



Deleum Berhad

(5132 | DLUM MK) Energy | Energy Infrastructure, Equipment & Services

Maintain BUY

Upbeat Upstream to Continue Boosting P&M Segment

Revised Target Price: RM1.19
(previously RM1.26)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with revised TP: RM1.26**
- **Earnings up 10%yoy but came in below expectations**
- **Higher earnings due to higher sales in Power and Machinery, offset by lower activities in other segments**
- **Demand for upstream to be high in line with increased capex**
- **Revised earnings forecast FY23 down -17% and FY24 down -20%**

Maintain BUY, revised TP: RM1.19. Deleum Berhad (Deleum)'s 1HFY23 earnings came in below expectation at 37% of our yearly estimate. As such, we adjusted our earnings forecast accordingly, in line with the lower revenue and earnings in the group's Integrated Corrosion Solution segment and **revised our target price to RM1.19** (previously RM1.26). However, we believe Deleum is still within the right trajectory, as revenue and earnings often gained traction in 4Q during maintenance and repair. Hence, we still maintain a **BUY** call as the group is still making profit for the year through their Power & Machinery segment in line with the increase in upstream activities globally, of which Deleum is capable to leverage on in the long run.

Earnings up +10%yoy. Deleum's 2QFY23 earnings gained +9.6%yoy to RM9.7m. Revenue was gained +48.9%yoy to RM123.4m.

The higher earnings and revenue were due to higher sales activities in the Power and Machinery segment; offset by lower revenue generated from the Oilfield Services and Integrated Corrosion Solution segments.

Power & Machinery. 2QFY23 earnings surged +139.5%yoy to RM17.3m. Revenue was up +100%yoy to RM155.3m.

The increase in earnings was attributable to: (i) increase in sales value and quantity of exchange engines delivered, (ii) sales of turbines parts and repairs, (iii) field service representative call out activities, and (iv) control and safety valves and flow regulator services. These are offset by loss on foreign exchange and higher other operating expenses.

Oilfield Services. 2QFY23 earnings slipped -35.6%yoy to RM2.2m. Revenue was down -8.7%yoy to RM31.6m.

The lower earnings were primarily due to lower business activities in the slickline services, gas lift valve services and asset integrated solutions.

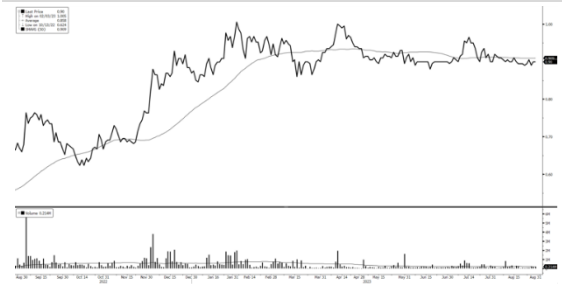
Integrated Corrosion Solution. 2QFY23 earnings slipped to a deficit of RM1.6m from RM1.2m in 2QFY22. Revenue also dropped -92.6%yoy to RM1m.

The decrease in revenue was due to lower maintenance activities from alternative blasting and painting job in Indonesia as well as its Maintenance, Construction and Modification (MCM) projects. The profit loss was predominantly due to the lower revenue.

RETURN STATISTICS

Price @ 29 th August 2023 (RM)	0.90
Expected share price return (%)	+32.2
Expected dividend yield (%)	+4.0
Expected total return (%)	+36.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-2.2	-2.4
3 months	0.0	-6.5
12 months	27.7	31.8

INVESTMENT STATISTICS

FYE Mar	2023E	2024F	2025F
Revenue	715	765	808
Operating Profit	126	135	137
Profit Before Tax	38	49	50
Core PATAMI	42	52	53
Core EPS	10.5	12.9	13.3
DPS	3.4	4.8	5.8
Dividend Yield	2.8%	4.0%	4.8%

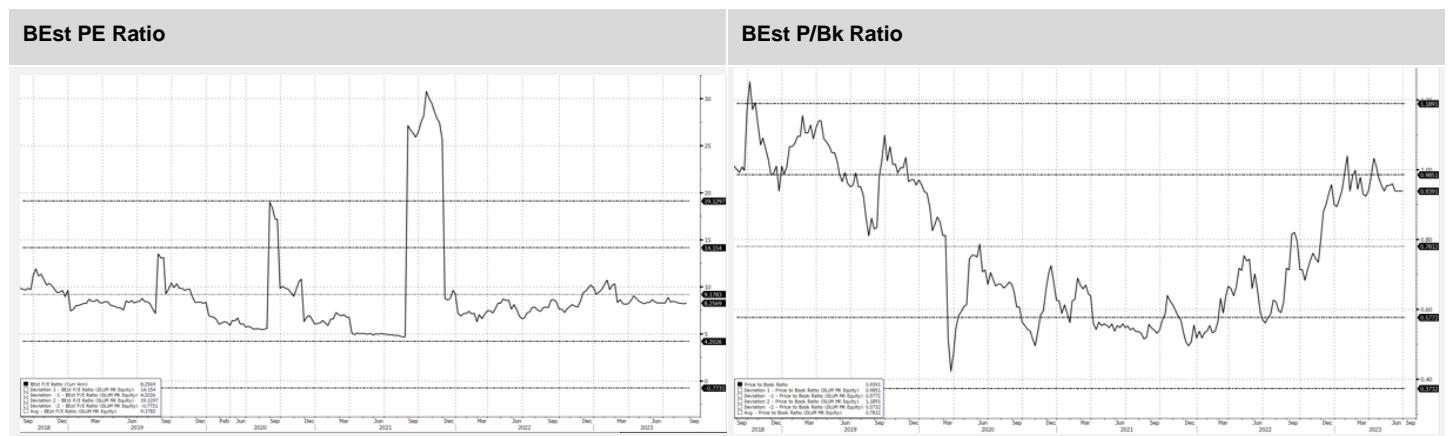
KEY STATISTICS

FBM KLCI	1,454.4
Issue shares (m)	401.6
Estimated free float (%)	29.8
Market Capitalisation (RM'm)	361.4
52-wk price range	RM0.63-RM1.04
3-mth average daily volume (m)	0.2
3-mth average daily value (RM'm)	0.2
Top Shareholders (%)	
LANTAS MUTIARA SDN BHD	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.78

Optimism remains for upstream services. As we continue to be positive on the outlook for the upstream oil and gas in globally in tandem with the higher capital expenditure in the division and the supported Brent crude oil prices, we expect Deleum to exhibit similar resilience in 2HFY23 and benefit on the heightened exploration and production activities. We believe Deleum is capable to yield advantages from this positive sentiment, as demand for retrofit and maintenance services on platform rigs and floating production vessels is anticipated to remain high.

Revised earnings estimates. In consideration of Deleum’s 2QFY23 results coming in below our expectations, we are adjusting our earnings forecast for FY23 and FY24 downwards by -17% and -20% respectively. Likewise, as we rollover to FY24 valuations, we are revising our TP downwards to RM1.19. This is based on pegging a PER of 9.2x to an EPS24 of 12.9sen. The PER is based on the company’s 5-year average.

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Deleum's 2QFY23 Financial Summary

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Yearly Results		
	2QFY22	1QFY23	2QFY23	QoQ%	YoY%	1HFY22	1HFY23	YoY%
Revenue	126.3	123.4	188.1	52.4	48.9	229.1	311.5	36.0
Cost of Sales	(96.6)	(94.2)	(149.5)	58.7	54.7	(172.0)	(243.7)	41.6
Gross Profit	29.7	29.3	38.6	31.8	30.1	57.1	67.9	18.9
Other operating income	0.9	1.4	1.7	18.9	82.0	3.3	3.2	-5.4
Selling and distribution cost	(8.4)	(9.4)	(9.2)	-1.8	9.8	(15.7)	(18.5)	17.9
Admin expenses	(11.5)	(11.7)	(13.2)	13.4	15.1	(25.6)	(24.9)	-2.5
Other operating expenses	0.3	3.8	(0.6)	-115.9	-309.7	2.7	3.2	18.5
Operational profit	11.0	13.5	17.3	27.7	56.4	21.9	30.8	40.8
Finance cost	(0.2)	(0.1)	(0.1)	-39.3	-70.3	(0.4)	(0.1)	-65.6
Share of PAT of joint venture	0.3	0.3	0.3	-8.4	8.2	0.6	0.7	7.5
Share of PAT of associates	1.5	1.5	0.8	-46.0	-46.5	2.4	2.3	-4.4
PBT	12.7	15.3	18.3	20.0	44.7	24.5	33.6	37.2
Income tax	(3.0)	(3.1)	(5.5)	77.8	85.8	(5.7)	(8.6)	50.2
PAT	9.7	12.2	12.8	5.3	32.1	18.8	25.0	33.3
Net Profit/Loss	10.1	12.2	12.8	5.1	27.1	19.4	25.0	28.7
Minority interest	1.2	3.1	3.1	0.7	156.0	2.4	6.1	152.4
Normalised Profit/Loss	8.9	9.1	9.7	6.5	9.6	17.0	18.8	11.0
				+/- ppts				+/- ppts
GP margin (%)	23.5	23.7	20.5	-3.2	-3.0	24.9	21.8	-3.1
PBT margin (%)	10.0	12.4	9.8	-2.6	-0.3	10.7	10.8	0.1
PATAMI margin (%)	8.0	9.9	6.8	-3.1	-1.2	8.5	8.0	-0.5
Normalised PATAMI margin (%)	7.0	7.4	5.2	-2.2	-1.9	7.4	6.0	-1.4
Effective tax rate (%)	23.5	20.3	30.1	9.8	6.7	23.4	25.7	2.2
SEGMENTAL								
Revenue:								
Power and Machinery	77.7	97.6	155.3	59.1	100.0	139.4	253.0	81.5
Oilfield Services	34.6	22.8	31.6	38.4	-8.7	62.6	54.4	-13.1
Integrated Corrosion Solution	14.0	2.9	1.0	-63.8	-92.6	26.9	3.9	-85.5
Results:								
Power and Machinery	7.2	16.4	17.3	5.7	139.5	13.9	33.7	143.0
Oilfield Services	3.5	-2.2	2.2	-200.1	-35.6	7.2	0.0	-100.0
Integrated Corrosion Solution	1.2	0.0	-1.6	-3876.2	-228.1	2.4	-1.5	-164.1

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023E	2024F	2025F
Revenue	560.5	685.8	715.2	764.8	807.8
EBITDA	107.7	62.1	125.6	135.3	136.8
D&A	37.3	36.1	33.5	32.8	35.1
EBIT	24.5	67.9	49.9	60.7	62.1
Profit before tax	22.7	51.0	37.9	48.7	50.1
Core PATAMI	16.0	41.9	42.1	51.9	53.3
Balance Sheet (RM'm)	2021A	2022A	2023E	2024F	2025F
Fixed assets	134.5	110.3	104.0	117.6	132.9
Intangible assets	0.3	0.2	0.2	0.2	0.2
Non-current assets	195.9	177.4	167.1	183.9	193
Cash	179.2	183.4	305.6	415.5	463.2
Trade debtors	76.4	120.3	96.9	97.1	102.4
Current assets	413.0	536.4	562.6	637.2	699.1
Trade creditors	143.2	221.1	181.8	185	195
Short-term debt	25.9	7.6	8.4	9.2	10.1
Current liabilities	210.6	283.2	231.1	233.2	264.1
Long-term debt	4.4	1.2	1.3	1.4	1.6
Non-current liabilities	19.6	16.0	16.5	16.6	18.8
Share capital	201.8	201.8	201.8	201.8	202.2
Retained earnings	208.5	238.6	267.5	300.7	338.2
Equity	378.8	414.5	482.1	571.3	609.2
Cash Flow (RM'm)	2021A	2022A	2023E	2024F	2025F
PBT	22.7	51	37.9	48.7	50.1
Depreciation & amortisation	37.3	36.1	33.5	32.8	35.1
Changes in working capital	111.32	73.1	93.5	96.2	106.7
Operating cash flow	98.4	57.5	75.9	83.5	94.1
Capital expenditure	-26.9	-12.7	-10	-10	-10
Investing cash flow	-31.7	9.9	9.2	10.2	11.3
Debt raised/(repaid)	-25.2	-28.2	-28.6	-27.6	-26.5
Dividends paid	-23.9	-16.1	-18	-20	-20
Financing cash flow	-34.8	-63.5	-55.1	-56.1	-59.8
Net cash flow	31.7	4.2	30	37.6	45.6
Beginning cash flow	147.5	179.2	183.4	305.6	415.5
Ending cash flow	179.2	183.4	305.6	415.5	463.2
Profitability Margins	2021A	2022A	2023E	2024F	2025F
EBITDA margin	19.2%	9.1%	17.6%	17.7%	16.9%
PBT margin	4.0%	7.4%	5.3%	6.4%	6.2%
Core PAT margin	2.9%	6.1%	5.9%	6.8%	6.6%

Source: Bloomberg, MIDFR

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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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology