

09 March 2018 | Briefing Note

## Deleum Berhad

*Activity levels to escalate from 2QFY18 onwards*

### INVESTMENT HIGHLIGHTS

- **Deleum Bhd's 4QFY17 reported earnings grew +36.2%yoy to RM13.5m**
- **MCM callouts to escalate in 2QFY18**
- **Tenders and market surveys in high gear**
- **Current orderbook at RM1.21b**
- **Maintain Neutral (positive bias) with revised TP of RM1.20 per share**

**Profit highest since 2QFY15.** To recall, 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%.

**Update on MCM contract.** Deleum's MCM activity levels are expected to pick up from 2QFY18 onwards. In 4QFY17, the Integrated Corrosion Services division (the division where the MCM contract is recognised under) experienced margin compression due to the mobilisation and upscaling capacity to support the MCM works.

**Earnings up cycle likely in 2HFY18.** Based on the MCM timeline, 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. The bulk of the activity and recognition of earnings will most likely take place in FY19.

**Tender activities.** The management guided that tendering activities and market surveys have increased exponentially this year. They are expecting the high rate of tender activities to continue to at least in the middle of FY18 – intensity is approximately 2-3x that of FY16. The two possible reasons why tender activities and market surveys have picked up are: (i) long term contracts expiring and fresh bids required and; (ii) new contracts being called for new projects.

**Neutral with Positive Bias.** Based on the anticipated earnings up-cycle in 2HFY18 from the MCM contracts, we are revising our target price upwards to **RM1.20** (previously RM1.03). Our target price is premised on PER18 of 14x (previously 12x) pegged to EPS18 of 8.6sen. Our target PER18 is based on the company's five-year historical average PER. 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.

**Maintain NEUTRAL**

**Revised Target Price (TP): RM1.20**  
(previously RM1.03)

RETURN STATS	
Price (8 <sup>th</sup> March 2018)	RM1.15
Target Price	RM1.20
Expected Share Price Return	+4.3%
Expected Dividend Yield	+3.7%
<b>Expected Total Return</b>	<b>+8.0%</b>

STOCK INFO	
KLCI	1,839.62
Bursa / Bloomberg	7113 / DLUM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	400.2
Market cap. (RM'm)	460.2
Price over NA	1.4
52-wk price Range	RM0.75-RM1.19
Beta (against KLCI)	1.41
3-mth Avg Daily Vol	0.54m
3-mth Avg Daily Value	RM0.54m
Major Shareholders (%)	
Lantas Mutiara	20.43
Hartapac Sdn Bhd	12.04
Nathan Vivekananthan	10.69
Mustaffa Zaiton	8.04
IM Holdings	6.09

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## 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	4.3	4.3	5.8
PER (x)	10.1	17.4	14.4	13.4	9.9

Source: MIDFR, Company

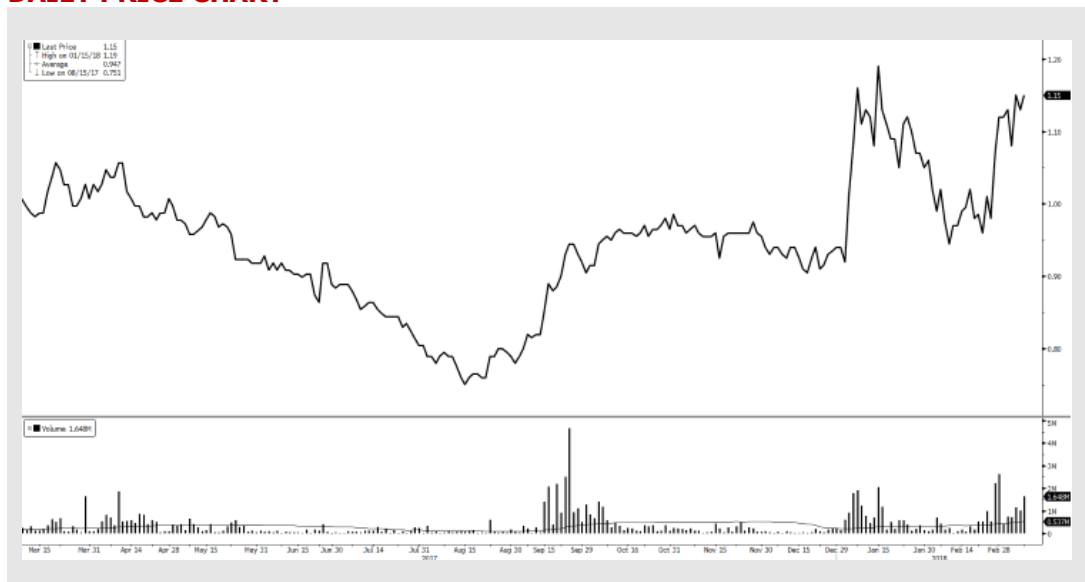
## Orderbook as at end-February 2018

No.	Contracts	Expiry year
1	Thermo-chemical Solid Deposition Treatment Technology	2018
2	Provision of Integrated Wellhead Maintenance Services	2018
3	Supply of PDC & Rock Bits	2018
4	Supply and Service for Casing Centralizer Equipment	2019
5	Provision of Slickline Equipment and Services	2019
6	Provision of Integrated Drilling Services	2020
7	Provision of Casing Accessories	2020
8	Provision of Well Control Services	2022
9	Provision of Rock/PDC Bits/Hole Enlargement Equipment	2022
10	Provision of Geomechanics and Pore Pressure Prediction Study	2022
11	MCM Contract	2022
12	Long Term Service Agreement for Gas Turbine	2023
13	Supply of Gas Turbine Packages	2023

Approximate contract outstanding value = RM1.21b

Source: Estimates by MIDFR, Company

## DAILY PRICE CHART



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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.