

19 August 2020

Dialog Group Berhad

Continued Growth in Earnings

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FY20 core earnings (+12% YoY) came in slightly above our expectation on stronger terminal contributions, although dividends missed slightly as pay-out was lowered in efforts to conserve cash amidst current uncertainties. Nonetheless, key earnings catalysts are still in place, with the timely expansion of Pengerang Phase 3 and the Langsat Terminals. Maintain OUTPERFORM with raised TP of RM4.25.

Slightly above our expectation. FY20 core net profit of RM601.8m (arrived after stripping-off gains on disposal) came in slightly above our expectation at 107% of our full-year earnings forecast, mainly due to slightly stronger-than-expected contribution from its tanker terminals. However, the results are deemed broadly within consensus expectation at 103%. The company also announced a dividend of 1.9 sen per share, bringing YTD dividends to 3.1 sen – lower than last year's dividends of 3.8 sen despite a 12% jump in core earnings YoY. This implies a drop in core earnings pay-out to 29%, versus 40% last year. This, unfortunately, came in below expectations, as the company had cited its decision to conserve cash in view of the challenging economic uncertainties in the short to medium-term.

Continued earnings growth. FY20 core earnings growth was mainly propelled by higher associates' contribution, bolstered by the commencement of Pengerang Phase 1E during the year. This was able to offset the slight drop in revenue, most likely dragged by (i) lower downstream contributions from slower O&M and EPCC work orders, and (ii) lower upstream contribution due to weaker oil prices. For the individual quarter, 4QFY20 CNP grew 11% YoY, similarly thanks to the higher associate's contributions from commencement of Pengerang Phase 1E, combined with a revenue growth of 20%, due to full commencement of Langsat Terminal 3 in the previous quarter. Sequentially, core earnings grew 4% QoQ, helped by full quarter contributions of Langsat Terminal 3 - resulting in a 7% improvement in revenue, on top of a 32% reduction in finance cost recognition due to accounting reasons. All these were able to offset lower associates' income by 26%, as a result of forex translation losses incurred in Pengerang LNG2.

Sustained growth in place. With Pengerang Phase 1 and 2 in operations, Phase 3 is now expected to commence commercial operations in FY22, with land reclamation now completed and construction works currently ongoing. Beyond Phase 3, DIALOG still has another 500 acres available for future development in the Pengerang area. Meanwhile, DIALOG is also expanding its Langsat facilities by another 85k cubic meters of storage capacity, targeting operations by mid-FY22. An additional 17 acres of land is still available for expansion beyond this, potentially adding another 200k cubic meters in the long term to bring the total Langsat facilities to over 1m cubic meters (from 770k cubic meters currently).

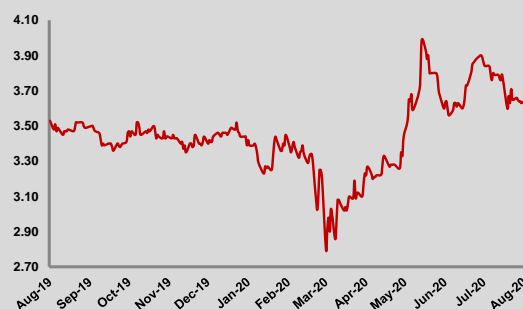
Maintain OUTPERFORM. Post results, we raised our FY21E earnings by 6%, while simultaneously introducing FY22E numbers. Following the earnings upgrade, our **SoP-TP is also raised to RM4.25** (from RM4.15, previously) – implying 33x PER on FY22E EPS. We continue to like DIALOG for its: (i) solid earnings delivery track record, (ii) defensive business with recurring earnings from its tank terminal businesses, and (iii) Pengerang Phase 3 acting as a main growth catalyst driver over the long term.

Risks to our call include: (i) lower utilisations of its tank terminals, (ii) slowdown in downstream jobs flow, and (iii) delay in the development of Pengerang Phase 3.

OUTPERFORM ↔

Price: RM3.66
Target Price: RM4.25 ↑

Share Price Performance



KLCI 1,577.85
YTD KLCI chg -0.7%
YTD stock price chg 6.1%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	20,636.2
Shares Outstanding	5,638.3
52-week range (H)	3.99
52-week range (L)	2.70
3-mth avg daily vol:	8,714,195
Free Float	75%
Beta	0.8

Major Shareholders

Employees Provident	9.3%
Wide Synergy Sdn Bhd	7.7%
Azam Utama Sdn Bhd	7.6%

Summary Earnings Table

FYE June (RM m)	2020A	2021E	2022E
Revenue	2,303.4	2,980.2	3,328.0
Operating profit	479.1	508.3	552.5
Profit Before Tax	747.3	784.7	849.1
Net Profit	630.4	648.9	702.3
Core Net Profit	601.8	648.9	702.3
Consensus (NP)		583.4	619.8
Earning Revision		5.7	NEW
Core EPS (sen)	10.7	11.5	12.5
CNP Growth (%)	12.3	7.8	8.2
DPS (sen)	3.1	3.5	3.7
BV/share (RM)	0.7	0.8	0.9
PER (x)	34.3	31.8	29.4
PBV (x)	5.0	4.7	4.3
Net Gearing (%)	0.1	0.1	0.1
Div. Yield (%)	0.8	0.9	1.0



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Income Statement

	4Q	3Q	Q-o-Q	4Q	Y-o-Y	12M	12M	Y-o-Y
FY Jun (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Revenue	539.9	505.4	6.8%	449.3	20.2%	2,303.4	2,386.5	-3.5%
Operating expenses	(413.2)	(400.1)	3.3%	(330.9)	24.9%	(1,845.6)	(1,931.3)	-4.4%
Other operating income	22.6	18.8	19.9%	17.9	25.9%	73.5	67.1	9.5%
Gain on disposal of JV	0.0	0.0	N.A.	0.0	N.A.	28.5	0.0	N.A.
JV and associates	54.1	72.9	-25.7%	51.1	5.9%	242.0	180.1	34.3%
Finance costs	(14.3)	(20.9)	-31.5%	(12.7)	12.4%	(54.6)	(49.4)	10.5%
Profit before tax	189.2	176.2	7.4%	174.7	8.3%	747.3	653.0	14.4%
Tax expense	(21.6)	(24.9)	-13.4%	(26.0)	-16.9%	(99.2)	(100.7)	-1.5%
Non-controlling interests	(10.9)	(0.2)	4704.0%	(8.1)	35.3%	(17.7)	(16.5)	7.6%
Net profit	156.7	151.0	3.7%	140.7	11.3%	630.4	535.8	17.6%
Core net profit	156.7	151.0	3.7%	140.7	11.3%	601.8	535.8	12.3%
PBT margin	35.0%	34.9%		38.9%		32.4%	27.4%	
Net margin	29.0%	29.9%		31.3%		27.4%	22.5%	
Core net margin	29.0%	29.9%		31.3%		26.1%	22.5%	

Source: Kenanga Research

Sum-of-Parts (SoP) Valuation

	RM m	Valuation Basic
Downstream business (EPCC and O&M)	9,295.5	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)	(318.5)	
Total SoP	23,820.7	
No of Shares	5,638.0	
SoP per share (RM)	4.25	

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 BHD	0.240	1,412.6	N	12/2020	1.4%	4.8%	10.3%	12.5%	5.0	4.5	4.0	0.4	0.4	9.2%	0.0%	0.300	OP
DAYANG ENTERPRISE HLDGS BHD	1.22	1,412.5	Y	12/2020	-25.9%	7.7%	-38.7%	9.5%	6.0	9.8	9.0	0.9	0.8	8.8%	0.0%	1.30	MP
DIALOG GROUP BHD	3.66	20,636.2	Y	06/2021	29.4%	11.7%	7.8%	8.2%	34.3	31.8	29.4	5.0	4.7	15.3%	1.0%	4.25	OP
MALAYSIA MARINE AND HEAVY EN	0.375	600.0	Y	12/2020	3.2%	28.4%	-289.5%	-113.0%	N.A.	N.A.	N.A.	0.3	0.3	-2.8%	0.0%	0.390	MP
MISC BHD	7.81	34,861.9	Y	12/2020	3.4%	10.7%	38.8%	-7.7%	21.7	15.6	16.9	1.0	1.0	6.3%	3.8%	8.90	OP
PANTECH GROUP HOLDINGS BHD	0.370	277.6	Y	02/2021	-41.9%	57.1%	-47.6%	79.8%	8.4	16.0	8.9	0.5	0.5	2.8%	2.7%	0.310	UP
PETRONAS CHEMICALS GROUP BHD	6.15	49,200.0	Y	12/2020	-16.5%	10.4%	-33.1%	36.2%	17.5	26.1	19.2	1.6	1.6	6.2%	1.9%	5.75	MP
PETRONAS DAGANGAN BHD	21.02	20,882.4	Y	12/2020	-16.7%	12.2%	-42.7%	68.5%	25.5	44.4	26.4	3.5	3.4	7.8%	1.8%	17.95	UP
SAPURA ENERGY BHD	0.125	1,997.4	Y	01/2021	-11.4%	10.8%	-124.0%	-249.3%	N.A.	N.A.	N.A.	0.2	0.2	-3.5%	0.0%	0.050	UP
SERBA DINAMIK HOLDINGS	1.69	5,698.0	Y	12/2020	15.0%	15.0%	9.6%	12.1%	11.5	10.5	9.3	2.3	1.8	19.5%	3.3%	2.70	OP
UZMA BHD	0.590	188.8	Y	06/2020	14.6%	2.3%	186.6%	10.1%	19.5	6.8	6.2	0.4	0.4	5.6%	0.0%	0.670	MP
VELESTO ENERGY BHD	0.150	1,232.3	Y	12/2020	-9.9%	0.0%	-19.4%	24.4%	38.5	47.8	38.4	0.4	0.4	0.9%	0.0%	0.140	UP
WAH SEONG CORP BHD	0.495	383.3	Y	12/2020	-56.3%	45.5%	-203.6%	-148.5%	5.5	N.A.	N.A.	0.4	0.4	-7.2%	0.0%	0.510	UP
YINSON HOLDINGS BHD	6.21	6,621.7	Y	01/2021	-26.7%	-1.1%	76.5%	5.3%	30.8	17.5	16.6	4.1	3.6	22.0%	1.0%	7.10	OP
Simple Average					-9.9%	15.4%	-33.5%	-18.0%	18.7	21.0	16.7	1.5	1.4	6.5%	1.1%		

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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Published and printed by:

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