

21 November 2018 | 3QFY18 Results Review

## Deleum Berhad

*Anticipating stronger earnings in 4QFY18*

### INVESTMENT HIGHLIGHTS

- Deleum Bhd's 3QFY18 earnings came in at RM9.1m
- 9MFY18 earnings higher by +4.6%yoy
- Integrated Corrosion Solutions segment recorded turnaround profit of RM0.2m
- Earnings estimates maintained in anticipation of a stronger 4QFY18
- Maintain BUY with unchanged TP of RM1.39 per share

**Earnings recovery sustained in 3QFY18.** Deleum's 3QFY18 reported earnings declined by -15.6%yoy to RM9.1m. Despite recording cumulative earnings below our full-year earnings estimate, its 9MFY18 of RM19.7m was +4.6% higher year-over-year. We remain optimistic that earnings for Deleum will continue to be buoyed by high activity levels in 4QFY18 given that it is generally a stronger quarter operationally for Deleum.

**Power & Machinery.** Both segment revenue and profit contracted by -26.3%yoy and -24.3%yoy respectively attributable by: (i) softer demand for valves and flow regulators and; (ii) a lower volume of turbine related work orders for exchange engines and ancillary parts and services. This was however, offset by higher orders for retrofit projects.

**Oilfield Services.** Segment revenue increased by +7.5%yoy due to higher revenue from slickline services of RM5.0m. That said, segment profit was reduced by -34.4%yoy due to downward pressure on margins which was partially mitigated by reduced finance costs due to lower borrowings.

**Integrated Corrosion Solutions.** Segment revenue surged by +311.9%yoy due to the additional revenue generated from the MCM services despite reduced contribution from Pan Malaysia Blasting Contract which expired in November 2017. Furthermore, the segment staged a turnaround with a profit of RM0.2m during the quarter after two consecutive quarters of losses.

**Impact on earnings.** We are making no changes to our earnings estimates at this juncture as we expect Deleum's 4QFY18 earnings to come in stronger premised on noticeable increase in activity levels driven by stronger crude oil price. Furthermore, with the turnaround of its Integrated Corrosion Solutions and recently secured contracts for the segment, we opine that it will contribute more positively in 4QFY18.

**Maintain BUY**

**Maintain Target Price (TP): RM1.39**

RETURN STATS	
Price (19 November 2018)	RM1.08
Target Price	RM1.39
Expected Share Price Return	+28.7%
Expected Dividend Yield	+5.4%
<b>Expected Total Return</b>	<b>+34.1%</b>

STOCK INFO	
KLCI	1,710.71
Bursa / Bloomberg	5131 / DLUM MK
Board / Sector	Main/ Industrial
Syariah Compliant	Yes
Issued shares (mil)	401.13
Market cap. (RM'm)	433.22
Price over NA	1.34x
52-wk price Range	RM0.90 – RM1.34
Beta (against KLCI)	1.12
3-mth Avg Daily Vol	0.46m
3-mth Avg Daily Value	RM0.53m
Major Shareholders (%)	
Lantas Mutiara Sdn Bhd	20.38
Hartapac Sdn Bhd	12.01
Nathan Vivekananthan	10.67

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Kindly refer to the last page of this publication for important disclosures

**Maintain BUY.** We are maintaining our **BUY** recommendation on Deleum with an unchanged target price of **RM1.39** per share. Our TP is premised on PER19 of 12x pegged to EPS19 of 11.6sen. At peak valuation, the stock traded at PERs in excess of 18x.

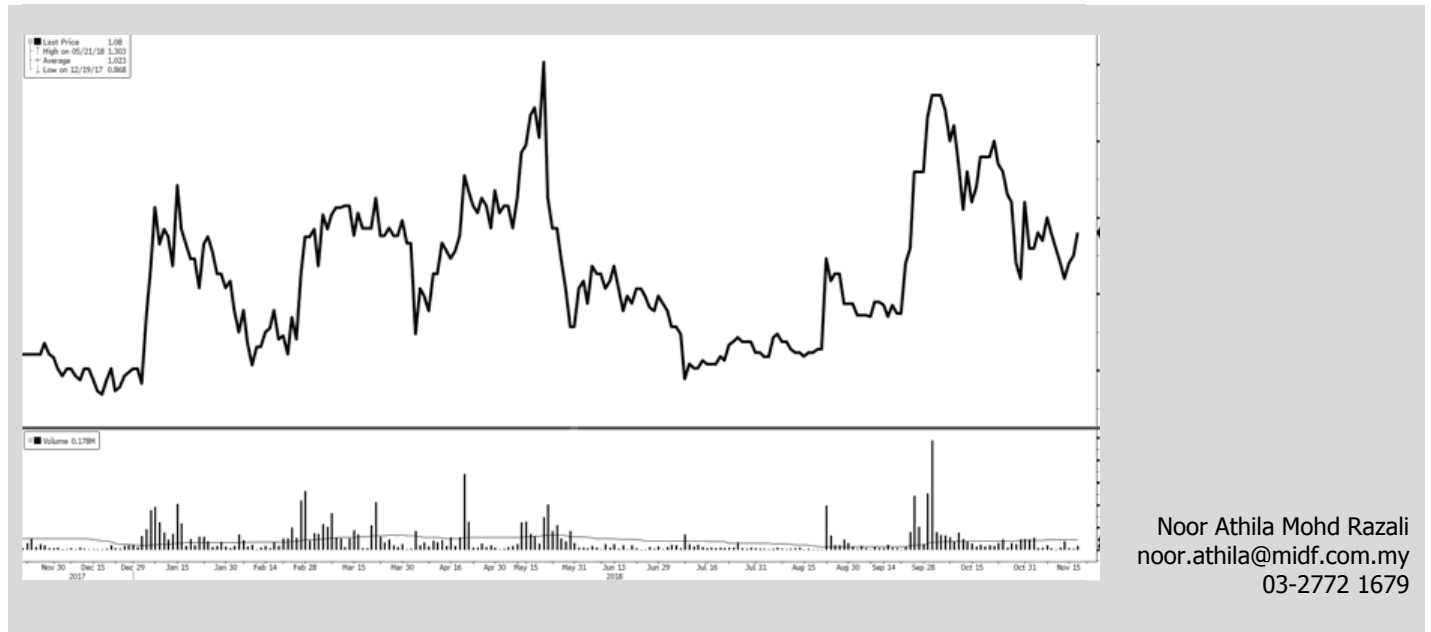


## INVESTMENT STATISTICS

FYE Dec (RM'm)	2015	2016	2017	2018F	2019F
Revenue	649.4	608.7	534.1	533.9	573.9
Gross Profit	149.2	12.5	139.9	133.5	143.5
Operating Profit	72.2	54.2	57.6	50.5	65.6
Profit Before tax	71.2	49.8	54.0	44.6	60.2
Tax expense	-16.7	-16.9	-14.8	-10.3	-13.9
<b>Net Profit</b>	<b>54.5</b>	<b>26.5</b>	<b>32.3</b>	<b>34.4</b>	<b>46.4</b>
Earnings per share (sen)	11.4	6.6	8.0	8.6	11.6
Dividend per share (sen)	5.5	3.5	4.3	4.3	5.8
PER (x)	8.3	12.1	13.8	12.6	9.3

Source: MIDFR

## DAILY PRICE CHART



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**Table 1: Deleum's quarterly earnings review**

FYE Dec (RM'm)	Quarterly Results					Cumulative Results		
	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)
<b>Revenue</b>	<b>167.8</b>	<b>139.3</b>	<b>175.4</b>	<b>25.9</b>	<b>4.6</b>	<b>364.2</b>	<b>423.2</b>	<b>16.2</b>
Cost of sales	(129.5)	(106.9)	(139.4)	30.4	7.7	(267.3)	(330.1)	23.5
Gross Profit	38.3	32.4	36.1	11.3	(5.9)	96.9	93.1	(3.8)
Other operating income	0.8	0.8	1.1	31.4	39.6	2.0	2.8	44.1
Selling and distribution expenses	(7.4)	(8.2)	(8.4)	3.4	14.2	(22.2)	(25.6)	15.6
Admin and general expenses	(11.8)	(12.0)	(12.7)	6.3	7.9	(34.1)	(35.4)	3.9
Other operating (losses)/ income	0.0	0.3	(2.2)	nm	nm	(6.3)	(3.2)	(49.7)
<b>Operating Profit</b>	<b>19.9</b>	<b>13.4</b>	<b>13.8</b>	<b>3.0</b>	<b>(30.9)</b>	<b>36.3</b>	<b>31.7</b>	<b>(12.5)</b>
Finance costs	(1.0)	(0.7)	(0.7)	0.3	(29.2)	(3.1)	(2.1)	(31.7)
Share of results of JV	0.3	0.4	0.3	(17.9)	3.5	0.7	1.0	38.3
Share of results of associates	(0.6)	0.3	0.9	>100	>-100	0.1	1.7	nm
<b>Profit before tax</b>	<b>18.6</b>	<b>13.3</b>	<b>14.2</b>	<b>6.7</b>	<b>(23.4)</b>	<b>33.9</b>	<b>32.3</b>	<b>(4.8)</b>
Tax expense	(4.9)	(3.7)	(3.2)	(12.9)	(34.1)	(10.5)	(10.3)	(2.1)
<b>Profit after tax</b>	<b>13.7</b>	<b>9.6</b>	<b>11.0</b>	<b>14.2</b>	<b>(19.6)</b>	<b>23.4</b>	<b>22.0</b>	<b>(6.0)</b>
Non-controlling interests	2.9	0.5	1.9	>100	(34.6)	4.6	2.3	(49.5)
<b>PATANCI</b>	<b>10.8</b>	<b>9.2</b>	<b>9.1</b>	<b>(0.6)</b>	<b>(15.6)</b>	<b>18.8</b>	<b>19.7</b>	<b>4.6</b>
Basic EPS (sen)	2.7	2.3	2.3	(0.4)	(15.6)	4.7	4.9	0.2
Diluted EPS (sen)	2.7	2.3	2.3	(0.9)	(15.7)	4.7	4.9	0.2
PBT margin (%)	11.1	9.6	8.1	(1.5)	(3.0)	9.3	7.6	(1.7)
PAT margin (%)	8.2	6.9	6.3	(0.6)	(1.9)	6.4	5.2	(1.2)
PATANCI margin (%)	6.4	6.6	5.2	(1.4)	(1.2)	5.2	4.7	(0.5)
Tax rate (%)	26.3	27.7	22.6	(5.1)	(3.7)	30.9	31.8	0.9
<b>Segmental</b>								
<i>Revenue</i>								
Power and Machinery	122.8	79.5	90.4	13.7	(26.3)	245.6	235.0	(4.3)
Oilfield Services	32.9	31.3	35.3	13.1	7.5	88.5	93.9	6.1
Integrated Corrosion Solution	12.0	28.4	49.5	74.3	>100	29.7	94.0	>100
Others	0.1	0.1	0.1	33.3	15.3	0.3	0.3	(1.5)
<i>Profit Before Tax</i>								
Power and Machinery	13.2	11.1	10.0	(10.6)	(24.3)	23.8	26.2	10.0
Oilfield Services	5.5	6.1	3.6	(41.7)	(34.4)	10.6	14.0	32.0
Integrated Corrosion Solution	1.8	(2.9)	0.2	>-100	(90.1)	2.7	(6.4)	>-100
Others	0.0	0.0	0.0	100.0	15.8	0.0	0.0	2.6

Source: MIDFR, Company

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#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.