Dialog Group Berhad

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

Steady Earnings Throughout FY24

***Maintain* BUY**

***Unchanged* Target Price: RM2.72**

KEY INVESTMENT HIGHLIGHTS

- **FY24 normalised earnings up +13%yoy, slightly below estimates**
- **Upstream and midstream segments showed better performance, but downstream saw delays, cost overruns**
- **Geopolitics and favourable Brent benefits upstream EPCC, storage farms; but downside risks higher operational cost remain**
- **Maintain BUY with unchanged of TP: RM2.72**

Maintain BUY, unchanged TP: RM2.72. Dialog Group Bhd (Dialog)'s FY24 earnings came in at the lower end of our full year expectation at 95% but it was slightly below consensus's estimates at 94%. We maintain our **BUY** call and target price at **RM2.72.** We noted that the group's upstream segment had been sanguine and that improvement in its tank storage occupancy rate remained robust – in tandem with the higher demand for onshore storage and higher upstream activities locally and regionally, following a relatively stable Brent crude price (YTD average of USD83pb) coming into 1HFY25.

FY24 normalised PATAMI up +13%yoy. Dialog's FY24 normalised PATAMI was up +12.5%yoy to RM592.7m. Meanwhile, FY24 revenue rose up by +5%yoy to RM3.15b.

Higher upstream production in local front. FY24 revenue gained +6.1%yoy to RM1.74b and PBT surged +46.7%yoy to RM497.2m. The higher overall earnings were primarily due to increased production from the group's upstream activities. Meanwhile, the midstream contributed a stable revenue from its Dialog Terminal Langsat (DTL) and Dialog Terminals Pengerang (5) (DTP5). For the downstream, activities remain abundant following completion of various EPCC and plant maintenance project, despite losses caused by project cost overruns.

Higher international sales mitigated cost overruns. Collective revenue for the international front for FY24 gained +3.7%yoy to RM1.42b, while collective PBT slipped -15.4%yoy to RM181.9m. The lower PBT was offset by higher sales of specialist products and services, and increased fabrication activities in New Zealand.

Mitigation to upstream and midstream. The geopolitical tensions in the Middle East and Eastern Europe continue to be the key risk to Dialog's operations, caused by cost overruns and delays due to project completions amid: (i) inflationary pressures, (ii) supply chain disruption, and (iii) higher material prices and labour cost. Nevertheless, we firmly believe that the upside of the Red Sea blockade, as well as the steady demand for refined petroleum and renewable fuels in the region would prompt more activities in the upstream and midstream divisions, and subsequently mitigate these challenges.

RETURN STATISTICS	
Price @ 15th August 2024 (RM)	2.49
Expected share price return (%)	+9.2
Expected dividend yield (%)	+1.8
Expected total return (%)	**+11.0**

SHARE PRICE CHART

Price performance (%)	Absolute	Relative
1 month	-2.0	4.2
3 months	0.4	19.5
12 months	20.3	11.7

INVESTMENT STATISTICS

FYE Jun	2025E	2026F	2027F
Revenue	3,537	3,623	3,661
Operating Profit	460	489	513
Profit Before Tax	694	725	751
Core PATAMI	683	727	763
Core EPS	11.8	12.6	13.2
DPS	5.0	5.3	5.3
Dividend Yield	1.8%	1.9%	1.9%

KEY STATISTICS	
FBM KLCI	1,612.94
Issue shares (m)	5,645.97
Estimated free float (%)	61.41
Market Capitalisation (RM'b)	13.49
52-wk price range	RM1.72-RM2.64
3-mth average daily volume (m)	7.09
3-mth average daily value (RM'm)	17.7
Top Shareholders (%)	
Employees Provident Fund	16.29
Kumpulan Wang Persaraan	10.91
Wide Synergy	8.01

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FY25 focus remained on long-term strategies. Given the current volatile oil market susceptible to factors including: (i) escalation in geopolitical tensions, (ii) inflationary pressures and unfavourable forex, (iii) supply chain disruptions, and (iv) development of sustainability policies for the sector, we anticipate that higher raw material prices and labour costs will persist. Coming into FY25, we opine that Dialog would continue to focus on its long-term resilience and strong adaptability as an integrated company. Despite disruptions in demand for crude petroleum recently, we believe Dialog's upstream business would remain robust on the back of the contractual basis of its engineering and specialised technical services. Additionally, the prolonged geopolitical conflict in the Middle East continue to prompt tankers to shift routes, subsequently adding more demand for onshore terminal facilities. Hence, we opine that Dialog's midstream business would continue to improve.

Coming into FY25, we expected that Dialog would continue to invest in the capacity expansion of its storage farms, as well as the EPCC for plants and downstream facilities. Dialog's recent RM250m venture into renewable fuel storage could also be leveraged to better the group's FY25 performance, in tandem with the government's energy transition initiatives under NIMP2030 and NETR.

Revised earnings estimates. Taking FY24 earnings into consideration, we adjust our earnings estimates slightly downwards for FY25-26 by -2% and -4% respectively. Nevertheless, we maintain our **BUY** call with an unchanged **target price of RM2.72.** The target price is obtained by pegging a PER of 23x to EPS25 of 11.8sen. The forward PER is a slight premium from the previous PER of 22x (3-Year average PER of Energy Services subsector) but is lower than Dialog's current PER of 24.5x and its average 5-Year PER of 28.8x.

We are optimistic of Dialog's FY25 prospects, including its future growth in expanding its storage farms to include green fuel, as well as in the demand for EPCC services in the upstream and downstream segments. However, we also noted short-term downside risks for the group, in terms of: (i) volatile oil market following sudden escalations in geopolitical tensions, (ii) drastic OPEC+ production changes, (iii) weaker demand from China on crude and refined petroleum products, and (iv) inflationary pressures raising cost of raw materials and labour. Despite the challenges ahead, we opine that Dialog would continue to mitigate these challenges, while also advancing its digital transformation initiatives and maintaining competitiveness within the integration oil and gas industry.

Table 1: Dialog 4QFY24 Result Summary

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	4Q23	**3Q24**	**4Q24**	**QoQ (%)**	**YoY (%)**	**FY23**	**FY24**	**YoY (%)**
Revenue	690.0	702.2	810.1	15.4	17.4	3,001.5	3,151.9	5.0
Operating Expenses	(646.2)	(618.9)	(646.2)	4.4	(23.0)	(2,810.8)	(2,809.7)	0.0
Other Operating Income	37.4	48.5	37.4	(22.8)	44.8	71.4	91.8	28.5
JCE	82.1	59.3	82.1	38.4	-	364.0	309.9	-14.9
Finance Costs	(18.0)	(13.0)	(14.9)	14.6	(17.2)	(72.3)	(64.8)	-10.4
Profit Before Tax	145.3	178.0	268.5	50.8	84.7	553.9	679.1	22.6
Tax expense	(10.1)	(17.3)	(25.6)	48.0	154.8	(33.3)	(73.8)	121.7
Profit After Tax	135.3	160.7	242.8	51.1	79.5	520.6	605.4	16.3
Minority Interests	8.5	4.5	6.8	50.5	(20.2)	10.1	30.3	200.3
PATAMI	126.8	156.2	236.0	51.2	86.2	510.5	575.0	12.6
Exceptional Items	(9.4)	1.2	(22.2)	(1,905.8)	135.0	(16.5)	(17.7)	7.4
Normalised PATAMI	136.2	154.9	258.2	66.7	89.6	527.0	592.7	12.5
EPS (sen)	2.3	2.8	2.5	(11.6)	8.9	9.1	10.2	12.6
DPS (sen)	3.4	3.8	4.3	14.1	26.5	3.4	4.3	26.5
				+/(-) ppts				*+/(-) ppts*
PBT Margin (%)	21.1	25.3	33.1	7.8	12.1	18.5	21.5	3.1
Tax Rate (%)	6.9	9.7	9.5	(0.2)	2.6	6.0	10.9	4.9
Net Margin (%)	18.4	22.2	29.1	6.9	10.8	17.0	18.2	1.2
Segments								
Revenue:								
Malaysia	306.5	389.9	466.7	19.7	52.3	1,636.0	1,735.5	6.1
International	383.5	312.3	343.3	9.9	(10.5)	1,365.6	1,416.4	3.7
Thailand	55.4	80.4	50.3	(37.4)	(9.1)	247.6	258.0	4.2
Other Asia	83.9	41.8	75.1	79.5	(10.5)	305.9	293.3	(4.1)
Australia & New Zealand	153.7	96.3	121.1	25.7	(21.2)	481.8	452.6	(6.1)
Middle East	83.7	87.3	95.0	8.9	13.5	321.3	395.4	23.1
Other Countries	6.7	6.5	1.8	(72.5)	(73.6)	9.0	17.2	91.2
PBT:								
Malaysia	58.5	147.0	124.3	(15.4)	112.7	339.0	497.2	46.7
International	86.9	31.0	46.5	50.1	(46.5)	214.9	181.9	(15.4)
Thailand	23.9	11.9	13.8	15.8	(42.4)	93.0	56.7	(39.1)
Other Asia	40.4	(4.2)	7.5	(279.9)	(81.5)	57.9	3.5	(94.0)
Australia & New Zealand	4.9	3.0	4.3	40.8	(12.5)	25.1	28.2	12.3
Middle East	16.3	18.8	20.6	9.6	26.6	36.9	90.5	145.3
Other Countries	1.4	1.4	0.4	(74.0)	(73.5)	2.0	3.0	49.8

Source: Company, MIDFR

FINANCIAL SUMMARY

Income Statement (RM'm)	2023A	2024A	2025E	2026F	2027F
Revenue	3,001.5	3,151.9	3,536.8	3,622.8	3,661.0
D&A	254.9	333.7	350.0	381.0	415.2
Net interest	-10.1	**30.331**	30.4	30.6	30.9
Profit before tax	553.9	679.1	694.0	724.9	751.2
Tax	-33.3	**-73.8**	-58.3	-46.0	-35.9
PATAMI	510.5	575.032	666.1	709.5	746.2
Core PATAMI	527.0	592.716	683.2	726.9	763.4

Balance Sheet (RM'm)	2023A	2024A	2025E	2026F	2027F
Fixed assets	3435.9	3506.9	3625.4	3718.8	3810.1
Intangible assets	2060.6	2339.8	2342.7	2736.8	2720.7
Non-current assets	**6570.4**	**6634.5**	**6507.1**	**6780.5**	**7056.5**
Cash	1720.5	1572.8	1820.1	1936.3	1937.3
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	904.6	789.2	960.8	1045.5	1147.0
Short-term debt	337.2	298.8	364.4	407.9	429.3
Current liabilities	**2741.1**	**2495.8**	**2780.9**	**2981.8**	**3084.3**
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	3881.4	4249.4	4555.4	4908.0	5416.0
Equity	**6160.3**	**6507.5**	**6503.8**	**6949.2**	**7365.3**

Cash Flow (RM'm)	2023A	2024A	2025E	2026F	2027F
PBT	553.9	679.1	694.0	724.9	751.2
Depreciation & amortisation	254.9	333.7	350.0	381.0	415.2
Changes in working capital	23.7	-28.3	-25.8	-20.1	-41.4
Operating cash flow	**519.1**	**750.2**	**934.3**	**1159.0**	**1287.1**
Capital expenditure	-320.0	-428.3	-456.7	-474.0	-467.2
Investing cash flow	**-295.5**	**-551.1**	**-485.8**	**-504.5**	**-495.7**
Debt raised/(repaid)	-497.4	-704.1	-661.3	-539.9	-527.5
Financing cash flow	**-598.0**	**-788.6**	**-741.3**	**-609.9**	**-595.5**
Net cash flow	**-143.4**	**-152.7**	**247.3**	**116.2**	**1.0**
Beginning cash flow	**1840.2**	**1720.5**	**1572.8**	**1820.1**	**1936.3**
Ending cash flow	1720.5	1572.8	1820.1	1936.3	1937.3

Profitability Margins	2023A	2024A	2025E	2026F	2027F
PBT margin	18.5%	21.5%	19.6%	20.0%	20.5%
PATAMI margin	17.0%	18.2%	18.8%	19.6%	20.4%
Core PATAMI margin	17.6%	18.8%	19.3%	20.1%	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 *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