Deleum Berhad

Maintain BUY

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

Deleum on the Road to Fulfill Future Upstream Demand

Revised Target Price: RM1.46
(Previously RM1.19)

KEY INVESTMENT HIGHLIGHTS

- **Maintain BUY with revised TP: RM1.46**
- **4QFY23 earnings was up by +7%yoy to RM15m which came in above expectations**
- **Despite lower revenue of RM239m (-24%yoy), there was lower opex and higher forex gain**
- **Remain robust amid geopolitical tensions on basis of contractual operations, higher capex in upstream**

Maintain BUY, revised TP: RM1.46. Deleum Berhad (Deleum)'s FY23 earnings came in above our yearly earnings estimates at 109% and consensuses at 122%. As such, we maintain our **BUY** call and **revise our target price to RM1.46** (previously RM1.19). The revised target price was in consideration of Deleum's robust performance in FY23, in conjuncture of our adjustments to our earnings forecast for the group.

Earnings up +7%yoy. Deleum's 4QFY23 earnings gained +6.6%yoy to RM14.7m. However, revenue slipped -24.4%yoy to RM238.7m. The higher earnings were contributed by: (i) lower operating expenses, (ii) higher net gain on foreign exchange, and (iii) lower loss on forward foreign currency exchange contracts. Meanwhile, the lower revenue was due to lower revenue in the Power and Machinery and Integrated Corrosion Solution segments, offset by higher sales in the Oil Services segment.

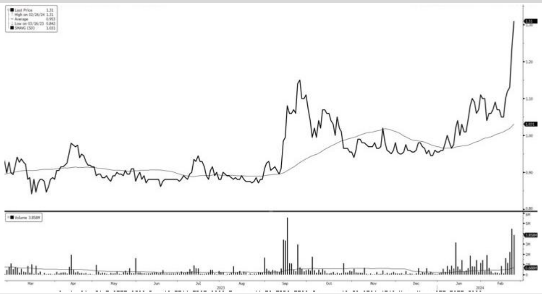
Power & Machinery. 4QFY23 earnings gained +55.8%yoy to RM34.5m, while revenue dropped -23.1%yoy to RM202.2m. The lower revenue was mainly attributable to the decrease in: (i) sales value and quantity of exchange engines delivered, (ii) sales of turbines parts and, (iii) repairs and freight income. These were mitigated by higher commission income from: (i) mechanical and processes activities, (ii) control and safety valves and flow regulator services, (iii) retrofit income, and (iv) field service representative call out activities.

Oilfield Services. 4QFY23 earnings expanded by +30.4%yoy to a deficit of RM3.9m. Meanwhile, revenue added +27.8%yoy to RM35.7m. The higher revenue was due to higher business activities in: (i) the slickline services, (ii) solid control services, (iii) specialty chemical and stimulation services, and (iv) asset integrated solution services in West Malaysia.

Integrated Corrosion Solution. 4QFY23 earnings slipped to a deficit of -RM4.8m from RM6.8m in 4QFY22. Revenue also slipped -98.2%yoy to RM0.4m. The lower revenue and earnings were due to lower maintenance activities from alternative blasting and painting jobs in Indonesia as well as its Maintenance, Construction and Modification (MCM) projects.

RETURN STATISTICS	
Price @ 26th February 2024 (RM)	1.19
Expected share price return (%)	+22.7
Expected dividend yield (%)	+4.0
Expected total return (%)	**+26.7**

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	20.2	17.0
3 months	37.2	28.4
12 months	33.7	25.7

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	807	924	1,022
Operating Profit	83	86	86
Profit Before Tax	89	93	92
Core PATAMI	53	61	66
Core EPS	13.3	15.1	16.5
DPS	5.8	6.2	6.5
Dividend Yield	4.0%	4.2%	4.5%

KEY STATISTICS	
FBM KLCI	1,547.60
Issue shares (m)	401.55
Estimated free float (%)	29.73
Market Capitalisation (RM'm)	526.04
52-wk price range	RM0.84-RM1.32
3-mth average daily volume (m)	0.68
3-mth average daily value (RM'm)	0.73
Top Shareholders (%)	
LANTAS MUTIARA SDN BHD	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.81

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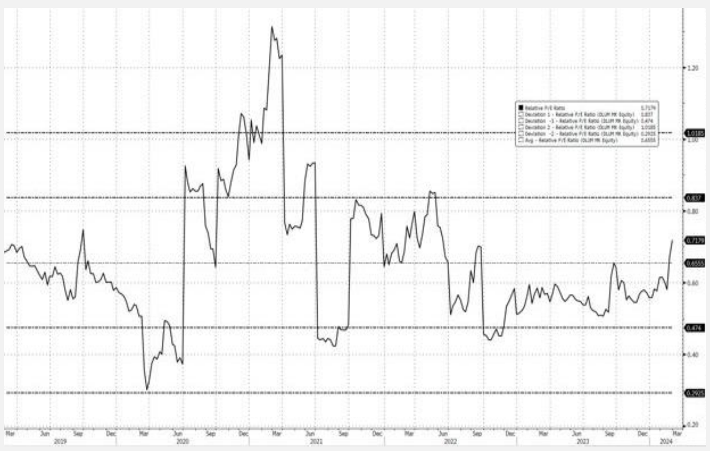
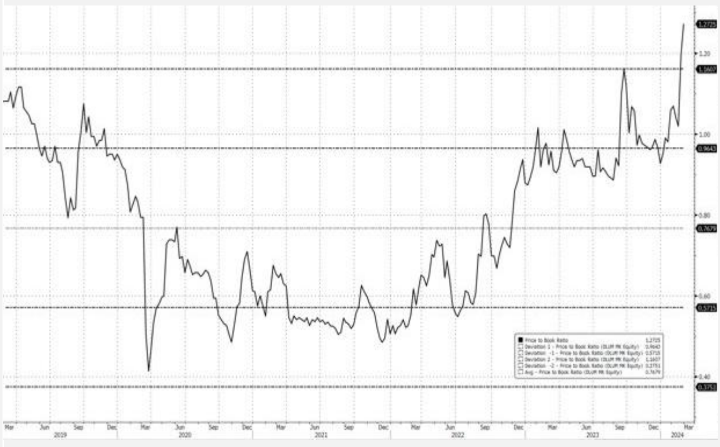
Vast opportunities to expand capacity in the upstream. The oil and gas sector are poised for a robust trajectory, given the elevated and stable oil prices, barring any risks to future macroeconomic climate. Nevertheless, in the near term, Deleum expected that a cyclical slowdown in 1QCY23 may affect its activities due to the monsoon season. That said, we are positive for Deleum's capability to leverage on the expected increased production in the upstream in CY24, while expanding its capacity within its respective segments, most notably in the Oilfield Services. Additionally, Integrated Corrosion Solution segment ended FY23 with a tender book of over RM500m, which could help elevate on the segment's efficiency moving forward.

Tackling Indonesia's demand in CY24. Deleum aims to strengthen its presence in the Indonesian market through mergers and acquisitions (M&A) in CY24. We opine that these potential M&A activities, should it be realized, has the potential to add more revenue to Deleum in the future. We believe that, with Indonesia's tendency to award Production Sharing Contracts (PSC) on its oil and gas reserves, and in light with its new President-elect, Indonesia has the demand for OGSE services that Deleum could leverage on.

Revised earnings estimates. We revised our earnings estimates for FY24 and FY25 upward by +3% and +14% respectively. We reiterate our positive stance on Deleum, despite the global geopolitical tensions risking the sector in the long run, as we believe Deleum would see lesser impact given its contractual operations and expected higher capex for upstream activities by local and regional oil players in CY24. In line with the revised forecast, we revise our **TP to RM1.46** (previous RM1.19), pegging a PER of 11x to a revised EPS24 of 12.9sen. The PER is based on the company's 3-year average.

FORWARD BAND

BEst PE Ratio	BEst P/Bk Ratio
	

Source: Bloomberg, MIDFR

Table 1: Deleum's 4QFY23 Financial Summary

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Yearly Results		
	4QFY22	3QFY22	4QFY23	QoQ%	YoY%	FY22	FY23	YoY%
Revenue	**315.5**	**241.8**	**238.7**	**-1.3**	**-24.4**	**685.8**	**792.0**	**15.5**
Cost of Sales	(265.4)	(193.0)	(190.0)	-1.6	-28.4	(542.1)	(626.7)	15.6
Gross Profit	50.1	48.8	48.6	-0.3	-3.0	143.7	165.3	15.0
Other operating income	1.3	1.8	1.8	-2.6	42.0	5.7	6.8	18.8
Selling and distribution cost	(13.2)	(10.0)	(13.3)	33.0	1.1	(37.4)	(41.9)	11.9
Admin expenses	(11.2)	(14.8)	(14.0)	-5.5	25.3	(51.5)	(53.7)	4.4
Other operating expenses	(5.1)	(1.6)	1.3	-181.7	-125.6	1.5	2.9	91.4
Operational profit	21.9	24.2	24.4	0.8	11.2	62.1	79.4	27.9
Finance cost	(0.1)	(0.0)	(0.0)	0.0	-71.9	(0.6)	(0.2)	-68.8
Share of PAT of joint venture	0.3	0.3	0.1	-51.1	-49.2	1.1	1.1	-7.2
Share of PAT of associates	1.2	0.9	1.4	64.5	18.6	5.3	4.6	-12.5
PBT	23.3	25.3	26.0	2.4	11.3	67.9	84.9	25.1
Income tax	(6.6)	(6.6)	(6.4)	-2.9	-3.7	(16.9)	(21.6)	27.4
PAT	16.7	18.8	19.6	4.3	17.3	51.0	63.4	24.3
Net Profit/Loss	16.7	18.8	19.6	4.3	17.3	50.9	63.3	24.3
Minority interest	2.9	6.6	4.9	-25.2	67.7	9.1	17.6	94.3
Normalised Profit/Loss	**13.8**	**12.2**	**14.7**	**20.1**	**6.6**	**41.9**	**45.7**	**9.2**
				+/- ppts				*+/- ppts*
GP margin (%)	15.9	20.2	20.4	0.2	4.5	21.0	20.9	-0.1
PBT margin (%)	7.4	10.5	10.9	0.4	3.5	9.9	10.7	0.8
PATAMI margin (%)	5.3	7.8	8.2	0.4	2.9	7.4	8.0	0.6
Normalised PATAMI margin (%)	4.4	5.1	6.1	1.1	1.8	6.1	5.8	-0.3
Effective tax rate (%)	28.4	25.9	24.6	-1.3	-3.8	24.9	25.4	0.5
SEGMENTAL								
Revenue:								
Power and Machinery	263.1	212.8	202.2	-5.0	-23.1	119.3	667.9	459.9
Oilfield Services	27.9	28.0	35.7	27.5	27.8	73.7	118.1	60.3
Integrated Corrosion Solution	24.3	0.9	0.4	-51.5	-98.2	0.7	5.2	699.1
Results:								
Power and Machinery	22.1	31.2	34.5	10.4	55.8	48.1	99.3	106.4
Oilfield Services	-5.6	-3.4	-3.9	17.3	-29.6	0.3	-7.3	-2196.8
Integrated Corrosion Solution	6.8	-2.3	-4.8	106.6	-169.5	17.5	-8.6	-149.1

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	685.8	792.0	806.5	923.5	1021.9
EBITDA	143.7	165.3	169.4	175.5	178.8
D&A	33.5	32.9	35.8	36.8	41.1
EBIT	62.1	79.4	82.6	86.0	85.5
Profit before tax	51.0	63.4	69.4	76.7	81.3
Core PATAMI	41.9	45.7	53.3	60.7	66.3

Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	110.3	91.1	94.2	110.3	123.0
Intangible assets	58.2	58.1	59.3	57.9	58.2
Non-current assets	**177.4**	**159.8**	**163.2**	**176.9**	**189.0**
Cash	168.5	198.2	212.0	237.1	266.6
Trade debtors	120.3	115.0	100.8	115.4	127.7
Current assets	**536.4**	**460.9**	**461.3**	**506.2**	**551.8**
Trade creditors	221.1	97.1	89.6	115.4	146.0
Short-term debt	7.6	1.5	1.7	1.8	2.0
Current liabilities	**283.2**	**160.6**	**153.1**	**183.3**	**210.0**
Long-term debt	1.2	0.9	1.0	1.1	1.2
Non-current liabilities	**16.0**	**13.6**	**14.2**	**15.3**	**16.4**
Share capital	201.8	201.8	201.8	201.8	201.8
Retained earnings	238.6	263.3	287.3	314.7	344.6
Equity	**414.5**	**446.5**	**457.1**	**484.5**	**514.4**

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	51.0	63.4	69.4	76.7	81.3
Depreciation & amortisation	33.5	32.9	35.8	36.8	41.1
Changes in working capital	-55.6	-3.6	-14.6	-25.0	-38.7
Operating cash flow	22.0	78.8	70.3	72.3	72.4
Capital expenditure	-8.6	-12.1	-12.9	-6.1	-4.9
Investing cash flow	2.2	-1.0	-3.5	3.5	4.8
Debt raised/(repaid)	-22.04	-6.8	-24.5	-23.3	-22.2
Dividends paid	-15.1	-31.4	-26.7	-25.5	-23.6
Financing cash flow	-38.6	-47.7	-52.7	-50.2	-47.3
Net cash flow	-14.4	30.1	14.1	25.6	29.8
Beginning cash flow	183.4	168.5	198.2	212.0	237.1
Ending cash flow	168.5	198.2	212.0	237.1	266.6

Profitability Margins	2022A	2023A	2024E	2025F	2026F
EBITDA margin	21.0%	20.9%	21.0%	19.0%	17.5%
PBT margin	7.4%	8.0%	8.6%	8.3%	8.0%
Core PAT margin	6.1%	5.8%	6.6%	6.6%	6.5%

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 *rise* 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 *fall* 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