

16 August 2024

Dialog Group

Recovery Turning to High Gear

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DIALOG's results beat expectations for the second time in FY24 due to the strong performance of its specialist product segment. Its FY24 core net profit was driven by lower finance costs and improvement in specialist product top line. Its earnings remain on an upward trajectory, underpinned by improving EPCC margins as cost pressures ease. We raise our FY25F net profit forecast by 5%, lift our TP by 4% to RM3.37 (from RM3.23) and maintain our OUTPERFORM call.

Its FY24 core profit of RM606.8m (excluding RM13.5m loss on other investments, RM1.0m gain on disposal of PPE, RM22.5 m impairment (largely due to impairment in a project involving food-grade recycled polyethylene terephthalate pellets)) beat our expectations at 106% but within consensus at 104%. The variance against our forecast came largely from higher-than-expected revenue at the specialist product business segment (particularly the drilling base fluids and oilfield chemicals).

YoY, FY24 revenue increased by 5%, driven by enhanced upstream production and higher sales of specialist products and services, particularly on the international front. Core earnings grew by a sharper 20% due to: (i) lower finance costs from reduced borrowings, and (ii) a stable trend in operating expenses. These gains offset the losses from its legacy EPCC projects, which were impacted by a mismatch in pricing of previously committed projects.

QoQ, its top line surged by 15%, supported by stronger revenue from the upstream and specialist product segments. However, core profit remained flat, as increased operating expenses were partially offset by stronger QoQ performance from joint ventures and associates, driven by improved results from its independent tank terminals.

Outlook. Dialog's earnings are on an upward trajectory, driven by improved rental rates for its independent terminals (close to SGD7/mth/cbm at this juncture) and enhanced performance in the upstream segment, particularly in production. The company has also benefitted from easing cost pressures. In the coming quarters, its EPCC and plant maintenance division is expected to return to profitability as new contracts begin to be recognised, reversing losses in FY24. Additionally, Dialog has embarked on a renewable fuel product storage business, expanding its existing Tanjung Langsat complex to cater to the increasing demand for renewable fuel storage.

Forecasts. We raise our FY25F earnings forecast by 5% to factor in stronger revenue for the specialist product division.

Valuations. Correspondingly, we lift our SoP-based TP by 4% to RM3.37 (from RM3.23). There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

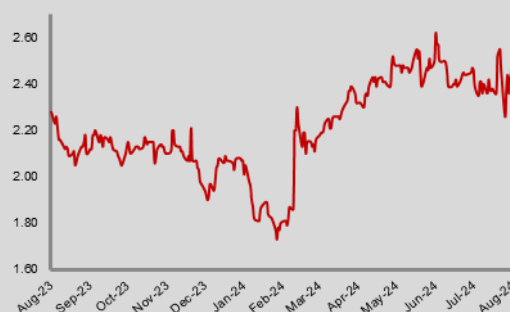
Investment case. We continue to like DIALOG for: (i) its structural margin recovery at its plant maintenance, EPCC and specialist product businesses as the legacy contracts completes, (ii) its earnings growth and diversification driven by the forays into upstream investments, coupled with its exposure in the tank storage business which also serves as a hedge during recessions, and (iii) its early exposure in the low carbon storage solutions. Maintain **OUTPERFORM**.

Risks to our call include: (i) reversal of the easing cost pressures trend, (ii) delay in capacity expansion plans, and (iii) reduced utilisation of tank terminals.

OUTPERFORM ↔

Price: RM2.49
Target Price: RM3.37 ↑

Share Price Performance



KLCI	1,612.94
YTD KLCI chg	10.9%
YTD stock price chg	20.3%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	14,050.2
Shares Outstanding	5,642.6
52-week range (H)	2.64
52-week range (L)	1.72
3-mth avg. daily vol.	7,213,064
Free Float	48%
Beta	1.3

Major Shareholders

Ngau Boon Keat	16.3%
Employees Provident Fund	10.9%
Kumpulan Wang Persaraan	8.0%

Summary Earnings Table

FYE June (RM m)	2024A	2025F	2026F
Revenue	3151.9	3248.7	3428.3
Operating profit	302.5	402.8	430.5
Profit Before Tax	679.1	739.6	781.5
Net Profit	575.0	628.5	663.7
Core Net Profit	606.0	628.5	663.7
Consensus (NP)		625.1	660.3
Earning Revision (%)		5.1	-
Core EPS (sen)	10.7	11.1	11.8
CNP Growth (%)	20.4	3.7	5.6
DPS (sen)	4.5	4.7	5.0
BV/share (RM)	1.1	1.1	1.2
PER (x)	23.2	22.4	21.2
PBV (x)	2.4	2.2	2.1
Net Gearing (%)	0.0	0.0	0.0
Div. Yield (%)	1.8	1.9	2.0

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Results Highlights								
	4Q	3Q	Q-o-Q	4Q	Y-o-Y			Y-o-Y
FYE Jun (RM m)	FY24	FY24	Chg	FY23	Chg	FY24	FY23	Chg
Revenue	810.1	702.2	15.4%	690.0	17.4%	3,151.9	3,001.5	5.0%
Operating expenses	(719.3)	(619.9)	16.0%	(646.2)	11.3%	(2,810.7)	(2,810.8)	0.0%
Other operating income	11.0	48.5	-77.3%	37.4	-70.6%	91.8	71.4	28.5%
JV and associates	84.0	59.3	41.7%	82.1	2.3%	309.9	364.0	-14.9%
Finance costs	(14.9)	(13.0)	14.6%	(18.0)	-17.2%	(64.8)	(72.3)	-10.4%
Profit before tax	170.8	178.0	-4.0%	145.3	17.5%	679.1	553.9	22.6%
Tax expense	(25.6)	(17.3)	48.0%	(10.1)	154.8%	(73.8)	(33.3)	121.7%
Non-controlling interests	(6.8)	(4.5)	50.5%	(8.5)	-20.2%	(30.3)	(10.1)	200.3%
Net profit	138.4	156.2	-11.4%	126.8	9.2%	575.0	510.5	12.6%
EI	(22.5)	(6.0)	273.2%	7.1	-417.3%	(31.8)	6.3	-606.1%
Core net profit	160.9	162.2	-0.8%	119.7	34.4%	606.8	504.2	20.3%
Core EPS (sen)	2.9	2.9		2.1		10.7	8.9	
DPS (sen)	2.8	1.5		2.1		4.3	3.4	
<i>PBT margin</i>	<i>21.1%</i>	<i>25.3%</i>		<i>21.1%</i>		<i>21.5%</i>	<i>18.5%</i>	
<i>Net margin</i>	<i>17.1%</i>	<i>22.2%</i>		<i>18.4%</i>		<i>18.2%</i>	<i>17.0%</i>	
<i>Core net margin</i>	<i>19.9%</i>	<i>23.1%</i>		<i>17.3%</i>		<i>19.3%</i>	<i>16.8%</i>	
<i>Effective tax rate</i>	<i>15.0%</i>	<i>9.7%</i>		<i>6.9%</i>		<i>10.9%</i>	<i>6.0%</i>	

Source: Kenanga Research

Sum-of-Parts (SoP) Valuation		
	RM m	Valuation assumption
Downstream business (EPCC and O&M)	2,672.7	Based on 9x PER
Kertih Centralised Tankage Facilities (30%)	676.7	FCFF @ 7.7% discount rate
Tanjung Langsat Terminals Facility 1 (100%)	1,638.7	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)	62.7	
Total SoP	18,800.7	
No of shares (m)	5,638.0	
SoP per share (RM)	3.37	

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.
Stocks Under Coverage																	
BUMI ARMADA BHD	MP	0.495	0.580	17.2%	2,934.3	N	12/2024	13.8	12.6	144.4%	-8.8%	3.6	3.9	0.4	13.4%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	2.71	3.31	22.1%	3,137.6	Y	12/2024	20.8	25.4	10.1%	22.4%	13.0	10.7	1.7	13.7%	2.0	0.7%
DIALOG GROUP BHD	OP	2.36	3.37	42.8%	13,316.6	Y	06/2024	11.1	11.8	13.9%	4.1%	22.4	21.2	2.2	10.0%	4.7	1.8%
KEYFIELD INTERNATIONAL	OP	2.50	3.18	27.2%	2,003.5	Y	12/2024	23.1	28.9	81.3%	25.0%	11.7	9.4	3.1	31.4%	4.6	1.6%
MISC BHD	MP	8.43	8.09	-4.0%	37,629.4	Y	12/2024	52.9	52.3	9.7%	-1.2%	15.9	16.1	0.9	5.9%	30.0	3.6%
PETRONAS CHEMICALS GROUP	MP	5.47	6.28	14.8%	43,760.0	Y	12/2024	34.8	41.9	71.3%	20.3%	15.7	13.1	1.0	6.8%	17.4	3.2%
PETRONAS DAGANGAN BHD	OP	17.80	23.70	33.1%	17,683.5	Y	12/2024	99.7	109.8	1.1%	10.1%	17.9	16.2	3.0	16.9%	79.8	4.5%
PETRON MALAYSIA REFINING	MP	4.44	4.74	6.8%	1,198.8	Y	12/2024	99.6	89.6	-1.1%	-10.0%	4.5	5.0	0.5	10.6%	20.0	4.5%
VELESTO ENERGY BHD	OP	0.215	0.340	58.1%	1,766.4	Y	12/2024	1.8	2.3	46.6%	28.8%	12.1	9.4	0.7	5.7%	0.0	0.0%
WASCO BHD	OP	1.17	1.70	45.3%	905.9	Y	12/2024	13.0	16.4	251.0%	26.6%	9.0	7.1	1.1	13.3%	2.0	1.7%
YINSON HOLDINGS BHD	OP	2.39	3.04	27.2%	7,112.2	N	01/2025	14.7	14.8	22.1%	1.1%	16.3	16.1	1.4	8.6%	4.0	1.7%
SECTOR AGGREGATE					132,506.1					33.1%	8.9%	14.8	13.6	1.4	11.5%		1.8%

Source: 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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