Dialog Group

Downstream Lift, Upstream Optionality

OUTPERFORM ↔

Price:	**RM1.67**
Target Price:	**RM2.28 ↔**

By Lim Sin Kiat, CFA / limsk@kenanga.com.my

DIALOG's 1HFY26 results which were within our and consensus expectations, improved significantly as EPCC division was no longer in the red as opposed to last year. From FY26 onwards, its tank terminal earnings will remain strong while its specialist products and maintenance works will improve. The group's further earnings upside will be in a more distant FY28 when its biorefinery storage and BP Singapore terminals come online, while its upstream potential remains strong in the long run. We maintain our forecasts. Our SoP-based TP is held at RM2.28. Reiterate OUTPERFORM.

The group's 1HFY26 core profit came in at RM278m, within our expectation and consensus forecast of 57% and 54%, respectively. No dividends were declared for the quarter.

YoY, 1HFY26 revenue improved 8% as its Malaysian business (plant maintenance and specialist products) achieved growth while partially offset by weaker international business. Earnings surged 78% as the quarter carried no more legacy EPCC projects which were completed last year. JV & associate income has also improved as one of its loss-making JV had ceased operations last year. Tank storage occupancy remained healthy.

QoQ, revenue improved by 15% as its Malaysia operations improved sequentially while its New Zealand and other Asia operations were weaker, partially offsetting the improvement. Core profit, however, were flattish QoQ as opex was higher.

Outlook. Leading into FY26, the tank terminal segment will continue to demonstrate resilient growth, which we expect to persist due to the tight storage situation in Asia. Meanwhile, the EPCC division has stabilised, achieving breakeven since 3QFY25 - easing concerns on further cost overruns.

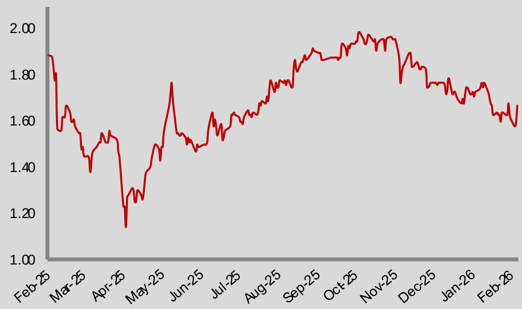
On the upstream front, prospects remain promising with the Baram Junior Cluster Field having achieved FID in January 2025, and development is progressing according to schedule while two other clusters, Raja and Mutiara, are currently in the pre-development phase, offering potential upside to valuations over the medium term. In addition, DIALOG also received a Letter of Award for the Cendramas PSC (an already producing asset) whereby Medco, EnQuest are the proposed partners for the project. This PSC will provide immediate recurring cash flows for the group but the PSC is subject to the finalisation and execution of the Joint Operating Agreement and Cendramas PSC, and the fulfilment of all conditions precedent as stipulated by PETRONAS.

Forecasts. Maintained.

Valuations. Correspondingly, we maintain our SoP-based TP to RM2.28. The stock is currently trading at 16x FY26F PER, at -2SD of its 2-year mean (which is a more appropriate band utilised by us as the stock has derated significantly in the last two years due to EPCC and downstream maintenance challenges.

Investment case. We continue to like DIALOG for its: (i) plant maintenance and specialist product business margin recovery, (ii) earnings growth driven by forays into upstream investments, coupled with its exposure in the tank storage business which also serves as a hedge during recessions, and (iii) early exposure in the low-carbon storage solutions while enjoying a take-or-pay rental structure which ensures higher earnings consistency. Maintain **OUTPERFORM.**

Share Price Performance



KLCI	1,756.39
YTD KLCI chg	4.5%
YTD stock price chg	-0.6%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	DLG MK Equity
Market Cap (RM m)	9,423.3
Shares Outstanding	5,642.7
52-week range (H)	2.01
52-week range (L)	1.13
3-mth avg. daily vol.	7,491,561
Free Float	76%
Beta	1.2

Major Shareholders

Ngau Boon Keat	16.5%
Employees Provident Fund	10.7%
Kumpulan Wang Persaraan	7.8%

Summary Earnings Table

FYE June (RM m)	2025A	2026F	2027F
Revenue	2501.6	3428.3	3569.3
Operating profit	54.8	284.8	365.5
Profit Before Tax	375.9	640.4	709.5
Net Profit	**303.8**	**587.8**	**645.1**
Core Net Profit	**447.4**	**587.8**	**645.1**
Consensus (NP)	-	511.3	557.2
Earning Revision (%)	-	-	-
Core EPS (sen)	5.4	10.4	11.4
CNP Growth (%)	-49.9	93.5	9.8
DPS (sen)	2.7	5.2	5.7
BV/share (RM)	1.0	1.1	1.2
PER (x)	31.0	16.0	14.6
PBV (x)	1.6	1.5	1.4
Net Gearing (%)	-	-	-
Div. Yield (%)	1.6	3.1	3.4

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

Results Highlights

FYE Jun (RM m)	2Q FY26	1Q FY26	Q-o-Q Chg	2Q FY25	Y-o-Y Chg	1H26	1H25	Y-o-Y Chg
Revenue	756.3	657.0	15.1%	680.0	11.2%	1,413.3	1,314.5	7.5%
Operating expenses	(662.0)	(561.0)	18.0%	(822.5)	-19.5%	(1,223.0)	(1,410.3)	-13.3%
Other operating income	18.7	17.2	8.9%	31.8	-41.2%	35.9	36.2	-1.0%
JV and associates	76.4	61.2	24.8%	7.6	900.2%	137.6	125.4	9.7%
Finance costs	(14.6)	(13.3)	9.5%	(12.2)	19.3%	(27.9)	(25.0)	11.5%
Profit before tax	**174.8**	**161.0**	**8.6%**	**(115.3)**	**-251.6%**	**335.8**	**40.7**	**724.7%**
Tax expense	(23.9)	(14.8)	61.4%	(10.3)	132.3%	(38.8)	(17.7)	119.3%
Non-controlling interests	(13.1)	(6.2)	113.2%	(3.9)	234.4%	(19.3)	(1.6)	1135.4%
Net profit	**137.7**	**140.0**	**-1.6%**	**(129.5)**	**-206.4%**	**277.8**	**21.5**	**nm**
EI	**0.0**	**0.0**	**-**	**(134.7)**	**-**	**0.0**	**(134.7)**	**-**
Core net profit	**137.7**	**140.0**	**-1.6%**	**5.2**	**nm**	**277.8**	**156.2**	**77.8%**
Core EPS (sen)	2.4	2.5		0.1		4.9	2.8	
DPS (sen)	0.0	0.0		0.0		0.0	2.4	
PBT margin	*23.1%*	*24.5%*		*-17.0%*		*23.8%*	*3.1%*	
Net margin	*18.2%*	*21.3%*		*-19.0%*		*19.7%*	*1.6%*	
Core net margin	*18.2%*	*21.3%*		*0.8%*		*19.7%*	*11.9%*	
Effective tax rate	*13.7%*	*9.2%*		*-8.9%*		*11.5%*	*43.4%*	

Source: Kenanga Research

Sum-of-Parts (SoP) Valuation

	RM m	Valuation assumption
Downstream business (EPCC and O&M)	2,596.3	Based on 9x PER
Kertih Centralised Tankage Facilities (30%)	448.8	FCFF @ 7.9% discount rate
Tanjung Langsat Terminals Facility 1 (100%)	1,331.9	FCFF @ 7.9% discount rate
Pengerang Phase 1 (45.9%)	1,618.1	FCFF @ 7.9% discount rate
Pengerang Phase 1 expansion (45.9%)	840.4	FCFF @ 7.9% discount rate
Pengerang Phase 2 (25%)	2,659.6	FCFF @ 7.9% discount rate
Pengerang Phase 3 (100%)	548.0	FCFF @ 7.9% discount rate
Pengerang Phase 3 extension (100%)	209.8	FCFF @ 7.9% discount rate
Pengerang LNG	479.6	FCFF @ 7.9% discount rate
Bayan PSC	1,397.4	FCFF @ 7.9% discount rate
D35/D21/J4 PSC	558.9	FCFF @ 7.9% discount rate
Pengerang Terminals 2 (biorefinery)	109.8	FCFF @ 6.3% discount rate
Expected net cash/(debt)	46.4	
Total SoP	**12,845.1**	
No of shares (m)	5,638.0	
SoP per share (RM)	**2.28**	

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.
<u>Stocks Under Coverage</u>																	
BUMI ARMADA BHD	OP	0.300	0.450	50.0%	1,778.4	Y	12/2025	6.1	5.4	-45.7%	-10.9%	4.9	5.5	0.4	7.6%	0.0	0.0%
DAYANG ENTERPRISE HLDGS BHD	OP	1.75	1.90	8.6%	2,026.1	Y	12/2026	16.1	18.8	7.8%	17.4%	9.8	8.4	1.1	8.3%	10.0	5.7%
DIALOG GROUP BHD	OP	1.67	2.28	36.5%	9,423.3	Y	06/2026	10.4	11.4	31.4%	9.7%	16.0	14.6	1.5	9.9%	5.0	3.0%
KEYFIELD INTERNATIONAL	OP	1.93	2.40	24.4%	2,249.8	Y	12/2025	8.7	10.3	0.0%	18.7%	22.3	18.8	2.1	11.9%	0.0	0.0%
LIANSON FLEET GROUP BHG	MP	1.48	1.57	6.1%	1,194.6	Y	12/2025	14.0	17.5	-49.6%	24.3%	10.5	8.5	1.6	15.6%	6.0	4.1%
MISC BHD	OP	8.03	8.65	7.7%	35,843.9	Y	12/2025	50.1	52.1	2.9%	4.0%	16.0	15.4	0.9	5.9%	36.0	4.5%
PETRONAS CHEMICALS GROUP	OP	3.35	4.70	40.3%	26,800.0	Y	12/2025	(6.1)	10.3	-	70.4%	N.A.	32.5	0.7	-1.3%	5.0	1.5%
PETRONAS DAGANGAN BHD	MP	20.40	21.20	3.9%	20,266.5	Y	12/2025	110.4	113.0	-0.8%	2.3%	18.5	18.1	3.3	18.0%	88.0	4.3%
VELESTO ENERGY BHD	MP	0.310	0.320	3.2%	2,546.8	Y	12/2025	2.0	2.1	-21.5%	7.3%	15.6	14.6	0.9	6.1%	3.0	9.7%
WASCO BHD	OP	0.895	1.17	30.7%	693.0	Y	12/2025	1.5	1.7	-41.5%	9.4%	58.7	53.6	5.6	10.1%	5.0	5.6%
YINSON HOLDINGS BHD	OP	2.40	2.84	18.3%	7,013.7	N	01/2026	16.6	20.4	20.3%	22.3%	14.4	11.8	1.4	10.1%	6.0	2.5%
SECTOR AGGREGATE					**110,077.1**					**-29.4%**	**32.2%**	**21.7**	**16.4**	**1.7**	**9.3%**		**3.4%**

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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KENANGA INVESTMENT BANK BERHAD (15678-H)
Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my