

Dialog Group Berhad

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

Below Expectations but Earnings Improved

KEY INVESTMENT HIGHLIGHTS

- **2QFY24 earnings up +17%yoy, revenue +8%yoy from improved upstream production and higher downstream activities**
- **Malaysian front saw better revenue and earnings for all segments; International front saw an increased in EPCC and sales**
- **Risks from volatile oil prices, economic uncertainty and geopolitical tension remain for Dialog's operations**
- **Maintain BUY with revised TP: RM2.42**

Maintain BUY, revised TP: RM2.42. Dialog Group Bhd (Dialog)'s 1HFY24 earnings came in below our expectations at 37% of our yearly forecast for FY24. Adjusting to this result, we maintain our **BUY** call but revise our **target price from RM3.28 to RM2.42**. The target price change is in consideration that Dialog is an integrated oil and gas company - despite the improved earnings in 2QFY24, the group remain susceptible to external risk factors moving forward, which includes, but not limited to: (i) volatility in oil and gas prices amid geopolitical tensions in the Middle East, (ii) supply chain disruption from unfavourable currency movement, and (iii) global and regional economic uncertainties.

2QFY24 earnings up +17%yoy. Dialog's 2QFY24 normalised earnings was up +16.6%yoy to RM148.3m. Meanwhile, 2QFY24 revenue rose up by +7.8%yoy to RM859.2m. The improved performance was attributable to the increased activities in the group's Malaysian front.

Malaysia front improved on higher production. 2QFY24 revenue rose up by +9.4%yoy to RM480.1m, while profit before tax added +25.3%yoy to RM121.8m. Upstream continued to see more production in 2QFY24. Meanwhile, midstream activities remained a stable revenue stream given the improved occupancy rate in DIALOG Terminals Langsat and DIALOG Terminals Pengerang (5). Downstream remained eventful with various EPCC and plant maintenance projects. Some of these projects are nearing completion and as such, losses from these projects had been reduced significantly.

Middle East championing international front. Collective revenue for the international front for 2QFY24 gained +8.4%yoy to RM374.7m, while collective profit before tax surged +30.9%yoy to RM55.4m. The higher performance was contributed by activities at Jubail Supply Base, Saudi Arabia. The engineering, construction, fabrication and plant maintenance activities in Singapore, Australia and New Zealand, and sales of specialist products and services in various countries also contributed positively due to the improved business environment.

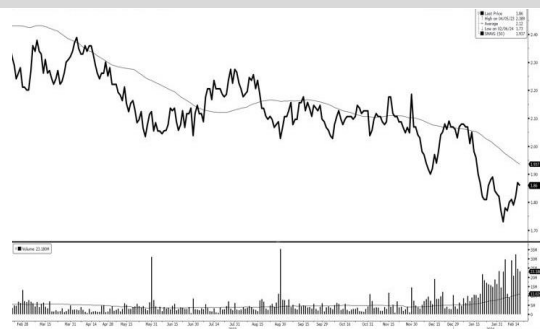
Maintain BUY

Revised Target Price: RM2.42
(Previously RM3.28)

RETURN STATISTICS

Price @ 19 th February 2024 (RM)	1.86
Expected share price return (%)	+30.1
Expected dividend yield (%)	+1.9
Expected total return (%)	+32.0

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.2	-1.3
3 months	-10.1	-17.3
12 months	-22.5	-25.8

INVESTMENT STATISTICS

FYE Jun	2024E	2025F	2026F
Revenue	3,339	3,537	3,623
Operating Profit	401	460	507
Profit Before Tax	660	729	784
Core PATAMI	634	708	767
Core EPS	11.0	12.4	13.4
DPS	4.4	4.7	4.7
Dividend Yield	1.8%	1.9%	1.9%

KEY STATISTICS

FBM KLCI	1,533.55
Issue shares (m)	5642.57
Estimated free float (%)	32.01
Market Capitalisation (RM'm)	10,495.20
52-wk price range	RM1.72 -
3-mth average daily volume (m)	10.86
3-mth average daily value (RM'm)	20.66
Top Shareholders (%)	
Ngau Boon Keat	19.12
Employees Provident Fund Board	14.65
Kumpulan Wang Persaraan Diperbadan	10.13

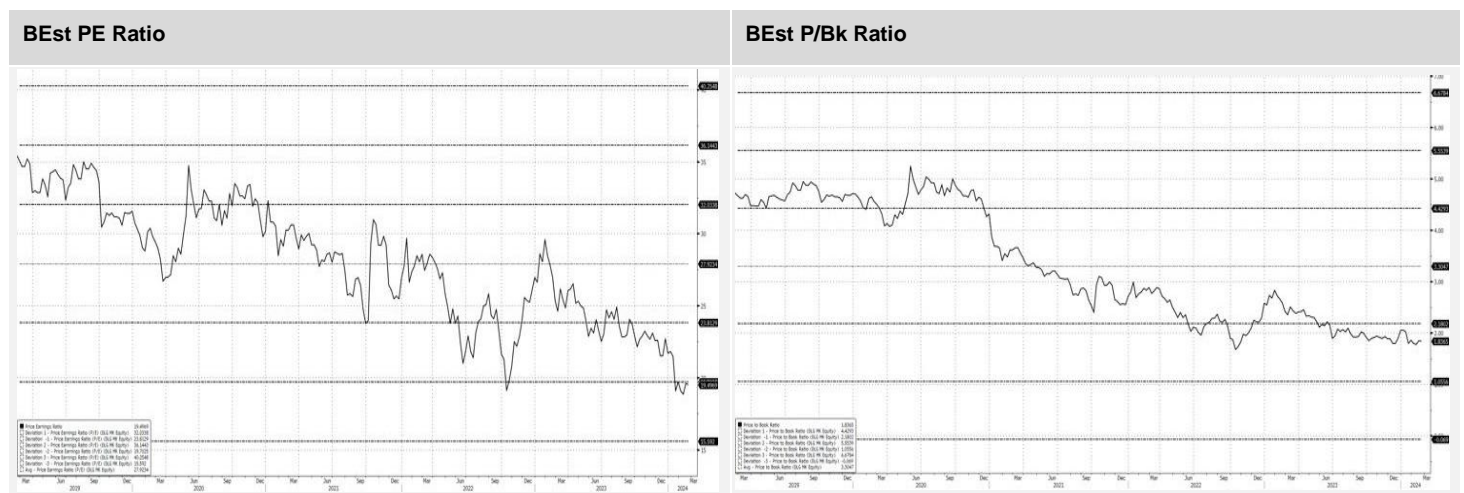
Upstream still holds long-term potential. Despite the volatile oil prices anticipated in CY24, the group’s long-term diversification strategy into the development and production of oilfields is expected to contribute to its upstream segment. With PETRONAS’s capex expected to range between RM55b to RM60b in CY24-26, we believe Dialog’s upstream endeavour will benefit from increased demand for engineering and specialist services to assist in field development projects.

Midstream maintain the core business. Dialog is one of the biggest independent terminal owner and operator in the ASEAN region. With its planned investments in adding capacity to its terminals for longer term storage as well as for renewable fuel storage, we believe Dialog is capable of sustaining its revenue stream through this segment. As we are expecting Brent crude oil price to hover in the average USD80-83pb range in CY24 with an upside of going above the average of USD87-89pb should geopolitical tensions escalate in the Middle East and Europe, as well as an increase in upstream activities moving forward, the demand for storage for either crude petroleum or petroleum products may be high in the near future.

Challenges ahead causing friction in performance forecast. Being an integrated oil and gas company with diversification on every division within the sector, including sustainable and green energy, Dialog is at an advantage among its Energy Services peers. However, the vulnerable exposure towards oil price volatility, geopolitical risks, inflationary pressures on materials and manpower, and the ever-evolving consumer demand for crude products, petrochemicals and green fuel, puts the group at an uncertainty risk in CY24. Nonetheless, we opine that, with Dialog’s further plans to expand its storage farm and improving its EPCC operations, the risks could possibly be mitigated and lessened.

Revised earnings estimates. In consideration of the near-term challenges, and that Dialog’s earnings for 2QFY24 came in below our expectations, we revised our FY24 and FY25 earnings estimates downward by -18% and -16% respectively. We maintain our **BUY** call with a revised **target price of RM2.42**. The new target price is obtained by pegging a PER of 22x to the revised EPS24 of 11 sen. The PER used is a 5-year average PER of the Energy Services sector in Asia. We reiterate our positive stance for Dialog, based on its vast operations between the upstream, midstream and downstream, offset by the challenges in the oil market which are expected to remain in CY24 moving forward.

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Dialog 2QFY24 Result Summary

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)
Revenue	797.0	780.4	859.2	10.1	7.8	1,508.7	1,639.7	8.7
Operating Expenses	(750.1)	(717.1)	(754.3)	5.2	(10.1)	(1,414.2)	(1,471.4)	4.0
Other Operating Income	13.0	15.0	17.4	15.8	(32.8)	25.1	32.4	29.0
JCE	97.4	93.9	72.6	(22.7)	(25.4)	181.5	166.6	-8.2
Finance Costs	(17.5)	(19.2)	(17.7)	(7.5)	1.5	(33.9)	(36.9)	8.9
Profit Before Tax	139.9	153.2	177.1	15.7	26.6	267.3	330.3	23.6
Tax expense	(8.8)	(11.0)	(19.9)	81.2	124.7	(16.0)	(30.8)	92.4
Profit After Tax	131.1	142.2	157.3	10.6	20.0	251.3	299.5	19.2
Minority Interests	3.9	10.0	9.0	(10.3)	128.8	(1.6)	19.0	1255.3
PATAMI	127.2	132.2	148.3	12.2	16.6	252.9	280.5	10.9
Normalised PATAMI	127.2	132.2	148.3	12.2	16.6	252.9	280.5	10.9
EPS (sen)	2.3	2.3	2.6	12.4	16.9	4.5	5.0	10.9
DPS (sen)	3.2	3.7	3.7	-	15.6	3.4	3.7	8.8
				+ / (-) ppts				+ / (-) ppts
PBT Margin (%)	17.6	19.6	20.6	1.0	3.1	17.7	20.1	2.4
Tax Rate (%)	6.3	7.2	11.2	4.1	4.9	6.0	9.3	3.3
Net Margin (%)	16.0	16.9	17.3	0.3	1.3	16.8	17.1	0.3

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	2,319.0	3,001.53	3,339.0	3,536.8	3,622.8
D&A	239.3	254.9	278.9	310.0	347.4
Net interest	-2.1	10.1	-10.0	-9.8	-9.8
Profit before tax	550.3	553.9	660.2	729.3	784.3
Tax	-44.4	-33.3	-26.6	-21.3	-17.0
PATAMI	505.9	520.6	633.6	708.0	767.3
Core PATAMI	508.01	520.5	623.6	698.1	757.5
Balance Sheet (RM'm)	2022A	2023A	2024E	2025F	2026F
Fixed assets	3350.2	2750.1	3097.7	3160.6	3221.2
Intangible assets	2501.6	2060.6	2339.8	2342.7	2736.8
Non-current assets	6051.1	6570.4	6694.8	6889.3	7141.2
Cash	1840.2	1720.5	1725.6	1820.1	1936.3
Trade debtors	859.9	904.6	1102.0	1209.3	1275.3
Current assets	2795.8	2741.1	2827.5	3029.5	3211.6
Trade creditors	740.7	907.0	1188.0	1241.9	1322.4
Short-term debt	337.2	298.8	364.4	407.9	429.3
Current liabilities	1148.4	1266.1	1552.4	1649.8	1751.7
Long-term debt	1526.9	1363.7	1134.2	1188.6	1203.2
Non-current liabilities	2046.2	1885.2	1734.3	1788.7	1803.2
Share capital	1698.3	1698.3	1698.3	1698.3	1698.3
Retained earnings	3359.7	3881.4	4537.3	4781.9	5099.7
Equity	5652.5	6160.3	6235.7	6480.2	6798.0

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	550.3	553.9	660.2	729.3	784.3
Depreciation & amortisation	239.2	254.9	278.9	310.0	347.4
Changes in working capital	-264.87	123.73	-122.23	-120.78	-95.47
Operating cash flow	519.1	750.2	934.3	1159.0	1287.1
Capital expenditure	-181.5	-320.0	-519.6	-689.6	-798.5
Investing cash flow	-293.4	-295.5	-551.2	-722.5	-832.0
Debt raised/(repaid)	-283.8	-497.4	-288.1	-261.8	-269.0
Financing cash flow	155.2	-598.0	-378.1	-341.8	-339.0
Net cash flow	380.9	-143.4	5.1	94.6	116.2
Beginning cash flow	1453.3	1840.2	1720.5	1725.6	1820.1
Ending cash flow	1840.2	1720.5	1725.6	1820.1	1936.3

Profitability Margins	2022A	2023A	2024E	2025F	2026F
PBT margin	23.7%	18.5%	19.8%	20.6%	21.6%
PATAMI margin	21.8%	17.3%	19.0%	20.0%	21.2%
Core PATAMI margin	21.9%	17.3%	18.7%	19.7%	20.9%

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