

Ranhill Utilities (RAHH MK)

Tariff hike materialises

BUY

Share Price MYR 0.46
12m Price Target MYR 0.60 (+37%)
Previous Price Target MYR 0.60

Finally in place

The implementation of the long-overdue tariff hike for the non-domestic segment is an important catalyst, and restores some degree of financial sustainability to Ranhill and the industry. The next step in the regulatory reform journey would be a more rigorous adherence to the tariff framework (like electricity and gas utilities). Reiterate BUY with an unchanged MYR0.60 SOP-based TP.

Hike for non-domestic users

RSAJ has announced on its website that it has begun implementing the previously-gazetted (in July 2022) tariff adjustments for the non-domestic segment. The rate for the first 35m³ consumed monthly is raised to MYR3.10/m³ (from MYR2.80/m³), while that of subsequent consumption is raised to MYR3.50/m³ (from MYR3.30/m³). Separately, the minimum monthly charges for both the religious institutions and shipping categories have also been raised (tariff for both are nevertheless unchanged).

Reform journey just beginning

The quantum of the tariff hike is in line with the average MYR0.25/m³ increase announced by the government last year. This tariff hike is long overdue in our view, with the previous tariff adjustment being in 2015, or 3 operating periods ago. With financial sustainability of the water industry among one of the Ministry's main agenda, a more rigorous adherence to the tariff framework should help improve the overall financial health of water operators, in our view.

Earnings maintained for now

Our earnings forecasts and MYR0.60 TP (derived from a sum-of-parts with RSAJ, RP1 and RP2 valued on DCF) are unchanged for now, pending further updates from management. Our forecasts have incorporated a MYR0.15/m³ hike (+4.6%) in RSAJ's average non-domestic tariff in 2023. Every MYR0.05/m³ increase in average non-domestic tariff would raise annual net profit by c.MYR6m.

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	20.1	9.5	14.5
P/BV (x)	1.9	1.0	0.9	0.8	0.8
Net dividend yield (%)	1.1	0.0	4.4	4.4	4.4
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	-	-	34	46	48
MIBG vs. Consensus (%)	-	-	(14.7)	33.0	(15.5)

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Company Description

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

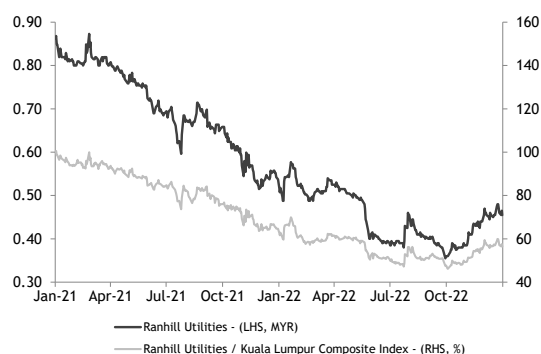
Statistics

52w high/low (MYR)	0.58/0.36
3m avg turnover (USDm)	0.1
Free float (%)	21.5
Issued shares (m)	1,296
Market capitalisation	MYR589.6M USD137M

Major shareholders:

Hamdan L Foundation	24.1%
TAEI Partners Ltd.	18.8%
MOHAMAD HAMDAN	10.2%

Price Performance



	-1M	-3M	-12M
Absolute (%)	3	26	(15)
Relative to index (%)	2	18	(13)

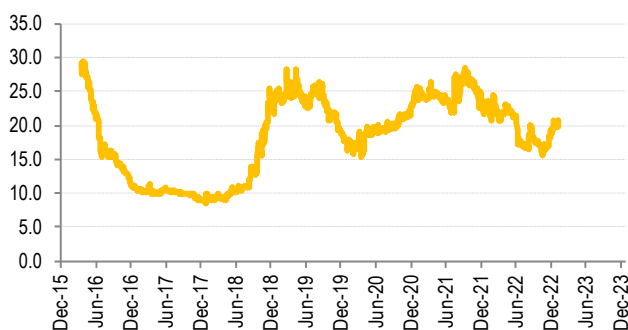
Source: FactSet

Water tariff (monthly) - Johor

State	New rate (MYR/m ³)	Previous rate (MYR/m ³)
<u>Domestic</u>		
Band 1 (0 - 20m ³)	0.80	0.80
Band 2 (20 - 35m ³)	2.00	2.00
Band 3 (>35m ³)	3.00	3.00
<u>Non-domestic</u>		
Band 1 (0 - 35m ³)	3.10	2.80
Band 2 (>35m ³)	3.50	3.30
<u>Special</u>		
Religious institutions	1.60	1.60
Shipping and water reprocessing	7.00	7.00

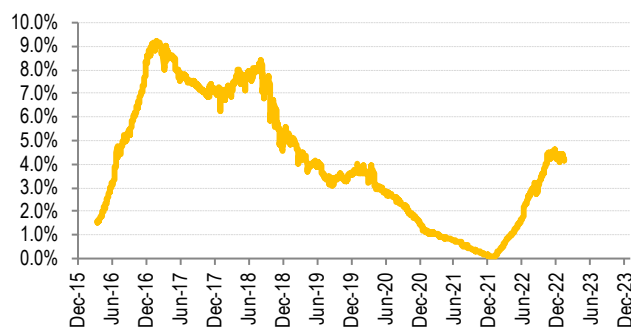
Source: RSAJ, SPAN

Trailing PER



Source: Company, Maybank IBG Research

Trailing net yield



Source: Company, Maybank IBG Research

Risk statement

There are several risk factors for our earnings estimates, target price and rating for Ranhill. Regulatory developments, such as license renewal and tariff determination, have a direct impact on earnings. Unscheduled power plant outages could also result in earnings losses for Ranhill.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key Metrics					
P/E (reported) (x)	25.6	27.3	20.1	9.5	14.5
Core P/E (x)	25.1	20.7	20.1	9.5	14.5
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	4.4	4.4	4.4
FCF yield (%)	5.7	30.6	17.3	29.8	26.7
EV/EBITDA (x)	3.7	2.7	2.5	2.1	1.9
EV/EBIT (x)	21.0	13.5	11.1	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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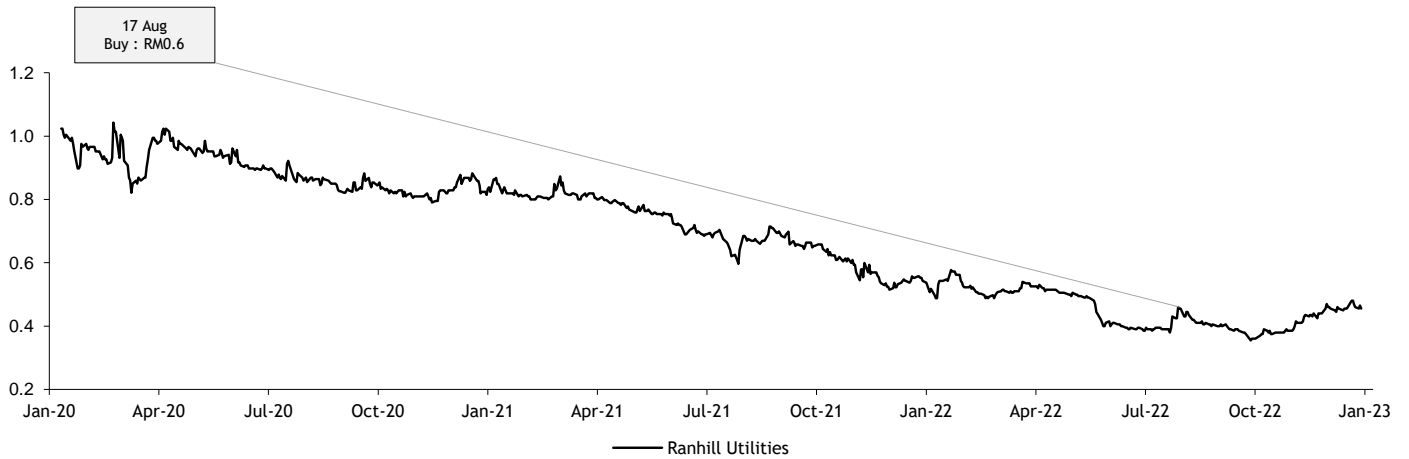
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