

19 May 2023

Dialog Group

Saved by Upstream Thai JV

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DIALOG's 9MFY23 results tracked expectations, in spite of sustained cost pressures. Earnings were boosted by chunky contribution from its new 50%-owned joint-venture (JV), Pan Orient Energy (Siam) Ltd (POE). We continue to like DIALOG for its resilient non-cyclical earnings with potential for multi-year growth driven by future capacity expansion at Tanjung Langsat and Pengerang Phase 3. We maintain our forecasts, TP of RM3.10 and OUTPERFORM call.

Earnings on track. 9MFY23 core net profit of RM392m met expectations, coming in at 73% and 71% of our full-year forecast and the full-year consensus estimate, respectively.

YTD earnings boosted by upstream JV. The slight growth (+1%) in YTD profit largely emanated from Dialog's 50%-owned joint venture JV, POE, an upstream player as mentioned above. Recall that maiden contribution from this JV had already commenced earlier, since 1QFY23. Correspondingly, this led to a 43% YTD surge in contribution from associates and JV which more than offset the earnings drag from margin compression at the downstream segment.

Margin squeeze prevails. Improved execution of downstream projects (i.e. EPCC, catalyst handling, and plant maintenance) led to strong YTD revenue growth of 41%. To a lesser extent, top line was also boosted by higher project implementation activities at Bayan field. However, these projects continued to be plagued by inflationary cost pressures on materials and manpower. Evidently, YTD EBIT margin halved to 7% (9MFY22: 14%). On top of that, YTD earnings were also weighed down by higher financing costs at the Tanjung Langsat and Pengerang terminals. Therefore, despite top line expansion and lower taxes, core net profit growth was muted.

Multi-year expansion on the cards. Dialog's long-term earnings visibility from existing mid-stream assets is enhanced by multi-year growth prospects. This is on the back of future capacity expansion at remaining acreage located at: (1) Tanjung Langsat: 17 acres (200k m³), and (2) Pengerang Phase 3: 500 acres. Meanwhile, in the immediate term, Dialog is developing Tanjung Langsat Terminal Phase 3 (capacity: 24k m³). This project (completion: end-CY24) comprises storage facilities for low carbon alternative fuels (i.e. biodiesel, sustainable aviation fuel etc). We believe this venture enhances Dialog's ESG appeal, given that it caters to sustainable products. Moreover, we expect robust demand for green storage on the back of global sustainability trends.

Forecasts. Maintained.

Maintain OUTPERFORM with unchanged TP of RM3.10 based on Sum-of-Parts valuation. Meanwhile, our 3-star ESG rating on Dialog remains status quo (see Page 4).

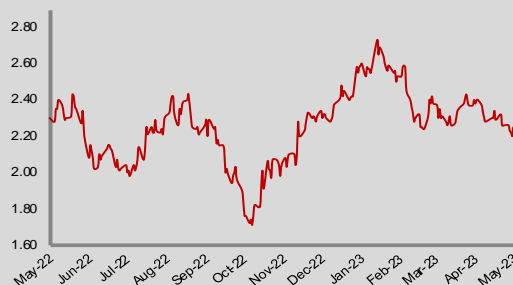
Our optimism on Dialog stems from its resilient non-cyclical earnings with upside potential as highlighted above. Moreover, the Group is actively diversifying into upstream investments, including production assets. This adds the alpha factor to the Group's profits, enabling it to capitalize on oil price rally. Dialog's current portfolio of production sharing contracts include Baram Junior Cluster, D35/D21/J4 and Concession L53/48 (Thailand).

Risks to our call include: (i) prolonged and intensifying cost pressures, (ii) delay in capacity expansion plans, and (iii) reduced utilization of tank terminals.

OUTPERFORM ↔

Price: **RM2.20**
Target Price: **RM3.10** ↔

Share Price Performance



KLCI	1,428.04
YTD KLCI chg	-4.5%
YTD stock price chg	-10.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	12,413.7
Shares Outstanding	5,642.6
52-week range (H)	2.73
52-week range (L)	1.71
3-mth avg daily vol:	3,791,809
Free Float	30%
Beta	1.5

Major Shareholders

Ngau Boon Keat	19.1%
Employees Provident Fund	14.8%
Kumpulan Wang Persaraan	9.8%

Summary Earnings Table

FYE June (RM m)	2022A	2023F	2024F
Revenue	2319.0	2,728.0	2,729.3
Operating profit	319.1	417.5	418.1
Profit Before Tax	550.3	652.5	683.1
Net Profit	508.0	534.0	559.5
Core Net Profit	508.0	534.0	559.5
Consensus (NP)	-	-	-
Earning Revision (%)	-	0.0	0.0
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)	24.4	23.2	22.2
PBV (x)	2.5	2.3	2.1
Net Gearing (%)	0.0	0.2	0.1
Div. Yield (%)	1.5	1.3	1.4



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Income Statement

	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FY Jun (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	802.8	797.0	0.7%	593.4	35.3%	2,311.5	1,643.4	40.7%
Operating expenses	(750.4)	(750.1)	0.0%	(528.6)	42.0%	(2,164.6)	(1,443.5)	50.0%
Other operating income	8.9	13.0	-31.5%	28.4	-68.5%	34.0	47.6	-28.5%
JV and associates	100.4	97.4	3.1%	55.2	82.0%	282.0	197.0	43.1%
Finance costs	(20.5)	(17.5)	17.2%	(6.8)	199.3%	(54.3)	(20.6)	163.4%
Profit before tax	141.2	139.9	0.9%	141.5	-0.2%	408.5	423.6	-3.6%
Tax expense	(7.2)	(8.8)	-18.6%	(10.5)	-31.2%	(23.2)	(33.5)	-30.6%
Non-controlling interests	(3.2)	(3.9)	-17.8%	2.1	-256.9%	(1.6)	(0.4)	286.8%
Net profit	130.8	127.2	2.9%	133.1	-1.7%	383.7	389.8	-1.5%
Core net profit	132.3	127.2	4.1%	133.1	-0.6%	392.4	389.8	0.7%
<i>PBT margin</i>	17.6%	17.6%		23.8%		17.7%	25.8%	
<i>Net margin</i>	16.3%	16.0%		22.4%		16.6%	23.7%	
<i>Core net margin</i>	16.5%	16.0%		22.4%		17.0%	23.7%	
<i>Effective tax rate</i>	5.1%	6.3%		7.4%		5.7%	7.9%	

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)	
Total SoP	17,356.5	
No of Shares	5,642.6	
SoP per share (RM)	3.10	

Source: Kenanga Research

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	0.660	0.750	13.64%	3,906.0	N	12/2023	13.1	13.6	1.0%	3.5%	5.0	4.9	0.7	13.9%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.36	1.90	39.71%	1,574.6	Y	12/2023	11.2	12.6	12.0%	11.8%	12.1	10.8	1.0	8.6%	3.0	2.2%
DIALOG GROUP BHD	OP	2.20	3.10	40.91%	12,413.7	Y	06/2023	9.5	9.9	5.1%	4.8%	23.2	22.2	2.3	10.2%	2.8	1.3%
MISC BHD	MP	7.32	7.50	2.46%	32,674.6	Y	12/2023	47.0	48.9	-11.6%	4.1%	15.6	15.0	0.9	5.6%	33.0	4.5%
PETRONAS CHEMICALS GROUP BHD	MP	7.01	7.80	11.27%	56,080.0	Y	12/2023	65.3	52.2	-18.9%	-20.0%	10.7	13.4	1.3	12.9%	33.0	4.7%
PETRONAS DAGANGAN BHD	MP	22.56	24.00	6.38%	22,412.3	Y	12/2023	83.2	87.6	11.0%	5.2%	27.1	25.8	3.9	14.4%	83.3	3.7%
PETRON MALAYSIA REFINING	MP	4.49	4.35	-3.12%	1,212.3	Y	12/2023	81.9	91.9	-26.6%	12.2%	5.5	4.9	0.5	9.6%	16.0	3.6%
UZMA BHD	OP	0.630	0.900	42.86%	221.8	Y	06/2023	7.7	9.9	85.0%	28.5%	8.2	6.4	0.4	5.1%	0.0	0.0%
VELESTO ENERGY BHD	UP	0.255	0.190	-25.49%	2,095.0	Y	12/2023	0.7	1.3	-36.1%	73.3%	34.3	19.8	0.9	2.6%	0.0	0.0%
WAH SEONG CORP BHD	OP	0.835	0.970	16.17%	646.6	Y	12/2023	10.7	12.8	6.1%	19.1%	7.8	6.5	1.0	13.4%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.60	3.65	40.38%	7,557.2	N	01/2024	20.8	25.2	-18.4%	21.2%	12.5	10.3	1.6	13.7%	2.0	0.8%
Sector Aggregate					140,794.0					-11.7%	-5.9%	13.3	14.2	1.3	10.0%		1.9%

Source: Kenanga Research

Stock ESG Ratings:

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

☆ 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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