

27 February 2018 | 4QFY17 Results Review

## Deleum Berhad

*Highest quarterly earnings since 2015*

**Maintain NEUTRAL**

**Unchanged Target Price (TP): RM1.03**

### INVESTMENT HIGHLIGHTS

- **Deleum Bhd's 4QFY17 reported earnings grew +36.2%yoy to RM13.5m**
- **All three business segments sustained profitability**
- **Margin expansion recorded for P&M and OS divisions**
- **Earnings up cycle to start in 2HFY18 but revenue pressure seen in P&M and OS divisions**
- **Total dividend declared for FY17 total 4.25sen per share**
- **Maintain Neutral with unchanged TP of RM1.03 per share**

**Profit highest since 2QFY15.** Deleum's 4QFY17 earnings grew by +36.2%yoy to RM13.5m – highest since 2QFY15. Cumulative FY17 earnings of RM32.3m (+21.7%yoy) outpaced our expectations by a variance of more than >10%.

**Power & Machinery.** Although segmental revenue contracted by -15.1%yoy, segment profit managed to stage a growth of +9.0%yoy to RM39.1m. The contraction in revenue is largely due to lower work orders for exchange engines and retrofit projects. The higher profit on the other hand was due to a one-off restructuring charge in 4QFY16 of RM4.4m. Excluding this one-off charge, the segment normalised profit would have contracted by approximately -3.0%yoy.

**Oilfield Services.** Segment revenue also contracted by -11.9%yoy largely due to lower utilisation of slickline assets. Despite this, profit grew by +16.0%yoy to RM14.5m attributable to higher margin from oilfield chemicals, lower write-offs and lower financing costs.

**Integrated Corrosion Solution.** Although segment revenue grew by +14.0%yoy, segment profit remained flat year-over-year for the quarter largely attributable to lower margin works and mobilisation costs related to the MCM win.

**Earnings up cycle likely in 2HFY18.** Based on its recent MCM win, we believe that the earnings upcycle is likely to happen in 2HFY18. Our view is largely due to the fact that earnings accretion from the MCM jobs will most likely be recognised towards the latter part of FY18 only. The bulk of the activity and earnings will most likely take place in FY19.

**Impact on earnings.** Although FY17 earnings posted better-than-expected earnings, we are maintaining our earnings forecasts at this juncture as the P&M segment is still expected to remain challenging while a large portion of the OS projects are due to expire in 2018 and 2019.

RETURN STATS	
Price (26 February 2018)	RM0.98
Target Price	RM1.03
Expected Share Price Return	+5.1%
Expected Dividend Yield	+3.5%
<b>Expected Total Return</b>	<b>+8.6%</b>

STOCK INFO	
KLCI	1,860.08
Bursa / Bloomberg	7113 / DLUM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	400.2
Market cap. (RM'm)	392.2
Price over NA	1.4
52-wk price Range	RM0.75-RM1.19
Beta (against KLCI)	1.44
3-mth Avg Daily Vol	0.38m
3-mth Avg Daily Value	RM0.38m
Major Shareholders (%)	
Lantas Mutiara	20.42
Hartapac Sdn Bhd	12.04
Nathan Vivekananthan	10.69
Mustaffa Zaiton	8.04
IM Holdings	6.09

**Unchanged TP.** Based on the anticipated earnings up-cycle in 2HFY18 from the MCM contracts and the challenging P&M division, we are maintaining our target price at **RM1.03**. Our target price is premised on PER18 of 12x pegged to EPS18 of 8.6sen. We are maintaining our **NEUTRAL** recommendation but reiterate that Deleum's company fundamentals and prospects remain intact. At peak valuation, the stock traded at PERs in excess of 18x.



## INVESTMENT STATISTICS

Income Statement (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	4.25	3.4	5.6
PER (x)	8.8	12.8	14.7	11.6	8.6

Source: MIDFR, Company

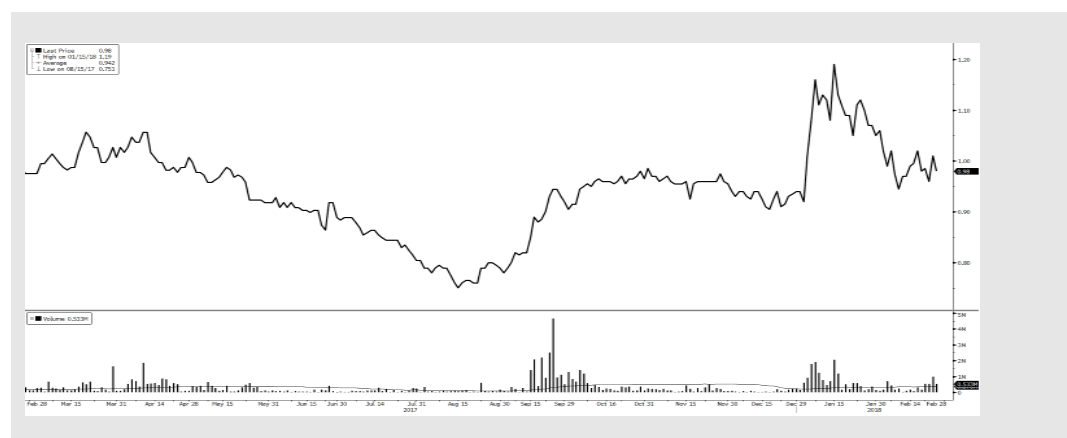
## Orderbook

No.	Contracts	Expiry year
1	Provision of Painting and Alternative Blasting	2017
2	Thermo-chemical Solid Deposition Treatment Technology	2018
3	Provision of Integrated Wellhead Maintenance Services	2018
4	Supply of PDC & Rock Bits	2018
5	Supply & Services for Casing Centralizer Equipment	2019
6	Provision of Slickline Equipment & Services	2019
7	Provision of Well Control Services	2020
8	Long Term Service Agreement for Gas Turbine	2023
9	Supply of Gas Turbine Packages	2023

Approximate contract outstanding value = RM1.69b

Source: Estimates by MIDFR, Company

## DAILY PRICE CHART



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## RESULTS SUMMARY 4QFY17

FYE Dec (RM' m)	Quarterly Results			Cumulative			Comments
	4Q17	QoQ (%)	YoY (%)	FY16	FY17	YoY (%)	
Revenue	169.8	1.2	-15.6	608.7	534.1	-12.3	
Cost of sales	-126.8	-2.0	-20.8	-474.8	-394.2	-17.0	
Gross profit	43.0	12.2	4.4	133.8	139.9	4.5	
Other income	1.0	29.7	179.0	2.1	2.9	43.3	
Selling and Distribution costs	-11.9	61.4	35.8	-33.4	-34.1	2.0	
Administrative costs	-10.4	-11.7	12.0	-44.3	-44.5	0.5	
Other operating gains/ (expenses)	-0.4	-4044.4	-92.5	-4.0	-6.7	68.5	
Operating profit	21.3	6.9	13.8	54.2	57.6	6.2	
Finance cost	-0.9	-10.8	-28.1	-5.3	-4.0	-25.1	
Share of results of a JV	0.1	-54.7	-26.2	0.7	0.9	25.3	
Share of post tax profits of associates	-0.5	-25.6	-1996.0	0.2	-0.4	-272.6	
Profit before tax	20.1	8.0	13.4	49.8	54.0	8.6	
Tax expense	-4.3	-12.9	-20.2	-16.9	-14.8	-12.9	
PATAMI	13.5	24.6	36.2	26.5	32.3	21.7	
<i>Segmental Breakdown:</i>							
Revenue							
Power and Machinery	118.8	-3.2	-21.7	429.1	364.4	-15.1	Revenue pressure from lower work orders
Oilfield Services	30.9	-6.2	-15.0	135.5	119.4	-11.9	
Integrated Corrosion Solution	20.0	66.4	53.3	43.6	49.7	14.0	
<i>Profit before tax</i>							
Power and Machinery	15.3	16.1	18.2	35.9	39.1	9.0	
Oilfield Services	3.9	-27.9	103.7	12.5	14.5	16.0	
Integrated Corrosion Solution	1.4	-20.0	-58.6	4.1	4.1	-0.7	High mobilisation costs for MCM

Source: MIDFR, Company

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## MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

### 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.