

Dialog Group Berhad

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

Maintain BUY

Dialog's First Step into Specialty Chemicals

Unchanged Target Price: RM3.28

KEY INVESTMENT HIGHLIGHTS

- **Dialog via Dialog Malic Acid will build, own and operate a specialty chemical plant in BASF-PC ICS, Gebeng**
- **Production capacity approx. 12,000mTpa with investment value of approx. USD80m**
- **EPCC commence immediately, expected completion by 2QCY26**
- **Maintain BUY with unchanged TP of RM3.28 per share**

First venture in specialty chemicals. Dialog Group Berhad (Dialog), via its wholly owned indirect subsidiary, Dialog Malic Acid Sdn. Bhd., will be building, owning and operating a specialty chemical plant producing malic acid in Gebeng, Kuantan, Pahang. The Plant will be located within the Integrated Chemical Site operated by BASF PETRONAS Chemicals Sdn Bhd. (BASF-PC). This will be Dialog's first venture into production of specialty chemicals, which will act as a catalyst for its expansion in the petrochemical sector by producing high value specialty chemical products. These products are expected to be distributed locally and internationally.

EPCC of plant to be completed by CY26. Dialog will undertake the engineering, procurement, construction and commissioning (EPCC) of the malic acid plant with a production capacity of approximately 12,000 mTpa and an investment value of approximately USD80m. The EPCC will commence immediately, and is expected to be completed by 2QCY26. The funds for this project will be internally generated funds and/or bank borrowings including proceeds from sukuk issuance.

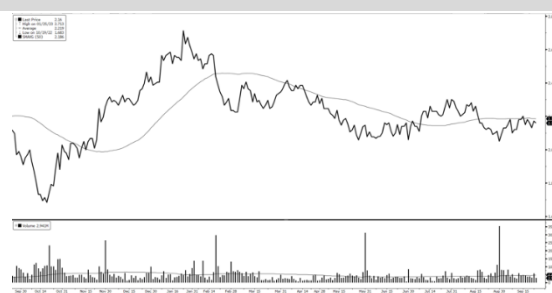
More opportunities for socio-economic development. Malic acid is a specialty chemical primarily used as a food additive in the food and beverage industry, which is forecasted to have a stable market demand growth in the near future. We believe Dialog's involvement in the development of its malic acid plant will help support the growing demand in the region, as well as adding into the group's performance through the expansion of its downstream business. This project will also be able to create new job opportunities for locals under the East Coast Economic Region (ECER).

No changes to earnings estimates. In consideration that the EPCC project is yet to commence until CY26, and that no material effect on earnings are expected in the current FY24, we make no changes to our earnings forecast.

RETURN STATISTICS

Price @ 25 th September 2023 (RM)	2.16
Expected share price return (%)	+51.9
Expected dividend yield (%)	+1.4
Expected total return (%)	+53.3

SHARE PRICE CHART




Price performance (%)	Absolute	Relative
1 month	3.3	3.4
3 months	4.9	-2.8
12 months	0.5	-1.7

INVESTMENT STATISTICS

FYE Mar	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	0.3	0.4	0.5
Dividend Yield	1.4%	1.6%	1.6%

KEY STATISTICS

FBM KLCI	1,443.5
Issue shares (m)	5642.6
Estimated free float (%)	29.47
Market Capitalisation (RM'm)	12,188.0
52-wk price range	RM1.71-RM2.73
3-mth average daily volume (m)	4.6
3-mth average daily value (RM'm)	9.9
Top Shareholders (%)	
Ngau Boon Keat	19.12
Employees Provident Fund Board	14.86
Kumpulan Wang Persaraan Diperbadan	9.96

Cautiously positive on downstream. All in, we are maintaining our **BUY** call on Dialog, with an unchanged **target price of RM3.28**. The general outlook on the oil and gas sector is expected to be robust in CY23-24 as demand for petroleum products is anticipated to grow in tandem with China's economic recovery and especially in the upcoming winter for the Northern Hemisphere when petroleum products like fuel and kerosene are in high demand. Nevertheless, we are still cautious on the petrochemical subindustry, in tandem with the climbing Brent crude oil price in 3QCY23, which would translate to higher operational cost. However, we believe the demand for specialty chemicals will pick up by CY24, due to the niche but high demand products that would require such chemicals to be produced, such as medication and agriculture. Specialty chemicals is also a part of the government's initiatives in the National Industrial Master Plan 2030. At this juncture, we reiterate our positive stance on Dialog's prospects in the downstream. 

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	1,905.1	1,727.94	1,782.15
Ending cash flow	1,840.18	1,720.50	1,702.33	1,682.12	1,650.02
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