

17 May 2018 | 3QFY18 Results Review

Dialog Group Berhad

Share price strength on potential inclusion into FBMKLCI

Maintain NEUTRAL

Revised Target Price (TP): RM3.24
(previously RM2.55)

INVESTMENT HIGHLIGHTS

- **Dialog Group Bhd's 3QFY18 reported earnings surged by +25.8%yoy to RM118.8m**
- **9MFY18 normalised earnings (excluding fair value gain) within expectations**
- **Tank farm business expanded by +24.2%yoy to RM97.7m**
- **FBMKLCI Index inclusion potential**
- **Maintain NEUTRAL (upside bias) with revised TP of RM3.24 per share**

Strong earnings growth recorded. Dialog's 3QFY18 earnings grew by +25.8%yoy to RM118.8m. Its cumulative 9MFY18 normalised earnings (excluding fair value gain on disposal) which amounted to RM329.9m (+23.5%yoy) kept pace with our and consensus expectations, accounting for 74% and 78% of full year earnings estimates respectively.

Malaysian operations on solid footing. Approximately 87% of the group's earnings up to 9MFY18 is contributed by the Malaysian operations. The growth of profit from local operations is largely 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 +11.2%yoy to RM31.8m. 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.

FBMKLCI Index inclusion potential. Dialog Group, being in the reserve list of the FBMKLCI index, has the potential to be included in the as members of the index due to the significant increase in its market cap value over the recent months.

RETURN STATS

Price (16 May 2018)	RM3.32
Target Price	RM3.24
Expected Share Price Return	-2.4%
Expected Dividend Yield	+1.2%
Expected Total Return	-1.2%

STOCK INFO

KLCI	1,858.26
Bursa / Bloomberg	7277 / DLG MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	5,638.3
Market cap. (RM'm)	18,719.2
Price over NA	4.2x
52-wk price Range	RM1.86 – RM2.32
Beta (against KLCI)	0.87
3-mth Avg Daily Vol	15.3m
3-mth Avg Daily Value	RM40.6m
Major Shareholders (%)	
Ngau Boon Keat	20.03
Employees Provident Fund	9.05
Azam Utama	8.20
Wide Synergy	7.57
Kumpulan Wang Persaraan	7.37

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 **41x**. Given the strong global crude oil price and strong downstream sub-segment of the value chain, we are revising our target price upward to **RM3.24** per share (previously RM2.83), whilst being cognizant that the revaluation is also largely attributable to the share's potential inclusion into the FBMKLCI. Due to the share's lofty valuation (four-year PER high), we remain **Neutral** with positive bias on Dialog. Our valuation is based on a sum-of-parts method pegging a PER of 28x 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%.

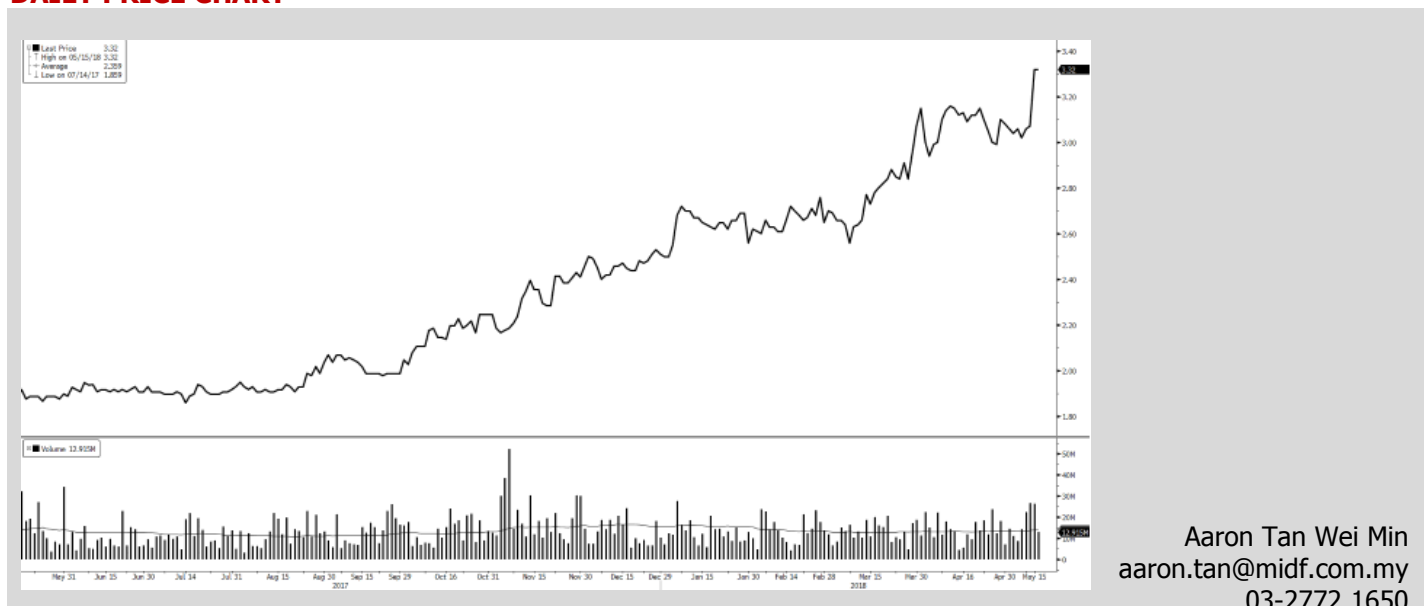


INVESTMENT STATISTICS

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	587.2	633.2
Pretax Profit (RM'm)	370.5	366.5	448.8	567.2	613.2
Net Profit (RM'm)	275.1	303	370.6	448.8	483.2
EPS (sen)	5.5	5.4	6.8	8	8.6
EPS growth (%)	12.8	-3	26.5	17.1	7.6
PER (x)	59.9	61.8	48.8	41.7	38.7
Net Dividend (sen)	2.2	2.4	2.8	3.6	3.9
Net Dividend (%)	0.7	0.7	0.8	1.1	1.2

Source: MIDFR

DAILY PRICE CHART



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Source: MIDFR, Company

EARNINGS SUMMARY 3QFY18

FYE June (RM m)	Quarterly Results			Cumulative			Comments
	3Q18	QoQ (%)	YoY (%)	9MFY17	9MFY18	YoY (%)	
Revenue	867.4	1.2	-5.1	2423.9	2503.5	3.3	Revenue boost from Langsat Terminals
Operating Expenses	-759.3	0.1	-9.5	-2222.9	-2214.9	-0.4	
Other Operating Income	17.4	-17.9	-32.5	70.5	65.2	-7.6	
Fair value gain on disposal of JV					65.6	nm	Disposal of jointly controlled entity
JCE	31.8	-18.3	11.2	78.7	97.7	24.2	
Finance Costs	-12.1	-16.7	27.8	-23.4	-37.8	61.7	
PBT	148.1	2.3	23.8	326.9	479.3	46.6	
Tax	-25.8	5.1	17.9	-54.6	-72.4	32.6	
PATAMI	118.8	2.6	25.8	267.1	395.5	48.1	
Normalised PATAMI	118.8	nm	nm	267.1	329.9	23.5	
PBT Margin (%)	17.1	0.2	4.0	13.5	19.1	5.7	
Tax Rate (%)	17.4	0.5	-0.9	16.7	15.1	-1.6	
Net Margin (%)	13.7	0.2	3.4	11.0	15.8	4.8	

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.