Deleum Berhad

***Maintain* BUY**

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

2QFY22 earnings boom on high activities and demand

***Revised* Target Price: RM0.98**

(previously RM0.96)

KEY INVESTMENT HIGHLIGHTS

- **Deleum Berhad's 2QFY22 earnings increased extensively by 5-fold to RM9m; came in above expectations**
- **High activities in OS and ICS contributed to profit gain**
- **Revenue down -6%yoy to RM126m due to decreased sales and services in P&M segment**
- **Revise FY23-24 earnings forecast up 23% and 8%**
- **Maintain BUY with revised TP of RM0.98 per share**

Earnings nearly 5-fold yoy. Deleum Berhad (Deleum) recorded an upsurge in earnings y-o-y by nearly 5-fold to RM8.9m from RM1.6m in 2QFY21, and a rise by +9.3%qoq. For the cumulative 1HFY22, the group's earnings increased +180.8%yoy to RM17m, which came in above our yearly earnings expectations by +29% and consensus' by +34%.

Revenue slipped -6%yoy. Deleum's revenue was down -6.4%yoy but increased +22.9%qoq to RM126.3m. For the cumulative 1HFY22, revenue slipped marginally by -0.9%yoy to RM229.1m.

Power and Machinery. Revenue was down -20.1%yoy but rose up by +25.8%qoq to RM77.7m. Meanwhile, earnings slipped -25.4%yoy but increased +8.9%qoq to RM7.2m. For the cumulative first half, both revenue and earnings dropped by -10.5%yoy to RM139.4m and -19.4%yoy to RM13.9m, respectively. The decrease in revenue was attributable to: (i) decrease in exchange engine deliveries, (ii) weaker contribution from retrofit projects, (iii) decrease in sales for turbine parts, and (iv) weaker contribution from third party services. This was however cushioned by: (i) higher demand for control and safety valves, (ii) higher demand for flow regulators services, (iii) higher services performed for machinery management system, and (iv) favourable forex movement. Profit loss was in tandem with the lower revenue, in addition to: (i) unfavourable change in sales mix, (ii) higher operating costs, and (iii) fluctuation in foreign exchange currency differences.

Oilfield Services. Revenue was up +32.7%yoy and +23.5%qoq to RM34.6m, while profit gained over 4-fold to RM3.5m from a deficit of -RM0.9m in 2QFY21, but lost -8%qoq. Cumulatively for 1HFY22, revenue increased +15.9%yoy to RM62.6m, while earnings shot up 23-fold to RM7.2m from a deficit of -RM0.3m. Higher revenue and earnings were attributable to: (i) higher activities from its slickline services in both East and West Malaysia, (ii) intervention and enhancement services, (iii) chemical sales, and (iv) spillover jobs from the gas lift valve contract.

RETURN STATISTICS	
Price @ 23rd August 2022 (RM)	0.64
Expected share price return (%)	53.1%
Expected dividend yield (%)	3.5%
Expected total return (%)	**56.6%**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	4.1	2.9
3 months	15.3	-5.5
12 months	26.7	30.1

KEY STATISTICS	
FBM KLCI	1,482.57
Syariah compliant	No
FSGBM Index	Yes
ESG Grading Band	☆☆☆
Issue shares (m)	401.55
Estimated free float (%)	32.96
Market Capitalisation (RM'm)	256.99
52-wk price range	RM0.44 - RM0.77
Beta vs FBM KLCI (x)	1.08
Monthly velocity (%)	0.00
Monthly volatility (%)	17.07
3-mth average daily volume (m)	0.18
3-mth average daily value (RM'm)	0.11
Top Shareholders (%)	
Lantas Mutiara Sdn Bhd	20.36
Hartapac Sdn Bhd	11.99
Nathan Vivekananthan M V	10.78

MIDF Research
research@midf.com.my

Integrated Corrosion Solution. Revenue increased +29.3%yoy and +7.9%qoq to RM14.0m, while earnings gained +134%yoy and +5.7%qoq to RM1.24m. For the cumulative first half, revenue surged +41.7%yoy to RM26.9m and profit gained +169.2%yoy to RM2.4m. The higher revenue was attributable to higher maintenance activity levels for both its Sponge-Jet Blasting (SPJ) business in Indonesia and the Maintenance, Construction and Modification services (MCM) project. Improvement in earnings was also contributed by: (i) lower professional fees, (ii) lower penalty charges, and (iii) lower operating costs from cost-saving initiatives.

Positive outlook amid volatility. Supply chain disruptions and energy market issues in Europe and Asia caused by the ongoing Russia-Ukraine conflict are likely to continue impacting the oil and gas sector. We believe the sector as a whole will remain unstable in the near term, despite energy prices balancing into a plateau in the end of 2QCY22. Nevertheless, Deleum is expecting its activity levels to be robust, and the industry services subsector is anticipated to profit off the elevated energy prices. The group will continue to prioritise in providing excellency in its services and managing cost amid growing inflationary pressures. Deleum reportedly will attempt to broaden its product offerings by the end of this year. Hence, disregarding any unforeseen scenarios, the group's activity levels in 2HFY22 is expected to be just as positive as the 1HFY22.

Raise FY23-FY24 earnings estimate. Given that Deleum had exceeded our expectations in 2QFY22, we revise our earnings forecast for FY23 and FY24 upwards by +23% and +8% respectively. As such, we revise our target price for Deleum to RM0.98 (previously RM0.94); pegging a PER of 9.9x to a revised EPS23 of 10sen. The PER equals to 5-year average of the Asian energy market.

Maintain BUY. All in, we maintain our **BUY** call on PCG with the revised **target price of RM0.98 per share**.

We remain optimistic of Deleum's financial performance in FY22, despite uncertainty of the energy market's trajectory in between tight global production and demand slowdown from China's lockdowns and global inflation. We believe inflationary pressures will continue to challenge Deleum's operational costs, with the rise in raw material prices. However, we are also expecting demand for oil and gas primary and ancillary services will continue to be robust, in line with PETRONAS's expected RM60b in capex for upstream projects, as well as elevated energy prices. We like Deleum, given its: (i) healthy and sufficient cashflow, (ii) growth and expansion initiatives into new markets and product lines, and (iii) effective cost management under inflationary pressures.

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'M unless stated otherwise)	FY20A	FY21A	FY22E	FY23F	FY24F
Revenue	589.2	560.5	585.4	622.2	659.5
EBIT	110.1	107.7	123.4	125.2	130.5
Pretax Profit	16.3	24.5	46.0	47.6	54.0
Profit After Tax	13.8	22.7	34.0	35.6	42.0
PATAMI	5.8	16.0	38.2	39.8	45.2
EPS (sen)	1.9	4.3	9.5	9.9	11.3
EPS growth (%)	-77.6%	129.7%	124.1%	4.1%	13.7%
PER (x)	23.2	14.2	10.3	9.9	8.7
Dividend per share (sen)	1.0	2.2	2.6	3.4	4.8
Dividend yield (%)	1.0%	2.2%	2.7%	3.5%	4.9%

Source: Company, MIDFR

Table 1: Deleum's 2QFY22 Earnings Result

Financial year ending 31st December (in RM'm unless otherwise stated)	Quarterly Results					Yearly Results		
	2QFY21	1QFY22	2QFY22	QoQ%	YoY%	1HFY21	1HFY22	YoY%
Revenue	**135.0**	**102.8**	**126.3**	22.9	-6.4	**231.1**	**229.1**	-0.9
Cost of Sales	(110.4)	(75.4)	(96.6)	28.2	-12.4	(179.0)	(172.0)	-3.9
Gross Profit	**24.6**	**27.4**	**29.7**	8.3	20.4	**52.1**	**57.1**	9.5
Other operating income	0.9	2.4	0.9	-60.7	6.4	1.7	3.3	93.0
Selling and distribution cost	(7.8)	(7.4)	(8.4)	13.7	7.9	(14.9)	(15.7)	5.4
Admin expenses	(15.3)	(14.1)	(11.5)	-18.2	-24.9	(27.4)	(25.6)	-6.8
Other operating expenses	(0.6)	2.4	0.3	-88.1	-152.7	(1.7)	2.7	-257.3
Operational profit	**1.9**	**10.8**	**11.0**	2.0	480.9	**9.8**	**21.9**	123.8
Finance cost	(0.5)	(0.2)	(0.2)	-22.2	-66.1	(1.1)	(0.4)	-64.6
PBT	3.2	11.8	12.7	7.2	294.2	12.3	24.5	99.8
Income tax	(1.8)	(2.8)	(3.0)	7.3	62.0	(3.8)	(5.7)	50.3
PAT	1.4	9.1	9.7	7.2	602.8	8.4	18.8	122.2
Net Profit/Loss	**1.4**	**9.3**	**10.1**	7.8	628.4	**7.4**	**19.4**	162.8
Minority interest	(0.2)	1.2	1.2	-2.1	-774.7	1.3	2.4	81.6
Normalised Profit/Loss	**1.6**	**8.1**	**8.9**	9.3	468.3	**6.0**	**17.0**	180.8
				+/- ppts				*+/- ppts*
GP margin (%)	18.3	26.7	23.5	-3.2	5.2	22.5	24.9	2.4
PBT margin (%)	2.4	11.5	10.0	-1.5	7.7	5.3	10.7	5.4
PATAMI margin (%)	1.0	9.1	8.0	-1.1	6.9	3.2	8.5	5.3
Normalised PATAMI margin (%)	1.2	7.9	7.0	-0.9	5.9	2.6	7.4	4.8
Effective tax rate (%)	57.1	23.4	23.5	0.0	-33.6	31.2	23.4	-7.7
SEGMENTAL								
Revenue:								
Power and Machinery	97.225	61.716	77.665	25.8	-20.1	155.7	139.4	-10.5
Oilfield Services	26.071	28.003	34.585	23.5	32.7	54.0	62.6	15.9
Integrated Corrosion Solution	10.795	12.933	13.959	7.9	29.3	19.0	26.9	41.7
Results:								
Power and Machinery	9.674	6.633	7.221	8.9	-25.4	17.2	13.9	-19.4
Oilfield Services	-0.974	3.769	3.468	-8.0	-456.1	-0.3	7.2	-2306.4
Integrated Corrosion Solution	-3.641	1.171	1.238	5.7	-134.0	-3.5	2.4	-169.2

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 ("MIDF Investment") for distribution to and use by its clients to the extent permitted by applicable law or regulation.

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 MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment 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. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loess, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

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