

12 November 2019

Dialog Group Berhad

1QFY20 Within Expectations

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DIALOG's 1QFY20 core net profit (+19% YoY, -3% QoQ) came within expectations. YoY growth was helped by its tanker business – mainly the commencement of Pengerang Phase 2, while slightly weaker QoQ results were due to EPCC cost savings in prior quarters. Moving forward, we expect Pengerang Phase 3 to be the main growth driver, with targeted commencement in mid-CY21. Maintain **OUTPERFORM** with SoP-TP of RM4.15.

1QFY20 results within expectations. DIALOG recorded 1QFY20 core net profit of RM136.1m (arrived after stripping off fair value gain on disposal of a joint-venture of RM28.5m), coming in within expectations at 24%/23% of our/consensus full-year earnings forecasts. No dividends were announced, as expected.

1QFY20 stronger YoY, weaker QoQ. YoY, 1QFY20 core net profit jumped 19%, driven by higher contributions from JV and associates, on the back of its tanker business – mainly Pengerang Phase 2, which commenced operations in Nov 2018.

QoQ, 1QFY20 core net profit slightly deteriorated 3% due to lower margins, as last quarter recorded some cost recovery from tail-end stages of EPCC for Pengerang Phase 2. Notably, its revenue line had actually managed to surge QoQ, suggesting a pick-up in EPCC works for Pengerang Phase 3.

Pengerang Phase 3 driving long-term growth. Moving forward, we view Pengerang Phase 3 as the main growth driver for DIALOG in the coming years. We expect the first phase of Pengerang Phase 3 to be ready by mid-CY2021, starting off with a gross storage capacity of ~3m cubic meters. Pengerang Phase 3 has already managed to secure its first client in BP Singapore back in May 2019 via a long-term storage agreement with a capacity of 430k cubic meters (DIALOG: 90% stake), and as such, we believe securing further clients could be in the pipelines. Beyond Pengerang Phase 3, DIALOG has approximately another 500 acres of land within the Pengerang area available for future development.

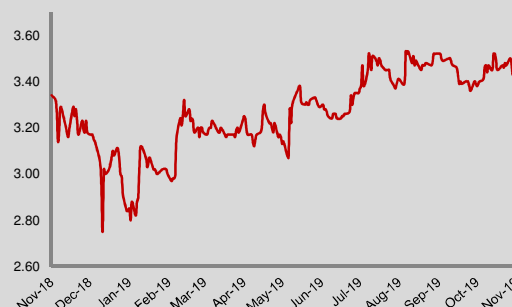
Maintain OUTPERFORM, with unchanged SoP-derived TP of RM4.15 – implying 42x forward PER, which is close to +2SD from its 5-year mean valuations. Nonetheless, **we continue to like DIALOG** for: (i) solid track record of earnings delivery, (ii) defensive earnings from its tank terminal businesses, and (iii) Pengerang Phase 3 acting as a main growth catalyst driver over the longer-term.

Risks to our call include: (i) lower utilisations of its tank terminals, (ii) delay in EPCC jobs, which could further delay income contributions from upcoming expansions, and (iii) delay in the development of Pengerang Phase 3.

OUTPERFORM ↔

Price: RM3.43
Target Price: RM4.15 ↔

Share Price Performance



KLCI 1,608.15
YTD KLCI chg -4.9%
YTD stock price chg 10.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker DLG MK Equity
Market Cap (RM m) 19,339.4
Shares Outstanding 5,638.3
52-week range (H) 3.57
52-week range (L) 2.72
3-mth avg daily vol: 8,827,160
Free Float 40%
Beta 1.0

Major Shareholders

Ngau Boon Keat 20.0%
Azam Utama Sdn Bhd 8.3%
Wide Synergy Sdn Bhd 7.8%

Summary Earnings Table

FYE June (RM 'm)	2019A	2020E	2021E
Revenue	2,386.5	2,809.2	2,980.2
EBIT	465.4	444.9	481.2
Profit Before Tax	653.0	677.5	742.6
Net Profit	535.8	559.9	614.0
Core Net Profit	535.8	559.9	614.0
Consensus (NP)		580.9	620.9
Earnings Revision (%)		-	-
Core EPS (sen)	9.5	9.9	10.9
CNP Growth (%)	25.0	4.5	9.7
DPS (sen)	3.8	4.0	4.4
BV/share (RM)	0.7	0.7	0.8
PER (x)	36.1	34.5	31.5
PBV (x)	5.1	4.8	4.4
Net Gearing (x)	0.2	0.1	0.1
Div. Yield (%)	1.1	1.2	1.3



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Income Statement

	1Q	4Q	Q-o-Q	1Q	Y-o-Y	3M	3M	Y-o-Y
FY Jun (RM ' mil)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	645.8	449.3	43.7%	690.9	-6.5%	645.8	690.9	-6.5%
Operating expenses	(540.1)	(330.9)	63.2%	(589.2)	-8.3%	(540.1)	(589.2)	-8.3%
Oth. operating income	13.0	17.9	-27.5%	17.9	-27.6%	13.0	17.9	-27.6%
Gain on disposal of JV	28.5	-	N.M.	-	N.M.	28.5	-	N.M.
JV and associates	57.8	51.1	13.1%	30.9	87.0%	57.8	30.9	87.0%
Finance costs	(10.5)	(12.7)	-17.2%	(12.0)	-12.1%	(10.5)	(12.0)	-12.1%
Profit before tax	194.5	174.7	11.3%	138.6	40.3%	194.5	138.6	40.3%
Tax expense	(25.3)	(26.0)	-2.5%	(20.5)	23.5%	(25.3)	(20.5)	23.5%
NCI	(4.5)	(8.1)	-43.7%	3.4	-232.1%	(4.5)	3.4	-232.1%
Net profit	164.6	140.7	17.0%	114.6	43.6%	164.6	114.6	43.6%
Core net profit	136.1	140.7	-3.3%	114.6	18.7%	136.1	114.6	18.7%
PBT margin	30.1%	38.9%		20.1%		30.1%	20.1%	
Net margin	25.5%	31.3%		16.6%		25.5%	16.6%	
Core net margin	21.1%	31.3%		16.6%		21.1%	16.6%	

Source: Kenanga Research

Sum-of-Parts (SoP) Valuation

	RM m	Valuation Basic
Downstream business (EPCC and O&M)	8,808.3	FY21E 18x PER
Kertih Centralised Tankage Facilities (30%)	520.5	FCFF @ 6.1% discount rate
Langsat Tank Terminals Facility 1 (100%)	1,845.2	FCFF @ 6.1% discount rate
Langsat Tank Terminals Facility 2 (100%)	467.0	FCFF @ 6.1% discount rate
Langsat Tank Terminals Facility 3 (100%)	742.1	FCFF @ 6.1% discount rate
Pengerang Phase 1 (46%) and Phase 2 (25%)	4,055.1	FCFF @ 6.1% discount rate
Pengerang LNG2 (25%)	1230.1	FCFF @ 6.04% discount rate
Pengerang Phase 3 (assumed 49%)	4117.3	FCFF @ 6.1% discount rate
Dialog Upstream	1,016.8	FCFF @ 8.0% discount rate
500 acres for future phases	849.4	RM1.7m/acre
Expected net cash/(debt)	(324.4)	
Total SoP	23,327.5	
No of Shares	5,638.0	
SoP per share (RM)	4.15	

Source: Kenanga Research

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Peer Comparison

Name	Last Price	Market	Shariah	Current	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div. Yld. (%)	Target	Rating
	(RM)	Cap	Compliant	FYE	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	Price (RM)	
BUMI ARMADA BERHAD	0.480	2,820.7	N	12/2019	-15.9%	0.0%	34.4%	2.3%	12.5	9.3	9.1	0.8	0.8	9.0%	0.0%	0.200	UP
DAYANG ENTERPRISE HLDGS BHD	1.91	1,842.8	Y	12/2019	22.2%	4.4%	-10.8%	8.1%	13.5	15.1	14.0	2.0	1.9	12.8%	0.0%	2.00	OP
DIALOG GROUP BHD	3.43	19,339.4	Y	06/2020	17.7%	6.1%	4.5%	9.7%	36.1	34.5	31.5	5.1	4.8	14.4%	1.2%	4.15	OP
MALAYSIA MARINE AND HEAVY EN	0.880	1,408.0	Y	12/2019	-10.1%	43.0%	-	121.1%	N.A.	N.A.	62.0	0.6	0.6	-1.1%	0.0%	1.05	OP
MISC BHD	8.26	36,870.5	Y	12/2019	3.1%	-2.9%	30.2%	5.3%	27.9	21.4	20.3	1.0	1.0	4.9%	3.6%	8.80	OP
PANTECH GROUP HOLDINGS BHD	0.495	371.2	Y	02/2020	1.3%	5.9%	1.3%	6.4%	8.5	8.4	7.9	0.7	0.6	7.6%	3.2%	0.690	OP
PETRONAS CHEMICALS GROUP BHD	7.71	61,680.0	Y	12/2019	-13.9%	4.8%	-30.3%	14.5%	12.4	17.8	15.5	2.0	1.9	11.1%	2.8%	7.70	MP
PETRONAS DAGANGAN BHD	23.96	23,803.2	Y	12/2019	-5.6%	2.0%	12.9%	7.7%	28.4	25.2	23.4	4.0	3.9	15.6%	2.8%	22.45	MP
SAPURA ENERGY BHD	0.290	4,622.4	Y	01/2020	5.9%	20.7%	-	236.1%	N.A.	N.A.	56.8	0.3	0.3	-1.4%	0.0%	0.330	OP
SERBA DINAMIK HOLDINGS	4.26	6,255.8	Y	12/2019	23.2%	14.3%	17.2%	13.3%	16.3	13.9	12.3	3.0	2.6	20.2%	2.2%	5.25	OP
UZMA BHD	1.04	332.8	Y	06/2020	21.4%	2.2%	240.2%	8.8%	34.3	10.1	9.3	0.7	0.7	6.7%	0.0%	1.05	MP
VELESTO ENERGY BHD	0.385	3,163.0	Y	12/2019	5.3%	17.2%	119.7%	298.0%	N.A.	208.1	52.3	1.1	1.1	0.5%	0.0%	0.400	OP
WAH SEONG CORP BHD	1.17	901.4	Y	12/2019	-20.6%	24.7%	-18.0%	30.8%	14.3	17.5	13.4	0.9	0.9	5.3%	0.0%	1.20	MP
YINSON HOLDINGS BHD	6.64	7,175.8	Y	01/2020	0.1%	70.1%	-17.9%	66.8%	27.3	33.2	19.9	4.2	3.8	11.9%	0.9%	7.75	OP
Simple Average					2.4%	15.2%	-36.3%	59.2%	21.0	34.5	24.8	1.9	1.8	8.4%	1.2%		

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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