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1QFY24 Results Review (Within) Wednesday, 29 May 2024

Deleum Berhad

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

Robust OGSE Demand Added to Deleum's Earnings

KEY INVESTMENT HIGHLIGHTS

- **1QFY24 normalised earnings up +20%yoy, came within expectations**
- **Revenue climbed +31%yoy from P&M, OS segments, partially offset by lower activities in ICS**
- **Robust outlook on upstream, premise on higher demand for OGSE**
- **Maintain BUY with a revised target price of RM1.58**

Maintain BUY, revised TP: RM1.58. Deleum Berhad (Deleum)'s 1QFY24 earnings came in within our yearly earnings estimates at 20% and consensus at 21%. We maintain our **BUY** call and revise our **target price to RM1.58** (previously RM1.46). This is premise on a positive outlook in the upstream OGSE in line with the forecasted stable Brent crude price and the higher O&G capex in CY24.

1QFY24 revenue added +31%yoy. Deleum's 1QFY24 revenue gained +30.8%yoy to RM161.4m. The increase was mainly due to higher revenue in Power & Machinery (P&M) and Oilfield Services (OS), offset by lower activities in the Integrated Corrosion Solution (ICS).

1QFY24 normalised earnings up +20%yoy. Deleum's 1QFY24 normalised earnings gained +19.8%yoy to RM10.9m. The higher earnings were contributed by the reversal of provision on its trade receivables in OS. However, this was partially negated by: (i) higher other operating expenses, (ii) lower net foreign exchange gain reported in three segments of RM0.1m (-95.2%yoy), and (iii) lower gain on forward foreign currency exchange contracts in P&M of RM0.3m (-78.6%yoy).

Power & Machinery. Revenue added +32.6%yoy to RM129.5m in 1QFY24, while earnings gained +33.5%yoy to RM21.9m. The increase in revenue was mainly due to the higher sales value and quantity of: (i) exchange engines delivered, (ii) control and safety valves and flow regulator services, (iii) machinery management system services, and (iv) sales of turbines parts and repairs. However, this was partially offset by lower retrofit and commission income from mechanical and processes business. The higher earnings were in tandem with the higher revenue.

Oilfield Services. Revenue gained +36.8%yoy to RM31.2m in 1QFY24, while loss narrowed to RM-0.2m. The higher revenue was due to higher business activities in: (i) asset integrated solution services, (ii) solid control services, (iii) slickline activities in West Malaysia, and (iv) specialty chemical and stimulation services. The lower loss was due to the higher contributions and reversal of provision made on its trade receivables of RM0.6m.

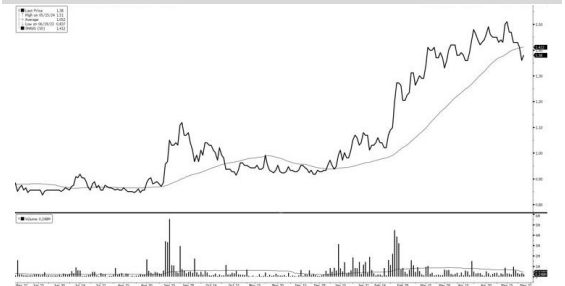
Maintain BUY

Revised Target Price: RM1.58
(Previously RM1.46)

RETURN STATISTICS

Price @ 28 th May 2024 (RM)	1.38
Expected share price return (%)	+14.5
Expected dividend yield (%)	+3.7
Expected total return (%)	+18.2

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-4.2	-6.0
3 months	3.8	6.9
12 months	48.4	29.0

INVESTMENT STATISTICS

FYE Dec	2024E	2025F	2026F
Revenue	822	944	1,020
Operating Profit	86	90	85
Profit Before Tax	93	97	92
Core PATAMI	57	65	66
Core EPS	14.1	16.1	16.4
DPS	5.8	6.2	6.5
Dividend Yield	3.7	3.9	4.1

KEY STATISTICS

FBM KLCI	1615.82
Issue shares (m)	401.55
Estimated free float (%)	33.54
Market Capitalisation (RM'm)	544.14
52-wk price range	RM0.88-RM1.52
3-mth average daily volume (m)	0.44
3-mth average daily value (RM'm)	0.61
Top Shareholders (%)	
LANTAS MUTIARA SDN BHD	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.81

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Integrated Corrosion Solution. Revenue slipped -80.9%yoy to RM0.5m in 1QFY24, while earnings dropped into a deficit of -RM3.2m from a profit of RM42k in 1QFY23. The lower revenue and earnings were attributable to lower maintenance activities from its Maintenance, Construction and Modification (MCM) projects. However, this was mitigated by the higher activities from alternative blasting and painting jobs in Indonesia.

Leveraging on the sanguine outlook in upstream. We anticipate that the O&G industry to perform positively in CY24. This is in anticipation of Brent crude price to remain relatively stable and elevated at a range of USD80-89pb throughout the year. In addition, there should be (i) increase in investment in the upstream division, (ii) positive global energy demand growth, and (iii) advancing AI technology. Thus, we opine that Deleum is poised to benefit from these environments as an OGSE company. The group’s recent collaborations with LatConnect 60 Ltd and Paradigm Technology Services BV, along with investments in CRA Tubulars B.V., further reinforced the group’s optimistic growth prospects and its commitment to sustainable operations.

Revised earnings estimates. Despite Deleum’s 1QFY24 results coming in within our expectations, we take this opportunity to revise upwards our earnings estimates for FY24 and FY25 upward by +7% and +6% respectively. We adjusted the forecasted revenue to reflect the positive prospect of the upstream O&G sector. Globally, the upstream capex expected for CY24 stood at USD580b. Meanwhile, PETRONAS had announced a capex of RM50b-60b in CY24, of which 40-60% is expected to be allocated for the upstream segment. The robust outlook of the subsector in relation to an elevated yet relatively stable Brent crude oil price would encourage higher demand for OGSE expertise – including Deleum’s – in the near term. According to the National OGSE Industry Blueprint 2021-2030, OGSE sector in Malaysia is projected to contribute RM40b-RM50b to the country’s GDP by 2030.

In line with the revised forecast, we adjust our **TP to RM1.58** (from RM1.46), pegging a PER of 11.2x to a revised EPS24 of 14.1sen. The PER is based on the company’s 3-year average.

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Deleum's 1QFY24 Financial Summary

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Yearly Results		
	1QFY23	4QFY23	1QFY24	QoQ%	YoY%	3MFY23	3MFY24	YoY%
Revenue	123.4	238.7	161.4	-32.4	30.8	123.4	161.4	30.8
Cost of Sales	(94.2)	(190.0)	(123.4)	-35.1	31.1	(94.2)	(123.4)	31.1
Gross Profit	29.3	48.6	38.0	-21.8	29.8	29.3	38.0	29.8
Other operating income	1.4	1.8	2.0	14.7	42.1	1.4	2.0	42.1
Selling and distribution cost	(9.4)	(13.3)	(9.3)	-30.3	-0.7	(9.4)	(9.3)	-0.7
Admin expenses	(11.7)	(14.0)	(14.3)	2.1	22.4	(11.7)	(14.3)	22.4
Other operating expenses	3.8	1.3	(1.1)	<-100	<-100	3.8	(1.1)	<-100
Operational profit	13.5	24.4	15.4	-36.8	14.1	13.5	15.4	14.1
Finance cost	(0.1)	(0.0)	(0.0)	3.1	-60.7	(0.1)	(0.0)	-60.7
Share of PAT of joint venture	0.3	0.1	0.3	>100	-16.6	0.3	0.3	-16.6
Share of PAT of associates	1.5	1.4	1.6	11.1	6.7	1.5	1.6	6.7
PBT	15.3	26.0	17.3	-33.4	13.1	15.3	17.3	13.1
Income tax	(3.1)	(6.4)	(4.6)	-28.4	46.9	(3.1)	(4.6)	46.9
PAT	12.2	19.6	12.7	-35.1	4.4	12.2	12.7	4.4
Net Profit/Loss	12.2	19.6	14.4	-26.4	18.3	12.2	14.4	18.3
Minority interest	3.1	4.9	3.5	-29.2	13.9	3.1	3.5	13.9
Normalised Profit/Loss	9.1	14.7	10.9	-25.5	19.8	9.1	10.9	19.8
				<i>+/- ppts</i>				<i>+/- ppts</i>
GP margin (%)	23.7	20.4	23.5	3.2	-0.2	23.7	23.5	-0.2
PBT margin (%)	12.4	10.9	10.7	-0.2	-1.7	12.4	10.7	-1.7
PATAMI margin (%)	9.9	8.2	8.9	0.7	-0.9	9.9	8.9	-0.9
Normalised PATAMI margin (%)	7.4	6.1	6.8	0.6	-0.6	7.4	6.8	-0.6
Effective tax rate (%)	20.3	24.6	26.4	1.8	6.1	20.3	26.4	6.1
SEGMENTAL								
Revenue:								
Power and Machinery	97.6	202.2	129.5	-36.0	32.6	97.6	129.5	32.6
Oilfield Services	22.8	35.7	31.2	-12.6	36.8	22.8	31.2	36.8
Integrated Corrosion Solution	2.9	0.4	0.5	26.9	-80.9	2.9	0.5	-80.9
Results:								
Power and Machinery	16.4	34.5	21.9	-36.6	33.5	16.4	21.9	33.5
Oilfield Services	-2.2	-3.9	-0.2	-95.1	-91.3	-2.2	-0.2	-91.3
Integrated Corrosion Solution	0.0	-4.8	-3.2	-32.1	<-100	0.0	-3.2	<-100

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024E	2025F	2026F
Revenue	685.8	792.0	822.3	943.7	1020.2
EBITDA	143.7	165.3	172.7	179.3	178.5
D&A	33.5	32.9	35.7	36.8	41.0
EBIT	62.1	79.4	85.9	89.8	90.2
Profit before tax	51.0	63.4	72.7	76.6	77.0
Core PATAMI	41.9	45.7	56.6	64.5	66.0

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	223.3	249.7	263.9
Trade debtors	120.3	115.0	102.8	118.0	127.5
Current assets	536.4	460.9	475.4	530.3	564.7
Trade creditors	221.1	97.1	102.3	128.4	139.9
Short-term debt	7.6	1.5	1.7	1.8	2.0
Current liabilities	283.2	160.6	165.8	204.1	219.7
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	288.8	317.9	347.7
Equity	414.5	446.5	458.6	487.7	517.5

Cash Flow (RM'm)	2022A	2023A	2024E	2025F	2026F
PBT	51.0	63.4	72.7	76.6	77.0
Depreciation & amortisation	33.5	32.9	35.7	36.8	41.0
Changes in working capital	-55.6	-3.6	-26.8	-39.8	-60.9
Operating cash flow	22.0	78.8	81.6	73.6	57.1
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	25.4	26.8	14.6
Beginning cash flow	183.4	168.5	198.2	223.3	249.7
Ending cash flow	168.5	198.2	223.3	249.7	263.9

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%	8.8%	8.1%	7.5%
Core PAT margin	6.1%	5.8%	6.9%	6.8%	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 <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