

Dialog Group Berhad

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

Maintain BUY

Increased Sales and Activities Improved 1QFY24 Results

Unchanged Target Price: RM3.28

KEY INVESTMENT HIGHLIGHTS

- **1QFY24 earnings up +5%yoy due to improved oversea performance and higher tank storage occupancy rate**
- **Malaysian front saw lower revenue and earnings for downstream, offset by increased production at Bayan and D35/D21/J4, midstream revenue consistent albeit higher finance cost**
- **International front saw increased sales, increased activities**
- **Maintain BUY with unchanged TP: RM3.28**

Maintain BUY, unchanged TP: RM3.28. Dialog Group Bhd (Dialog)'s 1QFY24 earnings came in at 17% of our yearly forecast for FY24. At this juncture, 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.

1QFY23 earnings up +5%yoy. Dialog's 1QFY24 normalised earnings was up +5.1%yoy to RM132.2m. Meanwhile, 1QFY24 revenue rose up by +9.7%yoy to RM780.4m. The improved performance was attributable to higher share of results from joint ventures and associates (+11.7%yoy) due to stronger contributions from terminal operations in view of higher tank storage occupancy rate, as well as better performance from the group's international operations.

Upstream improved earnings on the local front. Downstream, midstream, and upstream operations saw an increase in activities during 1QFY24. However, revenue was lower by -4.7%yoy to RM394.8m due to project cost overruns in the downstream sector, prolonged from the losses caused by unprecedented challenges, which consequently resulted in severe supply chain disruption, higher material prices, and higher labour costs.

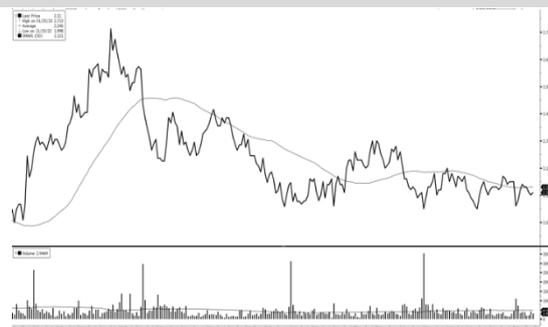
Nevertheless, Malaysia midstream businesses continued to provide a consistent revenue albeit higher financing expenses through the operation of DIALOG Terminals Langsat and DIALOG Terminals Pengerang (5). The upstream also saw improvements from increased production at both the Bayan and D35/D21/J4 fields.

Performance recovery on oversea operation. Dialog's overseas operations reported improved revenue (+28.3%yoy to RM385.7m) and EBIT (+31.4%yoy to RM49m) in 1QFY24 due to: (i) increased sales of specialist products and services, and (ii) increased activity at the Jubail Supply Base in Saudi Arabia. The improvement of the engineering, construction, fabrication, and plant maintenance activities in Singapore and New Zealand also contributed significantly to the earnings.

RETURN STATISTICS

Price @ 14 th November 2023 (RM)	2.11
Expected share price return (%)	+55.5
Expected dividend yield (%)	+1.4
Expected total return (%)	+56.9

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	0.5	0.0
3 months	-0.5	-5.0
12 months	1.4	2.6

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	0.3	0.4	0.5
Dividend Yield	1.4%	1.6%	1.6%

KEY STATISTICS

FBM KLCI	1,451.72
Issue shares (m)	5,642.57
Estimated free float (%)	31.78
Market Capitalisation (RM'm)	11,905.84
52-wk price range	RM1.96-RM2.73
3-mth average daily volume (m)	4.74
3-mth average daily value (RM'm)	10.07
Top Shareholders (%)	
Ngau Boon Keat	19.12
Employees Provident Fund Board	15.02
Kumpulan Wang Persaraan Diperbadan	9.99

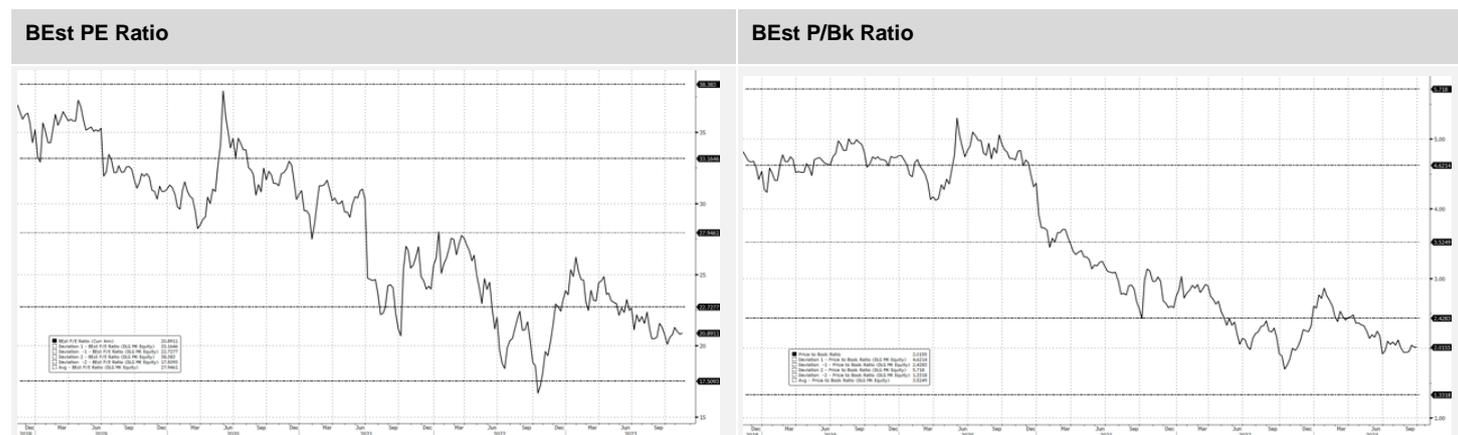
More room to expand in downstream and midstream. Dialog reportedly will be focusing more on its midstream and downstream sector, in addition to the continuous development of Pengerang Deepwater Terminals (PDT) into a regional petrochemical hub. In addition to Dialog's storage farm in Johor, its involvement with the construction of its first owned and operated specialty chemical plant in Pahang under its Morimatsu Dialog joint venture company would add more value for its downstream business. This plant is scheduled to start operation by CY26. We opine that the group are on track under the value chain, and the diversification of its downstream segment into petrochemicals is in line with the expected increase in demand for specialty chemical products as the regional economy continued to improve and recover.

Diversification into upstream a smart move. Despite the upstream division in oil and gas being labelled as hard-to-abate subindustry of oil and gas, the overall prognosis for the oil market has improved following the disruption to supply and demand caused by geopolitical events and uncertainties in the economy. Nevertheless, we are positive on Dialog's upstream business which involved the recovery, reconstruction, and operation of producing and mature oilfields, as we believe these are generally more cost effective than a primary exploration of a new field. Additionally, Dialog has the expertise to sustain in the upstream, particularly in its engineering and technical services. In the macro picture, diversifying into the upstream would give Dialog the leverage to mitigate should the oil market's volatility increase and the supply chain for the midstream and downstream interrupted.

Integrating into low carbon market. With the increase in investor interest in low carbon fuel alternatives, Dialog had launched its first venture into renewable fuel storage plants at DIALOG Terminals Langsat (3) in Johor. This project is expected to commence by end of CY24. Dialog had also invested in Hiringa Energy Ltd in New Zealand to produce green hydrogen and operate hydrogen fuelling stations. We believe these contributions in fulfilling the group's ESG commitment are also crucial to ensure an orderly energy transition, in accordance to the National Energy Transition Roadmap launched by the government this year, as well as sustaining the group's portfolio within the oil and gas environment.

No changes to earnings estimates. In consideration that Dialog's performance for 1QFY24 is in line with a positive trajectory, we make no changes to our FY24-25 earnings estimates. 

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Dialog FY23 Result Summary

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	1QFY23	4QFY23	1QFY24	QoQ (%)	YoY (%)	1QFY23	1QFY24	YoY (%)
Revenue	711.7	690.0	780.4	13.1	9.7	711.7	780.4	9.7
Operating Expenses	(664.0)	(646.2)	(717.1)	11.0	(14.5)	(664.0)	(717.1)	8.0
Other Operating Income	12.0	37.4	15.0	(59.9)	(42.0)	12.0	15.0	24.5
Fair value gain on disposal of JV	-	-	-	-	-	-	-	
JCE	84.1	82.1	93.9	14.5	11.7	84.1	93.9	11.7
Finance Costs	(16.4)	(18.0)	(19.2)	6.6	16.9	(16.4)	(19.2)	16.9
Profit Before Tax	127.4	145.3	153.2	5.4	20.2	127.4	153.2	20.2
Tax expense	(7.2)	(10.1)	(11.0)	9.0	52.7	(7.2)	(11.0)	52.7
Profit After Tax	120.2	135.3	142.2	5.1	18.3	120.2	142.2	18.3
Minority Interests	(5.6)	8.5	10.0	17.7	(279.8)	(5.6)	10.0	-279.8
PATAMI	125.8	126.8	132.2	4.3	5.1	125.8	132.2	5.1
Normalised PATAMI	125.8	126.8	132.2	4.3	5.1	125.8	132.2	5.1
EPS (sen)	2.2	2.3	2.3	4.0	4.9	2.2	2.3	4.9
DPS (sen)	3.2	3.4	3.7	8.8	15.6	3.2	3.7	15.6
				+ / (-) ppts				+ / (-) ppts
PBT Margin (%)	17.9	21.1	19.6	(1.4)	1.7	17.9	19.6	1.7
Tax Rate (%)	5.6	6.9	7.2	0.2	1.5	5.6	7.2	1.5
Net Margin (%)	17.7	18.4	16.9	(1.4)	(0.7)	17.7	16.9	-0.7

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

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