Dialog Group Berhad

Maintain BUY

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

Ending FY22 within expectations

Unchanged Target Price: RM3.96

KEY INVESTMENT HIGHLIGHTS

- **Dialog's 4QFY22 earnings slip -15%yoy; FY22 earnings down -6.5%yoy but within estimates**
- **Lower earnings caused by high cost and losses in projects**
- **Revenue rises +29%yoy on higher activities**
- **Revise FY23-24 earnings forecast down by -3% and -6%**
- **Maintain BUY with target price of RM3.96**

Earnings down -15%yoy. Dialog Group (Dialog) reported a decline in earnings by -14.6%yoy and -11.1%qoq to RM118.2m. For FY22, earnings were down by -6.5%yoy to RM508m; which came in within our estimates and consensus' at 93%. This is caused by higher project cost and losses in some of the projects.

Revenue increase +29%yoy. The group reported a rise in revenue by +29.4%yoy and +13.9%qoq to RM675.7m. For FY22, revenue increased by +44% to RM2.32b. The higher revenue was attributable to increased activities in the upstream, midstream and downstream.

Segment breakdown. The upstream activities benefited from the higher oil price while Dialog Terminals Pengerang (5) Sdn. Bhd.'s (DTP5) storage tanks which were commissioned in February 2021, contributed to higher revenue for the midstream business. In the downstream business, various engineering, construction, fabrication, and plant maintenance projects are currently ongoing. However, they are facing challenges, including: Covid-19 pandemic, (ii) Russia-Ukraine war, (iii) inflationary pressure, and (iv) labour shortages. Strict SOPs against the pandemic had cause severe supply chain disruption, higher material price and labour cost, which subsequently resulted in cost overruns and project losses. On the International front, the Group reported higher revenue with increased engineering, construction and plant service activities in Singapore and higher sales of specialist products and services in various countries.

Revised earnings forecast. In consideration of Dialog's FY22 results, we make slight changes to our FY23-24 estimates downwards by -3% and -6%. However, we make no changes to our target price. Our target price remains at RM3.96; pegging a PER of 33x to a revised EPS23 of 12.1sen. The PER is based on the group's 5-year average PER.

RETURN STATISTICS	
Price @ 18th August 2022 (RM)	2.42
Expected share price return (%)	+63.64
Expected dividend yield (%)	+1.10
Expected total return (%)	**+64.74**

SHARE PRICE CHART



Share price performance (%)	Absolute	Relative
1 month	20.4	13.4
3 months	13.6	5.2
12 months	-6.9	-7.0

KEY STATISTICS	
FBM KLCI	1,516.62
Syariah compliant	Yes
F4GBM Index	No
ESG Grading Band	☆☆☆
Issues shares (m)	5638.88
Estimated free float (%)	31.17
Market Capitalisation (RM'm)	13,655.02
52-wk price range	RM1.97 - RM3.06
Beta vs FBM KLCI (x)	1.17
Monthly velocity (%)	0.00
Monthly volatility (%)	10.02
3-mth average daily volume (m)	5.99
3-mth average daily value (RM'm)	13.39
Top Shareholders (%)	
Ngau Boon Keat	19.12
Employees Provident Fund Board	14.20
Kumpulan Wang Persaraan Diperbadan	9.25

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Maintain BUY. All in, we maintain our **BUY** call on Dialog with a **target price of RM3.96** per share. Despite the group's lower 4QFY22 earnings, cumulative FY22 reached our expectations, thus providing a firm ground for the group's upcoming financial year to improve on the strength of its: (i) storage tank farm business in Pengerang Integrated Complex, (ii) upstream prospects in Thailand with the acquisition of Pan Orient Energy Corp, (iii) engineering and fabrication services in a joint venture with Morimatsu Technology and Service Company, and (iv) recycled PET production facility as part of the group's sustainability business. Nevertheless, we remain cautious of the risk in the near term, namely: (i) volatile oil and gas prices, (ii) unfavourable currency exchange, (iii) rising raw material prices and (iv) labour shortages.

INVESTMENT STATISTICS

Financial year ending 30th June (in RM'm unless otherwise stated)	2021A	2022A	2023E	2024F	2025F
Revenue	1,609.9	2,319.0	3,151.8	3,244.0	3,536.8
EBIT	621.4	590.4	802.7	822.0	901.9
Pretax Profit	595.0	550.3	764.7	787.0	866.9
Profit After Tax	543.1	505.9	685.5	705.6	774.7
PATAMI	**543.1**	**508.0**	**682.0**	**702.1**	**766.9**
EPS (sen)	9.6	8.9	12.1	12.4	13.6
EPS growth (%)	-14.0%	-7.3%	35.4%	2.9%	9.2%
PER (x)	41.2	44.4	32.8	31.8	29.2
Dividend per share (sen)	3.1	3.1	4.2	4.4	4.8
Dividend yield (%)	0.8%	0.8%	1.1%	1.1%	1.2%

Source: Company, MIDFR

Table 1: Dialog Group's Earnings Summary

Financial year ending 30th June (in RM'm unless stated otherwise)	Quarterly results					Cumulative results		
	4QFY21	3QFY22	4QFY22	QoQ (%)	YoY (%)	FY21	FY22	YoY (%)
Revenue	522.1	593.4	675.7	13.9	29.4	1,609.9	2,319.0	44.0
Operating Expenses	(446.0)	(528.6)	(597.4)	13.0	(28.8)	(1,299.9)	(2,040.9)	57.0
Other Operating Income	21.2	28.4	13.1	(53.9)	(49.3)	83.9	60.7	-27.7
JCE	60.9	55.2	54.6	(1.1)	(10.4)	227.4	251.6	10.6
Finance Costs	(2.9)	(6.9)	(19.3)	179.1	572.3	(26.4)	(40.1)	52.0
Profit Before Tax	155.4	141.5	126.7	(10.4)	(18.5)	595.0	550.3	-7.5
Tax expense	(15.0)	(10.5)	(11.0)	4.9	(26.6)	(51.9)	(44.4)	-14.5
Profit After Tax	140.4	131.0	115.7	(11.7)	(17.6)	543.1	505.9	-6.8
Minority Interests	1.9	(2.1)	(2.5)	23.2	(234.7)	(0.1)	(2.1)	2662.3
PATAMI	138.5	133.1	118.2	(11.1)	(14.6)	543.1	508.0	-6.5
EPS (sen)	2.5	2.4	2.1	(11.0)	(14.6)	9.6	9.0	-6.4
DPS (sen)	2.5	2.4	3.1	31.4	26.0	9.6	10.0	3.9
	-	-	-	*+/(-) ppts*		-	-	*+/(-) ppts*
PBT Margin (%)	29.8	23.8	18.7	(5.1)	(11.0)	37.0	23.7	-13.2
Tax Rate (%)	9.6	7.4	8.7	1.3	(1.0)	8.7	8.1	-0.7
Net Margin (%)	26.5	22.4	17.5	(4.9)	(9.0)	33.7	21.9	-11.8

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 *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