

14 May 2024

Dialog Group

Margin Recovery Across the Board

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DIALOG's 9MFY24 results beat expectations. Its 9MFY24 core net profit rose 16% YoY driven by lower operating and finance costs. Its earnings remain on an upward trajectory, underpinned by improving EPCC margins as cost pressures ease. We raise our FY24-25F net profit forecasts by 10% and 3%, respectively, lift our TP by 3% to RM3.18 (from RM3.10) and maintain our OUTPERFORM call.

Its 9MFY24 core profit of RM446m (excluding RM13.5m loss on disposal of other investment, RM1m disposal gain on PPE and RM3.2m forex gains) beat expectations, coming in at 85% and 77% of our full-year forecast and the full-year consensus estimate, respectively. The variance against our forecast came largely from higher-than-expected operating margins at the plant maintenance and specialist product business segments. The company announced an interim dividend per share (DPS) of 1.5 sen, on track to meet our full-year forecast of 4.3 sen.

YoY, its 9MFY24 revenue inched up by 1% driven by enhanced upstream production and higher occupancy rates at its fully-owned Langsat Terminals. Internationally, its Jubail Supply Base also saw increased activities, along with higher sales of specialist products.

Its core earnings grew by a sharper 16% due to: (i) lower finance cost on reduced borrowings, and (ii) 3% decline in operating expenses on decreased cost pressures at its plant maintenance and specialist product operations as the global supply chain normalised.

QoQ, its top line declined 18% due to lower EPCC and plant maintenance revenue as several projects were already at the tail-end.

However, its core profit improved by 11% driven by: (i) a decline in finance cost; and (ii) an 18% drop in operating expenses on a more favourable cost environment for its non-tank terminal business.

Outlook. Dialog's earnings are on an upward trajectory, driven by improved occupancy rates at its Langsat terminals and enhanced performance in the upstream segment, notably in production. The company has also benefited from easing cost pressures. Additionally, the completion of legacy EPCC contracts suffered from cost elevation should pave the way for better EPCC margins in coming quarters.

Forecasts. We raise our FY24-25F earnings forecasts up by 10% and 3%, respectively, to account for lower operating expenses in its plant maintenance and specialist product businesses.

Valuations. Correspondingly, we lift our SoP-based TP by 3% to RM3.18 (from RM3.10). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

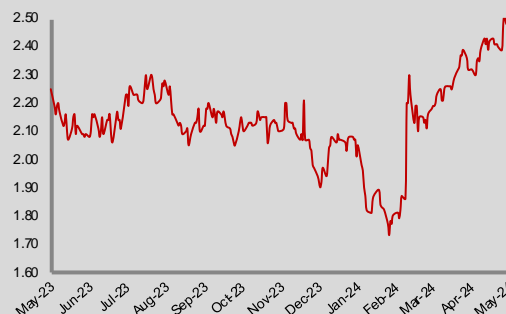
Investment case. We continue to like DIALOG for: (i) margin recovery at its plant maintenance, EPCC and specialist product businesses, (ii) its earnings growth and diversification driven by the forays into upstream investments, including production assets (its current portfolio of Production Sharing 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 utilisation of tank terminals.

OUTPERFORM ↔

Price: RM2.48
Target Price: RM3.18 ↑

Share Price Performance



KLCI	1,602.91
YTD KLCI chg	10.2%
YTD stock price chg	19.8%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	13,993.6
Shares Outstanding	5,642.6
52-week range (H)	2.52
52-week range (L)	1.72
3-mth avg. daily vol.	25,048,850
Free Float	30%
Beta	1.4

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	909.5	991.4
Operating profit	190.8	340.7	342.9
Profit Before Tax	1,135.0	1,253.9	1,318.3
Net Profit	510.5	574.1	597.8
Core Net Profit	504.2	574.1	597.8
Consensus (NP)	-	575.5	592.1
Earning Revision (%)	-	+9.5	+2.7
Core EPS (sen)	8.9	10.2	10.6
CNP Growth (%)	- 0.0	13.9	4.1
DPS (sen)	3.8	4.3	4.5
BV/share (RM)	5.8	6.0	6.2
PER (x)	27.8	24.4	23.4
PBV (x)	0.4	0.4	0.4
Net Gearing (%)	0.1	0.0	0.0
Div. Yield (%)	1.5	1.7	1.8

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Results Highlights								
	3Q	2Q	Q-o-Q	3Q	Y-o-Y	9M	9M	Y-o-Y
FYE Jun (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	702.2	859.2	-18.3%	802.8	-12.5%	2,341.9	2,311.5	1.3%
Operating expenses	(619.9)	(754.3)	-17.8%	(750.4)	-17.4%	(2,091.3)	(2,164.6)	-3.4%
Other operating income	48.5	17.4	179.1%	8.9	442.4%	80.8	34.0	137.5%
JV and associates	59.3	72.6	-18.4%	100.4	-41.0%	225.9	282.0	-19.9%
Finance costs	(13.0)	(17.7)	-26.6%	(20.5)	-36.5%	(49.9)	(54.3)	-8.2%
Profit before tax	178.0	177.1	0.5%	141.2	26.0%	508.3	408.5	24.4%
Tax expense	(17.3)	(19.9)	-12.8%	(7.2)	140.6%	(48.1)	(23.2)	107.4%
Non-controlling interests	(4.5)	(9.0)	-49.8%	(3.2)	39.8%	(23.5)	(1.6)	1383.9%
Net profit	156.2	148.3	5.3%	130.8	19.4%	436.6	383.7	13.8%
EI	(6.0)	2.5	NM	1.5	NM	(9.3)	(0.8)	1051.5%
Core net profit	162.2	145.8	11.2%	129.3	25.5%	445.9	384.6	16.0%
Core EPS (sen)	2.9	2.6		2.3		7.9	6.8	
DPS (sen)	1.5	0.0		1.3		1.5	1.3	
<i>PBT margin</i>	25.3%	20.6%		17.6%		21.7%	17.7%	
<i>Net margin</i>	22.2%	17.3%		16.3%		18.6%	16.6%	
<i>Core net margin</i>	23.1%	17.0%		16.1%		19.0%	16.6%	
<i>Effective tax rate</i>	9.7%	11.2%		5.1%		9.5%	5.7%	

Source: Kenanga Research

Sum-of-Parts (SoP) Valuation		
	RM m	Valuation assumption
Downstream business (EPCC and O&M)	2,155.5	Based on 9x PER
Kertih Centralised Tankage Facilities (30%)	676.7	FCFF @ 7.7% discount rate
Tanjung Langsat Terminals Facility 1 (100%)	1,382.2	FCFF @ 7.7% discount rate
Pengerang Phase 1 (45.9%)	2,369.0	FCFF @ 7.7% discount rate
Pengerang Phase 1 expansion (45.9%)	1,827.4	FCFF @ 7.7% discount rate
Pengerang Phase 2 (25%)	4,779.8	FCFF @ 7.7% discount rate
Pengerang Phase 3 (25%)	1,050.9	FCFF @ 7.7% discount rate
Pengerang LNG	849.4	FCFF @ 7.7% discount rate
Phase 3 land value (Pengerang)	479.6	
Bayan PSC	1,847.3	
D35/D21/J4 PSC	738.9	
Expected net cash/(debt)	-207.6	
Total SoP	17,949.2	
No of Shares	5,638.0	
SoP per share (RM)	3.18	

Source: Kenanga Research

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Peer 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	MP	0.565	0.580	2.7%	3,349.2	N	12/2024	13.8	12.6	144.4%	-8.8%	4.1	4.5	0.5	13.4%	0.0	0.0%
DIALOG GROUP BHD	OP	2.48	3.18	25.0%	13,993.6	Y	06/2024	9.3	10.3	4.0%	11.0%	26.7	24.0	2.4	9.1%	4.2	1.7%
ICON OFFSHORE BHD	REJECT	0.770	0.800	3.9%	479.1	Y	12/2024	5.3	8.1	285.3%	52.9%	14.5	9.5	1.1	8.0%	0.0	0.0%
KEYFIELD INTERNATIONAL	OP	1.83	1.90	3.8%	1,464.0	N	12/2024	15.4	17.9	17.1%	15.6%	11.9	10.3	2.2	26.1%	3.1	1.7%
MISC BHD	MP	8.14	7.69	-7.7%	36,334.9	Y	12/2024	51.9	53.9	7.0%	3.9%	15.7	15.1	0.9	5.8%	30.0	3.7%
PETRONAS CHEMICALS GROUP BHD	MP	6.89	6.88	-0.1%	55,120.0	Y	12/2024	44.9	45.9	111.1%	2.3%	15.4	15.0	1.3	8.7%	22.4	3.3%
PETRONAS DAGANGAN BHD	MP	21.34	23.70	11.1%	21,200.3	Y	12/2024	99.7	109.8	1.1%	10.1%	21.4	19.4	3.6	16.9%	79.8	3.7%
PETRON MALAYSIA REFINING	MP	4.96	4.74	-4.4%	1,339.2	Y	12/2024	99.6	89.6	-1.1%	-10.0%	5.0	5.5	0.5	10.6%	20.0	4.0%
VELESTO ENERGY BHD	OP	0.285	0.340	19.3%	2,341.4	Y	12/2024	1.8	2.3	46.6%	28.8%	16.0	12.5	0.9	5.7%	0.0	0.0%
WASCO BHD	OP	1.48	1.48	0.0%	1,146.0	Y	12/2024	12.1	14.8	20.0%	22.6%	12.3	10.0	1.4	12.5%	0.0	0.0%
YINSON HOLDINGS BHD	OP	2.39	3.41	42.7%	7,234.7	N	01/2025	17.4	19.4	45.2%	11.0%	13.7	12.3	1.4	10.2%	5.0	2.1%
SECTOR AGGREGATE					147,454.2					42.3%	4.2%	15.3	14.7	1.5	11.2%		1.6%

Source: Bloomberg, Kenanga Research

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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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