

19 August 2022

# Dialog Group Berhad

## A Soft Patch in FY22, Prospects Intact

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**DIALOG's FY22 results came in slightly below expectations, dragged down by higher project costs for its downstream operations. Going forward, we believe the group's long-term prospects remain largely intact, with further development on Pengerang Phase 3 to act as potential re-rating catalyst. We cut our FY23F earnings by 13%, while introducing FY24F numbers. Likewise, our SOP-derived TP is also lowered by 6% to RM3.10 (from RM3.30). Maintain OUTPERFORM.**

**FY22 results below expectations.** FY22 core net profit of RM508m missed our forecast and the consensus estimates by 6% and 7%, respectively. The variance against our forecast came largely from higher project costs in its downstream operations.

**Overall weaker earnings.** FY22 core earnings slipped 4% YoY, dragged down by higher project costs in its downstream operations. As we understand, the group is currently in the midst of discussions with clients for potential reimbursements and compensations for these cost overruns. The weaker earnings were partially offset by higher associates' contribution, as last year saw an expense recognition for deferred tax liability from its Pengerang Phase 2 assets.

**Further development of Pengerang a key catalyst.** Looking ahead, further development of Pengerang Phase 3 will be DIALOG's key focus. Phase 3 is designated for dedicated terminals serving mid-to-long-term clients. With the start-up of Petronas' Pengerang Integrated Complex (PIC), we believe this would help DIALOG to expedite talks with potential partners. DIALOG also has another 500 acres of land in the Pengerang area available for further developments for the longer term. Meanwhile, with the current expansion of its Langsat Terminals completed, DIALOG still has another 17 acres of land in Langsat, which could potentially add another 200k cubic meters of storage capacity in the future – thus bringing Langsat's total capacity to ~1m cubic meters.

**Forecasts.** We cut our FY23F forecast by 13% to account for weaker downstream margin, and introduce FY24F numbers.

**Maintain OUTPERFORM** with a 6% lower SOP-derived TP of RM3.10 (from RM3.30) following the earnings cut. There is no change to our valuation based on ESG for which it is given a 3-star rating as appraised by us (see Page 4).

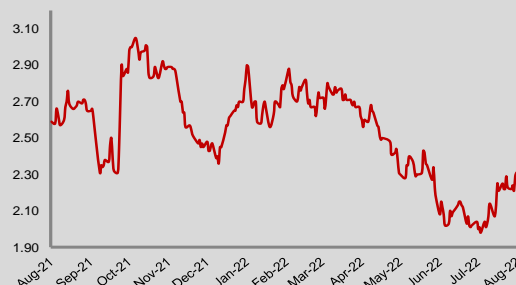
Overall, despite the short-term challenges, the group's long-term outlook remains largely intact, with its mid-stream assets to also provide a degree of earnings defensiveness and resiliency. That said, any further development of its Pengerang phase 3 is expected to serve as potential re-rating catalyst for the stock.

**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:** RM2.42  
**Target Price:** RM3.10 ↓

### Share Price Performance



KLCI 1,516.62  
YTD KLCI chg -3.2%  
YTD stock price chg -7.6%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	13,655.0
Shares Outstanding	5,642.6
52-week range (H)	3.06
52-week range (L)	1.97
3-mth avg daily vol:	6,082,520
Free Float	31%
Beta	1.2

### Major Shareholders

Ngau Boon Keat	19.1%
Employees Provident Fund	14.2%
Kumpulan Wang Persaraan	9.3%

### Summary Earnings Table

FYE June (RM m)	2022A	2023F	2024F
Revenue	2,319.0	2,728.0	2,729.3
Operating profit	319.1	417.5	418.1
Profit Before Tax	550.3	652.5	683.1
<b>Net Profit</b>	<b>508.0</b>	<b>534.0</b>	<b>559.5</b>
<b>Core Net Profit</b>	<b>508.0</b>	<b>534.0</b>	<b>559.5</b>
Consensus (NP)		609.1	654.9
Earning Revision (%)		-12.6	NEW
Core EPS (sen)	9.0	9.5	9.9
CNP Growth (%)	-4.4	5.1	4.8
DPS (sen)	3.4	2.8	3.0
BV/share (RM)	0.9	1.0	1.0
PER (x)	25.3	24.1	23.0
PBV (x)	2.5	2.4	2.2
Net Gearing (%)	0.0	0.2	0.1
Div. Yield (%)	1.5	1.2	1.3

19 August 2022

## Income Statement

FY Jun (RM m)	4Q FY22	3Q FY22	Q-o-Q Chg	4Q FY21	Y-o-Y Chg	12M FY22	12M FY21	Y-o-Y Chg
Revenue	675.7	593.4	13.9%	522.1	29.4%	2,319.0	1,609.9	44.0%
Operating expenses	(597.4)	(528.6)	13.0%	(446.0)	33.9%	(2,040.9)	(1,299.9)	57.0%
Other operating income	13.1	28.4	-53.9%	21.2	-38.3%	60.7	83.9	-27.7%
JV and associates	54.6	55.2	-1.1%	60.9	-10.4%	251.6	227.4	10.6%
Finance costs	(19.3)	(6.9)	179.1%	(2.9)	572.3%	(40.1)	(26.4)	52.0%
<b>Profit before tax</b>	<b>126.7</b>	<b>141.5</b>	<b>-10.4%</b>	<b>155.4</b>	<b>-18.5%</b>	<b>550.3</b>	<b>595.0</b>	<b>-7.5%</b>
Tax expense	(11.0)	(10.5)	4.9%	(15.0)	-26.6%	(44.4)	(51.9)	-14.5%
Non-controlling interests	2.5	2.1	23.2%	(1.9)	-234.7%	2.1	0.1	2662.3%
<b>Net profit</b>	<b>118.2</b>	<b>133.1</b>	<b>-11.1%</b>	<b>138.5</b>	<b>-14.6%</b>	<b>508.0</b>	<b>543.1</b>	<b>-6.5%</b>
<b>Core net profit</b>	<b>118.2</b>	<b>133.1</b>	<b>-11.1%</b>	<b>138.5</b>	<b>-14.6%</b>	<b>508.0</b>	<b>531.1</b>	<b>-4.4%</b>
PBT margin	18.7%	23.8%		29.8%		23.7%	37.0%	
Net margin	17.5%	22.4%		26.5%		21.9%	33.7%	
Core net margin	17.5%	22.4%		26.5%		21.9%	33.0%	
Effective tax rate	8.7%	7.4%		9.6%		8.1%	8.7%	

Source: Kenanga Research

## Sum-of-Parts (SoP) Valuation

	RM m	Valuation assumption
Downstream business (EPCC and O&M)	3,375.8	Based on 9x 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%)	3,346.3	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	886.5	FCFF @ 8.0% discount rate
500 acres for future phases	849.4	RM1.7m/acre
Expected net cash/(debt)	(23.8)	
<b>Total SoP</b>	<b>17,356.5</b>	
No of Shares	5,642.6	
<b>SoP per share (RM)</b>	<b>3.10</b>	

Source: Kenanga Research

19 August 2022

## Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
Stocks Under Coverage																	
BUMI ARMADA BHD	OP	0.355	0.630	77.46%	2,100.9	N	12/2022	10.2	10.6	-10.7%	3.4%	3.5	3.4	0.5	14.1%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	0.990	1.30	31.31%	1,146.2	Y	12/2022	7.5	8.8	98.2%	17.5%	13.2	11.2	0.8	6.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.42	3.10	28.10%	13,655.0	Y	06/2023	9.5	9.9	5.1%	4.8%	25.6	24.4	2.5	10.2%	2.8	1.2%
MISC BHD	MP	6.87	7.05	2.62%	30,665.9	Y	12/2022	27.6	28.0	-34.7%	1.4%	24.9	24.5	0.9	3.6%	33.0	4.8%
PETRONAS CHEMICALS GROUP BHD	OP	8.75	11.00	25.71%	70,000.0	Y	12/2022	87.2	68.8	-3.9%	-21.1%	10.0	12.7	1.8	19.0%	43.6	5.0%
PETRONAS DAGANGAN BHD	UP	23.02	17.85	-22.46%	22,869.3	Y	12/2022	54.2	68.5	-1.8%	26.6%	42.5	33.6	4.1	9.6%	54.2	2.4%
SAPURA ENERGY BHD	UP	0.045	0.005	-88.89%	719.1	Y	01/2023	(3.0)	(2.2)	-115.1%	-174.3%	N.A.	N.A.	(3.2)	-4904.0%	0.0	0.0%
UZMA BHD	OP	0.350	0.540	54.29%	123.2	Y	06/2022	2.7	4.6	-60.4%	72.1%	13.0	7.6	0.2	1.9%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.085	0.100	17.65%	698.3	Y	12/2022	(0.8)	(0.5)	-136.7%	-168.7%	N.A.	N.A.	0.3	-2.8%	0.0	0.0%
WAH SEONG CORP BHD	MP	0.615	0.790	28.46%	476.2	Y	12/2022	4.6	7.3	51.9%	56.4%	13.2	8.5	0.8	5.9%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.07	2.50	20.77%	6,021.4	N	01/2023	19.0	23.0	1.2%	20.7%	10.9	9.0	1.6	16.1%	6.0	2.9%
Simple Average								19.9	20.6	-18.8%	-14.7%	17.4	15.0	0.9	-438.2%		1.5%

Source: Kenanga Research

19 August 2022

**Stock ESG Ratings:**

	Criterion	Rating				
<b>GENERAL</b>	Earnings Sustainability & Quality	★	★	★	★	
	Corporate Social Responsibility	★	★	★	★	
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★			
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★			
<b>SPECIFIC</b>	Diversification from pure O&G	★	★			
	Emission Targets and Climate Goals	★	★	★		
	Occupational Health and Safety	★	★	★		
	Pollution control	★	★	★		
	Supply chain auditing	★	★	★		
	Energy efficiency	★	★	★		
<b>OVERALL</b>		★	★	★		

☆ denotes half-star  
 ★ -10% discount to TP  
 ★★ -5% discount to TP  
 ★★★ TP unchanged  
 ★★★★ +5% premium to TP  
 ★★★★★ +10% premium to TP

**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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