

Dialog Group Berhad

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

Maintain BUY

Earnings boosted by Langsat Terminals

Unchanged Target Price: RM3.83

KEY INVESTMENT HIGHLIGHTS

- **Dialog Group's 3QFY20 reported earnings met expectations at RM151.0m**
- **Profit boosted by higher revenue recognition from terminals business i.e: Dialog Terminals Langsat 1,2 & 3**
- **Better contribution from newly commissioned Dialog Terminal Langsat 3 and SPV Phase 1E**
- **Tank farm business contribution recorded at RM72.9m**
- **FY20-21F earnings maintained**
- **Maintain BUY with an unchanged TP of RM3.83 per share**

3QFY20 earnings met expectation. Dialog Group's (Dialog) 3QFY20 reported net profit came in at RM151.0m. This was within our but above consensus' full-year FY20 earnings estimates at 78.9% and 80.1% respectively. Comparing against 3QFY19, its reported earnings grew by +5.1%yoy. This is despite registering a contraction in revenue year-over-year by -20.6% mainly due to the completion of Pengerang Terminals 2 Sdn Bhd (PT2SB) last year which made up a big chunk of its EPCC revenue. Meanwhile, its earning was driven by improved performance from its local Malaysian operation which was mainly attributable to the higher contribution from its terminal business namely Dialog Terminals Langsat 1,2 and 3 as well as Pengerang Independent Terminal (PITSB). On a sequential quarter basis, revenue contracted by -17.5%qoq whilst earnings declined slightly by -4.4%qoq respectively.

International operations profit contracted in 3QFY20. Dialog's international operations recorded a contraction during the quarter mainly due to its Middle East operations. The decline was attributable to reduced supply base activities in Saudi Arabia and lower margin earned on specialist products and services sales as well as engineering and construction activities performed.

Increased contribution from newly commissioned terminals. It was noted that the quarter also saw increased contribution from Dialog Terminal Langsat 3 full commissioning of its 120,000cbm storage facility. Recall that, Dialog Terminal Langsat 3 was partially commissioned back in August 2019. In addition, SPV Phase 1E's 430,000cbm was also fully commissioned at the end of end-2019. This brings the total storage capacity at Dialog Terminals Langsat 1,2, 3 and PITSB to 770,000cbm and 1,780,000cbm respectively. We understand from the Management that these storage capacities are currently fully leased out and the rates have also increased by +30-40% recently due to the increased demand for storage facilities arising from the excess supply of oil.

Tank farm business contribution increased >100%yoy. Meanwhile, earnings coming from Dialog's JV tank farm business continued to expand during the quarter by +155.3%yoy to a record high of RM72.9m. The contribution from the tank farm business was boosted mainly by Pengerang Terminals 2 Sdn Bhd (PT2SB).

RETURN STATISTICS

Price @ 14 th May 2020 (RM)	3.33
Expected share price return (%)	+15.0
Expected dividend yield (%)	+1.8
Expected total return (%)	+16.8

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	3.10	2.40
3 months	9.54	6.69
12 months	1.52	17.09

KEY STATISTICS

FBM KLCI	1,397.25
Syariah compliant	Yes
Issue shares (m)	5641.64
Estimated free float (%)	37.16
Market Capitalisation (RM'm)	18775.56
52-wk price range	RM2.7 - RM3.57
Beta vs FBM KLCI (x)	0.83
Monthly velocity (%)	11.02
Monthly volatility (%)	10.02
3-mth average daily volume (m)	10.11
3-mth average daily value (RM'm)	31.85
Top Shareholders (%)	
Ngau Boon Keat	19.90
Employees Provident Fund Board	9.11
Azam Utama Sdn Bhd	8.29

Analyst(s)


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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 been 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 120,000cbm which has been fully commissioned back in January 2020.

We also opine that the impact of the low oil price and Covid19 pandemic will be mild on Dialog given its well-diversified and defensive revenue base. Additionally, it has also embarked on a proactive cash flow management of its upstream assets to reduce the impact from the current low oil price.

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 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)	49.0	36.8	35.1	33.3	32.9
Dividend per share (sen)	2.9	2.8	3.8	4.5	6.0
Dividend yield (%)	0.9%	0.8%	1.1%	1.4%	1.8%

Source: Company, MIDFR

DIALOG GROUP BERHAD: 3QFY20 RESULTS SUMMARY

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	3QFY19	2QFY20	3QFY20	QoQ (%)	YoY (%)	9MFY19	9MFY20	YoY (%)
Revenue	636.6	612.3	505.4	(17.46)	(20.61)	1,937.1	1,763.5	-9.0
Operating Expenses	(530.2)	(492.3)	(400.1)	(18.73)	(52.30)	(1,600.4)	(1,432.4)	-10.5
Other Operating Income	17.1	19.1	18.8	(1.50)	(27.12)	49.2	50.9	3.6
Fair value gain on disposal of JV	-	-	-	nm	nm	-	28.5	nm
JCE	57.2	57.1	72.9	27.62	155.27	129.0	187.8	45.6
Finance Costs	(12.0)	(8.9)	(20.9)	135.42	120.07	(36.7)	(40.3)	9.9
Profit Before Tax	168.7	187.4	176.2	(5.99)	47.21	478.3	558.1	16.7
Tax expense	(23.5)	(27.3)	(24.9)	(8.84)	14.01	(74.7)	(77.6)	3.9
Profit After Tax	145.2	160.1	151.3	(5.51)	4.17	403.6	480.5	19.1
Minority Interests	1.5	2.1	0.2	(89.00)	(84.89)	8.4	6.8	-18.9
PATAMI	143.7	158.0	151.0	(4.41)	5.10	395.1	473.7	19.9
Normalised PATAMI	143.7	158.0	151.0	(4.41)	5.10	395.1	445.1	12.7
EPS (sen)	2.55	2.80	2.68	(4.29)	5.10	7.01	8.40	19.8
DPS (sen)	1.50	-	1.20	nm	(20.00)	1.50	1.20	-20.0
				<i>+ / (-) pts</i>				<i>+ / (-) pts</i>
PBT Margin (%)	26.5	30.6	34.9	4.25	8.36	24.7	31.6	7.0
Tax Rate (%)	13.9	14.6	14.1	(0.44)	0.22	15.6	13.9	-1.7
Net Margin (%)	22.6	25.8	29.9	4.08	7.31	20.4	26.9	6.5

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.