

Deleum Berhad

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

Maintain NEUTRAL

Earnings marred by compressed margins

Revised Target Price: RM0.86

(Previously RM1.11)

KEY INVESTMENT HIGHLIGHTS

- Deleum Berhad's 4QFY19 earnings came in below expectations at RM13.1m
- Higher revenue recognition from Power & Machinery segment cushioned earnings
- Oilfield Solutions reverted to losses with a LBT of -RM651m
- Softer margins on Sponge-Jet Blasting and lower MCM job execution dragged ICS segment
- FY20F earnings revised down by -23.1% to RM38.0m
- Maintain NEUTRAL with a lower TP of RM0.86 per share

4QFY19 earnings below expectation. Deleum Berhad's (Deleum) 4QFY19 net profit came in at RM8.6m. This brings its FY19 cumulative earnings to RM33.1m which was below our and consensus' full-year earnings estimates at 86% and 83% respectively. Comparing against 4QFY18, its revenue and earnings grew by +15.8%yoy and +14.6%yoy respectively. This was primarily driven by the higher sales from its power and machinery segment coupled with a sales growth from the Sponge-Jet blasting business. Meanwhile, on a quarterly sequential basis revenue declined by -21.7% whilst earnings dipped by -34.6%qoq respectively. This was due to lower contribution from both the oilfield services and integrated corrosion solution.

Power & Machinery. Segment revenue grew by +12.2%yoy whilst segment profit surged by +102.5%yoy respectively. The strong revenue and earnings growth during the quarter was primarily driven by: (i) robust demand for valves and flow regulator services; (ii) higher supply of local field service representative as well as; (iii) increase in the sales of turbine parts and other ancillary services. PBT margin has also improved to 14.2% vs 7.5% in 4QFY18. However, this was offset by lower commission income earned on oil and gas projects and decreased contribution from retrofit projects.

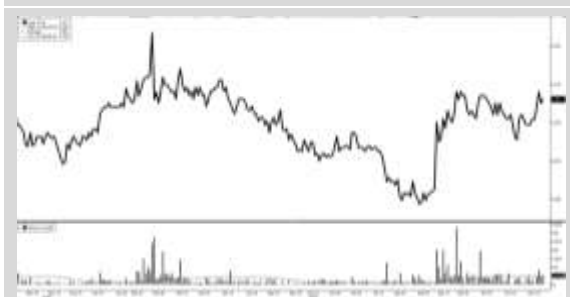
Oilfield Services. Segment revenue grew by +15.1%yoy due to: (i) stronger contribution from GLV services; (ii) increase in jobs performed from well intervention and enhancement services; (iii) higher slickline services in East Malaysia region and; (iv) higher chemical sales generated under SCWS. This was however offset by margin compressions and slowdown in activities from its West Malaysia slickline operations which caused segment profit to revert to a loss before tax of -RM651.0m.

Integrated Corrosion Solutions. Meanwhile, revenue for ICS also grew by +26.4%yoy mainly due to the revenue growth from its Sponge-Jet Blasting business following the renewal of the Pan Malaysia Painting and Blasting Contracts (PMPBC). However, the segment recorded a loss before tax of -RM3,118m during the quarter due to lower job executions on its MCM contract and softer margins on its Sponge-Jet Blasting business.

RETURN STATISTICS

Price @ 26 th Feb. 2020 (RM)	0.84
Expected share price return (%)	+2.4
Expected dividend yield (%)	+2.7
Expected total return (%)	+5.1

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	0.95	-0.39
3 months	-0.93	27.90
12 months	2.91	9.58

KEY STATISTICS


FBM KLCI	1495.19
Syariah compliant	Yes
Issue shares (m)	401.13
Estimated free float (%)	28.73
Market Capitalisation (RM'm)	425.65
52-wk price range	0.80 – 1.28
Beta vs FBM KLCI (x)	1.05
Monthly velocity (%)	11.03
Monthly volatility (%)	17.07
3-mth average daily volume (m)	0.46
3-mth average daily value (RM'm)	0.48
Top Shareholders (%)	
Lantas Mutiara Sdn Bhd	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.66

Analyst(s)

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FY20F earnings projections trimmed. Following the earnings announcement, we are reducing our FY20F earnings on Deleum by -23.1% to RM38.0m as we opine that its oilfield services and ICS segments will continue to face headwinds and compressed margins into FY20. We have also introduced our FY21-22F numbers in this report.

Maintain NEUTRAL with a lower TP of RM0.86. Post earnings announcement, we are maintaining our **NEUTRAL** recommendation on Deleum with a lower target price of **RM0.86** (from RM1.11 previously). Our TP is premised on an unchanged PER20 of 9.0x pegged to a lower EPS20 of 9.5sen post earnings revision.

We opine that our **NEUTRAL** recommendation is fair given that we foresee that Deleum will continue to face margin compression in its Oilfield Services segment especially in the contract that it won for OS late last year. Furthermore, we continue to view its slow orderbook replenishment as a barrier to future earnings visibility given the current challenging operating environment for its OS segment. That said, we remain optimistic that Deleum's niche in providing slickline services, turbine repairs and integrated corrosion solutions will remain as its key strength going forward which would place it at the forefront to win future contracts in those areas. Its dividend yield remains decent at 3.4% FY20F. 

INVESTMENT STATISTICS

Financial year ending 31st December (in RM m unless stated otherwise)	2018A	2019A	2020E	2021F	2022F
Revenue	623.7	868.3	913.9	963.9	1113.9
Gross Profit	124.5	143.6	137.1	144.6	167.1
Operating Profit	42.0	52.2	51.8	55.5	61.0
Profit Before tax	42.5	55.1	49.4	53.7	59.7
Tax expense	-12.7	-11.1	-11.4	-12.3	-13.7
Net Profit	27.2	33.1	38.0	41.3	46.0
Earnings per share (sen)	6.8	11.0	9.5	10.3	11.5
Dividend per share (sen)	3.5	3.3	2.9	3.2	3.7
Dividend yield (%)	4.2	3.9	3.4	3.8	4.4
PER (x)	12.4	7.6	8.8	8.1	7.3

Source: Company, MIDFR

DELEUM BERHAD: 4QFY19 RESULTS SUMMARY

Financial year ending 31st December (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	FY18	FY19	YoY (%)
Revenue	200.4	296.5	232.1	-21.7	15.8	623.7	868.3	39.2
Cost of sales	(169.1)	(248.3)	(194.3)	-21.7	14.9	-499.2	-724.7	45.2
Gross profit	31.3	48.3	37.9	-21.5	20.9	124.5	143.6	15.4
Other income	0.7	0.8	1.1	39.4	46.8	3.6	3.8	6.5
Selling and Distribution costs	(10.0)	(9.2)	(10.7)	16.8	6.9	-35.6	-37.9	6.2
Administrative costs	(11.2)	(15.9)	(12.8)	-19.2	14.6	-46.6	-54.5	17.1
Other operating gains/ (expenses)	(0.6)	(1.4)	0.7	-150.5	-212.5	-3.8	-2.8	-25.0
Operating profit	10.2	22.6	16.1	-28.8	57.3	42.0	52.2	24.2
Finance cost	(0.7)	(0.9)	(0.9)	2.8	23.6	-2.9	-3.2	13.0
Share of results of a JV	0.1	0.4	0.2	-34.5	65.8	1.1	1.4	20.6
Share of post tax profits of associates	0.6	1.3	0.2	-85.5	-66.0	2.3	4.8	109.1
Profit before tax	10.2	23.5	15.7	-33.2	53.1	42.5	55.1	29.4
Tax expense	(2.4)	(5.1)	(3.2)	-37.4	30.1	-12.7	-11.1	-13.0
Profit After Tax	7.8	18.4	12.5	-32.0	60.2	29.8	44.0	47.5
Minority Interest	0.3	5.3	3.9	-25.6	1114.5	2.7	10.9	308.1
PATAMI	7.5	13.1	8.6	-34.6	14.6	27.2	33.1	22.0
EPS (sen)	1.9	3.3	2.1	-34.6	14.3	6.8	8.3	21.9
DPS (sen)	2.5	-	3.0	nm	20.0	3.8	4.4	17.3
				+ / (-) ppts				+ / (-) ppts
Gross margin (%)	15.6	16.3	16.3	0.0	0.7	20.0	16.5	-3.4
Operating profit margin (%)	5.1	7.6	6.9	-0.7	1.8	6.7	6.0	-0.7
PBT margin (%)	5.1	7.9	6.8	-1.2	1.6	6.8	6.3	-0.5
PATAMI margin (%)	3.7	4.4	3.7	-0.7	0.0	4.4	3.8	-0.5
Tax rate (%)	23.8	21.6	20.3	-1.4	-3.6	29.9	20.1	-9.8
Segmental								
<i>Revenue</i>								
Power and Machinery	125.2	179.7	140.5	-21.8	12.2	360.2	486.2	35.0
Oilfield Services	30.9	37.1	35.6	-4.0	15.1	124.8	144.2	15.6
Integrated Corrosion Solution	44.2	79.5	55.9	-29.8	26.4	138.2	237.3	71.7
<i>Profit before tax</i>								
Power and Machinery	9.8	18.9	19.9	5.5	102.5	36.0	49.8	38.3
Oilfield Services	0.9	0.6	-0.7	-217.3	-169.4	16.2	1.3	-91.9
Integrated Corrosion Solution	0.1	4.0	-3.1	-177.1	-3,643.2	-6.2	2.3	-137.5

Source: Company, 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.