

15 February 2018 | 2QFY18 Results Review

Dialog Group Berhad

Earnings boost from newly acquired entities

INVESTMENT HIGHLIGHTS

- Dialog Group Bhd's 2QFY18 reported earnings grew by +26.7%yoy to RM115.8m
- 6MFY18 normalised earnings within expectations
- Tank farm business expanded by +31.6%yoy to RM66m
- Maintain NEUTRAL (upside bias) with revised TP of RM2.55 per share

Continuous earnings growth recorded. Dialog's 2QFY18 earnings grew by +26.7%yoy to RM115.8m. Its cumulative 6MFY18 normalised earnings (excluding fair value gain on disposal and other non-cash items) which amounted to RM203.4m (+17.7%yoy) kept pace with our and consensus expectations, accounting for 46% and 50% of full year earnings estimates respectively.

Malaysian operations on solid footing. Approximately 90% of the group's earnings up to 6MFY18 is contributed by the Malaysian operations. Net profit for the quarter from local operations grew by +24.9%yoy. The growth is also attributable to revenue consolidation of Langsat Terminals since it was acquired in September 2017.

Tank farm business expanding. Earnings from its tank farm business for the quarter expanded by +55.1%yoy to RM38.9m. The upbeat contribution is a result of Pengerang LNG (Two) Sdn Bhd which achieved its commercial operations and received the first commercial LNG cargo at its newly commissioned regasification terminal at Pengerang Deepwater Terminal in November 2017.

Focus on tank farms moving forward. Dialog's strategy is clear – immediate to long-term focus on tank farms. Pengerang Deepwater Terminal Phase 1 is being expanded by 430,000m³ while construction of Phase 2 is on schedule. The company also indicated that new potential partners are being secured for Phase 3.

Maintain NEUTRAL


Revised Target Price (TP): RM2.55
(previously RM2.16)

RETURN STATS

Price (14 February 2018)	RM2.66
Target Price	RM2.55
Expected Share Price Return	-4.1%
Expected Dividend Yield	+1.4%
Expected Total Return	-2.7%

STOCK INFO

KLCI	1,834.93
Bursa / Bloomberg	7277 / DLG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,638.31
Market cap. (RM'm)	14,997.90
Price over NA	4.5x
52-wk price Range	RM1.55 – RM2.78
Beta (against KLCI)	0.80
3-mth Avg Daily Vol	13.9m
3-mth Avg Daily Value	RM35.1m
Major Shareholders (%)	
Ngau Boon Keat	20.37
Employees Provident Fund	10.39
Azam Utama	8.20
Wide Synergy	7.57

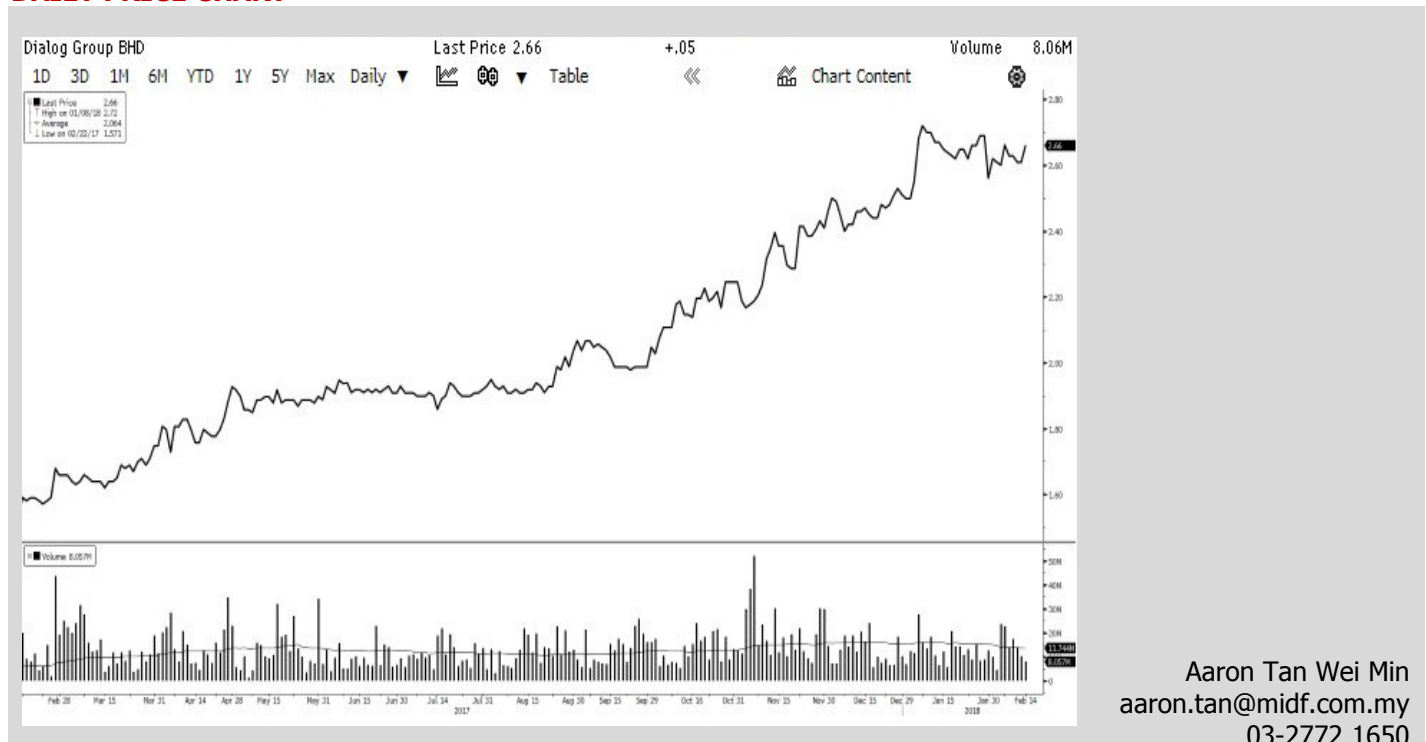
Maintain Neutral with positive bias. Dialog's share price has been volatile on the upside, stoked by positive news flows from Pengerang and solid earnings. The company's forward PER is currently at **31x**. We roll forward our valuation base year to FY19, deriving a target price of **RM2.55** per share whilst maintaining our **Neutral** recommendation with positive bias. Our valuation is based on a sum-of-parts method pegging a PER of 26x to its core businesses ie. EPCC, Plant Maintenance, Specialist and Catalyst. As for the centralized tankage facilities business, our discounted cash flow is based on a discount rate of 8%. 

INVESTMENT STATISTICS

FYE Jun	FY15	FY16	FY17	FY18F	FY19F
Revenue (RM'm)	2,358.2	2,390.0	3,392.9	3,950.0	4,240.0
EBIT (RM'm)	167.6	191.2	341.8	577.9	622.1
Pretax Profit (RM'm)	370.5	363.6	448.8	557.9	602.1
Net Profit (RM'm)	275.1	300.2	370.6	441.1	473.9
EPS (sen)	5.5	5.3	6.8	7.8	8.4
EPS growth (%)	13.3	-3.9	27.7	15.1	7.4
PER (x)	48.0	50.0	39.1	34.0	31.6
Net Dividend (sen)	2.2	2.4	2.8	3.5	3.8
Net Dividend (%)	0.8	0.9	1.0	1.3	1.4

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

EARNINGS SUMMARY 2QFY18

FYE June (RM m)	Quarterly Results			Cumulative			Comments
	2Q18	QoQ (%)	YoY (%)	6MFY17	6MFY18	YoY (%)	
Revenue	857.4	10.1	0.1	1510.3	1636.1	8.3	Revenue boost from Langsat Terminals
Operating Expenses	-758.2	8.3	-2.9	-1384.1	-1458.6	-205.4	
Other Operating Income	21.3	-19.7	21.4	44.7	47.7	6.8	
Fair value gain on disposal of JV	na	nm	nm	na	65.6	nm	Disposal of jointly controlled entity
JCE	38.9	43.5	55.1	50.1	66.0	31.6	
Finance Costs	-14.6	31.0	114.0	-13.9	-25.7	85.0	
PBT	144.8	-22.3	29.8	207.2	276.7	33.5	
Tax	-24.5	10.7	33.1	-32.8	-46.7	42.4	
PATAMI	115.8	-28.1	26.7	172.7	276.7	60.2	
Normalised PATAMI	114.3	nm	nm	na	203.4	nm	
PBT Margin (%)	16.9	4.3	2.2	13.7	16.9	3.2	
Tax Rate (%)	16.9	-0.3	1.9	15.8	16.9	1.0	
Net Margin (%)	13.5	2.8	1.1	11.4	16.9	5.5	

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.