

Dialog Group Berhad

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

Maintain BUY

Midstream Improvement Supported 9MFY24 Earnings

Revised Target Price: RM2.72
(Previously RM2.42)

KEY INVESTMENT HIGHLIGHTS

- **9MFY24 normalised earnings up +14%yoy, revenue +1%yoy due to improved tank storage capacity rate and better sales**
- **Upstream and midstream segments showed better performance, but downstream faced cost overruns**
- **Upside of geopolitical tensions on storage farm, but challenges in inflationary pressures and material cost to persist**
- **Maintain BUY with revised TP: RM2.72**

Maintain BUY, revised TP: RM2.72. Dialog Group Bhd (Dialog)'s 9MFY24 earnings came in within our expectations at 70% of our yearly forecast for FY24 and 76% of consensus's estimates. We maintain our **BUY** call but revise our **target price from RM2.42 to RM2.72**. We observe there was improvement in its tank storage occupancy rate in the reporting quarter and believe the demand for its storage farm would continue in the current relatively stable Brent crude price (YTD average of USD83pb) until the end of the group's FY24.

9MFY24 PATAMI up +14%yoy. Dialog's 9MFY24 normalised earnings was up +13.8%yoy to RM436.6m. Meanwhile, 9MFY24 revenue rose up by +1.3%yoy to RM2.34b.

Malaysia front sees higher demand for storage. 9MFY24 revenue slipped -4.6%yoy to RM1.27b. However, PBT gained +32.9%yoy to RM372.9m. The higher overall earnings were primarily due to increased production in upstream activities. Midstream activities for its Langsat and Pengerang terminals remained stable with higher profit as compared to 9MFY23 due to higher tank storage occupancy rates. However, the downstream reported losses due to project cost overruns.

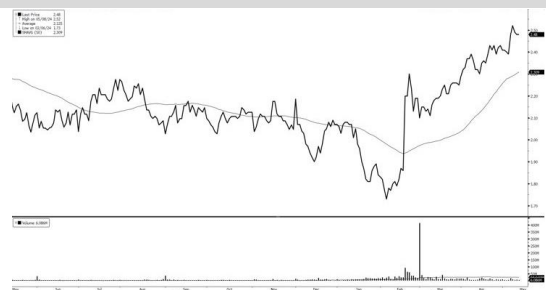
Middle East continues to lead international operations. Collective revenue for the international front for 9MFY24 gained +9.5%yoy to RM1.07b, while collective PBT added +6.3%yoy to RM135.4m. The higher performance was contributed by activities at Jubail Supply Base, Saudi Arabia. The higher sales of specialist products and services in various international countries has also contributed positively for 9MFY24.

Challenges on material and labour cost. While we believe the tensions in the Middle East – notably in the Red Sea blockade – had a slight upside to Dialog's storage farm, the group still faced challenges in terms of: (i) inflationary pressures, (ii) supply chain disruption, and (iii) higher material prices and labour cost. Prolonged geopolitical tensions in Eastern Europe and the Middle East could result in cost overruns and project delays. Nevertheless, we believe Dialog could still mitigate these risks in consideration that its integrated operations allow the divesting to other subsectors.

RETURN STATISTICS

Price @ 13 th May 2024 (RM)	2.48
Expected share price return (%)	+9.7
Expected dividend yield (%)	+1.7
Expected total return (%)	+11.4

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	6.9	3.4
3 months	8.3	32.2
12 months	10.2	-2.2


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	624	698	758
Core EPS	11.0	12.4	13.4
DPS	4.4	4.7	4.7
Dividend Yield	1.6%	1.7%	1.7%

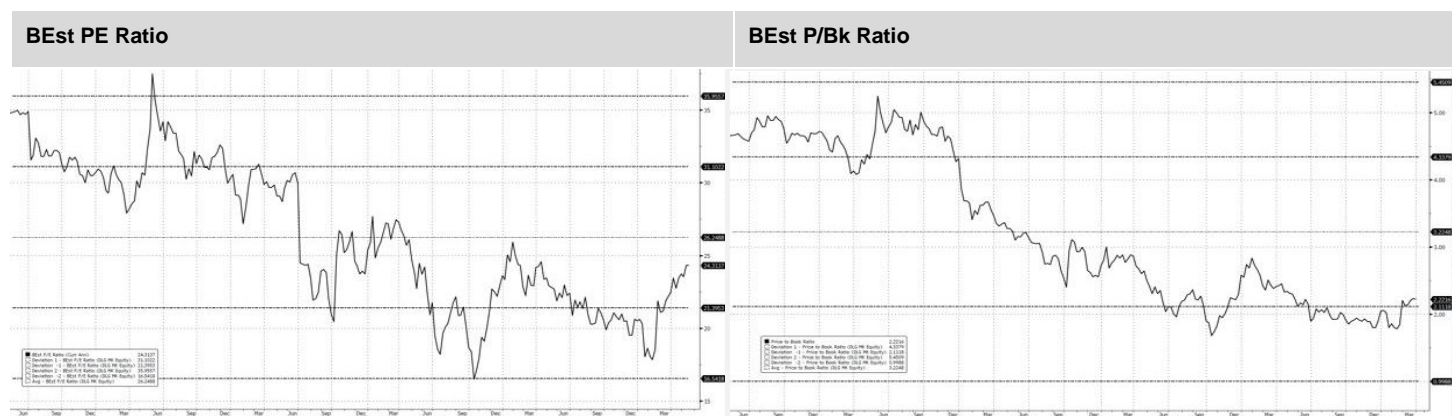
KEY STATISTICS

FBM KLCI	1,602.91
Issue shares (m)	5,642.57
Estimated free float (%)	29.73
Market Capitalisation (RM'm)	13,993.59
52-wk price range	RM1.72-RM2.52
3-mth average daily volume (m)	24.74
3-mth average daily value (RM'm)	53.73
Top Shareholders (%)	
Ngau Boon Keat	19.12
Technip Energies M Sdn Bhd	8.50
Lembaga Tabing Angkatan Tentera	3.09

Upstream remains a favourable area in the sector. With the relatively stable Brent crude oil price, we anticipate that the production from oilfields will continue to increase in the coming months. Additionally, Petronas had allocated between RM50b to RM60b of capex in CY24, which includes capex for cleaner energy solutions at 20%. We believe that Dialog's upstream and midstream operations would continue to benefit from the higher demand for engineering and specialist services in field projects in the near term, as well as the higher demand for storage capacity to contain cleaner energy products as part of the group's ESG initiatives.

No changes to earnings estimates. In consideration that 9MFY24 earnings are within our expectations, we make no changes to our earnings estimates. We maintain our **BUY** call with a revised **target price of RM2.72**. The new target price is obtained by pegging a PER of 22x to the EPS25 of 12.4sen as we roll over our valuation to FY25. The PER used is a 5-year average PER of the Energy Services sector in Asia. 

FORWARD BAND



Source: Bloomberg, MIDFR

Table 1: Dialog 3QFY24 Result Summary

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	3QFY23	2QFY24	3QFY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Revenue	802.8	859.2	702.2	(18.3)	(12.5)	2,311.5	2,341.9	1.3
Operating Expenses	(750.4)	(754.3)	(618.9)	(18.0)	(26.2)	(2,164.6)	(2,090.3)	-3.4
Other Operating Income	8.9	17.4	48.5	179.1	87.6	34.0	80.8	137.5
JCE	100.4	72.6	59.3	(18.4)	(41.0)	282.0	225.9	-19.9
Finance Costs	(20.5)	(17.7)	(13.0)	(26.6)	(36.5)	(54.3)	(49.9)	-8.2
Profit Before Tax	141.2	177.1	178.0	0.5	26.0	408.5	508.3	24.4
Tax expense	(7.2)	(19.9)	(17.3)	(12.8)	140.6	(23.2)	(48.1)	107.4
Profit After Tax	134.0	157.3	160.7	2.2	19.9	385.3	460.2	19.4
Minority Interests	3.2	9.0	4.5	(49.8)	39.8	1.6	23.5	1383.9
Normalised PATAMI	130.8	148.3	156.2	5.3	19.4	383.7	436.6	13.8
EPS (sen)	2.3	2.6	2.8	5.3	19.4	6.8	7.7	13.8
DPS (sen)	3.4	3.7	3.8	1.9	10.9	3.4	7.5	119.7
				+ / (-) ppts				+ / (-) ppts
PBT Margin (%)	17.6	20.6	25.3	4.7	7.8	17.7	21.7	4.0
Tax Rate (%)	5.1	11.2	9.7	(1.5)	4.6	5.7	9.5	3.8
Net Margin (%)	16.3	17.3	22.2	5.0	5.9	16.6	18.6	2.0

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