

22 May 2018 | 1QFY18 Results Review

Deleum Berhad

MCM works to pick up 2QFY18 onwards

Maintain NEUTRAL

Revised Target Price (TP): RM1.39
(previously RM1.20)

INVESTMENT HIGHLIGHTS

- **Deleum Bhd's 1QFY18 reported earnings grew +6.5%yoy to RM1.4m**
- **Power & Machinery and Oilfield Services divisions profitable**
- **Margin expansion recorded for P&M and OS divisions**
- **Earnings up cycle to start in 2HFY18 but revenue pressure seen in P&M and OS divisions**
- **Maintain Neutral with revised TP of RM1.39 per share**

Decent start to the year. Deleum's 1QFY18 reported earnings grew by +6.5%yoy to RM1.4m. Excluding one-off items ie. Tax penalty, fair value losses and forex losses, Deleum's 1QFY18 normalised profit stood at RM2.6m. Although the earnings seem far from our full year FY18 earnings estimates, we maintain our earlier notion that activity levels and earnings could pick up from 2QFY18 onwards. This will be largely owing to the company's MCM contract.

Power & Machinery. Both segment revenue and profit grew by +11.7% and +21.1% respectively mainly attributable to increase in work orders for exchange engines, third-party and other ancillary services. Profit margin expanded by +0.6ppts for the quarter.

Oilfield Services. Similar with P&M segment, segment revenue and profit staged positive growth due to higher slickline utilisation, but offset by lower work orders for well intervention and enhancement services. Segment margin was healthy at +15.6% for the quarter.

Integrated Corrosion Solution. Although segment revenue more than doubled from a year earlier, the segment recorded a loss of -RM3.6m mainly due to higher costs incurred for the Pan Malaysia Painting and Blasting contracts and later than anticipated start of the MCM.

Earnings up cycle likely in 2HFY18. Based on its recent MCM win, we believe that the earnings upcycle is likely to happen in 2HFY18. Our view is largely due to the fact that earnings accretion from the MCM jobs will most likely be recognised towards the latter part of FY18 only. The bulk of the activity and earnings will most likely take place in FY19.

Impact on earnings. No change to earnings at this juncture as 1Q is typically a weaker quarter and 4Q is a stronger quarter.

RETURN STATS	
Price (21 May 2018)	RM1.32
Target Price	RM1.39
Expected Share Price Return	+5.3%
Expected Dividend Yield	+4.3%
Expected Total Return	+9.6%

STOCK INFO	
KLCI	1,853.58
Bursa / Bloomberg	7113 / DLUM MK
Board / Sector	Main / Trading Services
Syariah Compliant	Yes
Issued shares (mil)	400.2
Market cap. (RM'm)	529.2
Price over NA	1.4
52-wk price Range	RM0.73-RM1.32
Beta (against KLCI)	1.50
3-mth Avg Daily Vol	0.63m
3-mth Avg Daily Value	RM0.69m
Major Shareholders (%)	
Lantas Mutiara	20.39
Hartapac Sdn Bhd	12.01
Nathan Vivekananthan	10.07
Mustaffa Zaiton	8.03
IM Holdings	6.08

Maintain NEUTRAL with upside bias. Based on the anticipated earnings up-cycle in 2HFY18 from the MCM contracts and the challenging P&M division, we are maintaining our **NEUTRAL** stance with upside bias on Deleum. We roll forward our valuation base year, deriving a new target price at **RM1.39**. Our target price is premised on PER19 of 12x pegged to EPS19 of 11.6sen. We are maintaining our **NEUTRAL** recommendation but reiterate that Deleum's company fundamentals and prospects remain intact. At peak valuation, the stock traded at PERs in excess of 18x.



INVESTMENT STATISTICS

Income Statement (RM m)	2015	2016	2017	2018F	2019F
Revenue	649.4	608.7	534.1	533.9	573.9
Gross Profit	149.2	12.5	139.9	133.5	143.5
Operating Profit	72.2	54.2	57.6	50.5	65.6
Profit Before tax	71.2	49.8	54.0	44.6	60.2
Tax expense	-16.7	-16.9	-14.8	-10.3	-13.9
Net Profit	54.5	26.5	32.3	34.4	46.4
Earnings per share (sen)	11.4	6.6	8.0	8.6	11.6
Dividend per share (sen)	5.5	3.5	4.3	4.3	5.8
PER (x)	11.6	16.9	19.3	15.4	11.4

Source: MIDFR, Company

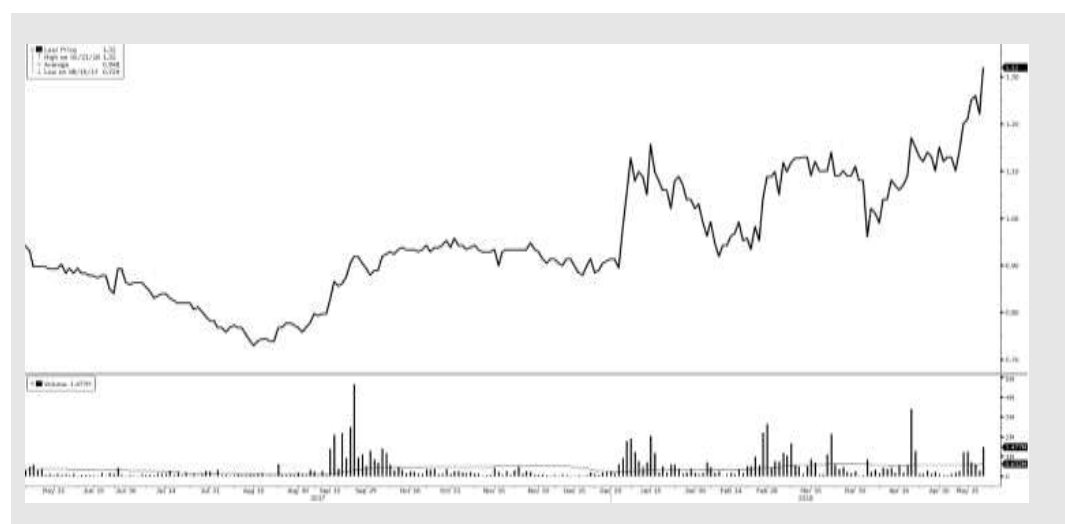
Orderbook

No.	Contracts	Expiry year
1	Provision of Painting and Alternative Blasting	2017
2	Thermo-chemical Solid Deposition Treatment Technology	2018
3	Provision of Integrated Wellhead Maintenance Services	2018
4	Supply of PDC & Rock Bits	2018
5	Supply & Services for Casing Centralizer Equipment	2019
6	Provision of Slickline Equipment & Services	2019
7	Provision of Well Control Services	2020
8	Long Term Service Agreement for Gas Turbine	2023
9	Supply of Gas Turbine Packages	2023

Approximate contract outstanding value = RM1.69b

Source: Estimates by MIDFR, Company

DAILY PRICE CHART



Aaron Tan Wei Min
aaron.tan@midf.com.my
03-2772 1650

RESULTS SUMMARY 1QFY18

FYE Dec (RM' m)	Quarterly Results				
	1Q17	4Q17	1Q18	QoQ (%)	YoY (%)
Revenue	90.0	169.8	108.5	-36.1	20.6
Cost of sales	-65.8	-126.8	-83.8	-33.9	27.3
Gross profit	24.1	43.0	24.7	-42.6	2.3
Other income	0.5	1.0	0.9	-7.3	70.3
Selling and Distribution costs	-7.0	-11.9	-9.0	-24.5	28.8
Administrative costs	-10.4	-10.4	-10.7	2.5	2.4
Other operating gains/ (expenses)	-2.7	-0.4	-1.3	259.2	-53.6
Operating profit	4.5	21.3	4.6	-78.2	2.6
Finance cost	-1.1	-0.9	-0.8	-12.0	-32.4
Share of results of a JV	0.2	0.1	0.3	95.7	62.4
Share of post tax profits of associates	0.4	-0.5	0.6	-221.3	58.4
Profit before tax	3.9	20.1	4.7	-76.5	20.5
Tax expense	-1.7	-4.3	-3.4	-21.3	98.4
PATAMI	1.3	13.5	1.4	-89.6	6.5
Segmental Breakdown:					
Revenue					
Power and Machinery	58.2	118.8	65.0	-45.3	11.7
Oilfield Services	23.9	30.9	27.3	-11.4	14.2
Integrated Corrosion Solution	7.8	20.0	16.1	-19.7	107.2
Profit before tax					
Power and Machinery	4.2	15.3	5.1	-66.5	21.1
Oilfield Services	0.3	3.9	4.3	8.7	1453.1
Integrated Corrosion Solution	0.0	1.4	-3.6	nm	nm

Source: MIDFR, Company

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

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.