



## Deleum Berhad

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

**Maintain BUY**

### Robust Upstream Continues to Push Earnings Up

**Unchanged Target Price: RM1.19**

#### KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with TP: RM1.19**
- **Earnings up 3%yoy to RM12m, in line within expectations**
- **Higher earnings due to higher sales in Power and Machinery, offset by forex losses and higher operating expenses**
- **Demand for upstream to be high in line with increased capex and supported Brent crude prices**

**Maintain BUY, TP: RM1.19.** Deleum Berhad (Deleum)'s 3QFY23 earnings came in within our yearly earnings estimates at 74%. As such, we maintain our **BUY** call and **target price of RM1.19**. We maintain our BUY call on the basis that we believe Deleum is in the right trajectory, following the current maintenance season for rigs and vessels in the upstream sector consequently increasing demand for the group's services. We opine that the group's financial performance would sustain until the end-year.

**Earnings up +3%yoy.** Deleum's 3QFY23 earnings gained +3.4%yoy to RM12.2m. Revenue surged +71.3%yoy to RM241.8m. The higher earnings were due to better operating results in Power and Machinery segment and lower operating expenses in Integrated Corrosion Solution segment, offset by forex losses. Meanwhile, the higher revenue was due to higher sales activities in the Power and Machinery.

**Power & Machinery.** 3QFY23 earnings surged +156.4%yoy to RM31.2m. Revenue was up +137.1%yoy to RM212.8m.

The higher earnings and revenue were mainly attributable to: (i) higher sales value, (ii) increase in number of exchange engines delivered, (iii) higher sales of turbines parts and repairs, (iv) increased demand for retrofit, field service representative call out activities, control and safety valves and flow regulator services, and (v) higher machinery management systems services and commission income from mechanical and processes projects.

**Oilfield Services.** 3QFY23 earnings slipped to a deficit of -RM3.4m from a deficit of RM1.3m in 3QFY22. Revenue was down -2.7%yoy to RM28m.

The lower earnings and revenue were due to: (i) lower business activities in the slickline services and gas lift valve services, (ii) forex losses, (iii) lower reversal of impairment, and (iv) higher operating expenses.

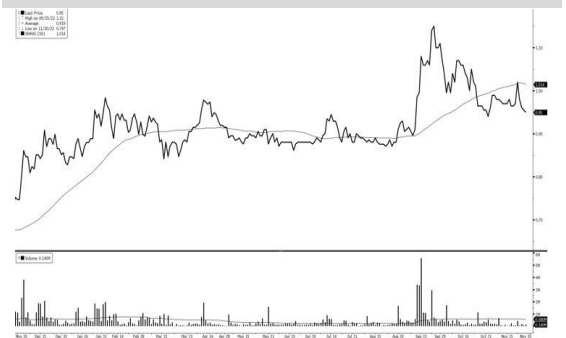
**Integrated Corrosion Solution.** 3QFY23 earnings slipped to a deficit of RM2.3m from RM8.3m in 3QFY22. Revenue also dropped -92.1%yoy to RM1m.

The lower revenue was due to lower maintenance activities from alternative blasting and painting jobs in Indonesia as well as its MCM projects, mitigated by lower operating expenses.

#### RETURN STATISTICS

Price @ 28 <sup>th</sup> November 2023 (RM)	0.95
Expected share price return (%)	+25.3
Expected dividend yield (%)	+4.0
<b>Expected total return (%)</b>	<b>+29.3</b>

#### SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.6	-2.0
3 months	-14.4	5.3
12 months	23.4	26.7

#### 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%

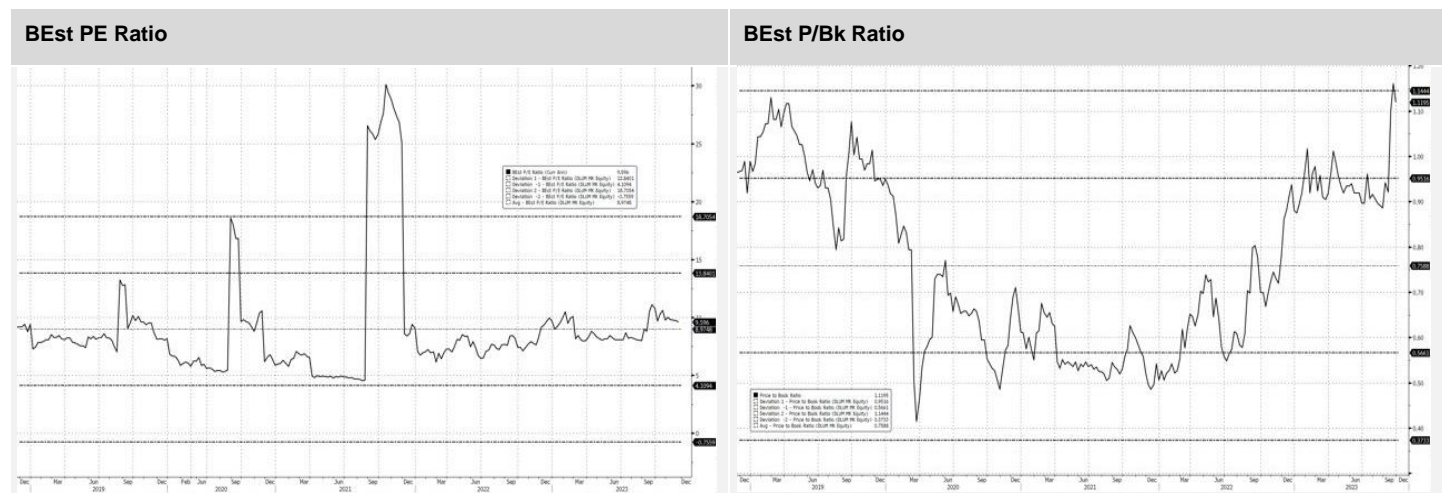
#### KEY STATISTICS

FBM KLCI	1,448.02
Issue shares (m)	401.55
Estimated free float (%)	29.76
Market Capitalisation (RM'm)	381.48
52-wk price range	RM0.78-RM1.18
3-mth average daily volume (m)	0.59
3-mth average daily value (RM'm)	0.60
Top Shareholders (%)	
LANTAS MUTIARA SDN BHD	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.78

**Demand for upstream services expected to remain robust.** Thus far, oil prices had proven to be volatile in 2HCY23, attributing to weakened economic data from China and a slowdown in global demand. Concerns of geopolitical risks have further contributed to this instability. Despite these challenges, there is a noticeable uptick in global capex for the upstream oil and gas. As such, we reiterate our positive stance on Deleum’s resiliency to overcome the challenges, while continuing to increase its overall operational efficiency and enhancing its cost management. Despite the uncertainties of the geopolitical conflict in the Middle East and Eastern Europe, we believe Deleum is capable to gain the benefit from the higher demand for equipment and services on platform rigs and FPSOs, although expansion plans are likely to be executed cautiously in the near future.

**No changes to earnings estimates.** In consideration of Deleum’s 3QFY23 results coming in within our expectations, we make no changes to our earnings estimates. Our **TP of RM1.19** 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 3QFY23 Financial Summary**

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Yearly Results		
	3QFY22	2QFY23	3QFY23	QoQ%	YoY%	9MFY22	9MFY23	YoY%
<b>Revenue</b>	<b>141.2</b>	<b>188.1</b>	<b>241.8</b>	<b>28.6</b>	<b>71.3</b>	<b>370.3</b>	<b>553.3</b>	<b>49.4</b>
Cost of Sales	(104.6)	(149.5)	(193.0)	29.1	84.5	(276.7)	(436.7)	57.8
Gross Profit	36.5	38.6	48.8	26.4	33.5	93.6	116.7	24.6
Other operating income	1.1	1.7	1.8	7.0	65.4	4.4	5.0	12.2
Selling and distribution cost	(8.5)	(9.2)	(10.0)	8.9	17.6	(24.2)	(28.5)	17.8
Admin expenses	(14.8)	(13.2)	(14.8)	11.8	0.4	(40.3)	(39.7)	-1.4
Other operating expenses	3.9	(0.6)	(1.6)	162.0	-140.9	6.6	1.6	-75.4
Operational profit	18.3	17.3	24.2	40.2	32.5	40.1	55.0	37.1
Finance cost	(0.1)	(0.1)	(0.0)	-37.3	-75.6	(0.5)	(0.2)	-68.1
Share of PAT of joint venture	0.3	0.3	0.3	-13.7	0.0	0.9	0.9	5.2
Share of PAT of associates	1.7	0.8	0.9	8.1	-47.2	4.1	3.2	-21.8
PBT	20.1	18.3	25.3	38.1	26.2	44.6	59.0	32.3
Income tax	(4.6)	(5.5)	(6.6)	18.8	43.6	(10.3)	(15.2)	47.3
PAT	15.5	12.8	18.8	46.4	21.1	34.3	43.8	27.8
Net Profit/Loss	15.5	12.8	18.8	46.8	21.0	34.9	43.7	25.3
Minority interest	3.7	3.1	6.6	113.4	77.2	6.1	12.7	107.0
<b>Normalised Profit/Loss</b>	<b>11.8</b>	<b>9.7</b>	<b>12.2</b>	<b>25.7</b>	<b>3.4</b>	<b>28.8</b>	<b>31.1</b>	<b>7.9</b>
					<i>+/- ppts</i>			<i>+/- ppts</i>
GP margin (%)	25.9	20.5	20.2	-0.3	-5.7	25.3	21.1	-4.2
PBT margin (%)	14.2	9.8	10.5	0.7	-3.7	12.0	10.7	-1.4
PATAMI margin (%)	11.0	6.8	7.8	1.0	-3.2	9.4	7.9	-1.5
Normalised PATAMI margin (%)	8.4	5.2	5.1	-0.1	-3.3	7.8	5.6	-2.2
Effective tax rate (%)	22.8	30.1	25.9	-4.2	3.1	23.1	25.8	2.6
<b>SEGMENTAL</b>								
<b>Revenue:</b>								
Power and Machinery	89.7	155.3	212.8	37.0	137.1	229.1	465.7	103.3
Oilfield Services	28.8	31.6	28.0	-11.3	-2.7	91.4	82.4	-9.8
Integrated Corrosion Solution	22.5	1.0	0.9	-14.1	-96.1	49.4	4.8	-90.3
<b>Results:</b>								
Power and Machinery	12.2	17.3	31.2	80.4	156.4	26.0	64.9	149.3
Oilfield Services	-1.3	2.2	-3.4	-250.1	155.7	5.9	-3.3	-156.5
Integrated Corrosion Solution	8.3	-1.6	-2.3	45.1	-127.8	10.7	-3.8	-136.0

Source: Company, MIDFR

**FINANCIAL SUMMARY**

<b>Income Statement (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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

<b>Balance Sheet (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
Fixed assets	134.5	110.3	104.0	117.6	132.9
Intangible assets	0.3	0.2	0.2	0.2	0.2
<b>Non-current assets</b>	<b>195.9</b>	<b>177.4</b>	<b>167.1</b>	<b>183.9</b>	<b>193</b>
Cash	179.2	183.4	305.6	415.5	463.2
Trade debtors	76.4	120.3	96.9	97.1	102.4
<b>Current assets</b>	<b>413.0</b>	<b>536.4</b>	<b>562.6</b>	<b>637.2</b>	<b>699.1</b>
Trade creditors	143.2	221.1	181.8	185	195
Short-term debt	25.9	7.6	8.4	9.2	10.1
<b>Current liabilities</b>	<b>210.6</b>	<b>283.2</b>	<b>231.1</b>	<b>233.2</b>	<b>264.1</b>
Long-term debt	4.4	1.2	1.3	1.4	1.6
<b>Non-current liabilities</b>	<b>19.6</b>	<b>16.0</b>	<b>16.5</b>	<b>16.6</b>	<b>18.8</b>
Share capital	201.8	201.8	201.8	201.8	202.2
Retained earnings	208.5	238.6	267.5	300.7	338.2
<b>Equity</b>	<b>378.8</b>	<b>414.5</b>	<b>482.1</b>	<b>571.3</b>	<b>609.2</b>

<b>Cash Flow (RM'm)</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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
<b>Operating cash flow</b>	<b>98.4</b>	<b>57.5</b>	<b>75.9</b>	<b>83.5</b>	<b>94.1</b>
Capital expenditure	-26.9	-12.7	-10	-10	-10
<b>Investing cash flow</b>	<b>-31.7</b>	<b>9.9</b>	<b>9.2</b>	<b>10.2</b>	<b>11.3</b>
Debt raised/(repaid)	-25.2	-28.2	-28.6	-27.6	-26.5
Dividends paid	-23.9	-16.1	-18	-20	-20
<b>Financing cash flow</b>	<b>-34.8</b>	<b>-63.5</b>	<b>-55.1</b>	<b>-56.1</b>	<b>-59.8</b>
<b>Net cash flow</b>	<b>31.7</b>	<b>4.2</b>	<b>30</b>	<b>37.6</b>	<b>45.6</b>
<b>Beginning cash flow</b>	<b>147.5</b>	<b>179.2</b>	<b>183.4</b>	<b>305.6</b>	<b>415.5</b>
<b>Ending cash flow</b>	<b>179.2</b>	<b>183.4</b>	<b>305.6</b>	<b>415.5</b>	<b>463.2</b>

<b>Profitability Margins</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024F</b>	<b>2025F</b>
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

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (23878 – X)).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related BNM and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such BNM mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

### 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