

Dialog Group Berhad

(3816 | MISC MK) Main | Transportation & Logistics

Maintain BUY


Dialog acquired Tarpon System for upstream drilling

Unchanged Target Price: RM3.28

DEVELOPMENT

- Dialog acquired 100% equity stake of Tarpon Systems for approximately RM5.5m.

OUR VIEW

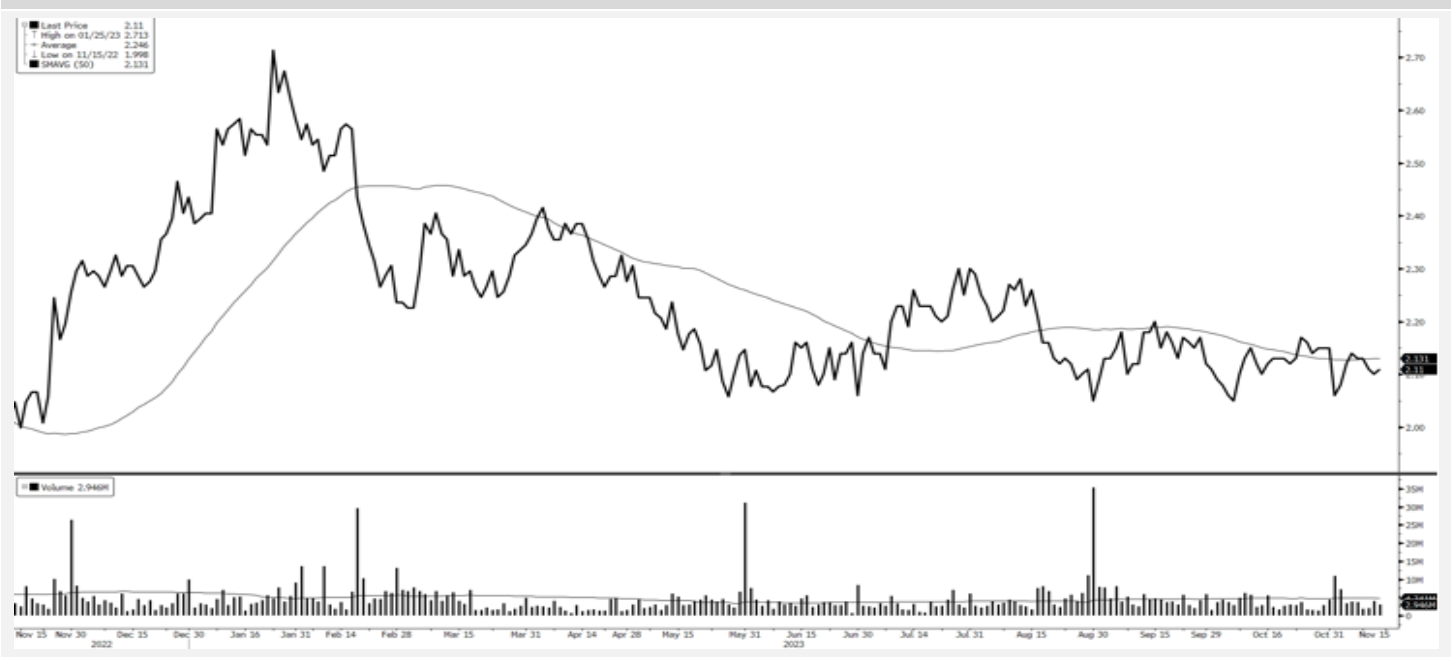
- **Additional arm for upstream.** Dialog Group Bhd (Dialog) acquired the entire equity interest in Tarpon Platform Systems Malaysia Sdn Bhd (Tarpon) and all assets of Tarpon Systems Int II, LLC (TSIL) for a cash consideration of USD1.2m (approx. RM5.5m). The acquisition is on a willing buyer-willing seller basis, and purchase price will be funded by internally generated funds.
- **Tarpon's expertise in upstream development.** Tarpon provides engineering, construction, installation and maintenance services to upstream energy companies. TSIL owns intellectual property for marginal field production and development system. On closing and completion, Tarpon will be Dialog's wholly owned subsidiary. Tarpon has paid-up share capital of RM1.4m comprising of 1.4m shares.
- **In line with upstream diversification.** This acquisition is expected to generate long-term recurring income for Dialog. Due to Tarpon System's low cost and rapid deployment, we believe this would increase possibilities for Dialog to not only develop its own fields, but also offer the service for reservoirs that otherwise would remain undeveloped.
- **Challenges on execution risks.** While we do not foresee any near future risks on the acquisition and implementation process, the availability and cost of labour and materials, as well as political, economic and regulatory changes remains the challenge. Nevertheless, we opine that these factors can be mitigated through Dialog's other ventures.
- **Acquisition is a fair move.** Considering that Dialog's expertise lies in the engineering and construction field within the upstream, midstream and downstream, in addition to its increasing diversification into the upstream, we believe this acquisition of a drilling service to add into its arsenal is a fair move. Tarpon Systems are also widely used for marginal fields which holds hydrocarbon that were usually missed by larger drilling operations. Providing the service to tap into these reservoirs at a lower cost could attract more customers to consider developing these fields.
- We maintain our **BUY** call on Dialog, with a **target price of RM3.28**. Our target price is based on the PER 24.5x pegged on EPS24 of 13.4 sen. 

INVESTMENT STATISTICS

Income Statement	2022A	2023A	2024F	2025F	2026F
Revenue	2,319.0	3,001.5	3,339.0	3,536.8	3,622.8
EBIT	590.4	626.2	869.3	957.4	996.5
Pretax Profit	550.3	553.9	834.3	922.4	960.5
Profit After Tax	505.9	520.5	761.5	837.8	871.6
PATAMI	508.0	520.5	756.5	834.8	869.6
EPS (sen)	8.9	9.1	13.4	14.8	15.4
EPS growth (%)	-7.3%	2.0%	47.2%	10.4%	4.2%
PER (x)	36.8	36.0	24.5	22.2	21.3
Dividend per share (sen)	3.1	3.2	4.7	5.2	5.4
Dividend yield (%)	0.9%	1.0%	1.4%	1.6%	1.6%

Source: Company, MIDFR

SHARE PRICE CHART



Source: Company, 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 news flow.
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 news flow.

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