

23 August 2018 | 2QFY18 Results Review

Deleum Berhad

Earnings boost from pick-up in activity levels

Upgrade to BUY
(previously NEUTRAL)

Unchanged Target Price (TP): RM1.39

INVESTMENT HIGHLIGHTS

- Deleum Bhd's 2QFY18 reported earnings staged a leap of +36.9%yoy to RM9.2m
- Power & Machinery and Oilfield Services divisions profitable
- Margin expansion recorded for P&M and OS divisions
- Earnings upcycle started in 2QFY18 as guided in our previous report
- Upgrade to BUY with unchanged TP of RM1.39 per share

Earnings turnaround as anticipated. Deleum's 2QFY18 reported earnings grew by +36.9%yoy to RM9.2m. Despite 6MFY18 earnings still failing to hit the halfway point of our FY18 earnings forecasts, we remain optimistic that earnings will continue to be buoyed by high activity levels in 2HFY18. The company's earnings support will still largely be contributed by the P&M segment.

Power & Machinery. Both segment revenue and profit grew by +23.0% and +73.0% respectively mainly attributable to increase in work orders for exchange engines, retrofit projects, parts, repair and maintenance, valve and flows regulators and higher commission income earned.


Oilfield Services. Despite segment revenue contracting by -1.6%yoy, segment profit managed to grow by +4.5%yoy to RM43.7m. This is largely attributable to better sales mix with higher margin works executed and supported by lower financing costs.

Integrated Corrosion Solution. Although segment revenue more than doubled from a year earlier, the segment recorded a loss of -RM18.2m mainly due to higher costs incurred for the Pan Malaysia Painting and Blasting contracts and higher mobilisation costs for the MCM contract.

Impact on earnings. As previously guided, we have anticipated Deleum's earnings upcycle to start in 2QFY18. Moving forward, we are optimistic that earnings will sustain into 2HFY18 as crude oil prices remain relatively stable, activity levels remain at a comfortable level and mobilisation cost for the Pan Malaysia MCM to stabilise. 3QFY18 and 4QFY18 are generally strong quarters for the company.

RETURN STATS	
Price (21 August 2018)	RM0.94
Target Price	RM1.39
Expected Share Price Return	+47.9%
Expected Dividend Yield	+6.2%
Expected Total Return	+54.1%

STOCK INFO	
KLCI	1,798.11
Bursa / Bloomberg	7113 / DLUM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	401.1
Market cap. (RM'm)	377.1
Price over NA	1.4
52-wk price Range	RM0.90-RM1.32
Beta (against KLCI)	1.28
3-mth Avg Daily Vol	0.165m
3-mth Avg Daily Value	RM0.15m
Major Shareholders (%)	
Lantas Mutiara	20.39
Hartapac Sdn Bhd	12.01
Nathan Vivekananthan	10.67
Mustaffa Zaiton	8.02
IM Holdings	6.07

Upgrade to BUY with upside bias. Given the upbeat earnings, optimistic outlook and current jobs at hand, we believe that the company will end the year well. Therefore, we are upgrading Deleum to **BUY** with an unchanged TP of **RM1.39** per share. Our target price 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

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
Net Profit	54.5	26.5	32.3	34.4	46.4
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	10.9	8.1

Source: MIDFR, Company

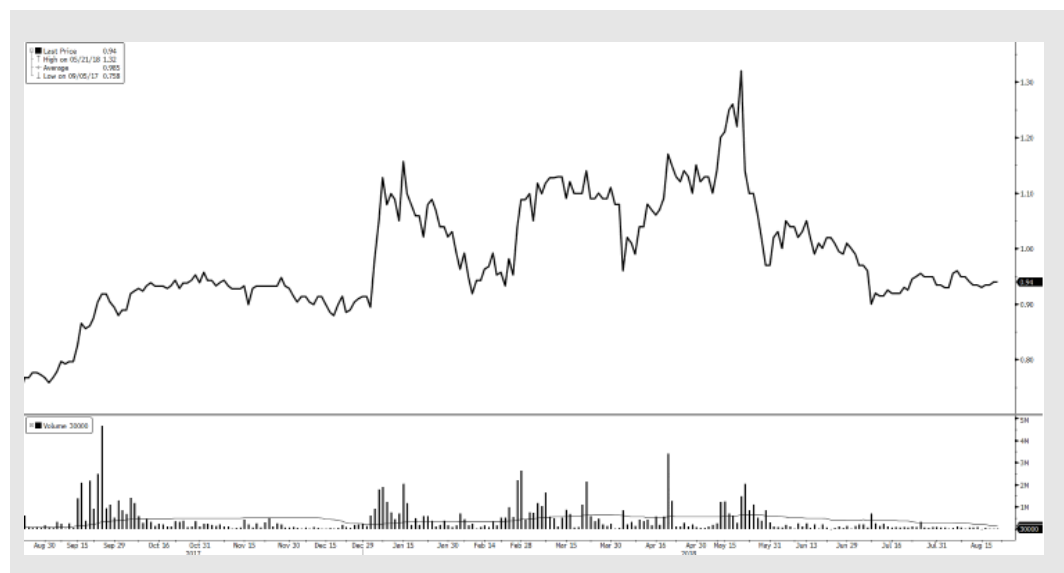
Orderbook

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



Aaron Tan Wei Min
aaron.tan@midf.com.my
03-2772 1650

RESULTS SUMMARY 2QFY18

FYE Dec (RM' m)	Quarterly Results			Cumulative			Comments
	2Q18	QoQ (%)	YoY (%)	6M17	6M18	YoY (%)	
Revenue	139.3	28.4	30.8	196.4	247.8	26.2	
Cost of sales	-106.9	27.5	48.4	-137.9	-190.7	38.3	
Gross profit	32.4	31.2	-5.9	58.5	57.1	-2.5	
Other income	0.8	-11.6	27.3	1.2	1.7	47.0	
Selling and Distribution costs	-8.2	-9.3	5.2	-14.8	-17.2	16.4	
Administrative costs	-12.0	12.1	1.1	-22.3	-22.7	1.8	
Other operating gains/ (expenses)	0.3	-123.7	-108.4	-6.3	-1.0	-84.6	
Operating profit	13.4	188.0	12.6	16.4	18.0	9.8	
Finance cost	-0.7	-10.1	-33.2	-2.2	-1.5	-32.8	
Share of results of a JV	0.4	42.0	66.8	0.4	0.7	64.9	
Share of post tax profits of associates	0.3	-50.1	-20.9	0.7	0.9	18.7	
Profit before tax	13.3	182.6	16.8	15.3	18.1	17.7	
Tax expense	-3.7	10.3	-5.7	5.6	-7.1	-225.7	Increased tax after review by authorities
PATAMI	9.2	554.3	36.9	8.0	10.6	32.3	
<i>Segmental Breakdown:</i>							
Revenue							
Power and Machinery	79.5	22.3	23.0	122.8	144.5	17.7	Increased activity levels
Oilfield Services	31.3	14.4	-1.6	55.7	58.6	5.2	
Integrated Corrosion Solution	28.4	76.8	185.7	17.7	44.5	151.3	High mobilisation costs
<i>Profit before tax</i>							
Power and Machinery	11.1	117.7	73.0	10.7	16.3	52.4	
Oilfield Services	6.1	43.7	4.5	5.1	10.4	102.4	
Integrated Corrosion Solution	-2.9	-18.2	-430.2	0.9	-6.6	-836.4	

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.