

Dialog Group Berhad

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

Maintain BUY

Newly commissioned terminals boosted earnings

Unchanged Target Price: RM3.83

KEY INVESTMENT HIGHLIGHTS

- Dialog Group's 2QFY20 normalised earnings met expectations at RM158.1m
- International operations profit boosted by increased engineering and construction activities
- Better contribution from newly commissioned Dialog Terminal Langsat 3 and SPV Phase 1E
- Tank farm business contribution recorded at RM57.1m
- FY20-21F earnings maintained
- Maintain BUY with an unchanged TP of RM3.83 per share

2QFY20 earnings met expectation. Dialog Group's (Dialog) 2QFY20 normalised net profit came in at RM158.0m. This was within our and consensus' full-year earnings estimates at 52.2% and 49.9% respectively. Comparing against 2QFY19, its normalised earnings grew by +15.5%yoy. This was despite registering a flat revenue year-over-year. However, on a quarterly sequential basis revenue contracted marginally by -5.2% whilst earnings declined slightly by -4.0% respectively. This was driven by improved performance from its local operation, mainly derived from its downstream plant maintenance services.

International operations posted higher profit. The improved performance from its international operations during the quarter has helped to boost earnings. Dialog's international operations recorded a higher net profit after tax during the quarter led by its Middle East operation. The higher net profit was mainly attributed to higher engineering, construction, fabrication and plant services activities as well as an increase in specialist products and services sales.

Better contribution from newly commissioned terminals. We noted that the quarter also saw better contribution from Dialog Terminal Langsat 3 partial-commissioning of its 115,000cbm storage facility. Recall that, Dialog Terminal Langsat 3 was partially commissioned back in August 2019. However, we understand that while there was contribution from Dialog Terminal Langsat 3, it was still minimal as of end 2QFY20 as it was only fully commissioned in January 2020. In addition, Management disclosed that SPV Phase 1E was also fully commissioned at the end of end-2019.

Tank farm business contribution increased >100%yoy. Meanwhile, earnings coming from Dialog's tank farm business continued to expand during the quarter by +100.1%yoy to a record high of RM57.1m. The contribution from the tank farm business was boosted mainly by Pengerang Terminals 2 Sdn Bhd (PT2SB).

RETURN STATISTICS

Price @ 13 th February 2019 (RM)	3.39
Expected share price return (%)	+12.9
Expected dividend yield (%)	+1.8
Expected total return (%)	+14.7

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-1.45	1.46
3 months	-1.74	2.56
12 months	13.76	24.56


KEY STATISTICS

FBM KLCI	1,539.16
Syariah compliant	Yes
Issue shares (m)	5,641.64
Estimated free float (%)	39.0
Market Capitalisation (RM'm)	19,113.86
52-wk price range	2.95-3.57
Beta vs FBM KLCI (x)	1.01
Monthly velocity (%)	11.0
Monthly volatility (%)	10.0
3-mth average daily volume (m)	5.83
3-mth average daily value (RM'm)	19.92
Top Shareholders (%)	
Ngau Boon Keat	20.03
Azam Utama Sdn Bhd	8.29
Wide Synergy Sdn Bhd	7.84

FY20-21F earnings projections remain intact. Following the earnings announcement, we made no changes to our FY20-21F earnings projections. At this juncture; we opine that Dialog is set to meet our earnings estimates.

Maintain BUY with an unchanged TP of RM3.83. Post earnings announcement, we are maintaining our **BUY** recommendation on Dialog with an unchanged target price of **RM3.83**. Our valuation is derived from a sum-of-parts method pegging a PER of 28x to its core businesses i.e: EPCC, Plant Maintenance, Specialist and Catalyst. We have also assigned an 8% discount rate on its discounted cash flow for its centralized tankage facilities business.

Our **BUY** recommendation is premised on our expectation of an increase in contribution coming from its growing tank farm business with the completion of the SPV Phase 1E's 430,000cbm which we understand has fully commissioned in 4QCY19. In addition, we are also expecting earnings to be boosted by the full commissioning of Dialog Terminal Langsat 3's first 115,000cbm which has fully commissioned back in January 2020.

Furthermore, with the completion of Pengerang Deepwater Terminal (PDT) Phase 2 and the refineries in RAPID as well as the recently awarded Groupwide Master Service Agreement from PETRONAS, we opine that Dialog's bottomline will continue to be in a positive growth trajectory going forward. Dialog remains as our Top Pick in the oil and gas sector given its; (i) stable recurring income; (ii) front-line beneficiary to RAPID Pengerang's operations and; (iii) growing tank farm business. 

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'M unless stated otherwise)	2017A	2018A	2019A	2020E	2021F
Revenue	3,392.9	3,110.6	2,386.5	4,201.0	4,246.5
EBIT	341.8	679.5	702.4	736.5	746.9
Pretax Profit	448.8	628.1	653.0	718.5	725.9
Normalised Net Profit	370.6	510.4	552.3	563.6	570.5
EPS (sen)	6.8	9.1	9.5	10.0	10.1
EPS growth (%)	21.1%	33.2%	4.9%	5.2%	1.2%
PER (x)	49.9	37.4	35.7	33.9	33.5
Dividend per share (sen)	2.9	2.8	3.8	4.5	6.0
Dividend yield (%)	0.9%	0.8%	1.1%	1.3%	1.8%

Source: Company, MIDFR

DIALOG GROUP BERHAD: 2QFY20 RESULTS SUMMARY

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	2QFY19	1QFY20	2QFY20	QoQ (%)	YoY (%)	1HFY19	1HFY20	YoY (%)
Revenue	609.6	645.8	612.3	(5.18)	0.44	1,300.5	1,258.1	-3.3
Operating Expenses	(481.0)	(540.1)	(492.3)	(8.85)	(41.32)	(1,070.2)	(1,032.3)	-3.5
Other Operating Income	14.1	13.0	19.1	47.03	(26.01)	32.1	32.1	0.1
Fair value gain on disposal of JV	-	28.5	-	nm	nm	-	28.5	nm
JCE	40.9	57.8	57.1	(1.19)	100.02	71.8	114.9	60.1
Finance Costs	(12.7)	(10.5)	(8.9)	(15.76)	(6.52)	(24.7)	(19.4)	-21.3
Profit Before Tax	171.0	194.5	187.4	(3.64)	56.59	309.6	381.9	23.4
Tax expense	(30.7)	(25.3)	(27.3)	7.97	25.06	(51.2)	(52.7)	2.8
Profit After Tax	140.3	169.2	160.1	(5.38)	14.12	258.3	329.2	27.4
Minority Interests	3.5	4.5	2.1	(54.50)	(40.83)	6.9	6.6	-4.6
PATAMI	136.8	164.6	158.0	(4.02)	15.53	251.4	322.6	28.3
Normalised PATAMI	136.8	136.1	158.0	16.10	15.53	251.4	294.1	17.0
EPS (sen)	2.43	2.92	2.80	(4.11)	15.23	4.46	5.72	28.3
				<i>+ / (-) ppts</i>				<i>+ / (-) ppts</i>
PBT Margin (%)	28.0	30.1	30.6	0.49	2.56	23.8	30.4	6.6
Tax Rate (%)	18.0	13.0	14.6	1.57	(3.37)	16.5	13.8	-2.8
Net Margin (%)	22.4	25.5	25.8	0.31	3.37	19.3	25.6	6.3

Source: Company, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077 (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 197501002077 (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.