

Dialog Group Berhad

(7277 | DLG MK) Energy | Energy Infrastructure, Equipment & Services

Dialog Ends FY23 on A Positive Note

KEY INVESTMENT HIGHLIGHTS

- **4QFY23 earnings up +7%yoy, revenue +2%yoy from increased activities in upstream, midstream and downstream**
- **Earnings came in within expectations**
- **Bayan Field contributed to upstream revenue; PDT and DTL to the midstream offset by maintenance and higher operating costs**
- **Maintain BUY with unchanged TP: RM3.28**

Maintain BUY, unchanged TP: RM3.28. Dialog Group Bhd (Dialog)'s 4QFY23 earnings came in within ours and consensus full year expectations at 98% and 97% respectively. As such, we maintain our BUY call with an **unchanged target price of RM3.28**. Our target price is based on the PER 24.5x pegged on EPS24 of 13.4 sen. The PER is based on Dialog's 5-Year average.

4QFY23 earnings up +7%yoy. Dialog's 4QFY23 normalised earnings was up +7.2%yoy to RM126.8m while 4QFY23 revenue +2.1%yoy rose in 4QFY23 revenue to RM690m. The increase in earnings and revenue for the quarter was due to the increased activities for its upstream, midstream and downstream businesses. This led to marginal gain on cumulative FY23 normalised earnings to RM510.5m (+0.5%yoy), premised on +29.4%yoy surge in cumulative FY23 revenue to RM3b.

Malaysian operations resilient amid high cost. The higher upstream revenue was mainly due to the Bayan field offshore project, of which Dialog fully acquired in CY21. However, profit was lower due to maintenance activities and higher operation costs. For the midstream, activities continued to contribute to a stable revenue from its Langsat and Pengerang (5) terminals. Profit, however, was lower due to higher financing costs. As for the downstream, activities remained robust with various engineering, construction, fabrication, and plant maintenance projects.

International continues to see challenges. Severe supply chain disruptions, higher material prices and higher labour costs are expected to continue to affect Dialog's international projects, caused largely by the ongoing Russia-Ukraine war, inflationary pressures and lingering effects from the Covid-19 pandemic. Nevertheless, for 4QFY23 and FY23, revenue and earnings were higher in part of the completed acquisition of 50.01% equity interest in Pan Orient Energy (Siam) Ltd., a concessionaire and operator of Concession L53/48, an onshore Thailand oilfield, in CY22.

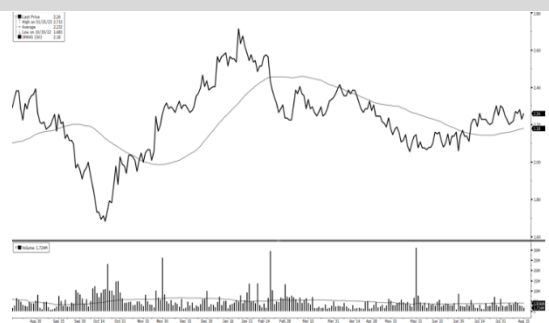
Maintain BUY

Unchanged Target Price: RM3.28

RETURN STATISTICS

Price @ 15 th August 2023 (RM)	2.26
Expected share price return (%)	+45.1
Expected dividend yield (%)	+1.4
Expected total return (%)	+46.5

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.0	-3.3
3 months	9.7	0.6
12 months	-3.0	0.9

INVESTMENT STATISTICS

FYE June	2024E	2025F	2026F
Revenue	3,339.0	3,536.8	3,622.8
Operating Profit	869.3	957.4	996.5
Profit Before Tax	834.3	922.4	960.5
Core PATAMI	756.5	834.8	869.6
Core EPS	13.4	14.8	15.4
DPS	4.7	5.2	5.4
Dividend Yield	1.4%	1.6%	1.6%

KEY STATISTICS

FBM KLCI	1,460.28
Issue shares (m)	5,642.5
Estimated free float (%)	29.78
Market Capitalisation (RM'm)	12,752.23
52-wk price range	RM1.71-RM2.73
3-mth average daily volume (m)	3.96
3-mth average daily value (RM'm)	8.57
Top Shareholders (%)	
Ngau Boon Keat	19.12
Employees Provident Fund Board	14.66
Kumpulan Wang Persaraan Diperbadan	9.85

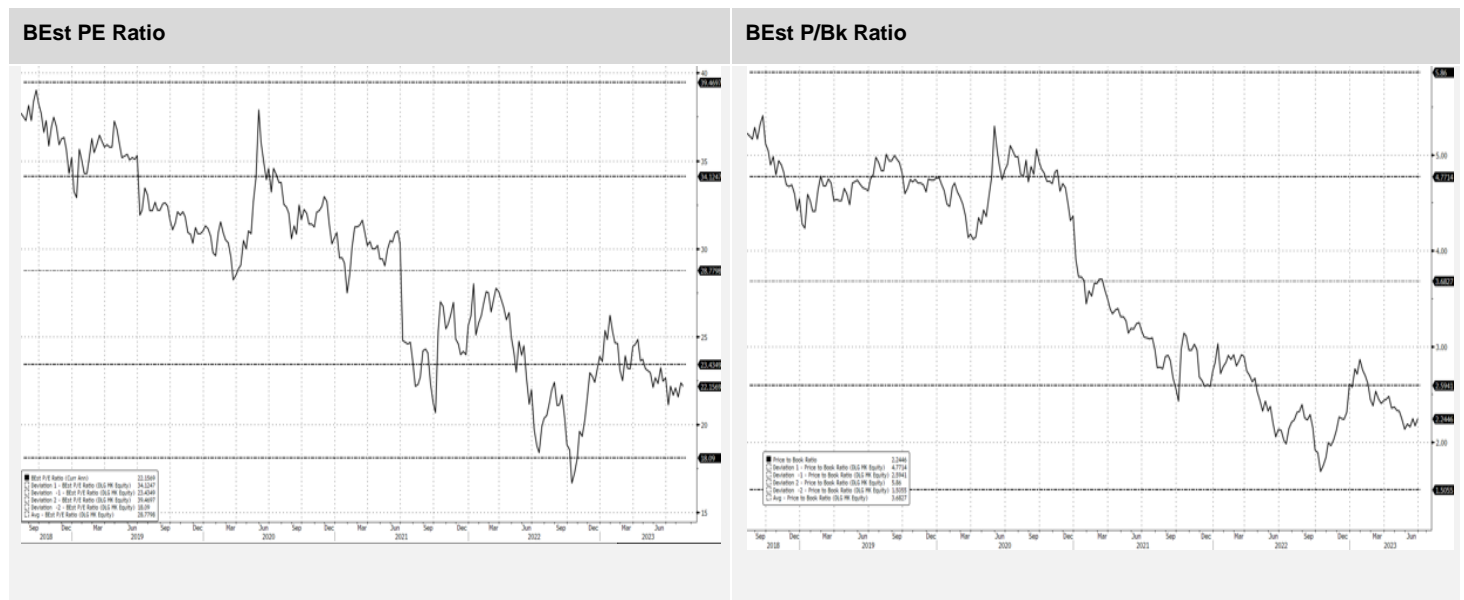
Continuous expansion, diversification in upstream. Dialog had been actively diversifying its upstream business. The full acquisition of Pan Orient Energy and its field assets in CY22, as well as its 70% participating interest and operatorship with PETRONAS under the Small Field Asset Production Sharing Contract for the Baram Junior Cluster in early CY23, signalled the company’s commitment in leveraging the increasing demand for more fossil fuel production, to ensure secured energy resources and a smooth energy transition in the long run.

Demand growth for refined products to benefit storage farms. Dialog’s Pengerang Deepwater Terminals (PDT) has approximately another 500 acres available for development, enough to interest a demand growth for refined petroleum products and petrochemicals in the region for the next 30 years, subsequently ensuring a full utilisation of Dialog’s storage farms. Dialog also has another 17 acres of land in its Dialog Terminals Langsung (DTL). We anticipate that, with China’s demand recovery in the next few quarters and an expected increase in the production activities in the region, not only will Dialog’s terminals benefit from the increased feedstock, but also from the increased demand for plant maintenance services.

Renewable fuel as new revenue stream moving forward. Dialog had been venturing into storage for renewable products under DTL(3), which is expected to serve energy trading and clean fuel production. The 24,000m³ facilities will be connected to existing transportation depots by CY24. Dialog had also invested in Hiringa Energy Limited, a New Zealand company involved in the production of green hydrogen. We opine that these ventures will not only secure Dialog’s standing in the growing interest in ESG-compliant companies, but they are also in line with Malaysia’s aspirations to an orderly energy transition and green fuel in the near future.

No changes to earnings estimates. In consideration of Dialog’s performance for FY23 to be within our expectations, we make no changes to our FY24-25 earnings estimates.

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Dialog 4FY23 Result Summary

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	4QFY22	3QFY23	4QFY23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)
Revenue	675.7	802.8	690.0	(14.0)	2.1	2,319.0	3,001.5	29.4
Operating Expenses	(597.4)	(750.4)	(646.2)	(13.9)	(23.0)	(2,040.9)	(2,810.8)	37.7
Other Operating Income	13.1	8.9	37.4	318.8	44.8	60.7	71.4	17.7
Fair value gain on disposal of JV	-	-	-	-	-	-	-	
JCE	54.6	100.4	82.1	(18.3)	50.4	251.6	364.0	44.7
Finance Costs	(19.3)	(20.5)	(18.0)	(12.1)	(6.6)	(40.1)	(72.3)	80.4
Profit Before Tax	126.7	141.2	145.3	2.9	14.7	550.3	553.9	0.7
Tax expense	(11.0)	(7.2)	(10.1)	39.7	(8.3)	(44.4)	(33.3)	-25.1
Profit After Tax	115.7	134.0	135.3	0.9	16.9	505.9	520.6	2.9
Minority Interests	(2.5)	(3.2)	8.5	(363.5)	(435.6)	(2.1)	10.1	-574.9
PATAMI	118.2	137.3	126.8	(7.6)	7.2	508.0	510.5	0.5
Normalised PATAMI	118.2	137.3	126.8	(7.6)	7.2	508.0	510.5	0.5
EPS (sen)	2.1	2.3	2.3	(3.0)	7.1	9.0	9.1	0.4
DPS (sen)	3.1	3.4	3.4	-	9.7	10.0	3.4	-66.0
	4QFY22	3QFY23	4QFY23	+ / (-) ppts		FY22	FY23	+ / (-) ppts
PBT Margin (%)	18.7	17.6	21.1	3.5	2.3	23.7	18.5	-5.3
Tax Rate (%)	8.7	5.1	6.9	1.8	(1.7)	8.1	6.0	-2.1
Net Margin (%)	17.5	17.1	18.4	1.3	0.9	21.9	17.0	-4.9

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	2,319.03	3,001.53	3,339.0	3,536.8	3,622.8
D&A	239.25	254.91	266.53	275.77	283.02
Net interest	-2.127	10.101	-5.0	-3.0	-2.0
Profit before tax	550.30	553.89	834.3	922.4	960.5
Tax	-44.42	-33.27	-72.8	-84.6	-88.9
PATAMI	505.88	520.62	761.5	837.8	871.6
Core PATAMI	508.01	510.52	756.5	834.8	869.6
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	2,710.58	2,750.11	2,799.94	2,861.42	2,989.73
Intangible assets	807.09	922.45	942.46	1,033.92	1,144.85
Non-current assets	6,051.13	6,570.41	6,928.70	7,245.60	7,634.75
Cash	1,840.31	1,720.62	1,786.71	1,849.13	1,903.33
Trade debtors	859.88	904.614	968.46	984.95	995.11
Current assets	2,795.93	2,741.23	2,739.54	2,752.01	2,800.09
Trade creditors	740.70	906.99	890.31	855.45	819.62
Short-term debt	337.18	298.79	340.13	342.33	348.20
Current liabilities	1,148.40	1,266.07	1,300.63	1,410.10	1,635.42
Long-term debt	1,526.93	1,363.71	1,456.25	1,495.82	1,526.41
Non-current liabilities	2,046.21	1,885.25	1,774.34	1,862.52	1,970.10
Share capital	1,698.30	1,698.32	1,711.71	1,715.21	1,725.12
Retained earnings	3,359.72	3,881.43	3,375.59	3,553.87	3,822.92
Equity	5,652.45	6,160.32	6,471.39	6,707.60	7,033.56

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	550.30	553.89	834.3	922.4	960.5
Depreciation & amortisation	239.25	254.91	266.53	275.77	283.02
Changes in working capital	-264.87	123.73	-122.23	-120.78	-95.47
Operating cash flow	519.07	750.18	776.73	839.88	941.51
Capital expenditure	-61.56	-62.76	-62.23	-64.78	-65.47
Investing cash flow	-293.35	-295.54	-236.76	-204.09	-146.53
Debt raised/(repaid)	-103.19	-305.52	-236.76	-304.09	-246.53
Financing cash flow	155.16	-597.99	107.87	-341.15	326.53
Net cash flow	380.87	-143.36	-90.78	-78.80	16.89
Beginning cash flow	1,459.31	1,863.85	1905.1	1727.94	1782.15
Ending cash flow	1,840.18	1,720.50	1702.33	1682.12	1650.02

Profitability Margins

	2022A	2023A	2024E	2025F	2026F
EBITDA margin					
PBT margin	+23.7%	+18.4%	25.0%	26.1%	26.5%
Core PATAMI margin	+21.9%	+17.0%	22.7%	23.6%	24.0%

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