal axis represents the year of operation
Source: Maybank IBG Research

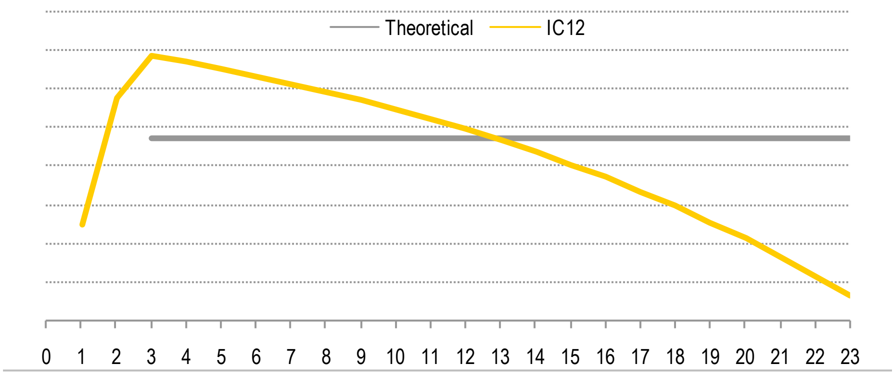
5.2 Accounting distortions – generation plants

Ranhill's power assets RP1 and RP2 have also migrated to IC12 in recent years, having previously been under IC4 (IC Interpretation 4: Determining whether an arrangement contains a lease). The change is perhaps more material for RP1 relative to RP2 given RP1 was previously deemed an operating lease, while RP2 was already deemed a finance lease.

Under IC12, an "operating financial asset" is recognised on the balance sheet from the construction of the power plant. This financial asset subsequently reduces over the concession tenure based on the effective interest method as the capacity payments flow in.
On the P&L, the capacity payments are no longer recognised as revenue. Instead, an interest income on the operating financial asset is recognised.

This means the EBITDA and EBIT for the power plant are suppressed and not representative. Arbitrary construction revenue and profit are recognised during the construction years. Upon commissioning, the interest income again reduces over time, resulting in earnings being front-loaded over the concession tenure.

Fig 11: Power plant pre-tax profit trajectory



Note: Horizontal axis represents the year of operation

Source: Maybank IBG Research

5.3 FY23E to be a stronger year for net profit

Since the Federal Government's Jul 2022 announcement of a tariff hike for non-domestic users effective 1 Aug 2022, Johor has not yet announced the quantum and timing of hike at the time of writing. Clearly, an Aug 2022 hike is no longer plausible. We assume an average hike of MYR0.15/m^3 (+4.6%) for non-domestic users from Jan 2023, culminating in a 2.5% increase in overall tariff.

Fig 12: Ranhill segmental P&L

(MYR m)	FY20	FY21	FY22F	FY23F	FY24F
Revenue	**1,468**	**1,531**	**1,550**	**1,620**	**1,663**
Environment	1,179	1,159	1,163	1,215	1,238
Energy	233	221	221	222	224
Services	56	151	166	183	201
Others	0	0	0	0	0
EBITDA	**458**	**474**	**491**	**534**	**549**
Environment	529	528	542	580	591
Energy	-31	-27	-19	-19	-19
Services	21	41	42	46	50
Others	-60	-68	-74	-74	-74
Net profit	**38**	**31**	**29**	**61**	**40**
Environment	130	108	114	144	120
Energy	1	7	4	4	3
Services	9	30	21	23	26
Others	-103	-115	-111	-110	-108

Note: "Others" refer to investment holding level & inter-segment elimination

Source: Company, Maybank IBG Research

We forecast a net profit decline of 5% in FY22, as higher RSAJ contribution (from a 2% volume recovery and lower finance cost on the reduced service concession liabilities) is more than offset by the non-recurrence of the MYR8m tax credit at the Services segment in FY21 (we assume stable pre-tax profit for the Services segment in FY22).

With finance cost bottoming in the final year of RSAJ's operating period, FY23 was already meant to be a strong year for net profit. Along with our assumption of a tariff hike, we forecast a 30% increase in RSAJ's net profit, culminating in a more than doubling of group net profit. Note that our FY23 net profit forecast is still below that of FY17 and FY19. We do not see Ranhill making extraordinary profits post tariff hike.

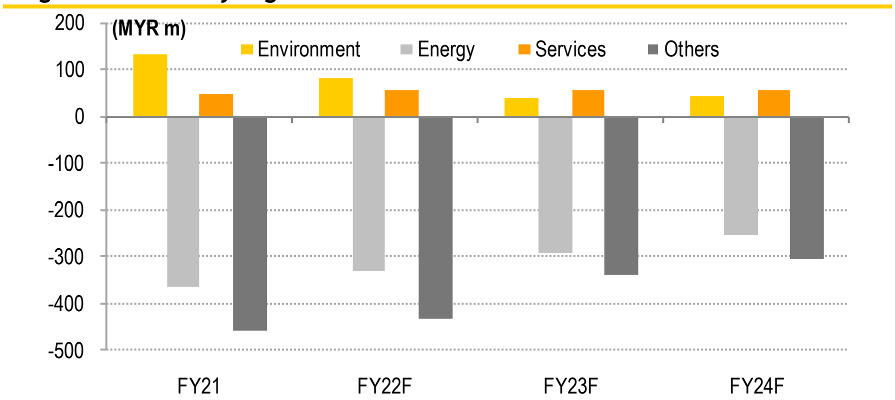
For sensitivity purposes, we estimate every MYR0.05/m^3 tariff increase for non-domestic users above our base case would raise our RSAJ's FY23 net profit by c.MYR7m, and overall group net profit by c.MYR6m.

5.4 Balance sheet, capital structure analysis

Ranhill's net debt of MYR649m in end-FY21 represents a net gearing of 95%, relatively reasonable for an infrastructure company, in our view. We forecast Ranhill's net gearing to improve marginally to 93% by end-FY22 and more tangibly to 76% in end-FY23 (post RSAJ's tariff hike).

Since both the Environment and Services segments are asset-light, we believe both segments are in net cash positions. The bulk of Ranhill's debt sits in 1) the Energy segment, RP2 in particular (RP1's debt has largely been pared down), and 2) the investment holding level, which houses a c.MYR560m sukuk (issued to refinance previous debt from legacy projects). The repayment of this sukuk is mainly funded by the dividends from RSAJ. We thus expect RSAJ's dividend to remain elevated, hence our projection of declining net cash for the Environment segment in FY22 and FY23.

Fig 13: Net cash by segment

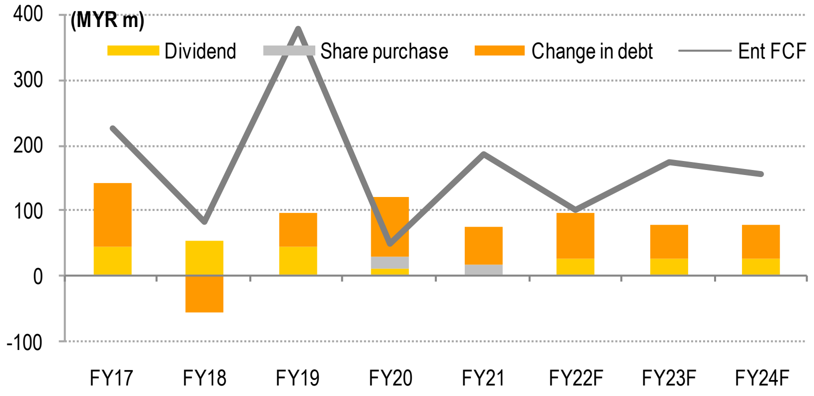


Source: Company, Maybank IBG Research

5.5 Cash flow, free cash flow analysis

Ranhill's enterprise FCF has been relatively volatile in recent years due to a combination of pandemic-induced volume effects, and fluctuations in both working capital investment and lease payments to PAAB. Given the absence of tariff hikes in recent years, RSAJ has been negotiating with PAAB for the review and deferment of lease payments. Going forward, we estimate Ranhill's annual enterprise FCF at MYR100-200m, more than sufficient to cover debt repayment and dividend payment.

Fig 14: Enterprise FCF and dividend



Source: Company, Maybank IBG Research

Ranhill's dividend policy is a 50-70% payout ratio. Ranhill used to declare MYR40-55m of cash dividends annually during FY17-FY19. The company gravitated towards stock dividends in FY20 and FY21, spending MYR16m and MYR15m in the respective years for share buybacks and distributing most of these treasury shares to shareholders. Cash DPS was just a paltry 1sen in FY20, and none in FY21.

We believe stock dividends are generally less appealing to investors, and expect Ranhill to revert back to cash dividends going forward. We assume a 2sen annual DPS going forward, with potential upside risk from FY23 onwards post RSAJ's tariff hike.

5.6 1Q22 results

1Q22 net profit represents 25% of our FY22E forecast. Note that we have not incorporated a tariff hike for the non-domestic segment in 2022. Also, recall the acquisitions of Ranhill Worley and Ranhill Bersekutu were only completed in 3Q21, thus YoY references for the Services segment are not directly comparable.

On a segmental basis, Environment revenue was lower YoY due to reduced developer contribution, but stable QoQ. Interest expense was expectedly lower YoY as RSAJ moved into the second year of its operating period. Meanwhile Energy revenue was higher YoY due to increased energy payments (to reflect diesel substitution due to gas curtailment), but lower QoQ due to planned maintenance at RP1. Services were lower QoQ given seasonality (higher billings during year end).

Fig 15: Ranhill: Results summary

			Quarterly		
FY Dec (MYR m)	**1Q22**	**1Q21**	***%YoY***	**4Q21**	***%QoQ***
Revenue	393.4	363.8	*8.2*	421.1	*(6.6)*
EBITDA	117.2	127.5	*(8.1)*	108.3	*8.2*
EBIT	21.0	27.9	*(24.8)*	5.0	*318.9*
Associate income	3.0	4.2	*(28.2)*	4.3	*(30.9)*
Interest income	14.9	13.6	*9.4*	29.9	*(50.1)*
Interest expense	(19.4)	(23.2)	*(16.5)*	(21.3)	*(9.0)*
Pre-tax profit	**19.6**	**22.6**	***(13.3)***	**18.0**	***8.9***
Tax	(7.2)	(9.5)	*(24.3)*	4.0	*N/A*
Minority Interests	(5.0)	(5.8)	*(13.2)*	(16.3)	*(69.2)*
Net Profit	**7.4**	**7.3**	***1.1***	**5.7**	***29.2***
Recurring Net Profit	**7.4**	**7.3**	***1.1***	**5.7**	***29.2***
Pre-ex EPS (sen)	0.57	0.69	*(16.4)*	0.49	*17.3*
Net DPS (sen)	0.00	0.00	*N/A*	3.50	*N/A*
Net cash/(debt)	(625.9)	(770.4)	*(18.8)*	(648.7)	*(3.5)*
Gearing (%)	90.9	166.9		94.2	
Capex	9.8	5.9	*64.5*	16.7	*(41.3)*
Segmental results					
Revenue	**1Q22**	**1Q21**	***%YoY***	**4Q21**	***%QoQ***
Environment	287.4	293.9	*(2.2)*	287.8	*(0.1)*
Energy	59.7	52.1	*14.6*	63.3	*(5.7)*
Services	46.3	17.8	*160.1*	70.0	*(33.9)*
Others	0.0	(0.0)	*N/A*	0.0	*N/A*
Total	**393.4**	**363.8**	***8.2***	**421.1**	***(6.6)***
PAT (pre-MI)	**1Q22**	**1Q21**	***%YoY***	**4Q21**	***%QoQ***
Environment	19.3	33.0	*(41.3)*	13.3	*45.2*
Energy	2.6	2.0	*29.7*	8.2	*(68.7)*
Services	7.6	2.9	*163.5*	32.2	*(76.4)*
Others	(17.1)	(24.8)	*(30.8)*	(31.8)	*(46.0)*
Total	**12.4**	**13.1**	***(5.2)***	**22.0**	***(43.7)***
PAT margin (%)	**1Q22**	**1Q21**	***+/- ppt***	**4Q21**	***+/- ppt***
Environment	6.7	11.2	*(4.5)*	4.6	*2.1*
Energy	4.3	3.8	*0.5*	13.0	*(8.7)*
Services	16.4	16.2	*0.2*	46.0	*(29.6)*
Blended	**3.1**	**3.6**	***(0.4)***	**5.2**	***(2.1)***

Source: Company

6. Valuation

6.1 Sum-of-parts

We value Ranhill on a sum-of-parts. Both the Environment (RSAJ) and Energy (RP1 and RP2) segments are valued on DCF over their respective facility agreement and concession tenures (no terminal value). Our WACC assumptions are 9.7% for RSAJ and 8.4% for both RP1 and RP2 respectively. We value the Services segment at a conservative 10x target PER, given the wide range of businesses the segment encompasses.

RSAJ expectedly accounts for the bulk of our sum-of-parts. Given the lack of detailed financial disclosures, we have deliberately excluded the overseas water treatment plants (China and Thailand) from our valuation (Recall 60% of the China operations was divested for MYR167m or MYR0.13/share in 2017). We have also not yet included the 50MW solar farm currently under construction (unlikely to be material given the low project returns). There is substantial debt at the investment holding level.

Our MYR0.60 TP implies 26.6x PER and 3.3% net dividend yield in FY22E, and 12.6x PER and 3.3% net dividend yield in FY23E.

Fig 16: Target price calculation

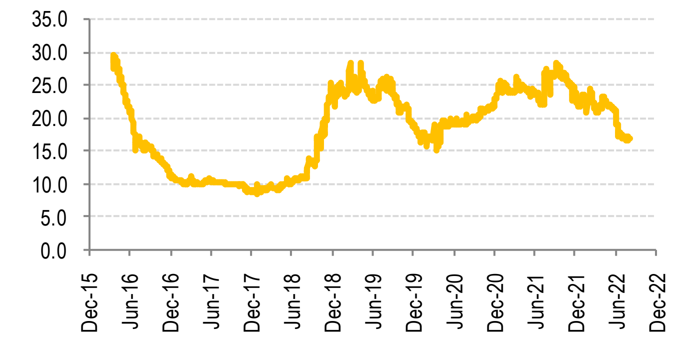
(MYR m)	Value	Stake	Attri. value	Per share	%
Environment - RSAJ	1,175	80%	940	0.73	122%
Energy - RP1	72	60%	43	0.03	6%
Energy - RP2	20	80%	16	0.01	2%
Services	209	N/A	209	0.16	27%
Investment holding net cash			-437	-0.34	-57%
Total equity value			**770**	**0.60**	

Source: Maybank IBG Research

6.2 Historical / peer comparison

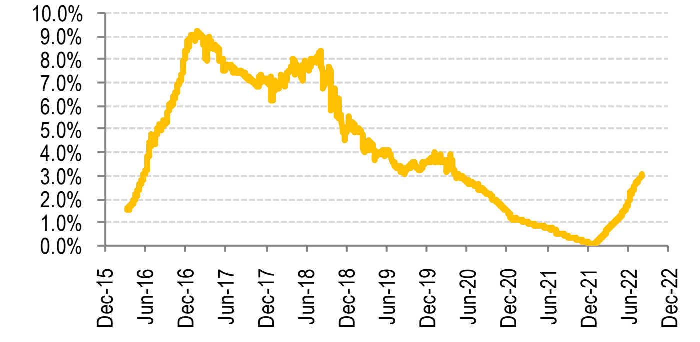
In our view, Ranhill's share price de-rating in recent years has been mainly on the back of its net profit erosion. Ranhill's PER has thus remained relatively elevated, and there is a clear decoupling of Ranhill's PER and PB bands. In addition, there is inadequate dividend yield support with Ranhill having gravitated towards stock distribution in recent years (FY20 and FY21).

Fig 17: Trailing PER



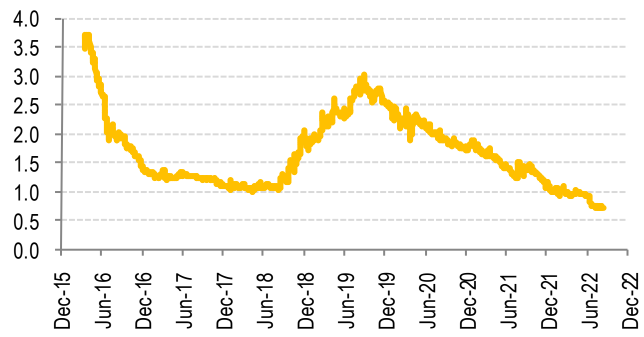
Source: Bloomberg, Maybank IBG Research

Fig 18: Trailing net yield (cash dividend)



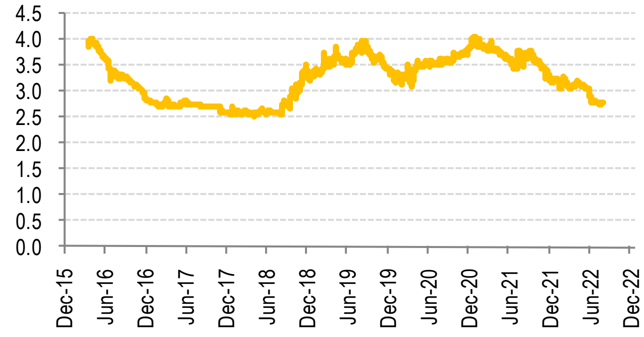
Source: Bloomberg, Maybank IBG Research

Fig 19: Trailing PB



Source: Bloomberg, Maybank IBG Research

Fig 20: Trailing EV/EBITDA



Source: Bloomberg, Maybank IBG Research

Note that Ranhill's unadjusted EV/EBITDA of 2.5-4.0x is suppressed due to the inflated EBITDA at RSAJ (partly offset by the deflated EBITDA at RP1 and RP2) from the accounting distortions. Adjusting for the accounting effects at RSAJ, RP1 and RP2, we estimate the "true" EV/EBITDA is closer to 4.0-7.5x.

Fig 21: Peer comparison (Malaysia-listed utilities)

Stock	Bloomberg code	Mkt cap (MYR m)	Rating	Price (MYR)	TP (MYR)	Upside (%)	P/E (x) 22E	P/E (x) 23E	EV/EBITDA (x) 22E	EV/EBITDA (x) 23E	Net yield (%) 22E	Net yield (%) 23E
Water/Power												
Ranhill	RAHH MK	503	BUY	0.43	0.60	41	18.9	9.0	2.8	2.6	4.7	4.7
YTL Power	YTLP MK	5,874	BUY	0.73	0.90	23	36.8	17.9	10.0	9.6	6.8	6.8
Power												
Tenaga	TNB MK	48,038	HOLD	8.89	8.70	-2	11.0	10.2	6.2	6.0	4.1	4.4
Malakoff	MLK MK	3,225	HOLD	0.69	0.65	-5	13.7	11.4	4.7	4.9	6.2	7.5
Mega First	MFCB MK	3,327	BUY	3.50	4.20	20	9.4	9.1	7.3	7.1	2.1	2.4
Gas												
Petronas Gas	PTG MK	33,876	HOLD	17.30	17.20	-1	18.4	17.7	9.3	9.7	4.2	4.2
Gas Malaysia	GMB MK	4,186	BUY	3.24	3.30	2	12.5	12.2	7.2	7.1	7.2	7.4

Note: Share prices as at16 Aug 2022
Source: Bloomberg, Maybank IBG Research

7. Risks

7.1 License renewal

RSAJ's water supply operating license is subject to renewal every three years (current operating period ends in Dec 2023). The renewal is conditional upon SAJH fulfilling the operational targets set by the regulator. Non-renewal risk is low, in our view, given RSAJ's strong track record with regards to fulfilment of targets over the years.

7.2 Water tariff hike approval

Under the current regulatory framework, lease payments to the government would likely be on an uptrend given the ongoing investment in water infrastructure, thus requiring RSAJ (and other water operators) to constantly seek higher water tariffs over time. Changes in water tariffs are however subjected to the Cabinet's approval, which means there is a high possibility of the proposed tariff change not materialising or being deferred.

7.3 Extended power plant outage

For PPAs in Malaysia's electricity generation space, capacity payments for fossil-fuel plants are usually paid upon fulfilment of plant availability targets. Thus for the RP1 and RP2 power plants, any extended unscheduled plant outages could lead to missed capacity payments, thus affecting the profitability and debt-servicing capabilities of the entities.

7.4 Order book replenishment

Ranhill Worley operates in the oil and gas industry which is highly competitive. Oil majors' capex levels have also been volatile given fluctuating views on crude oil price trends and ESG pressures. Meanwhile, the level of civil infrastructure activities is dependent on the broader economic outlook. There is no assurance that Ranhill's Services segment would be able to consistently replenish its order book.

7.5 Failure to resume cash dividend

For capital management, management's preference in recent years has been to opt for share buybacks accompanied with share dividends to shareholders. We believe cash dividend (at a sustainable level) is a more appealing option for shareholders. A failure to resume cash dividend could affect our investment thesis.

Appendix - Board of Directors

Name	Designation	Profile
Tan Sri Hamdan Mohamad (Age: 66) M	Chairman and Chief Executive Non-Independent Executive Director	Tan Sri Hamdan Mohamad graduated from the University of Western Australia with a Bachelor of Engineering degree, and holds a Masters of Science degree in Engineering from Imperial College of Science and Technology, University of London. He first joined Ranhill Bersekutu Sdn Bhd in 1981. After completing his Masters degree, he was appointed Director of RBSB in 1988 and CEO in 1995, before being appointed as Executive Director of Ranhill Berhad in 2000. He has since been appointed as President and Chief Executive in 2013 and Chairman of Ranhill in 2022.
Dato Sri Lim Haw Kuang (Age: 68) M	Executive Director	Dato Sri Lim Haw Kuang holds a Bachelor of Science in Computing Science from Imperial College, University of London and a Master of Business Administration in International Management from IMD Switzerland. He worked at Shell for 34 years and held various senior positions.
Datuk Abdullah Karim (Age: 69) M	Senior Independent Non-Executive Director	Datuk Abdullah Karim holds a Bachelor of Science degree in Mechanical Engineering from University of Western Australia. He has over 40 years of experience in the O&G industry with PETRONAS, holding various senior positions before retiring as Vice President and Venture Director, LNG Projects-Domestic in 2016.
Lim Hun Soon @ David Lim (Age: 66) M	Independent Non-Executive Director	Lim Hun Soon @ David Lim holds a Bachelor of Arts in Economics from the University of Leeds. He had a 33-year long career at KPMG Malaysia, where he was admitted as Partner in 1990. He also served in the Management Committee and was in KPMG's Partnership Supervisory Council. He retired from KPMG in 2011.
Leow Peen Fong (Age: 64) F	Independent Non-Executive Director	Leow Peen Fong holds a Bachelor of Arts (Economics) from Universiti Malaya and a Master of Arts (Development Economics) from Williams College, USA. She was formerly the Chief Operating Officer of Suruhanjaya Perkhidmatan Air Negara ("SPAN") before retiring in 2017. Prior to joining SPAN, she held various positions in the Ministry of Finance Department from 1988 to 2007 also served in the Ministry of Health from 1981 to 1988.
Abu Talib Abdul Rahman (Age: 68) M	Independent Non-Executive Director	Abu Talib Abdul Rahman graduated from the University of London with a Bachelor of Law degree. He got his certificate in legal practice in 1984 and called to the Malaysian bar in 1986. He founded with several other lawyers the firm of Abu Talib Shahrom ("ATS"). In 2017, he took a sabbatical to serve as a Managing Director of a publicly listed company before continuing his legal practice in ATS from 2020 until current.
Dr. Arzu Topal (Age: 58) F	Independent Non-Executive Director	Dr. Arzu Topal completed a doctoral program in economics, social science (Ph.D.) in the University of Istanbul, as well as a Master of Science in Urban Planning (M.Sc.) and Bachelor of Science in Architect (B.Sc.) in University of Mimar Sinan, Istanbul. She has over 30 years of experience in projects and portfolio development and program management for global corporate real estate and facilities.
Amran Awaluddin (Age: 52) M	Executive Director and Chief Operating Officer	Amran Awaluddin holds a Bachelor of Science (Honours) in Industrial and Business Economics from London School of Economics and Political Science, University of London. He is also a Fellow of the Chartered Institute of Management Accountants, United Kingdom and a Chartered Accountant registered with the Malaysian Institute of Accountants. He joined the Ranhill Berhad group of companies in 1999 and held various leadership positions before being appointed as the COO of Ranhill in 2019.
Zurina Abdul Rahim (Age: 40) F	Executive Director and Chief Commercial Officer	Zurina Abdul Rahim holds a Masters at Law (Corporate Law) and Degree in Law (Honours) from Universiti Teknologi Mara. She has over 15 years of experience in corporate matters/exercises, previously the Senior Vice-President, Group Legal & Compliance Division. She started her career as a pupil at Messrs Abu Talib Shahrom and was called to the Malaysian Bar in November 2005

Source: Company

Appendix - Senior Management

Name	Designation	Profile
Choo Chee Keen (Age: 52) M	Chief Financial Officer	Choo Chee Keen holds an Accounting Degree in Chartered Institute of Management Accountants, and is a chartered accountant registered with Malaysian Institute of Accountants since 1999. He has more than 20 years of experience covering various financial and taxation roles, holding positions with various companies such as Soctek Sdn Bhd, Merces Builders Sdn Bhd and Nam Fatt Corporation Berhad before joining Ranhill Group in 2005 as General Manager of Ranhill Engineers &Constructors Sdn Bhd. He assumed the role of CFO of Ranhill in June 2016.
Monindar Kaur A/P Harcharan Singh (Age: 54) F	Chief Merger and Acquisition Officer	Morindar Kaur holds a Bachelor of Economics from Monash University, Melbourne and a Masters of Business Administration from University of Wollongong, Australia. She has more than 30 years' experience covering various financial aspects, including the IPO of Ranhill Berhad. She began her career with Messrs. Arthur Andersen & Co in 1990. She joined Ranhill Bersekutuin 1995.
Sr. Nor Ifuan Md Nor (Age: 52) M	Chief Executive Officer, Ranhill SAJ	Sr. Nor Ifuan Md Nor holds a BSc (Hons) in Quantity Surveying from the University of Salford and is a Fellow with the Professional Quantity Surveyor Member of Royal Institution of Surveyor Malaysia. He had 12 years of experience in construction industry specializing in Quantity Surveyor, project management and disputes resolution. He has garnered 16 years of experience in corporate sector with the last 13 years in Chief Operating Officer and Chief Executive Officer roles.
Ir. Dr. Zahrul Faizi Hussien (Age: 50) M	Chief Executive Officer, Ranhill Power Division	Ir. Dr. Zahrul Faizi Hussien has a Bachelor of Electric Engineering and a Ph.D in Electrical Engineering from the University of Southampton. He is also a professional engineer (P.Eng.) in the Board of Engineers Malaysia. He started his career with and served for about 18 years in various Tenaga Nasional Berhad (TNB) divisions as engineer, trainer and senior management with his last position as General Manager at TNB Research Sdn Bhd. He then joined Malakoff Berhad as Head of Reliability, Performance and Utilities, where he oversaw the technical performance of its power plants.
Zurin Salleh (Age: 54) M	Chief Executive Officer, Ranhill Water Services	Zurin Salleh received his Bachelor of Engineering in Mechanical and Material Engineering from the University Kebangsaan Malaysia. He started his career as a plant engineer at Paterson Candy in 1991, and continued to Ranhill SAJ as Head of Quality assurance. He was later assigned to lead Ranhill SAJ's of the Mechanical & Electrical Department.
Tin Wai Han (Age: 43) M	Chief Executive Officer, Ranhill Water Technologies	Tim Wai Han has a Bachelor of Engineering (Electrical/Electronic) from 2001 College Damansara Utama, University of Lincolnshire & Humberside. He has over 20 years of combined professional experience in water, wastewater and reclaimed water industry from technical expertise, project management and business development in various countries. He started his career as an Engineering Manager in Hydro Trent Automation before joining RWT in 2012 as a project manager.
Ir. Arvind Viswanath Menon (Age: 49) M	Chief Executive Officer, Ranhill Bersekutu	Ir. Arvind Viswanath Menon has a B. Eng (Mechanical) from Loughborough University and is a Professional Engineer (P.Eng) with Practicing Certificate from Board of Engineers Malaysia. He has over 25 years of experience, starting his career with RBSB in 1996 as a mechanical engineering, before being promoted to CEO of RBSB in 2019.
Ir. Mohamad Bin Embong (Age: 59) M	Chief Executive Officer, Ranhill Worley	Ir. Mohamad Bin Embong holds a BSc in Civil Engineering from the University of Toledo. He has over 30 years in the O&G industry, starting his career as a structural engineer with Brown & Root and Protek Engineers. In 2020, Ranhil Worley acquired Jacobs Engineering, in which Protek Engineers is part of the group. He was promoted to CEO of Ranhill Worley in 2016.

Source: Company

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	25.6	27.3	20.4	9.6	14.7
Core P/E (x)	25.1	20.7	20.4	9.6	14.7
P/BV (x)	1.9	1.0	0.9	0.8	0.8
P/NTA (x)	(2.3)	(0.7)	(1.0)	(3.8)	(0.7)
Net dividend yield (%)	1.1	0.0	4.3	4.3	4.3
FCF yield (%)	5.7	30.6	17.1	29.5	26.4
EV/EBITDA (x)	3.7	2.7	2.5	2.1	1.9
EV/EBIT (x)	21.0	13.5	11.2	7.4	7.6
INCOME STATEMENT (MYR m)					
Revenue	1,468.5	1,530.9	1,550.5	1,619.9	1,663.0
EBITDA	458.3	474.1	491.0	533.9	549.1
Depreciation	(377.2)	(379.0)	(381.2)	(381.5)	(410.0)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	81.1	95.1	109.8	152.4	139.0
Net interest income /(exp)	3.4	(18.3)	(26.3)	(15.9)	(38.6)
Associates & JV	11.1	16.5	15.0	15.0	15.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	95.5	93.3	98.5	151.5	115.4
Income tax	(31.4)	(27.1)	(36.7)	(49.4)	(39.6)
Minorities	(26.5)	(35.5)	(32.8)	(40.9)	(35.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	37.6	30.6	29.0	61.2	40.3
Core net profit	37.6	30.6	29.0	61.2	40.3
BALANCE SHEET (MYR m)					
Cash & Short Term Investments	313.9	395.2	338.9	380.1	407.1
Accounts receivable	354.9	442.5	446.0	466.0	478.4
Inventory	88.9	116.7	117.7	119.1	123.9
Property, Plant & Equip (net)	243.9	244.4	261.2	277.8	294.0
Intangible assets	915.9	1,621.0	1,249.0	874.2	1,552.9
Investment in Associates & JVs	180.4	208.6	223.6	238.6	253.6
Other assets	265.3	252.9	252.9	252.9	252.9
Total assets	**2,363.3**	**3,281.2**	**2,889.3**	**2,608.6**	**3,362.8**
ST interest bearing debt	97.1	150.5	150.5	150.5	150.5
Accounts payable	261.6	318.4	320.3	324.1	337.2
LT interest bearing debt	981.5	893.9	823.9	773.9	723.9
Other liabilities	516.0	1,238.0	910.0	641.0	1,417.0
Total Liabilities	**1,856.4**	**2,600.4**	**2,205.1**	**1,889.0**	**2,628.5**
Shareholders Equity	506.9	680.8	684.1	719.6	734.2
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	**506.9**	**680.8**	**684.1**	**719.6**	**734.2**
Total liabilities and equity	**2,363.3**	**3,281.2**	**2,889.3**	**2,608.6**	**3,362.8**
CASH FLOW (MYR m)					
Pretax profit	95.5	93.3	98.5	151.5	115.4
Depreciation & amortisation	377.2	379.0	381.2	381.5	410.0
Adj net interest (income)/exp	(3.4)	18.3	26.3	15.9	38.6
Change in working capital	60.3	88.5	92.1	115.7	79.8
Cash taxes paid	(42.0)	(35.2)	(36.7)	(49.4)	(39.6)
Other operating cash flow	(366.4)	(313.1)	(402.2)	(382.9)	(390.2)
Cash flow from operations	121.3	230.8	159.2	232.3	214.1
Capex	(67.2)	(36.8)	(58.2)	(58.2)	(58.2)
Free cash flow	54.1	194.1	101.0	174.1	155.9
Dividends paid	(90.9)	(25.3)	(25.7)	(25.7)	(25.7)
Equity raised / (purchased)	(16.4)	(15.3)	0.0	0.0	0.0
Change in Debt	(92.0)	(58.2)	(70.0)	(50.0)	(50.0)
Other invest/financing cash flow	(70.7)	(24.2)	(61.6)	(57.2)	(53.1)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	(215.9)	71.1	(56.3)	41.2	27.0

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Ratios					
Growth ratios (%)					
Revenue growth	(5.4)	4.2	1.3	4.5	2.7
EBITDA growth	(20.8)	3.5	3.6	8.7	2.8
EBIT growth	(62.4)	17.3	15.5	38.8	(8.8)
Pretax growth	(54.5)	(2.4)	5.6	53.8	(23.8)
Reported net profit growth	(42.8)	(18.6)	(5.2)	111.0	(34.2)
Core net profit growth	(42.8)	(18.6)	(5.2)	111.0	(34.2)
Profitability ratios (%)					
EBITDA margin	31.2	31.0	31.7	33.0	33.0
EBIT margin	5.5	6.2	7.1	9.4	8.4
Pretax profit margin	6.5	6.1	6.4	9.4	6.9
Payout ratio	28.4	0.0	88.5	42.0	63.7
DuPont analysis					
Net profit margin (%)	2.6	2.0	1.9	3.8	2.4
Revenue/Assets (x)	0.6	0.5	0.5	0.6	0.5
Assets/Equity (x)	4.7	4.8	4.2	3.6	4.6
ROAE (%)	7.7	5.2	4.2	8.7	5.5
ROAA (%)	1.5	1.1	0.9	2.2	1.3
Liquidity & Efficiency					
Cash conversion cycle	13.8	37.2	42.1	40.6	42.3
Days receivable outstanding	73.8	93.8	103.1	101.3	102.2
Days inventory outstanding	27.8	31.0	35.4	35.3	34.8
Days payables outstanding	87.8	87.6	96.4	96.1	94.8
Dividend cover (x)	3.5	nm	1.1	2.4	1.6
Current ratio (x)	2.3	1.2	1.2	2.1	1.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.3	1.3	1.3	1.4	1.3
Net gearing (%) (incl perps)	150.9	95.4	92.9	75.6	63.6
Net gearing (%) (excl. perps)	150.9	95.4	92.9	75.6	63.6
Net interest cover (x)	na	5.2	4.2	9.6	3.6
Debt/EBITDA (x)	2.4	2.2	2.0	1.7	1.6
Capex/revenue (%)	4.6	2.4	3.8	3.6	3.5
Net debt/ (net cash)	764.7	649.2	635.5	544.3	467.2

Source: Company; Maybank IBG Research

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