Initiate Coverage | Tuesday, 05 July 2022

Deleum Berhad

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

Initiate BUY

Healthy performance amid adverse sector

Initiate Target Price: RM0.96

KEY INVESTMENT HIGHLIGHTS

- **Initiate coverage on Deleum with BUY recommendation and a TP of RM0.96 per share**
- **Deleum specialises in upstream O&G services primarily in gas turbines, slicklines and well services, and corrosion solutions**
- **Resilient orderbook at RM2b, tenderbook at RM116m**
- **Positive earnings since FY07 despite CAGR at 7.4%**
- **Strong dividend yield exceeding risk free rate**

EXECUTIVE SUMMARY

Earnings. FY20-21 had been a challenging year for oil and gas service providers due to the Covid-19 pandemic and volatile crude prices, causing a slip in a 5-year CAGR of -7.4%. Despite this, Deleum Bhd (Deleum) maintains positive earnings since its debut in CY07.

Orderbook. Deleum has an orderbook standing at approximately RM2.2b, while tenderbook recorded approximately RM116m as of FY21.

Dividend payout and yields. Deleum has a 52% net payout ratio as of FY21 with a DPS of 1sen. Its dividend yield comes in at a 5-year average of 4.7% which exceeds the risk-free rate in Malaysia.

Initiation with BUY. We initiate coverage on Deleum with a **BUY** recommendation and a **target price of RM0.96** per share based on pegging a PER of 12x to the estimated EPS23 of 8.0sen. As of writing, the company is trading at an approximate PER of 11x.

COMPANY OVERVIEW

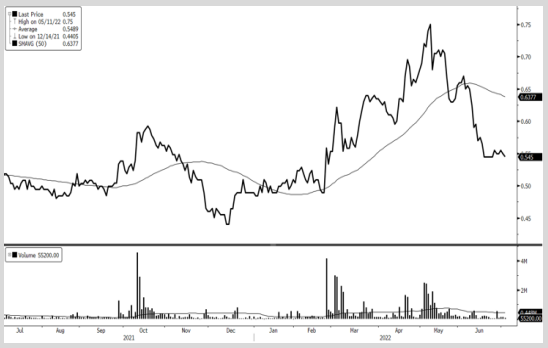
Deleum Berhad (Deleum) is an investment holding company expertising in upstream oil and gas products and services for Malaysia. The company is founded in 1982 and is headquartered in Kuala Lumpur. Apart from the involvement in the development and provision of deposit removal solutions, and the supplying of oilfield chemicals, Deleum primarily specialises in three core business segments:

Power and Machinery engages in the sale of gas turbines and related parts, and overhaul of turbines, as well as provision of maintenance and technical services.

Oilfield Services. This segment offers slickline equipment and services; integrated wellhead maintenance services; well intervention and cased hole logging services; gas lift valve and insert strings equipment, accessories, and services; specialty chemicals and well stimulation services; drilling and completions services; and subsurface engineering services.

RETURN STATISTICS	
Price @ 4th July 2022 (RM)	0.55
Expected share price return (%)	+76.2
Expected dividend yield (%)	+3.5
Expected total return (%)	**+79.7**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	-18.7	-13.0
3 months	-1.8	-3.9
12 months	0.9	7.6

KEY STATISTICS	
FBM KLCI	1,437.52
Syariah compliant	No
Issue shares (m)	401.55
F4BGM Index	Yes
ESG Grading Band (Star rating)	☆☆☆
Estimated free float (%)	32.96
Market Capitalisation (RM'm)	218.85
52-wk price range	RM0.44 - RM0.77
Beta vs FBM KLCI (x)	1.07
Monthly velocity (%)	0.00
Monthly volatility (%)	17.07
3-mth average daily volume (m)	0.45
3-mth average daily value (RM'm)	0.30
Top Shareholders (%)	
Lantas Mutiara Sdn Bhd	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan	10.78

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Integrated Corrosion Solution. This segment provides integrated corrosion and inspection services; blasting technology; and engages in the maintenance, construction, and modification maintenance activities, as well as services for tanks, vessels, structures, and piping.

KEY INVESTMENT THESES

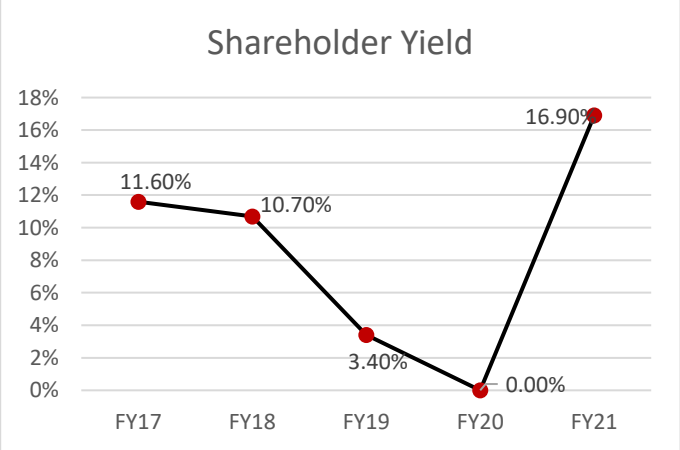
Positive shareholder yield. Deleum recorded a shareholder yield of 52-week average of 27.4%, at a 5-year CAGR of +9.9%. The average ranks in the 93.5% percentile for the average shareholder yield in Malaysia's energy sector. The group had been making positive profits since being publicly listed. The exception was during the pandemic year of CY20, when the group had to impair RM30.3m in assets. Additionally, Deleum also had to impair RM4.9m for doubtful debts in its OS segment. (refer to Chart 1)

Sufficient cash flows. Deleum has sustainable cash flow for the last five years, with CAGR of +8.9%. As of 1QFY22, Deleum was standing on a net cash of RM183.4m against a FY21 total borrowing of RM30.3m. This gives room for the group to manage its risk for its expansion plans, although in observation of its historical performance, generating revenue while initiating active collaboration via contracts are its top priotity. (refer to Chart 2)

Prominent player in energy service. Deleum's revenue has been growing at a compounded annual growth rate (CAGR) of +4.0% for the past five years, with a forecasted CAGR up to +3.1%. The growth rates is attributed to the P&M segment, which attributed to 69.8% of total revenue in FY21 at a 5-year CAGR of +7.3%. Meanwhile, OS contributed 18.6% and ICS contributed 11.2% of total revenue, with a 5-year CAGR of -12.7% and +25.8%. Deleum Berhad's FY21 revenue ranks in the 74.3% percentile for the sector, despite the small 5-year growth caused by the impact of the pandemic on the sector as a whole. (refer to Chart 3)

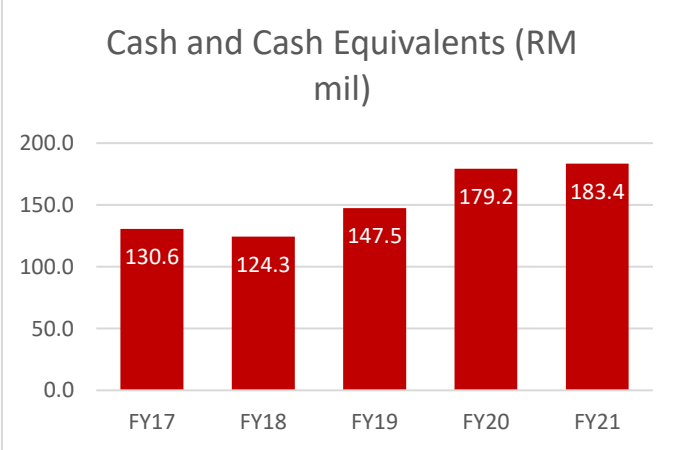
Earnings-wise, however, Deleum recorded a negative 5-year CAGR of -7.4%; attributable to the low earnings in FY20 caused by the surging Covid-19 pandemic in that year. The pandemic had atributed to weaker operating performance in both P&M and OS segments; aggravated by one-off impairment for the group's chemical operating assets. Additionally, lower revenue earned from engine disassembly services and space rental also contributed to the low earnings. The turnaround activities in ICS mitigated the losses in FY22. Nonetheless, the year-on-year growth of +11.8% from FY20 to FY21 may signal improvement to the demand for oil and gas services; moreso with the lifting of border restrictions and the surging in travelling and petrochemical product needs. Coupled with the RM60b capex for CY22 announced by Petronas for service companies recently, we expect that the upward trajectory will continue to return to pre-pandemic numbers. We expect the CAGR to improve at rate of +1.9% in the coming financial terms. (refer to Chart 4)

CHART 1: Shareholder Yield (FY17-FY21)



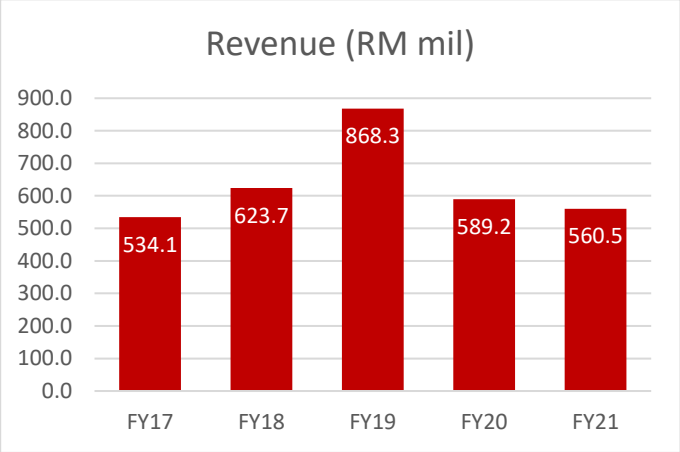
Source: Company, MIDFR

CHART 2: Net Cash Flow (FY17-FY21)



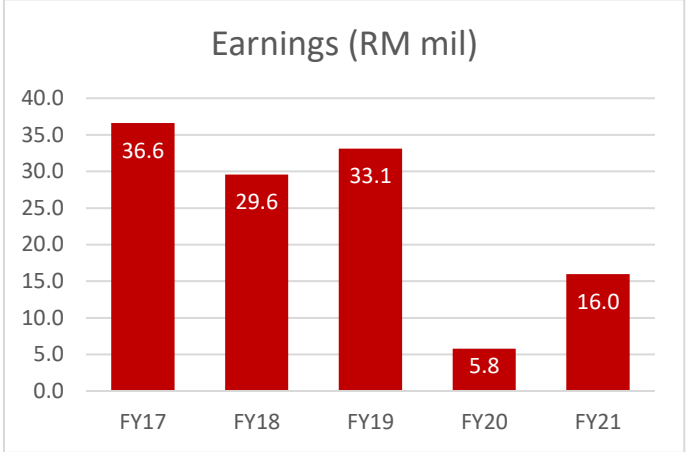
Source: Company, MIDFR

CHART 3: Revenue (FY17-FY21)



Source: Company, MIDFR

CHART 4: Earnings (FY17-FY21)



Source: Company, MIDFR

FINANCIALS

1QFY22 Brief Note. Deleum's financial performance for 1QFY22 for financial year ending 31st December 2022 that was announced last month showed a slip in revenue by -46.4%qoq but a rise by +7.0%yoy to RM102.8m. Similarly, earnings displayed a drop by -23%qoq but a surge by +43%yoy. The earnings was attributable to stronger performances recorded from both the OS and ICS segments. For more information on Deleum's 1QFY22 results, refer to Table 1.

The P&M segment posted an increase in revenue of +5.5%yoy due to: (i) the recovery and increase in engine deliveries, (ii) higher supply of local field service representatives, (iii) increase in services performed for machinery management system, and (iv) higher sales for turbine parts. This was however offset by: (i) weaker sales for control and safety valves and flow regulators services, (ii) lower contribution from retrofit projects, and (iii) third party sales. Meanwhile, P&M's results decreased -11.8%yoy attributable to higher operating costs, though mitigated by a forex gain.

The O&S segment revenue increased by +0.3%yoy due to higher activities from its gas lift valve services, slickline services in West Malaysia region and chemical sales. Reduced activities from its slickline services in East Malaysia region, as well as the well intervention and enhancement services, offset the revenue rise. The segment results have improved nearly 6-fold year-on-year from a reversal of impairment made for a trade receivable of RM2.1m.

The ICS segment recorded an increase in revenue of +58.0%yoy, contributed by better job deliveries as well as higher maintenance activity levels for both its Sponge-Jet Blasting (SPJ) business in Indonesia and the Maintenance, Construction and Modification services (MCM) project. The segment also recorded a stronger profit by 7-fold yoy, in line with the higher revenue, as well as a result of various cost savings initiatives undertaken to reduce its operating costs.

Gearing. Deleum's balance sheet has maintained a modest gearing ratio in the range of 0.18x – 0.24x from FY17 to FY20. Gearing, however, slid to 0.08x in FY21, attributable to the height of the pandemic lockdowns impacting its projects' timeline and cost of operations, hence the need to maintain a low gearing ratio to mitigate from owning debts. The decrease in borrowings was also due to net repayment on term loan of RM26.6m, revolving credits of RM20.7m and net repayment of lease liabilities for right-of-use assets of RM0.9m in FY21. Historically, Deleum had always shown – with exception of FY14 – a gearing ratio between 0.04x and 0.43x; a low to optimal gearing ratio. FY14 recorded a gearing ratio above 0.5x due to term loans taken to cater for the purchase of slickline equipment for the Pan Malaysia Slickline project in its OS segment. Moving forward, we opine that the gearing to be maintained between 0.16x to 0.19x as the estimated capex for local oil and gas service provider had doubled for CY22 onwards; which could be utilised by Deleum for upcoming service contracts for repair, maintenance and construction projects.

Orderbook. Deleum's orderbook remains robust, as contracts with an approximate RM2.2b worth of orders until at least CY23, as well as an approximate of RM116m worth of tenders. With the oil and gas sector picking up on oilfield activities after the worst of the Covid-19 pandemic and in the wake of tight crude supplies worldwide causing crude prices to go above USD100pb, we believe the group's orderbook and tenderbook will have high potential to grow in FY22 and beyond. Additionally, the RM60b capex placed forth by PETRONAS could trickle down to service providers across the oil and gas value

chain, thus be an opportunity for Deleum to strengthen its orderbook further. Deleum is also currently looking to expand its businesses within Southeast Asia and the Middle East. As of writing, Deleum has been in talks with operators in UAE, Oman, Qatar and Saudi Arabia to expand into these markets. Deleum also has a 81% stake in a joint venture with Solar Turbines International Company through Turboservices Overhaul Sdn Bhd, which provides repair and overhaul capabilities for a wide range of Solar Turbines equipment in Malaysia. 2MC, a 32%-owned associate company of the group, is involved in the operations of bulking installation in Labuan, offering dry and liquid bulking services to offshore oil and gas companies. For information on Deleum's FY21 activities, key clients and projects, refer to Table 2 and 3.

TABLE 1: Deleum's Quarterly Results (1QFY22)

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Yearly Results		
	1QFY21	4QFY21	1QFY22	QoQ%	YoY%	FY20	FY21	YoY%
Revenue	**96.1**	**191.9**	**102.8**	**-46.4**	**7.0**	**155.2**	**560.5**	**261.2**
Cost of Sales	(68.6)	(152.9)	(75.4)	-50.7	9.9	(121.5)	(452.8)	272.8
Gross Profit	27.5	39.0	27.4	-29.8	-0.2	33.7	107.7	219.3
Other operating income	0.8	0.8	2.4	188.2	183.8	0.9	3.5	291.8
Selling and distribution cost	(7.2)	(7.2)	(7.4)	1.8	2.7	(7.2)	(29.5)	310.2
Admin expenses	(12.1)	(12.5)	(14.1)	12.4	16.1	(13.9)	(49.8)	257.7
Other operating expenses	(1.2)	(3.8)	2.4	-164.8	-306.2	1.0	(6.0)	-692.1
Operational profit	7.9	16.4	10.8	-33.9	37.6	14.5	25.8	78.2
Finance cost	(0.6)	(0.3)	(0.2)	-22.7	-63.4	(0.6)	(1.9)	203.1
Share of PAT of joint venture	0.4	0.3	0.3	7.0	-10.1	(0.4)	1.3	-413.5
Share of PAT of associates	1.4	1.1	0.9	-17.0	-36.9	1.4	5.6	303.8
PBT	**9.0**	**17.5**	**11.8**	**-32.3**	**30.7**	**14.9**	**31.0**	**108.4**
Income tax	(2.0)	(2.5)	(2.8)	12.5	39.5	(2.4)	(6.5)	166.3
PAT	**7.1**	**15.0**	**9.1**	**-39.7**	**28.2**	**12.4**	**24.5**	**97.1**
Discounted operations tax	0.0	0.3	0.3	-11.8	nm	(0.3)	(1.9)	464.9
FOREX differences	0.1	(0.0)	0.0	-100.0	-100.0	(0.2)	0.1	-163.1
Net Profit/Loss	**7.2**	**15.3**	**9.3**	**-38.9**	**29.9**	**11.9**	**22.7**	**90.6**
Minority interest	1.5	4.8	1.2	-74.2	-19.0	4.5	6.7	49.1
Normalised Profit/Loss	**5.7**	**10.5**	**8.1**	**-23.0**	**43.0**	**7.4**	**16.0**	**115.9**
				+/- ppts				*+/- ppts*
GP margin (%)	28.6	20.3	26.7	6.3	-1.9	21.7	19.2	-2.5
PBT margin (%)	9.4	9.1	11.5	2.4	2.1	9.6	5.5	-4.0
PATAMI margin (%)	7.5	8.0	9.1	1.1	1.6	7.7	4.0	-3.6
Normalised PATAMI margin (%)	5.9	5.5	7.9	2.4	2.0	4.8	2.8	-1.9
Effective tax rate (%)	22.0	14.1	23.4	9.3	1.5	16.4	20.9	4.5
SEGMENTAL								
Revenue:								
Power and Machinery	58.495	137.8	61.716	-55.2	5.5	368.1	391.0	6.2
Oilfield Services	27.912	28.9	28.003	-3.3	0.3	109.4	104.2	-4.8
Integrated Corrosion Solution	8.187	25.0	12.933	-48.3	58.0	109.4	62.6	-42.8
Other	0.109	0.2	0.123	-31.3	12.8	0.5	0.6	15.0
Results:								
Power and Machinery	7.521	17.7	6.633	-62.5	-11.8	47.4	42.3	-10.8
Oilfield Services	0.646	-7.7	3.769	-148.8	483.4	-21.8	-15.4	-29.3
Integrated Corrosion Solution	0.161	7.2	1.171	-83.7	627.3	4.1	3.3	-21.3
Other	0.01	0.0	0.011	-35.3	10.0	0.1	0.1	16.1

Source: Company, MIDFR

TABLE 2: Deleum's Activities in FY21

Segment	Subsidiary	Product / Services / Projects	Remarks
Power & Machinery (P&M)	Deleum Services	Gas turbine generator packages	Order of 3 new gas turbine generator packages, in addition to another 2 orders for printed circuit
		• submersible pumps and motors • mercury/sulfur removal absorbents	New additional products and service representations
	Turbo Services	Turbomachinery	Maintenance
	Penaga Dressar	Control and safety valves	Production declined in FY21; but service facilities in Miri is fully operational
		Permanent service workshop in Pengerang	Deferred; pending restart of PETRONAS's Refinery and Petrochemical Integrated Development (RAPID) operations (as of date, Pengerang has been online for 2 months, hence establishment of the workshop may proceed)
		MERO3 Floating Production, Storage and Offloading (FPSO) project in Brazil	A major international milestone achieved in FY21
	Deleum Rotary Services	Motor/generator facilities in Kajang and Bintulu	Closure of Kajang and Bintulu facilities to exit from the motor/generator maintenance, repair and overhaul business was completed in FY21; resulting in positive financial performance in FY22, from lower operating costs
Oilfield Services (OS)	-	Slickline and Well Services	Continues to be the largest service provider of slickline packages in Malaysia, supplying more than half of the country's total slickline requirements and securing several contract extensions with prominent oil and gas companies in FY21 ranging from 1-2 years involving the provision of slickline equipment and services, gas lift valve, and insert string equipment, accessories and services.
	-	Asset Integrated Solutions	• Continues to deliver comprehensive, high quality, customised and cost-effective solutions to its customers in FY21; currently exploring opportunities to expand its services with electro-mechanical tool and set & retrieve wellbore devices without explosives. • Notable FY21 achievements: ○ first successful rig-less through-tubing gravel pack ○ first successful application of mini-triplex pump ○ first trading supply of lubricant to Kuantan Port
Integrated Corrosion Solution (ICS)	Deleum Primera	-	Establishment of Representative Office in Indonesia as a base for its operations

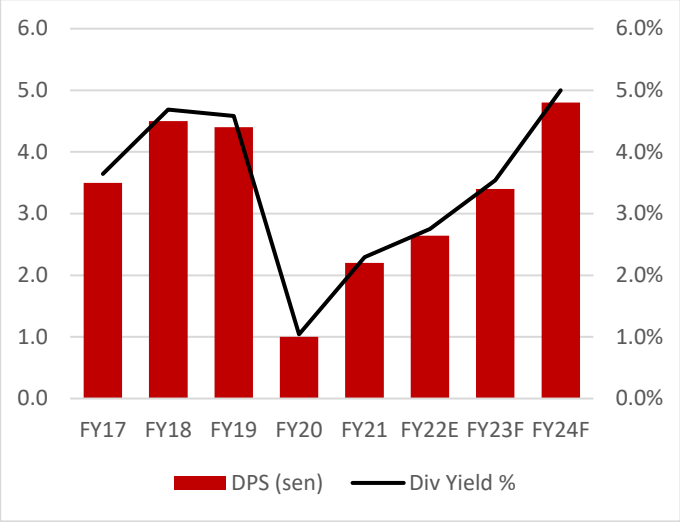
Source: Company, MIDFR

TABLE 3: Key clients and Projects

Clients	Projects
PETRONAS Group of Companies and Production Sharing Contract Operators	• Provision of turbomachienery • Maintenance services for solar gas turbines
Petronas Carigali Sdn Bhd	• Provision of modification, and minor construction and fabrication • Maintenance services • Provision of slickline equipment • Provision of alternate blasting and painting
Exxon Mobil Exploration and Production Malaysia Inc	Provision of slickline equipment

Stable dividend payouts. Deleum continues to maintain a 50% payout policy while remain profitable since its listing in CY07. Deleum's FY21 payout was 1sen, giving it a 52% net payout ratio. The group's latest payout was 1.12sen of regular dividend in 1QFY22. Moving forward, however, we expect the group to work towards maintain its payout ratio within 50% which should provide investors with a dividend yield of over 3% by FY23-24. Deleum has one of the highest dividend yield among its closest peers at an average 5-year of 4.7% which exceeds the risk-free rate in Malaysia, based on the 5-year Malaysian Government Securities yield. See Chart 5 and Table 4 for more information.

CHART 5: DPS and Dividend Yield (FY17-FY24F)



Source: Company, MIDFR

TABLE 4: Dividend Payouts (FY17-FY24F)

Date	DPS (sen)	Div Yield %	Payout Ratio (%)	Risk Free Rate (%)
FY17	3.5	3.7%	65.3	3.7
FY18	4.5	4.8%	99.8	3.8
FY19	4.4	4.7%	53.3	3.4
FY20	1.0	1.1%	54.1	2.4
FY21	2.2	2.3%	51.8	2.7
FY22E	2.6	2.8%	40.2	n/a
FY23F	3.4	3.5%	42.4	n/a
FY24F	4.8	5.0%	46.0	n/a

Source: Company, MIDFR

KEY RISKS

High raw material prices. High raw materials for petrochemical production, and construction services, as well as the maintenance and repair of equipment and tools could be the biggest risk to Deleum's operations as a whole. The global petrochemical market is expected to grow at CAGR of +6% to +8% until CY25, with a consensus forecast of approximately USD870b, hence providing an increasing demand for oil and gas services for a longer term. While the growth is supported by: (i) the growing demand for plastics, (ii) rising of population thus rising demand, and (iii) the acceleration of natural gas production, it may be halted by the unstable and high feedstock prices and sentiments over environmental concerns. Meanwhile, steel is expected to trade at approximately USD660-670/MT in CY22, with prices stabilising over China's positive developments from its Covid-19 policies and stimulus package renewal that could assist in stabilising its economy in the near and mid-term. However, despite prices of steel still remained elevated at a 5-year CAGR of +9%, the high oil price coupled with the increasing momentum of activities is expected to further stabilise Deleum's financial performance.

Movement restrictions. While the spread rate of Covid-19 had subsided with the lastest Omicron being the least deadly of its variants, as well as vaccination against the virus had peaked above 80% of the local population, the risk of the onset of another variant or an unrelated pandemic could risk lockdowns, hence negatively impacting the demand and operations for oil and gas services. While we believe this is highly unlikely, the way a global pandemic wrought in the last two years showcased a slow recovery in energy demand. This is mainly attributed to labour shortages from the lockdowns and increasing infection rate that delayed and deferred projects in CY20 and CY21. Nonetheless, we opine that, with the readiness of the healthcare sector in handling another wave of a virus infection with the research and equipments gathered during Covid-19, the risk of movement restrictions and closing of borders is severely minimised.

Internal risks. Deleum had been very resilient in its utilisation of its businesses for the last 40 years. However, internal risk could be a factor. It is worth to note that Deleum had had its its services temporarily banned due to an unethical business conduct in early CY20 through one of its subsidiaries, in a maintenance, construction and modification project with Petronas Carigali. Following the discovery, Deleum had to pay a RM1m compound to the Malaysian Anti-Corruption Commission (MACC), while the subsidiary's licence to bid for new projects was suspended in CY21. The suit against the people involved from Deleum and Petronas Carigali is currently ongoing. Nonetheless, we believe the cooperation shown by both subsidiaries could assist in mitigating this risk in the near term.

A macroview of the short and long term risk for Deleum can be observed in Table 5.

TABLE 5: PESTEL evaluation for Deleum

PESTEL ANALYSIS	Possible factors	Impact to company	Timeframe	Type of impact	Rate of impact	Importance
POLITICAL	Continuous geopolitical tensions stemming from the Russia-Ukraine conflict, the unrests in other war-laden oil countries	Possible trade barriers, hiking raw material prices and volatile crude oil prices that impacts the demand for O&G services	Unknown	Unknown	Increasing	Critical
	Government elections	Changes in contract awards, number of projects may depend on the federal and state government's decisions	6-12 months	Unknown	Increasing	Important
ECONOMICAL	Tight global oil supply	E&P operations will commence to cater for supply depletion while ensuring energy security, hence more O&G services needed	>12 months	Positive	Increasing	Critical
	Growing inflation	High consumer prices may lead to a demand destruction for petrochemical products	0-6 months	Unknown	Unknown (other economic factors will play in the rate of impact)	Important
	Greenfields and brownfields	Malaysia hosted mostly brownfields with lower margins, although it opens the opportunity to test new technologies and equipment	>12 months	Unknown (brownfields are not always commercially viable, but new tech could bring in new revenue streams)	Increasing	Fair
	Reserves vs consumption	ASEAN has large blocks of gas reserves, which could cater for the higher energy and natural gas consumption – hence, ramping up O&G activities and demand for O&G services in the long run	Unknown	Positive	Increasing	Important
SOCIAL	Emergence of new middle-class citizens	A new stream of demand for O&G products is created to cater for the growing consumption, hence increasing rate of services in general	>12 months	Positive	Unknown	Important
	Uncertainties in Covid-19 variants or onset of another deadly pandemic, causing another socio-economic lockdown	Labour shortages will be prevalent, subsequently impacting projects and contracts of O&G services; causing delays and cancellations	Unknown	Negative	Decreasing (on grounds of quick responses from the healthcare sector in terms of prevention and vaccination)	Fair
TECHNOLOGICAL	Investment in digitalisation (Big Data, IIoT, cloud computing, AIML etc).	Increasing time and cost efficiency in operations; albeit possible impact on product offering, competitiveness and crossover acceptance	>12 months	Unknown (digitalisation depends on other factors including skills, funding, crude oil prices)	Increasing	Fair

	Cybersecurity	Geopolitical tensions beget evaluability of data which increases risk of cybersecurity to O&G operations	6-12 months	Negative (however, may offset due to advancing tech and big data security)	Unknown	Fair
ENVIRONMENTAL	Rough weather and uncertain seasons	Rough weather would impact on the efficiency of offshore operations, whilst long seasons would bring in more demand for natural gas in the power generation sector, hence more demand for O&G services	6-12 months	Unknown	Unknown	Important
	Sustainability and conservation	Commitment to preserving the environment, in part of receiving a discount on sustainability and better ESG rating	0-6 months	Unknown (sustainability might cost more to invest in, in addition to high raw materials prices and labour shortage)	Increasing	Important
	Waste management, recycling, zero-net carbon	Possible full green tax imposed on operations, green rating based on statistics of waste and carbon management	>12 months	Positive	Increasing	Important
LEGAL	Changes in legislation to meet other operation catalysts (geopolitics, weather, inflation, tax rate etc.)	Changes in contracts, local regulations to run operations could impact the timing and cost of said projects	0-6 months	Unknown	Unknown	Fair
	Consumer and employment protection	Increasing inflation, unfavorable currency may influence legislation for consumers and staff to compensate and mitigate financials during the uncertainties, although may be reinforced to ensure a steady and positive performance	Unknown	Unknown	Unknown	Fair

Source: MIDFR

VALUATION

Initiate with BUY. In consideration of the company's resilient earnings over the last 5 years, coupled with a positive dividend payout and manageable gearing ratio, we initiate coverage on Deleum Berhad with a **BUY** recommendation on a **target price of RM0.96 per share**. Our target price is based on pegging a PER of 12x to an EPS23 of 8.0sen. At current market price, the group is trading at a PER of 11x. The group had been operating at an average PER of 15x in the last 5 years. From a book value prespective, Deleum has been trading circa PBV of 0.6x as of current, despite an average PBV of 1.0x in the last 5 years. Hence, we believe that Deleum may be undervalued at current juncture and we opine that the group has the potential to trade at a higher valuation. This is based on the company's: (i) resilient and stable financial performance, (ii) focus on growth and expansion to new markets, and (iii) investments in new product lines.

PEER COMPARISON

Name	KLSE Ticker	Share Price as at 4/7/22 (RM)	52-Week Price Range (RM)	Market Cap (RM mil)	Dividend Yield	EPS (sen)	PER (x)	EV/ EBITDA (x)
Dayang Enterprise Holdings Bhd	DEHB MK	0.95	0.77 - 1.38	1,128.8	0.0%	28.0	-4.1	8.6
Deleum Berhad	**DLUM MK**	**0.55**	**0.45 - 0.78**	**220.9**	**3.7%**	**8.0**	**11.7**	**0.1**
Dialog Group Berhad	DLG MK	2.03	1.98 - 3.06	12,131.5	1.1%	12.4	31.9	19.5
Petra Energy Berhad	PENB MK	0.65	0.67 - 1.01	215.0	9.0%	5.0	510.5	2.8
T7 Global Berhad	T7G MK	0.32	0.32 - 0.41	244.1	0.0%	1.7	21.4	20.5
Yinson Holdings Berhad	YNS MK	1.91	1.95 - 3.17	5,806.9	2.0%	19.0	14.0	8.8

Source: Company, MIDFR

NOTE: Malaysia's energy sector has a PER of 3.3x and EV/EBITDA of 4.4x

SHARE PRICE HISTORY



Source: Company, MIDFR

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'M unless stated otherwise)	FY16A	FY17A	FY18A	FY19A	FY20A	FY21A	FY22E	FY23F	FY24F
Revenue	608.7	534.1	623.7	868.3	589.2	560.5	585.4	622.2	659.5
EBIT	128.5	139.9	124.5	143.6	110.1	107.7	111.5	117.6	127.1
Pretax Profit	32.8	39.3	29.8	44.0	16.3	24.5	34.2	40.0	50.7
Profit After Tax	33.1	38.8	29.9	43.9	13.8	22.7	22.2	28.0	38.7
PATAMI	33.1	36.6	29.6	33.1	5.8	16.0	26.4	32.2	41.9
EPS (sen)	6.6	5.4	4.5	8.3	1.9	4.3	6.6	8.0	10.4
EPS growth (%)		-19.2%	-15.9%	83.1%	-77.6%	129.7%	54.7%	22.1%	30.1%
PER (x)	14.5	13.1	11.9	12.0	23.2	14.2	14.6	12.0	9.2
Dividend per share (sen)	4.3	3.5	4.5	4.4	1.0	2.2	2.6	3.4	4.8
Dividend yield (%)	4.4%	3.6%	4.7%	4.6%	1.0%	2.3%	2.8%	3.5%	5.0%

Source: Company, MIDFR

BALANCE SHEET AND CASH FLOW SUMMARY

Income statement	2020	2021	2022E	2023F	2024F
Revenue	**589.2**	**560.5**	**585.4**	**622.2**	**659.5**
Cost of Sales	-479.1	-452.9	-473.9	-504.7	-532.3
Gross profit	110.1	107.7	111.5	117.6	127.1
PBT	28.3	31.0	34.2	40.0	50.7
PAT	**13.8**	**22.7**	**20.4**	**26.2**	**36.9**
EPS (basic)	1.9	4.3	6.6	8.0	10.4
Dividend/share (sen)	1.0	2.2	2.6	3.4	4.8
Payout ratio (%)	54.1%	51.8%	40.2%	42.4%	46.0%
Dividend yield (%)	1.1%	2.4%	2.9%	3.7%	5.3%
PAT margin (%)	2.8%	4.4%	3.8%	4.5%	5.9%

Cash flow	2020	2021	2022E	2023F	2024F
Operating cash flow					
PBT	28.3	31.0	34.2	40.0	50.7
Amortisation	0.3	0.1	0.5	0.4	0.4
Depreciation	(37.4)	(36.2)	(31.1)	(31.4)	(31.4)
Finance cost	(3.0)	(1.9)	(2.3)	(2.6)	(2.4)
Others	105.7	84.6	65.0	65.9	65.5
OP before Δ in WC	**93.9**	**77.6**	**66.2**	**72.4**	**82.7**
Δ in working capital					
Inventories	30.4	32.0	33.5	35.6	36.6
Payables	(132.6)	(143.2)	(146.4)	(155.6)	(157.0)
Receivables	66.7	76.4	78.1	83.0	82.4
Others	146.8	107.8	172.7	196.9	204.8
Cash from operations	**111.3**	**73.1**	**137.8**	**159.8**	**166.9**
Interest paid	(3.0)	(1.9)	(2.3)	(2.6)	(2.4)
Taxes paid	(10.3)	(14.6)	(12.0)	(12.0)	(12.0)
Net CF to Operations	**98.4**	**57.5**	**123.5**	**145.3**	**152.4**
Investing cash flow					
Acquisition of PPE	40.0	(0.2)	25.9	32.4	48.7
Others	(71.7)	10.1	(24.8)	(30.3)	(45.6)
Net CF to Investments	**(31.7)**	**9.9**	**1.2**	**2.2**	**3.2**
Financing cash flow					
Dividend paid	(23.9)	(16.1)	(18.0)	(20.0)	(20.0)
Net rpmt of term loans	(23.7)	(26.6)	(27.0)	(26.0)	(25.0)
Others	12.7	(20.9)	(10.1)	(10.1)	(4.8)
Net CF to Financing	**(34.8)**	**(63.5)**	**(55.1)**	**(56.1)**	**(49.8)**
Exchange difference	(0.2)	0.3	0.3	0.3	0.3
Net increase/(decrease)	25.1	53.3	128.4	219.0	307.8
Cash b/f	154.3	129.7	124.5	125.5	142.9

Balance sheet	2020	2021	2022E	2023F	2024F
Assets					
PPE	154.3	134.5	124.5	125.5	142.9
Intangible assets	0.3	0.3	0.3	0.3	0.3
Others	67.5	61.1	60.9	61.9	63.2
Total NCA	**222.1**	**195.9**	**185.7**	**187.7**	**206.4**
Receivables	66.7	76.4	78.1	83.0	82.4
Inventories	30.4	32.0	33.5	35.6	36.6
Others	109.7	111.9	108.7	108.7	103.7
Cash & cash equiv.	219.6	192.7	253.2	344.8	450.9
Total CA	**426.4**	**413.0**	**473.4**	**572.0**	**673.7**
Total assets	**648.5**	**609.0**	**659.1**	**759.8**	**880.0**
Equity					
Share capital	201.8	201.8	201.8	202.2	202.6
Retained earnings	147.3	156.4	169.2	184.7	204.8
S/holder's funds	**349.1**	**358.3**	**371.0**	**386.9**	**407.4**
MI	21.2	20.5	20.0	20.0	20.0
Total equity	**370.4**	**378.8**	**391.0**	**406.9**	**427.4**
Liabilities					
Deferred tax liabilities	18.3	14.9	15.0	15.0	15.0
Total NCL	**41.5**	**19.6**	**20.1**	**20.6**	**21.1**
Loans	55.7	25.9	28.5	31.3	34.4
Payables	132.6	143.2	146.4	155.6	157.0
Others	314.8	368.8	305.5	305.5	299.5
Total CL	**236.6**	**210.6**	**215.8**	**227.9**	**230.4**
Total liabilities	**278.2**	**230.2**	**235.9**	**248.4**	**251.6**

Ratios	2020	2021	2022E	2023F	2024F
Profitability ratios					
ROE (%)	3.9	6.3	5.5	6.8	9.1
ROA (%)	2.1	3.7	3.1	3.5	4.2
Net margins (%)	2.3	4.0	3.5	4.2	5.6
Liquidity ratios					
Current ratio (x)	1.8	2.0	2.2	2.5	2.9
Quick ratio (x)	1.7	1.8	2.0	2.4	2.8
Growth					
Sales (%)	(32.1)	(4.9)	4.4	6.3	6.0

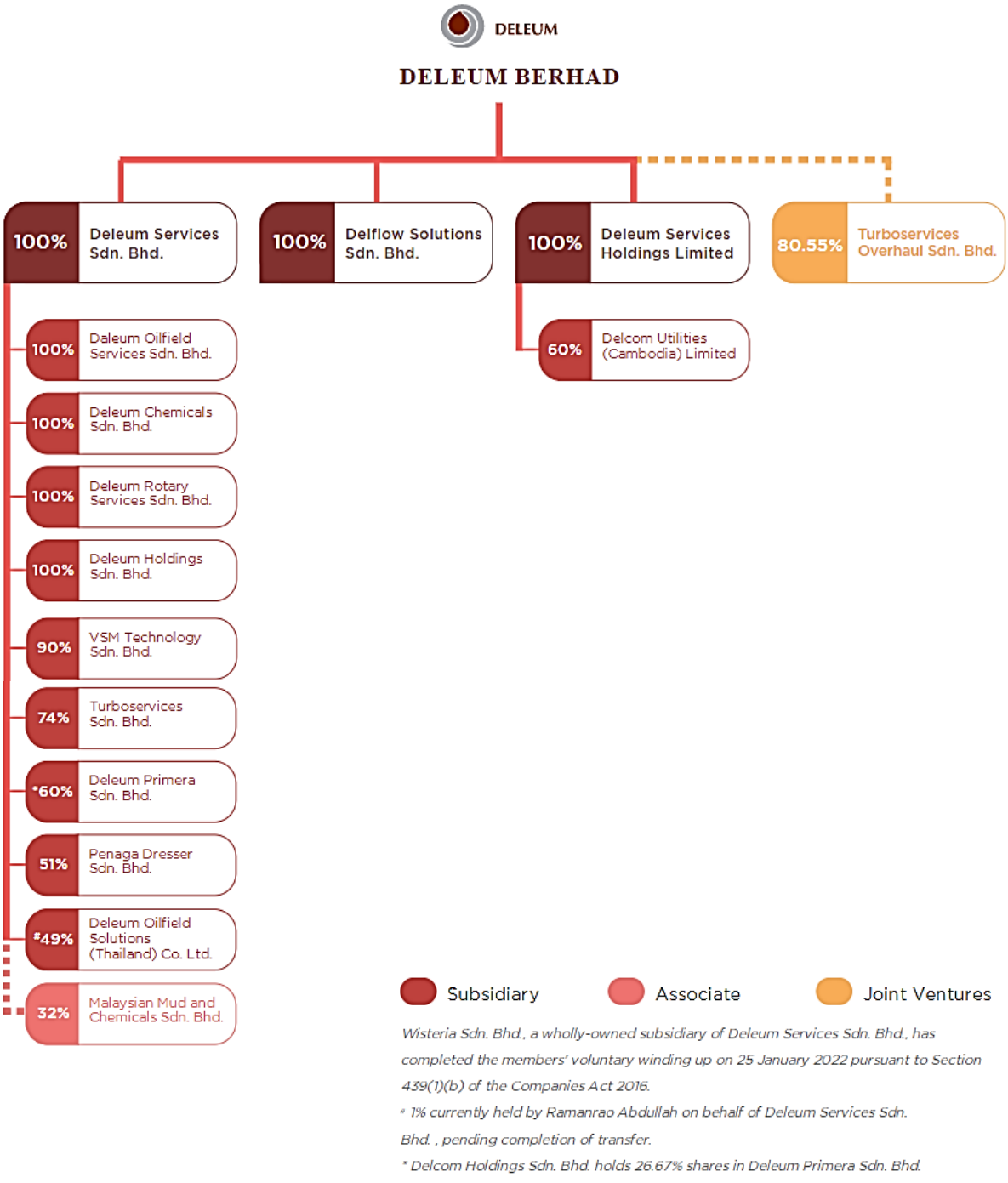
Source: Company, MIDFR

APPENDIX

COMPANY HISTORY

Since 1982, Deleum Services Sdn. Bhd. (formerly known as Delcom Services Sdn. Bhd.) established itself as a service firm in the Malaysian oil and gas industry and would ultimately formed Deleum Group as an active participant in the oil and gas industry. Deleum Sdn. Bhd. was formally incorporated in November 2005. Then, in 2006, it underwent a public limited company conversion and adopted the name Deleum Berhad. Investment holding firm Deleum Berhad was listed on Bursa Malaysia Securities Berhad's Main Board (now Main Market) on June 1, 2007. The commercial endeavour of the Deleum Group has developed respectably throughout time, moving beyond simple agent-principal agreements to include joint ventures, partnerships, and self-operated companies. Its success is based on the steadfast conviction that fair commercial advantage may be attained through relationships with clients and reliable business partners. As of 1 July 2022, Deleum's market cap stood at RM220.9m.

COMPANY STRUCTURE



Wisteria Sdn. Bhd., a wholly-owned subsidiary of Deleum Services Sdn. Bhd., has completed the members' voluntary winding up on 25 January 2022 pursuant to Section 439(1)(b) of the Companies Act 2016.

 # 1% currently held by Ramanrao Abdullah on behalf of Deleum Services Sdn. Bhd. , pending completion of transfer.

** Delcom Holdings Sdn. Bhd. holds 26.67% shares in Deleum Primera Sdn. Bhd.*

Name of Company	Group's Effective Equity Interest	Principal Activities
SUBSIDIARIES		
Deleum Services Sdn. Bhd. 197601002358 (28307-K-)	100%	Provision of gas turbine packages, combined heat and power plants, production related equipment and services predominantly for the oil and gas industry.
Deleum Oilfield Services Sdn. Bhd. 197801001244 (38274-D-)	100%	Provision of slickline equipment and services, integrated wellhead maintenance services, Asset Integrated Solutions, drilling and production facilities and other oilfield related products and services for the oil and gas industry.
Deleum Chemicals Sdn. Bhd. 198201007432 (87190-H-)	100%	Development and provision of solid deposit removal solutions for enhancement of crude oil production and the supply of specialty chemicals and stimulation services to the oil and gas industry.
Deleum Rotary Services Sdn. Bhd. 200501013242 (690289-U-)	100%	Provision of maintenance, repair and overhaul of motors, generators and transformers
Turboservices Sdn. Bhd. 198701007131 (165849--A)	74%	Provision of gas turbine and gas compressor overhaul, parts, maintenance and technical services.
Deleum Primera Sdn. Bhd. 201101035757 (963891-W-)	60%	Provision of integrated corrosion and inspection services, blasting technology and services for tanks, vessels, structures and piping primarily using Sponge-Jet products to the oil and gas industry.
Penaga Dresser Sdn. Bhd. 198201002012 (81758-M-)	51%	Supply, repair, maintenance and installation of valves and flow regulators for the oil and gas industry.
JOINT VENTURE		
Turboservices Overhaul Sdn. Bhd. 200501036672 (718820-K)	80.55%	Provision of gas turbine overhaul and maintenance services.

MAIN BUSINESSES

POWER AND MACHINERY (P&M)

Deleum's P&M segment specialises in providing turnkey solutions for combined heat and power plants, complete life cycle support for Solar Turbines' gas turbine generators and compressor packages, printed circuit heat exchangers from Heatric, process (heat) and thermal engineering solutions from GASCO, and repairs and services for electrical and mechanical equipment (MRO). Deleum can provide a range of gas turbine applications, including power generation, gas compression and pumping systems, as well as gas compressors for pipeline and production. Deleum offers thermal solutions to supplement its current supply thanks to the inclusion of Heatric, a division of Meggitt and the global pioneer in diffusion bonded printed circuit heat exchanger (PCHE) in its portfolio. When processing gas and light hydrocarbon liquids, PCHEs are an excellent choice and are frequently utilised. Whatever the application, outstanding performance is a given. Discharge, intake and after-coolers, CO2 coolers, dewpoint exchangers, fuel gas pre-heaters, feed water cooling, or dehydration units are just a few examples. Deleum provides a wide range of solutions for water bath heaters, thermal oxidizers, fired heaters, thermal oil heaters, flares, waste heat recovery systems, HRSG boilers, burner management systems, and gas conditioning skids that are suitable for the customers' needs in the fields of oil and gas, power generation, environmental protection, refining, and petrochemical.

Deleum has built an integrated facility in Senawang that offers overhaul and maintenance services for gas turbines. With cutting-edge simulations and training skids, the integrated facility acts as the regional training facility. This facility also conducts the regional factory pre-commissioning tests for package system updates. The segment is responsible for the installation, upkeep, and repair of pumps, valves, flow regulators, motors, generators, transformers, and other rotating equipment that is installed at customers' on- and offshore asset bases. Additionally, it provides composite repair integrity for pipelines and structures for the oil and gas industry as well as other general industries. Service centres in Kajang and Bintulu executes both workshop tasks and field work. The International Electrotechnical Commission Explosive has validated itsfacilities and staff (IECEX). For a number of Original Equipment Manufacturers (OEM), the group is also the authorised service centre to assist their before- and after-market service operations.

Sub-segment	Description of Service

Oil and Gas Equipment and Solutions	• Solar Turbines gas turbines ranging from 1 to 23 MW and gas compressors for pipeline and production Gas turbine packages:
	  ○ Gas Turbine Generator
	  ○ Gas Turbine Compressor and Mechanical Drive (for gas compression, transmission and pump application)
	• Heatric PCHE
	• GASCO Solutions

Industrial Power Generation	• Power plant solutions • Comprehensive feasibility and economic analysis in terms of cash flow analysis, analysis return on investment (ROI), payback and cost savings for cogeneration plants • Complete solutions for cogeneration plants development ranging from equipment supply, complete project turnkey to Build-Own-Operate (BOO)/ Build-Own-Transfer (BOT)/Energy Service Company (ESCO)

Turbomachinery Services	• Total aftermarket services to support the existing gas turbine packages
	  ○ Field Service
	  ○ Technical Support
	  ○ Service Parts and Parts Repair
	  ○ Gas Turbine Overhaul, Up-rates and Exchange Programs
	  ○ Gas Compressor Re-staging
	  ○ Package Refurbishment and Control Retrofits
	  ○ Technical Training
	  ○ Machinery Management Services
	• Overhaul and Repair of Solar gas turbines
	• Regional Training Centre
	• Factory Pre-Commissioning (FPC) for Package System Retrofits

Valves and Flow Regulators Services	• Agent of Dresser's products on Control Valves, Regulators and Safety Relief Valves, Ball Valves and Total Valve Management and supporting activities.
	• Services offered:
	  ○ Technical field service support for control valves, safety valves, ball valves, regulators, actuators and related instruments
	  ○ Diagnostic services (SVI, Valscope) and Electronic Valve Testing (EVT)
	  ○ Technical expertise in valves modification, upgrading and refurbishment
	  ○ Stocking program to support the sales and service of valves
	  ○ Training on valves servicing, assembly and smart products

Companies / Subsidiaries	Description
Deleum Services Sdn Bhd	• Provision of new and refurbished gas turbines packages, printed circuit heat exchangers and thermal engineering solutions. • Project management and technical services for equipment retrofits, modifications and upgrades.
Turboservices Sdn Bhd	Provision of gas turbine packages after sales services, overhaul and supply of original OEM gas turbine parts.
Penaga Dresser Sdn Bhd	Supply, repair, maintenance and installation of valves and flow regulators.

Companies / Subsidiaries	Description
Deleum Rotary Services Sdn Bhd	• Servicing, repair and maintenance of transformers, motor, generators, pumps and valves. • One stop centre for Maintenance, Repair and Overhaul (MRO) covering the full spectrum of plant operations, assets and maintenance activities.

OILFIELD SERVICES (OS)

The OS segment which is helmed by Deleum Oilfield Services Sdn Bhd (DOSSB) and Deleum Chemicals Sdn Bhd (DCSB) focuses primarily on upstream activities in the sub-surface sector. The segment comprises three main business units, namely the Slickline and Well Services (SWS), Asset Integrated Solutions (AIS) and Specialty Chemical and Well Stimulation (SCWS) units.

Sub-segment	Units	Description of Service	
Slickline and Well Services (SWS)	Slickline Equipment and Services	• Tubing Clearance Check (TCC) • Tag HUD, Fluid Level and Total Depth (TD) • Routine Valve Change (RVC) and Exercise SCSSV • Gas Lift Valve Change Out (GLVCO)	• Zone Change (Open/ Close SSD) • Tubing Integrity Test (TIT) • Sand and Debris Bailing • Downhole Sampling • Scale/ Wax Removal (Mechanical) • Heavy Duty Fishing
	Integrated Wellhead Maintenance and Gas Lift Valve	• Total Wellhead Maintenance Management • Corrective Maintenance • Preventive Maintenance • Data and Well History Management	• Extended maintenance services up to header ball valves • Critical Spare Parts Management • Gas Lift Valve and Insert String supplied • Gas Lift Valve Calibration and Pressure Test
	Training Well Facility and Others	• Training Well Facility • Complete Slickline Package with Manpower • Slickline Hydraulic Wireline Mast • Diesel Driven Generator (Zone 2)	• Air Compressor (Zone 2) • Wireline Mast (40, 70, 90 FT) • Downhole memory gauges • Sub-surface safety valve maintenance
Asset Integrated Solutions (AIS)	Cased Hole Logging and Interpretation	• Production optimization logging i.e. Productiin Logging Tools (PLT), Multiple Array Production Suites (MAPS) Production Profiling. • Well integrity evaluation i.e. MIT, ECD, Lead Detection,CBL	• Formation evaluation. i.e. C/O and Sigma • Digital Downhole Camera • Log interpretation and analysis
	Well Intervention Engineering	• Plug and packer • Slickline Perforations • Tubing punch • Tubing cut	• Tubing straddle • Mechanical zone shut-off • Dump bailer system
	Subsurface Engineering	• Subsurface study • Thru Tubing Electrical Submersible Pump (TTESP)	• Idle well reactivation • New technology approach
	Drilling and Completion Services	• Drill bits (Rock/PDC) and bore hole enlargement • Well control services and blowout contingency planning	• Well leak integrated solutions • Well plug and abandonment • Integrated drilling services
Specialty Chemicals and Well Simulation	Production Enhancement Solutions	• Organic deposit treatment • Naphthenates treatment • Scale treatment • Removal of wellbore dirt • Water shut-off and profile modification • Pressure pumping and nitrogen lifting	• Sand consolidation, fine migration control • Zonal isolation • Well integrity • Thru-tubing Gravel Pack (TTGP)

Sub-segment	Units	Description of Service	
	Flow Assurance	• Chemical squeeze treatment • Integrated production and performance chemicals • Integrated tank cleaning • On-line/offline module cleaning (separators, heat exchangers, boilers) • Tracer study, cleaning of flowline and pipelines	• Hazard containment and decontamination • Specialty formulation for CEOR schemes • H2S monitoring, remediation and integrated management
	Well Simulation	• Pumping Services • Chemical Injection System • Annulus Pressure Management	

Companies / Subsidiaries	Description
Deleum Oilfield Services Sdn Bhd	Provision of slickline equipment and services, integrated wellhead maintenance services, drilling equipment and services, well intervention and other oilfield related products and services.
Deleum Chemicals Sdn Bhd	Development and provision of solid deposit removal solutions for enhancement of crude oil production and the supply of oilfield chemicals and services.

INTEGRATED CORROSION SOLUTIONS (ICS)

ICS is involved in the provision of integrated corrosion inspection and mitigation for the oil and gas industry through Deleum Primera Sdn. Bhd (DPSB). ICS has embarked on a very innovative plan to continuously and proactively in securing surface preparation contracts whilst expanding the scope of related services offered like assets maintenance, modification and construction contracts and riser maintenance works. The core services include but not limited to various type of surface preparation works, corrosion prevention, protection and mitigation. Cross selling of the technology-based products coupled with assurance of timely and quality services, society engagement and environmental stewardship has enabled DPSB to penetrate new markets, retain existing customers enhance potential customer satisfaction and create a competitive edge in the industry. The services offered by DPSB has also expanded to include Passive Fire Protection (PFP), cold and hot insulation, Thermal Spray Aluminium (TSA), pipeline integrity and riser maintenance, composite repair, fabrication and maintenance, and oil spill response services to serve the oil and gas industry as well as general industries.

Deleum Primera Product Line	• Sponge-Jet Technology – Clean, Dry, Low Dust and Reusable Abrasive. • Heat Induction Paint Removal • Solidsvac Slurry Vacuum Pump • SLICKBAR™ Oil Spill Combating Equipment and Services
Deleum Primera Services Line	• Integrated Maintenance Services – EPCC, Top Site Maintenance, Turn Around, Fabrication and replacement works, Modification and field improvement project. • Surface Preparation and Painting Services – Dry Blast, Vapor Blast, Wet Blast. Water Jetting, Abseiling Method • Passive Fire Protection (PFP) - Consultancy and Installation Services • Tank and Vessel Cleaning • Other Services - Composite repairs, Hot and Cold Insulation

Sub-segment	Description of Service
Sponge Jet Blasting	• DPSB is the sole distributor of Sponge-Jet technology for surface preparation works in Malaysia, Indonesia, Singapore, Brunei, Turkmenistan and Iraq. • Sponge-Jet is an alternative green blasting technology, increasing efficiency and productivity when blasting jobs are undertaken. • Environmentally friendly, with low dust emission and most importantly has no silica content that will affect the user or the environment. General corrosion projects, production-oriented facilities, unique substrates or challenging safety environments can benefit from the clean, dry non-invasive capabilities of sponge blasting. • The elimination of damaging ricochet in addition to achieving near perfect operator visibility, up to 80% waste reduction and >90% hazardous dust reduction – can yield savings in nearly every aspect of a project.
Heat Induction Paint Removal	• Rust and Paint Removal Technology, a paint and coatings removal technology by controlled induction heating. • Proven and reliable method for effective removal of coatings on steel, based on a patented induction technology. It removes most types of coatings, from thick rubber, ebonite, glass-fibre, PFP's and epoxy system to traditional paint system. • Removes coatings with thickness up t0 20-25 mm and the minimum metal thickness is approximately 5mm.
Solidsvac	• Solidsvac vacuum pumps are manufactured in 316 SS as standard and 100% air operated vacuum loading, pressure discharge pumps. • Through Solidsvac, various material can be recovered from a distance in excess of 50 meters and conveyed up to 1,200 meters from the pump. • Solidsvac pump is capable of performing vertical suction lifts in excess of +20 meters and vertical discharges in excess of 40 meters. • Fitted to either the SV20 or SV70, the Vac-Head tool allows the operator to quickly recover and transfer drill mud from the rig floor or wet cement from concrete cutting.
Slickbar Oil Spillage Combat Equipment & Services	• SLICKBAR™ manufactures Oil Booms, Oil Skimmers, Oil Absorbents, Oil Spill Monitoring Systems, Oil Dispersants, Dispersant Sprayer Systems, Oil Spill Response Vehicles, Response Vessels and many others. • Maintenance of any Oil Spill Response equipment regardless of brand with quality approval from the original manufacturer, trained response team and experts to respond to oil spills, and rental of Oil Spill Response equipment.
Others	• Maintenance, Construction and Modification Services • Surface Preparation and Coating Services – vapor blast, wet blast, abseiling • Certified Passive Fire Protection (PFP) Installer • Composite Wrapping and Repair Works • Thermal Spray Aluminium (TSA) • Tank and Vessel Cleaning

Companies / Subsidiaries	Description
Deleum Primera Sdn Bhd	Provision of integrated corrosion and inspection services, blasting technology and services for tanks, vessels, structures and piping.

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).

(Bank Pelaburan)

(A Participating Organisation of Bursa Malaysia Securities Berhad)

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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