

27 September 2017 | Corporate Update

Deleum Berhad

Earnings upcycle in 2H18 onwards

Downgrade to Trading Sell
(Previously Neutral)

Unchanged Target Price (TP): RM0.77

INVESTMENT HIGHLIGHTS

- **Newsires have been rife with news on RM6b MCM jobs**
- **Deleum is poised to be frontrunner for jobs in Peninsula Malaysian waters**
- **Award of contract soon but works likely to start in 2QFY18**
- **Orderbook remains intact at approximately RM1.69b**
- **Stock fundamentals intact but share prices rallied in anticipation of MCM award**
- **Downgrade to *Trading Sell* to capitalise on upbeat news flow with unchanged TP of RM0.77 per share**

Newsires rife with news on MCM jobs. Newsires have been reporting on the impending award of the 5-year maintenance, construction and modification (MCM) jobs worth RM6b. The scope encompasses PMO gas and PMO oil, SKO gas and SKO oil and SBO oil and gas. Deleum Berhad, along with a few other notable oil and gas service providers has been named as shortlisted candidates.

In partnership with Icon Offshore. Deleum Berhad will be partnering **Icon Offshore Bhd (not rated)** to provide offshore support vessels (OSV) for the works to be undertaken under the MCM contract. Icon Offshore will work under the capacity of a sub-contractor to Deleum.


Award of contracts. No official announcements have been made on the award of the contracts but we believe that it could likely be towards 4QFY17. Therefore, detailed planning and mobilisation of assets could only happen in 1HFY18 and construction works done in 2HFY18. Earnings could be backend-loaded in FY18.

Impact on earnings. No changes to earnings estimate as impending contract wins within expectations.

Sell on strength. Deleum's share price has appreciated by more than +26% in the past two weeks due to strong news flow on the potential award of the MCM contracts. While we are cognisant on the strong fundamentals of the company and are still sanguine that Deleum is a frontrunner, we are recommending investors to sell on strength. This 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.

RETURN STATS	
Price (26 September 2017)	RM0.945
Target Price	RM0.770
Expected Share Price Return	-18.5%
Expected Dividend Yield	+2.9%
Expected Total Return	-15.6%

STOCK INFO	
KLCI	1,765.59
Bursa / Bloomberg	7113 / DLUM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	400.2
Market cap. (RM'm)	378.2
Price over NA	1.4
52-wk price Range	RM0.75-RM1.12
Beta (against KLCI)	1.92
3-mth Avg Daily Vol	0.338m
3-mth Avg Daily Value	RM0.28m
Major Shareholders (%)	
Lantas Mutiara	20.43
Hartapac Sdn Bhd	12.04
Nathan Vivekananthan	10.70
Mustaffa Zaiton	8.04
IM Holdings	6.09

Unchanged TP. Although we are recommending an opportunistic *Trading Sell* at this juncture, we reiterate that Deleum's company fundamentals and prospects remain intact. We are maintaining our TP of **RM0.77 per share**. Investors may consider accumulation the stock on share price retracements to benefit from earnings upcycle in 2HFY18 onwards. Our valuation is based on EPS18 of 8.6sen pegged to PER18 of 9x. Our target PER18 is premised on the company's long term historical average rolling PER. At peak valuation, the stock traded at PERs in excess of 18x. 

INVESTMENT STATISTICS

Income Statement (RM m)	2014	2015	2016	2017F	2018F
Revenue	657.3	649.4	608.7	487.2	533.9
Gross Profit	158.0	149.2	12.5	121.8	133.5
Operating Profit	82.2	72.2	54.2	41.9	50.5
Profit Before tax	92.0	71.2	49.8	35.5	44.6
Tax expense	-21.4	-16.7	-16.9	-8.2	-10.3
Net Profit	70.6	54.5	26.5	27.3	34.4
Earnings per share (sen)	14.8	11.4	6.6	6.8	8.6
Dividend per share (sen)	7.5	5.5	3.5	2.1	2.7
PER (x)	6.6	8.6	12.6	14.4	11.4

Source: MIDFR, Company

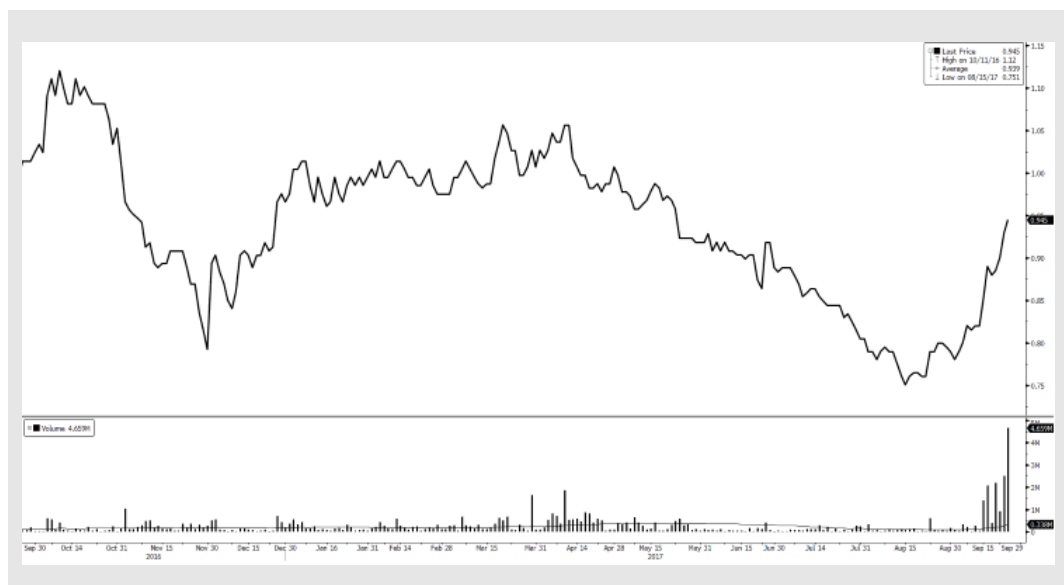
Orderbook

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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).
 (Bank Pelaburan)
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	Total return is expected to be <15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% 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.