

15 November 2023

# Dialog Group Berhad

## Outlook Brightens as Cost Eases

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**DIALOG'S 1QFY23 results met expectations as quarterly earnings improved QoQ and YoY, driven by a stronger top line, better gross margin as well as higher JV earnings on increased storage tank utilisation. We remain positive over its near-term earnings outlook underpinned largely by easing cost pressures. We maintain our forecasts, TP of RM3.10 and OUTPERFORM call.**

**1QFY24 within expectations.** Its 1QFY24 core profit of RM137.9m (after excluding EI of RM7.7m loss of other investments and RM2m forex gain) met expectations at 25% of both our full-year forecast and the full-year consensus estimate. No dividends were declared for the quarter.

**YoY earnings growth driven by international business and JV.** YoY, its 1QFY24 top line grew 9.7% due to higher revenue from specialist products & services in various countries as well as the ramp-up in activities at Jubail Supply base, coupled with higher billings from EPCC work jobs in Singapore and New Zealand.

However, its core earnings only grew 6.2% YoY weighed down by higher interest costs (+16.9% YoY), partially cushioned by an 11.7% improvement in JV profits due to higher utilisation rate at its tank storage facilities.

**QoQ earnings growth driven by JV and core businesses.** QoQ, its top line grew 13.1% due to a pick-up in activities for its core businesses (plant maintenance, specialist products). Correspondingly, its net profit rose by a larger 15.2% driven by stronger JV contributions (+14.5%).

We noticed that its opex increased at a slower pace as compared to top line, an early sign of supply-chain cost pressures easing.

**Recovery emerging.** After flattish showing in FY23, Dialog's independent terminals are showing growth in FY24 with utilisation seen to be ramping back up slightly in the latest quarter. For its core business portfolio, there have been signs of cost pressure easing and we believe the gradual ramp-up in activities (both upstream and downstream) will result in improved gross margins in the near to medium term. On the other hand, DIALOG still owns 500 acres of land for longer-term development in Pengerang.

**Forecasts.** Maintained.

We also keep our TP of RM3.10 based on Sum-of-Parts valuation (see Page 2). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

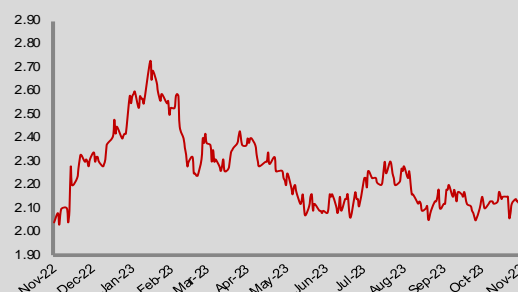
We continue to like DIALOG for: (i) the resilient earnings from its non-cyclical businesses such as operation of storage facilities and plant maintenance, (ii) its earnings growth and diversification driven by the forays into upstream investments, including production assets (its current portfolio of Production Sharing Contracts includes Baram Junior Cluster, D35/D21/J4 and Concession L53/48 in Thailand, and (iii) its strong track record in project execution. Maintain **OUTPERFORM**

**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: **RM2.11**  
Target Price: **RM3.10** ↔

### Share Price Performance



KLCI	1,451.72
YTD KLCI chg	-2.9%
YTD stock price chg	-13.9%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	11,905.8
Shares Outstanding	5,642.6
52-week range (H)	2.73
52-week range (L)	1.96
3-mth avg daily vol:	4,738,395
Free Float	32%
Beta	1.3

### Major Shareholders

Ngau Boon Keat	19.1%
Employees Provident Fund	15.0%
Kumpulan Wang Persaraan	10.0%

### Summary Earnings Table

FYE June (RM m)	2023A	2024F	2025F
Revenue	850.0	892.5	937.1
Operating profit	262.2	302.0	302.6
Profit Before Tax	1135.0	1253.9	1318.3
<b>Net Profit</b>	<b>510.5</b>	<b>558.7</b>	<b>581.5</b>
<b>Core Net Profit</b>	<b>504.2</b>	<b>558.7</b>	<b>581.5</b>
Consensus (NP)	-	559.3	606.6
Earning Revision (%)	-	-	-
Core EPS (sen)	8.9	9.9	10.3
CNP Growth (%)	0.0	10.8	4.1
DPS (sen)	3.8	4.2	4.4
BV/share (RM)	5.78	5.97	6.17
PER (x)	23.6	21.3	20.5
PBV (x)	0.4	0.4	0.3
Net Gearing (%)	0.1	0.0	0.0
Div. Yield (%)	1.8	2.0	2.1

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<b>Results Highlights</b>					
	1Q	4Q	Q-o-Q	1Q	Y-o-Y
FYE Jun (RM m)	FY24	FY23	Chg	FY23	Chg
Revenue	780.4	690.0	13.1%	711.7	9.7%
Operating expenses	(717.1)	(646.2)	11.0%	(664.0)	8.0%
Other operating income	15.0	37.4	-59.9%	12.0	24.5%
JV and associates	93.9	82.1	14.5%	84.1	11.7%
Finance costs	(19.2)	(18.0)	6.6%	(16.4)	16.9%
<b>Profit before tax</b>	<b>153.2</b>	<b>145.3</b>	<b>5.4%</b>	<b>127.4</b>	<b>20.2%</b>
Tax expense	(11.0)	(10.1)	9.0%	(7.2)	52.7%
Non-controlling interests	(10.0)	(8.5)	17.7%	5.6	-279.8%
<b>Net profit</b>	<b>132.2</b>	<b>126.8</b>	<b>4.3%</b>	<b>125.8</b>	<b>5.1%</b>
<b>EI</b>	<b>(5.8)</b>	<b>7.1</b>	<b>-181.2%</b>	<b>(4.0)</b>	<b>42.8%</b>
<b>Core net profit</b>	<b>137.9</b>	<b>119.7</b>	<b>15.2%</b>	<b>129.8</b>	<b>6.2%</b>
Core EPS (sen)	2.4	2.1		2.3	
DPS (sen)	0.0	2.4		0.0	
<i>PBT margin</i>	19.6%	21.1%		17.9%	
<i>Net margin</i>	16.9%	18.4%		17.7%	
<i>Core net margin</i>	17.7%	17.3%		18.2%	
<i>Effective tax rate</i>	7.2%	6.9%		5.6%	

Source: Kenanga Research

<b>Sum-of-Parts (SoP) Valuation</b>		
	<b>RM m</b>	<b>Valuation assumption</b>
Downstream business (EPCC and O&M)	2,016.5	Based on 9x PER
Kertih Centralised Tankage Facilities (30%)	655.3	FCFF @ 7.7% discount rate
Tanjung Langsat Terminals Facility 1 (100%)	1,366.6	FCFF @ 7.7% discount rate
Pengerang Phase 1 (45.9%)	2,294.1	FCFF @ 7.7% discount rate
Pengerang Phase 1 expansion (45.9%)	1,773.2	FCFF @ 7.7% discount rate
Pengerang Phase 2 (25%)	4,628.7	FCFF @ 7.7% discount rate
Pengerang Phase 3 (25%)	1,018.7	FCFF @ 7.7% discount rate
Pengerang LNG	849.4	FCFF @ 7.7% discount rate
Phase 3 land value (Pengerang)	500.6	
Bayan PSC	1,810.3	
D35/D21/J4 PSC	724.1	
Expected net cash/(debt)	-260.2	
<b>Total SoP</b>	<b>17,411.8</b>	
No of Shares	5,638.0	
<b>SoP per share (RM)</b>	<b>3.10</b>	

Source: Kenanga Research

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## 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.
<b>Stocks Under Coverage</b>																	
BUMI ARMADA BHD	OP	0.535	0.600	12.1%	3,168.6	N	12/2023	11.0	13.6	-15.4%	23.6%	4.9	3.9	0.5	0.1	-	0.0%
DIALOG GROUP BHD	OP	2.11	3.10	46.9%	11,905.8	Y	06/2024	9.9	10.3	11.6%	3.9%	21.3	20.5	1.8	0.1	3.0	1.4%
MISC BHD	MP	7.22	7.62	5.5%	32,228.2	Y	12/2023	57.5	54.9	32.4%	-4.5%	12.6	13.2	0.8	0.1	30.0	4.2%
PETRONAS CHEMICALS GROUP BHD	UP	7.27	6.20	-14.7%	58,160.0	Y	12/2023	23.2	48.0	-71.2%	107.0%	31.4	15.2	1.5	0.0	16.2	2.2%
PETRONAS DAGANGAN BHD	MP	22.76	24.90	9.4%	22,611.0	Y	12/2023	106.0	92.6	41.3%	-12.6%	21.5	24.6	3.9	0.2	106.0	4.7%
SAPURA ENERGY BHD	MP	4.70	4.65	-1.1%	1,269.0	Y	12/2023	103.0	97.8	-7.6%	-5.0%	4.6	4.8	0.5	0.1	21.0	4.5%
UZMA BHD	OP	0.775	1.05	35.5%	300.1	Y	06/2024	10.2	10.5	1.3%	2.5%	7.6	7.4	0.6	0.1	-	0.0%
VELESTO ENERGY BHD	UP	0.240	0.190	-20.8%	1,971.7	Y	12/2023	0.6	1.3	-45.8%	104.6%	38.1	18.6	0.8	0.0	-	0.0%
WAH SEONG CORP BHD	UP	1.00	0.890	-11.0%	774.3	Y	12/2023	6.9	9.9	-31.6%	43.4%	14.4	10.1	1.2	0.1	-	0.0%
YINSON HOLDINGS BHD	OP	2.43	3.79	56.0%	7,063.4	N	01/2024	29.0	29.9	13.7%	3.0%	8.4	8.1	1.4	0.2	2.0	0.8%
<b>Simple Average</b>					<b>141,594.2</b>					<b>-30.2%</b>	<b>25.0%</b>	<b>17.5</b>	<b>14.0</b>	<b>1.3</b>	<b>0.1</b>		<b>1.8%</b>

Source: Kenanga Research

**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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